



**CONSOLIDATED AUDIT REPORT
(FEDERAL GOVERNMENT)**

**FOR THE
AUDIT YEAR 2023-24**

AUDITOR GENERAL OF PAKISTAN

TABLE OF CONTENTS

PREFACE	viii
EXECUTIVE SUMMARY	1
DIRECTORATE GENERAL AUDIT (FEDERAL GOVERNMENT)	8
DIRECTORATE GENERAL AUDIT (DEFENCE SERVICES)	522
DIRECTORATE GENERAL AUDIT FEDERAL (WORKS).....	824
DIRECTORATE GENERAL OF COMMERCIAL AUDIT & EVALUATION (NORTH & SOUTH)	1464
DIRECTORATE OF AUDIT (FOREIGN & INTERNATIONAL).....	2435
DIRECTORATE GENERAL AUDIT (SOCIAL SAETY NETS)	2531
DIRECTORATE GENERAL AUDIT (CLIMATE CHANGE & ENVIRONMENT) ...	2632
DIRECTORATE GENERAL AUDIT (POWER)	2709
DIRECTORATE GENERAL AUDIT (RAILWAYS).....	3151
DIRECTORATE GENERAL AUDIT (WATER RESOURCES)	3399
DIRECTORATE OF AUDIT (INLAND REVENEU & CUSTOME)	3499
DIRECTORATE GENERAL AUDIT (PETROLEUM AND NATURAL RESOURCES)	3661
DIRECTORATE GENERAL AUDIT (TELECOMMUNICATION SERVICES)	3908
DIRECTORATE GENERAL AUDIT (POSTAL SERVICES)	4073

PREFACE

Articles 169 and 170 of the Constitution of the Islamic Republic of Pakistan, 1973 read with Sections 8 and 12 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 require the Auditor-General of Pakistan to conduct audit of the accounts of Federal Government, Provincial Governments and the accounts of any authority or body, established by these Governments. Auditor-General of Pakistan, being Auditor-General of Azad Jammu & Kashmir (AJ&K) and Gilgit-Baltistan (GB) also conducts audit in both these Regions under their respective legal provisions.

This consolidated Audit Report (Federal) is based on audits of the accounts of 1407 entities of Federal Government for the financial year 2022-23, conducted by 13 Field Audit Offices, and also contains some audit observations for the previous years. The audit was conducted during 2023-24 on a test check basis to report significant audit findings to the stakeholders. The report includes only the systemic issues and audit findings carrying high monetary value. Relatively less significant issues shall be pursued with the respective Principal Accounting Officers (PAO) in meetings of Departmental Accounts Committee (DAC) and in cases where the PAOs do not initiate appropriate action, the audit observations will be brought to the notice of the Public Accounts Committee in the next year's Audit Report. Sectoral analysis has been added in this report covering strategic review and overall perspective of audit results.

Impact Audit – A new concept of Impact Audit has been introduced, which is an attempt to determine the impact of a new programme or recent changes to an existing programme, with its specific focus on service delivery.

Audit findings indicate the need for adherence to the regularity framework besides instituting and strengthening the internal controls to avoid violation of rules and regulations.

Most of the audit observations included in this report have been finalized in the light of written responses of the management and discussions in the DAC meetings.

- *sd* -

(Muhammad Ajmal Gondal)
Auditor-General of Pakistan

Islamabad

Dated: . . .2024

EXECUTIVE SUMMARY

a. Scope of Audit

Department of Audit-General of Pakistan (DAGP) is mandated to conduct audit of 7,911 formations working under different PAOs/Ministries at Federal level. Audit coverage relating to expenditure for the current audit year, under compliance audit category, comprises 1,407 formations having a total expenditure of Rs. 21,604.818 billion and receipts of Rs. 4,888.030 billion for the financial year 2022-23.

In addition to this compliance audit report, DAGP conducted Financial Attest Audits, Special Audits, Performance Audits, Forensic Audits, Impact Audit etc. Reports of these audits are published separately.

b. Recoveries at the instance of audit

Against total expenditure of Rs. 7.561 billion on Department of the Auditor-General of Pakistan, an amount of Rs. 719.156 billion was recovered from January, 2023 to December, 2023.

c. Audit Methodology

Desk audit was carried out to understand systems, procedures and control environment of audited entities. Permanent files of the audited entities were updated and utilized for understanding the institutional framework. Audit methodology included:

- i. Understanding the business processes with respect to control mechanism.
- ii. Identification of key controls on the basis of prior years' audit experience/special directions from the Auditor General's office.
- iii. Prioritizing risk areas by determining significance and risks associated with the identified key controls.
- iv. Design/update audit programmes for testing the identified risk conditions.
- v. Selection of audit formations on the basis of:
 - a. Materiality/significance.
 - b. Risk assessment.
- vi. Selecting samples as per sampling criteria/high value items/key items.
- vii. Execution of audit programmes.

- viii. Identification of weaknesses in internal controls and development of audit observations and recommendations relating to non-compliance with rules, regulations and prescribed procedures.
- ix. Evaluating results.
- x. Reporting.
- xi. Follow-up.

d. Audit Impact

Audit has contributed towards adding value to the control mechanism of organizations which complied with audit recommendations. As a result of audit, management's awareness about internal controls and overall financial discipline has improved compliance with Rules and Regulations. Some of the major actions / initiatives taken by Ministries/Divisions on the pointations/recommendations of Audit are as under:

- i. Excise Department, Islamabad started to collect GST on printing of smart card and number plates.
- ii. Pakistan Rangers, Sindh started disbursing Internal Security Duty Allowance received from Government of Sindh through monthly payroll of AGPR.
- iii. CDNS started crediting the Sales Tax on Services in proper head of account of the provinces.
- iv. Wafaqi Mohtasib has prepared the service rules for its employees after approval from the Federal Cabinet.
- v. ETPB started geo-tagging its properties through department of Survey of Pakistan.
- vi. KPT agreed to prepare its audited financial statements for the last 10 years.
- vii. Rent amounting to Rs. 663.172 million was recovered from allottees of ETPB.
- viii. 4,985-acre land of ETPB (value Rs. 27,692.125 million) was retrieved from the encroachers.
- ix. The National Disaster Management Authority (NDMA) approached the National Bank of Pakistan to increase the interest rates on the NDMF balances in consonance with increase in policy rates announced by State Bank of Pakistan (SBP) from time to time.

- x. Pak-EPA started maintaining proper registers for Initial Environmental Examination (IEE) and Environmental Impact Assessment (EIA) approvals as required under the regulations.
- xi. PPOD started depositing postal revenue into FCF with effect from the FY 2022-23 and deposited the amount of profit earned on Western Union NIDA account into FCF.
- xii. The Finance Division, Law & Justice Division and PAC agreed with the audit viewpoint to recover the amount paid by PPOD to PTCL on account of pledged DSCs of subscribers.
- xiii. After promulgation of new cash management regime, PPOD devised new procedures for agency functions.
- xiv. NRTC and TIP management established the Procurement Fora.
- xv. NRTC committed to add Price Variation Clause in its upcoming contracts to safeguard the company from expected losses.
- xvi. PTA and FAB established its online application portal for finalization of allocation and site clearance of various telecom operators.
- xvii. The telecommunication entities improved the mechanism for timely recovery of receivables from designated customers, telecom operators and others.
- xviii. The telecommunication entities agreed to strengthen the internal controls and internal audit wings of their organizations.
- xix. The ECAC management initiated the PKI Project after lapse of five years.
- xx. Pakistan Railways initiated accrual based accounting system by adopting IFRS.
- xxi. Pakistan Railways management rectified its accounts by Rs 57,045.53 million and revised its financial statements for the FY 2022-23.
- xxii. Pakistan Railways initiated computerized/digital fuel management system to improve the efficiency of fuel management processes.
- xxiii. LPG producing companies have started submission of monthly return thereby improving monitoring, reconciliation and collection of Petroleum Levy on LPG.
- xxiv. Petroleum Division changed the mechanism for deposit of Petroleum Levy on continuous pointing out of default by M/s Cnergyico Pk Ltd. Now the recipient of Petroleum product from M/s Cnergyico Pk Ltd. is required to first deposit the amount

of Petroleum Levy in Government exchequer and then refinery would deliver the product.

- xxv. GHPL was recording sales proceeds of disposal of plant and equipment of different E&P companies (depleted fields surrendered by E&P companies) as other income in their accounts. Such sale proceeds are now being deposited in Government exchequer.
- xxvi. NHA added clause B.3 in the Request for Proposal/ Standard Bidding Documents for procurement of works under Public-Private Partnership.
- xxvii. NHA agreed to devise a parity evaluation mechanism for periodic revision of Composite Schedule of Rates and place it before National Highway Executive Board on quarterly basis.
- xxviii. CDA agreed to prepare a comprehensive plan and SOP for strict monitoring of private housing societies.
- xxix. CDA agreed to install integrated Enterprise Resource Planning (ERP) system to streamline the revenue collection, its reporting and phase-wise implementation is in process.
- xxx. FBR reformed the refund payment system and introduced a fully automated refund payments system known as FASTER that resulted in significant improvement in processing time and redressal of issue of excess sanction.
- xxxi. FWO, which was a refusing entity since inception, agreed for statutory audit. Compliance with Authority Audit of HQ FWO alongwith its Groups has been conducted.
- xxxii. The policy regarding distribution of CNE fund has been revised by Ministry of Defence and as per revised policy, cost of Government store utilized for treatment of CNE patients is now being recovered before distribution of shares.
- xxxiii. Partial compliance of A-1 Land Policy for Welfare & Commercial activities has been started by Ministry of Defence. As a result, recovery has been started and deposited into government exchequer on regular basis.

e. Comments on Internal Controls and Internal Audit Department

The present report has identified a range of irregularities, which have been recurring over the years. The recurrence of these irregularities indicates that systemic issues were cropping up either due to inadequate oversight mechanism or inappropriate design of internal controls.

Although many Audit Entities have internal audit setups, but the financial irregularities observed during the current audit reflect that this function failed to deliver effectively. The efficient functioning of internal audit would have helped the management in effective implementation of internal controls and strengthening the internal control environment in audited entities. It is high time that positions of Chief Finance & Accounts Officers (CF&AO) and Chief Internal Auditors (CIA), as enacted through PMF Act coupled with Financial Management and Powers of Principal Accounting Offices Regulations 2021, are put in place in all Ministries/Divisions and their services are effectively utilized to strengthen Public Financial Management (PFM) System.

f. Key Audit Findings of the Report

Major audit findings included in this Audit Report are:

- i. Misappropriation and embezzlement of public money and fictitious payments
- ii. Maintenance of accounts with commercial banks outside government treasury
- iii. Poor asset management
- iv. Blockage of capital amount
- v. Blockage of revenue
- vi. Issues of contract management
- vii. Defective and unexecuted works
- viii. Design related issues in civil work
- ix. Double booking of expenditure
- x. Encroachment of railway land
- xi. HR/ employees related issues
- xii. Inadmissible expenditure
- xiii. Less collection of income tax and sales tax
- xiv. Less deduction / levy of income tax
- xv. Less realization of sales tax
- xvi. Non-deposit of income tax
- xvii. Incorrect claim of tax credit
- xviii. Irregular Investments
- xix. Irregular mutations of land
- xx. Violation of PPRA Regulations
- xxi. Non-achievement of stated objectives of Development Schemes
- xxii. Non-preparation of annual appropriation accounts and annual financial statements

- xxiii. Non-production of auditable record by certain Organizations
- xxiv. Non-reconciliation of accounts
- xxv. Non-settlement of circular debt
- xxvi. Non-utilization of allocated funds
- xxvii. Lacking financial management
- xxviii. Excessive refunds by Tax Authorities
- xxix. Service delivery issues
- xxx. Splitting of work to avoid open competition
- xxxi. Weak internal controls
- xxxii. Payments without approval of competent authority



AUDIT REPORT
ON
THE ACCOUNTS OF
FEDERAL GOVERNMENT - (CIVIL)
AUDIT YEAR 2023-24

AUDITOR-GENERAL OF PAKISTAN

DIRECTORATE GENERAL AUDIT (FEDERAL GOVERNMENT)

CHAPTER 1

PUBLIC FINANCIAL MANAGEMENT ISSUES

1.1 Sectoral Analysis

The Directorate General Audit (Federal Government) analyzed the financial management of the Federal Government by reviewing budget estimates, Appropriation Accounts and Financial Statements for the financial year 2022-23. Grants of all Ministries/Division included in Audit Plan, overall financial health and fiscal discipline were reviewed in the light of Accounting Policy and Procedure Manual, Financial Audit Manual, Public Finance Management Act, General Financial Rules, field audit of internal controls of selected formations and relevant legislations like Fiscal Responsibility and Debt Limitation Act 2005.

The analysis revealed certain deficiencies and shortcomings which were shared with the management and all the stakeholders which include AGPR, CGA, Ministry of Finance and all the PAOs of the relevant Ministries/Divisions and other entities for corrective measures.

1.1.1 Analysis of appropriation accounts of federal government

It was observed that during the financial year 2022-23 the Federal Government had certain financial management issues which include:

- i. Unnecessary allocation of supplementary grants leading to blocking of public funds
- ii. Demand of budget without need assessment leading to surrender of budget.
- iii. Lapse of funds due to non-surrendering of funds in time
- iv. Non-recording of commitments leading to poor budget management

As per Appropriation Accounts for the financial year 2022-23 there was a total provision of Rs. 31,815.629 billion, however, after surrender and supplementary grants final allocation was Rs. 38,616.656 billion. The actual expenditure was Rs. 38,675.387 billion which was Rs. 58.731 billion (0.15% excess) over and above the final allocation. Detail of charged and voted expenditure is as under:

(Rupees in billion)

Heads	No. of Grants	Original	Supplementary Grant		Surrender (-)	Final Grant	Actual Expenditure	Excess / (Savings)	
			Printed	Not Printed				Amount	% age
Current	86	3,248.508	473.114	587.320	(638.697)	3,670.245	3,691.578	21.333	0.58%
Development	40	1,008.516	30.499	52.347	(245.665)	845.873	929.860	83.986	9.03%

Charged	14	27,558.605	20.753	7,358.695	(837.516)	34,100.537	34,053.949	(46.588)	0.14%
Total		31,815.629	524.367	7,998.362	(1,721.878)	38,616.656	38,675.387	58.731	0.15%

*(excluding five (5) grants i.e. Defence Services, Geological Survey of Pakistan, Foreign Affairs and Capital Outlay on Civil Works).

Comparison of the current year's excess with the previous year's excess indicates improvement in budgeting of Federal Government. Trend of expenditure in comparison to the final budget is tabulated as below:

(Rupees in billion)

Year	Final Grant	Actual Expenditure	Excess / (Savings)	% (saving) / Excess
2017-18	27,480.98	30,714.14	3,233.16	11.77%
2018-19	26,150.15	48,038.00	21,887.85	83.70%
2019-20	22,375.35	22,523.86	148.51	0.66%
2020-21	21,727.53	25,966.21	4,238.68	19.40%
2021-22	29,625.31	29,663.17	37.86	0.13%
2022-23	38,616.656	38,675.387	58.731	0.15%

Overall appropriation figures revealed that the Federal Government granted supplementary grants of Rs. 8,678.242 billion, out of which Rs. 8,049.415 billion was not approved by the Parliament.

In three (3) grants there was a saving of Rs 3.508 billion after supplementary grants of Rs. 1.364 billion, showing non-utilization of 100% supplementary grants; and in 32 Grants, against the supplementary grant of Rs. 7,960.675 billion, Rs. 47.912 billion could not be utilized. Whereas in 19 supplementary grants amounting to Rs.369.119 billion an amount of Rs. 83.146 billion was spent in excess. The details are summed up in the **Figure-I**.

Non-utilization of Supplementary Grants (3 Grants)	<ul style="list-style-type: none"> • Supplementary Grant Rs. 1.364 Billion • Savings w.r.t. final Grant Rs. 3.508 Billion resulting in non-utilization of SG
Excessive Supplementary Grants (32 Grants)	<ul style="list-style-type: none"> • Supplementary Grant Rs. 7,960.675 billion • The amount of Rs.47.912 billion could not be utilized
Insufficient Supplementary Grants (19 Grants)	<ul style="list-style-type: none"> • Supplementary Grant Rs.369.119 Billion • Excess w.r.t Final Grant Rs.83.146 billion resulting in insufficient SG

Figure-I Variation of SGs from Actual Requirements

There was a slight decrease in share of total expenditure on current and development grants during financial year 2022-23 as compared to financial year 2021-22 showing reduced resource allocation on development and current expenditure, negatively affecting the growth of the economy as shown in **Figure-II**:

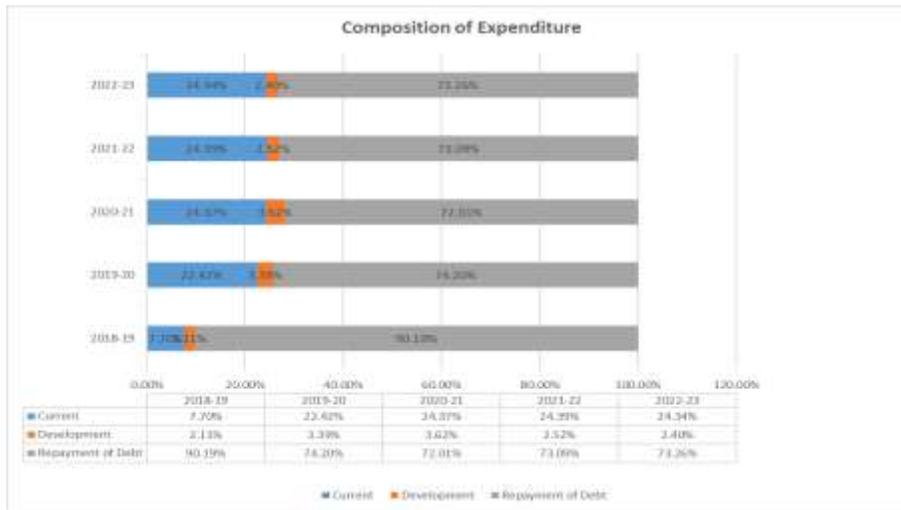


Figure-II – Current, Development and Repayment of debt expenditure as % of Total Expenditure

Flow of expenditure: As per Appropriation Accounts of the Federal Government, for the financial year 2022-23, the total expenditure of Rs. 38,675.39 billion was booked by the AGPR and its subordinate offices as detailed below.

(Rs. in billion)

Economic Functions	FY 2022-23		FY 2021-22	
	Expenditure	%	Expenditure	%
i. Interest Payment	5,702.16		21,681.63	73.09%
ii- Principal Repayments of Loans	28,332.41		3,213.74	10.83%
A- Total Debt Servicing (i+ii)	34,034.57	91.42%	24,895.37	83.93%
B- Other than Debt	3,195.04	8.58%	3,357.96	11.32%
01 - General Public Service (A+B)	37,229.61	96.26%	28,253.33	95.25%
02 - Defence Affairs & Services	11.56	0.03%	6.64	0.02%
03 - Public Order and Safety Affairs	228.77	0.59%	208.32	0.70%
04 - Economic Affairs	540.99	1.40%	589.92	1.99%
05 - Environment Protection	4.70	0.01%	10.09	0.03%
06 - Housing and Community Amenities	9.06	0.02%	10.49	0.04%
07 - Health	35.89	0.09%	162.56	0.55%
08 - Recreation, Culture and Religion	17.48	0.05%	15.74	0.05%
09 - Education Affairs and Services	146.94	0.38%	54.96	0.19%
10 - Social Protection	450.39	1.16%	351.13	1.18%
Grand Total	38,675.39	100.00%	29,663.17	100.00%

Figure-III Flow of expenditure

As evident from the table above, a high percentage of expenditure i.e. 96.26% was expended on General Public Service which includes 91.42% on repayment of debt and interest payments during 2022-23, the same was 83.93% during 2021-22. Therefore, the Federal Government was left with a meager 12% of total expenditure for socio-economic functions (other than debt) which is lower than last year's percentage of 16.07%.

1.1.2 Analysis of financial statements of Federal Government

As per Financial Statements of the Federal Government, for the financial year 2022-23 government expended Rs. 40,404.18 billion against total receipts of Rs 40,382.70 billion out of Federal Consolidated Fund as detailed below:

In billion		
Particular	FY 2022-23	FY 2021-22
Revenue Receipts	4,643.53	3,759.58
Capital receipts (Debts/recovery of loans/adv)	35,739.17	27,839.79
TOTAL RECEIPTS	40,382.70	31,599.37
Revenue payments	11,082.23	8,883.05
Capital payments	29,321.96	22,325.80
TOTAL PAYMENTS	40,404.18	31,208.85

a. **Five Year trend in Public debt¹:** Trend of domestic and foreign debt for the last 5 years is shown in the table given below. As per the Financial Statement of the Federal Government, for the financial year 2022-23 there was an increase in receipt of domestic-floating & permanent debts to Rs.25.17 trillion & Rs. 7.29 trillion as compared to last year's receipt of Rs.17.94 trillion and Rs. 6.53 trillion, respectively. However, receipt of foreign debt was reduced to Rs. 2.88 trillion as compared to previous year's receipts of Rs. 3.08 trillion.

During financial year 2022-23 Federal Government paid off Rs. 22.63 trillion floating and Rs. 2.46 trillion permanent domestic debts as well as Rs.3.24 trillion of foreign debt.

Resultantly, the federal government increased its debts by Rs 7.01 trillion during 2022-23.

Year	Receipts				Payments				Net Increase /(decrease)
	Domestic Debt		Foreign Debt	Total Receipts	Domestic Debt		Foreign Debt	Total	
	Floating	Permanent			Floating	Permanent			
2019	37.68	8.58	1.48	47.74	41.07	1.28	0.97	43.32	4.42
2020	14.30	3.05	2.08	19.43	14.13	1.23	1.36	16.72	2.71
2021	14.55	3.18	2.24	19.96	13.807	0.96	0.96	15.72	4.24
2022	17.94	6.53	3.08	27.54	17.96	1.88	1.84	21.68	5.86
2023	25.17	7.29	2.88	35.34	22.63	2.46	3.24	28.33	7.01

b. **Composition of total Receipts²:** To meet its expenditures, Federal Government mainly relied on borrowings in the shape of public debt (*domestic and foreign debt*) which contributed

¹ Financial Statement 2022-23 Page# 34-35

² Financial Statements 2022-23 Page # 15

Rs. 35,335.74 billion (87.5%) of total receipt. There is more reliance on borrowings as compared to last year when public debt to the tune of Rs. 27,543.98 billion was part of the total receipts.

(Rs. in billion)

Particulars	FY 2022-23	FY 2021-22
Revenue-Receipts	4,643.53	3,759.58
Taxation	3,019.64	2,671.65
Non-taxation	1,623.89	1,087.94
Capital-Receipts	35,739.17	27,839.79
Domestic debt	32,456.17	24,460.58
Foreign debt	2,879.57	3,083.40
Recoveries of loans and advances	403.43	295.81
Total Receipts	40,382.70	31,599.37

During the financial year 2022-23 tax receipts of Federal Government were Rs. 7,177.035 billion as compared to Rs. 6,155.166 billion for the previous financial year, which represents an increase of 16.6%. Out of total tax collections for the financial year 2022-23, the Federal Government has transferred Rs. 4,097,393 million to the provinces. These transfers are made from all heads of taxes in accordance with the NFC award. The net tax reported after the transfers leave the Federal Government with tax revenue of Rs 3,019.642 billion against Rs. 2,671.647 billion in comparison with the previous financial year.

c. Composition of tax receipts: In 2022-23 there was a growth in Income tax including nominal growth in Sales Tax, Federal Excise, and other taxes increased by Rs 434.21 billion as compared to previous financial year 2021-22³. However, there was a decrease in collection of customs duty during CFY. The same is reflected in the Figure-V:

³ Financial Statements 2022-23 Page # 19

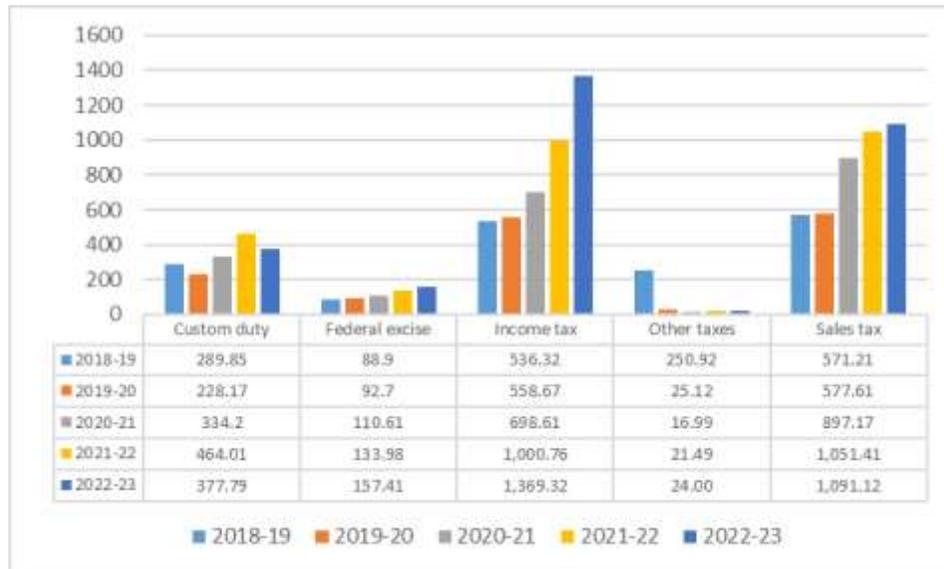


Figure-V -5 year trend in Tax Receipts of the Federal Government

According to Economic Survey of Pakistan, Tax expenditure has been estimated at Rs. 2,239.6 billion.⁴ Last year amount booked as tax expenditure was Rs. 1,757.035 billion.

d. Non-tax receipts: The Federal Government is experiencing increase in total non-tax receipts of Rs 1,623.89 billion as compared to previous year, mainly due to increase in development surcharge & royalties and economic service receipts.

⁴ Economic Survey of Pakistan 2022-23, Annex-II (Page-312)

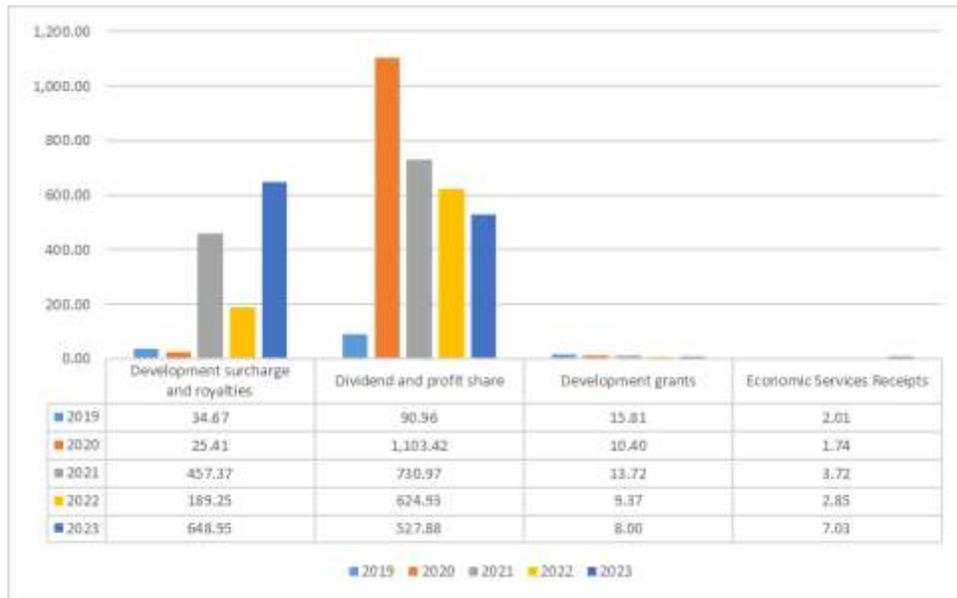


Figure-VI -Non-Tax Receipts of the Federal Government in FY 2022-23⁵

Strenuous efforts are required to increase the tax and non-tax receipts of the Government to reduce dependency on debt.

1.2 Key issues highlighted in Financial Attest Audit

Federal Government (AGPR)

1.2.1 93% of the total supplementary grants remained unapproved by Parliament - Rs. 8,049.415 billion

Article 84 of Constitution of Islamic Republic of Pakistan, 1973 states that if in respect of any financial year it is found, (a) that the amount authorized to be expended for a particular service for the current financial year is insufficient, or that a need has arisen for expenditure upon some new service not included in the Annual Budget Statement for that year; or (b) that any money has been spent on any service during a financial year in excess of the amount granted for that service for that year; the Federal Government shall have power to authorize expenditure from the Federal Consolidated Fund, whether the expenditure is charged by the Constitution upon that Fund or not, and shall cause to be laid before the National Assembly a Supplementary Budget Statement or, as the case may be, an Excess Budget Statement, setting out the amount of that expenditure, and the

⁵ Financial Statements 2022-23 page # 19

provisions of Articles 80 to 83 shall apply to those statements as they apply to the Annual Budget Statement.

Para 31 of Supreme Court of Pakistan’s Judgment dated 5.12.2013 states that the Phrase, “Supplementary Budget Statement, makes it abundantly clear that the Supplementary Budget Statement, in the normal course, is to be placed before the National Assembly during the same Financial Year.

During Certification Audit of Manuscripts of Appropriation Accounts for the year 2022-23, it was noted that Federal Government approved supplementary grants of Rs. 8,678.242 billion during 2022-23 as per details below:

(Rupees)

Particulars	Amount	Percent
Total Supplementary Grants as per Manuscript of Appropriation Accounts for 2022-23	8,678,242,311,000	
Supplementary Grants printed in Supplementary Schedule of Authorized Expenditure	(628,826,583,000)	7%
Supplementary Grants not printed in Supplementary Schedule of Authorized Expenditure	8,049,415,728,000	93%

Audit observed that the Supplementary Grants of Rs. 8,049.415 billion (93% of total Supplementary Grants) were not authorized by the Parliament during financial year i.e. 2022-23.

Audit is of the view that Supplementary Grants of Rs. 8,049.415 billion were unauthorized as these supplementary grants were not tabled before the National Assembly during FY 2022-23.

The DAC in its meeting dated 22.11.2023 directed the management of AGPR to hold a meeting with DG Audit (FG) and discuss all observations to reconcile the issues, and outcome may be discussed in the next DAC meeting with Finance Division.

In compliance with DAC recommendations, a meeting was convened with AGPR, and para was referred for management letter for further discussion in next DAC meeting.

Audit recommends that supplementary grants should be placed before National Assembly during the same Financial Year in compliance of Article 84 of Constitution of Islamic Republic of Pakistan, 1973 and Supreme Court of Pakistan’s Judgment dated 5.12. 2013.

1.2.2 Expenditure in excess of Final Grants without Supplementary Grant – Rs. 94,656.871 million

Article 84 of Constitution of Islamic Republic of Pakistan, 1973 states that if in respect of any financial year it is found, (a) that the amount authorized to be expended for a particular service for the current financial year is insufficient, or that a need has arisen for expenditure upon some new service not included in the Annual Budget Statement for that year; or (b) that any money has been spent on any service during a financial year in excess of the amount granted for that service for that year; the Federal Government shall have power to authorize expenditure from the Federal Consolidated Fund, whether the expenditure is charged by the Constitution upon that Fund or not, and shall cause to be laid before the National Assembly a Supplementary Budget Statement or, as the case may be, an Excess Budget Statement, setting out the amount of that expenditure, and the provisions of Articles 80 to 83 shall apply to those statements as they apply to the Annual Budget Statement.

Section 25(1) of Public Finance Act, 2019 provides that the expenditure in excess of the amount of budget grant as well as the expenditure not falling within the scope or intention of any budget grant, unless regularized by a supplementary grant, shall be treated as excess expenditure.

During Certification Audit of Manuscripts of Appropriation Accounts and Financial Statements of Federal Government for the year 2022-23, it was observed that the Ministries/Divisions incurred excess expenditure of Rs 94.657 billion under 11 demands. Details are as under:

Demand Type	No. of Demands	Final Budget	Expenditure	Excess
Charge	1	935,844,147	936,620,790	776,643
Current	5	24,706,706,570	27,373,715,374	2,667,008,804
Development	5	354,053,858,302	446,042,943,896	91,989,085,594
Grand Total	11	379,696,409,019	474,353,280,060	94,656,871,041

(Rupees)

Audit is of the view that incurring expenditure in

excess of final grants was irregular and against Provision of the Constitution of Pakistan.

The DAC in its meeting dated 22.11.2023 directed the management of AGPR to hold a meeting with DG Audit (FG) and discuss all observations to reconcile the issues and final outcomes may be discussed in the next DAC meeting with Finance Division.

In compliance with DAC recommendations, a meeting was convened with AGPR, and para was referred for management letter for further discussion in next DAC meeting.

Audit recommends that AGPR should be directed to stop payments without allocation of budget in the relevant head.

1.2.3 Expenditure charged to the Revenue Account instead of Capital Account – Rs. 218.046 billion

Para 184 of GFR Vol-I states that provision for expenditure on all buildings, communications and other works required by civil departments, which Government has not specifically allotted to such departments, should be included in the Grant for "Civil Works", to be administered and accounted for by the Public Works Department. No such work may be financed partly from funds provided in a departmental budget and partly from the budget for civil works.

During Certification Audit of Manuscripts of Appropriation Accounts and Financial Statements of Federal Government for the year 2022-23, it was noticed that the expenditure of Rs 218.046 billion was charged to object-head A-12-Civil Works under Current Grants and Development Grants:

Grant	Nos	Expenditure* in Rs.
Charge	4	7,092,000
Current	36	197,459,833,444
Development	175	20,579,083,490
Grand Total	215	218,046,008,934

**Excluding demands from 122 to 131 i.e. Development expenditure on capital account.*

Audit observed that the Ministry of Finance got approved funds from the Parliament under Budget Head A-12-Civil Works in different current and development demands but the expenditure was charged to Revenue Account instead of Capital Account.

Audit is of the view due to non-booking of civil works expenditure as capital expenditure presentation in the books of accounts was affected.

The management of AGPR replied that the para relates to Finance Division. While preparing the annual budget, Finance Division should provide the budget of Civil Works under the proper grant of M/o Housing and Works instead of under different grants of Ministries / Divisions so that the expenditure against the said budget could be charged to Capital Account.

The DAC in its meeting dated 22.11.2023 directed the management of AGPR to hold a meeting with DG Audit (FG) and discuss all observations to reconcile the issues, and final outcomes may be discussed in the next DAC meeting with Finance Division.

In compliance with DAC recommendations, a meeting was convened with AGPR, and para was referred for management letter for further discussion in next DAC meeting.

Audit recommends that expenditure on Civil Works be charged to Capital Expenditure as required under the rules.

1.2.4 Variation in appropriation account and head wise expenditure of PPOD provided by the AGPR – Rs. 1,213.811 million

Para 2.2.2.6 of APPM provides that “the Accountant General Pakistan Revenues (AGPR) is responsible for the centralized accounting and reporting of federal transactions. Additionally, the AGPR is responsible for the consolidation of summarized financial information prepared by federal self-accounting entities.

Para 2.3.3.1 of APPM provides that “the accounting system must produce sufficient information for the adequate control of the government’s finances. This objective shall be addressed by:

- Preparation of monthly and annual accounts
- Availability of an audit trail through sub-ledgers, registers and source documents to substantiate the financial reports.
- Preparation of additional operational information by entities as required.
- On-going review of information requirement by users.

During Certification Audit of Manuscripts of Appropriation Accounts and Financial Statements of Federal Government for the year 2022-23, it was observed that expenditure under grant No. 26 pertaining to Pakistan Post Office Department (PPOD) was Rs. 18,697.566 million. Details are as under:

Amount Rs. in million

Document	No. and Name of the Grant/Appropriation	Original Grant / Appropriation	Surrender	Final Grant / Appropriation	Actual Expenditure	Excess (Savings) /
Appropriation Account	26 - Pakistan Post Office Department	15,719.000	(255.883)	15,463.116	18,697.566	3,234.449
AGPR Data	26 - Pakistan Post Office Department	14,738.507	(255.233)	15,263.469	17,483.755	2,220.286
	Variation	980.493	-	199.647	1,213.811	

Audit observed that there was variation of Rs 1,213.811 million in the expenditure shown in the appropriation accounts and head-wise expenditure (soft data) provided by the AGPR.

Audit is of the view that due to the non-availability of complete audit trail the certification process has been compromised resulting in scope limitation.

The management replied that actual expenditure of Rs 18.697 million was reported to PPOD, and department did not point out any variation.

The DAC in its meeting dated 22.11.2023 directed the management of AGPR to hold a meeting with DG Audit (FG) and discuss all observations to reconcile the issues, and that final outcomes may be discussed in the next DAC meeting with Finance Division.

In compliance with DAC recommendations, a meeting was convened with AGPR, and para was referred for management letter for further discussion in next DAC meeting.

Audit recommends that reconciled expenditure along with soft data extracted through SAP system be provided and matter may be inquired.

Central Directorate of National Savings (CDNS)

1.2.5 Non-transfer of provincial sales tax on services to the respective province– Rs 15.125 million

The Controller General of Accounts vide letter dated 09.07.2021 devised a mechanism for accounting, reporting and settlement of withheld sales tax on services levied by the provincial governments and also opened new heads of accounts under the object element “G-Liabilities” as detailed below:

Major Object	G05	Control Account
Major Object	G051	Misc
Detailed Object	G05120	Sales Tax on Services (Punjab)
Detailed Object	G05121	Sales Tax on Services (Sindh)
Detailed Object	G05122	Sales Tax on Services (KPK)
Detailed Object	G05123	Sales Tax on Services (Balochistan)

During scrutiny of data provided by the management of CDNS, Islamabad, it was noted that management deducted Rs 15.125 million on account of sales tax on services under the head of account “Services Rendered” during Financial Year 2022-23.

Audit observed that provincial sales tax on services amounting to Rs 15.125 million was not booked under the relevant object head as evident from SAP report.

Audit is of the view that this practice resulted in misclassification of CDNS receipt accounts which may ultimately result in overstatement of receipts of Federal Government.

Management replied that in compliance of audit observation, all the account offices have been instructed to book the payment of “Sales tax on services” under the relevant object heads of Sales Tax on Services of the respective provinces as conveyed / revised by the CGA. Now booking is properly being done by the Regional Accounts Offices.

The DAC in its meeting held on 22.01.2023 recommended the para for settlement subject to regularization by Finance Division.

Audit recommends that DAC directions may be complied with.

Pakistan Mint

1.2.6 Overstatement of receipt – Rs. 17.115 million

Rule 12 of GFR Vol-I requires that, a controlling officer must see not only that the total expenditure is kept within the limits of the authorized appropriation but also that the funds allotted to spending units are expended in the public interest and upon objects for which the money was provided. In order 'to maintain proper control, he should arrange to be kept informed, not only of what has actually been spent from an appropriation but also what commitments and liabilities have been and will be incurred against it.'

During Certification Audit of Manuscript of Appropriation Accounts of Pakistan Mint Lahore for the Year 2022-23, it was observed that Pak Mint recovered an amount of Rs 17.115 million from the pay of employees residing in Mint colony during financial year 2022-23 and deposited the same into receipt account of Pak Mint.

(in Rupees)

Particulars	Electricity	Gas	Total
Recovered from Employees	15,990,887	1,125,038	17,115,925

Audit observed that the recovered amount was irregularly deposited into receipt and collection account G-10104 of Pakistan Mint as this amount does not belong to mint receipts.

Audit is of the view that depositing personal recoveries of employees into receipt account of Pakistan mint enhanced the actual receipts and overstated the receipts by Rs.17.115 million.

The management replied that Pak Mint is maintaining Assignment Account therefore receipt cannot be deposited into said account. Therefore, recoveries of utility were deposited into G10101-Mint Receipt and Payment.

The DAC in its meeting held on 22.01.2023 accepted the viewpoint of Audit and directed the management to resolve the issue in consultation with AGPR to avoid such lapse in future.

Audit recommends that management of Pak Mint should comply with the directions of DAC.

CHAPTER 2

2. IMPACT AUDIT: INITIATIVES TAKEN FOR BETTER SERVICE DELIVERY IN EXCISE & TAXATION DEPARTMENT ISLAMABAD

2.1 Introduction

2.1.1 Background

Pakistan's vision 2025 gives special emphasis on knowledge intensive activities that contribute to advancement in technical and digital innovation. Through digital economy, GOP wants to ensure economic prosperity, citizen facilitation and empowerment. In wake of this vision, Excise and Taxation Department, also known as Islamabad Excise, as a part of Islamabad Capital Territory Administration, has also prioritized multiple initiatives to enhance confidence building measures for taxpayers, harnessing tax culture and facilitating general public.

The Excise and Taxation Department serves as a pivotal government agency which is responsible for the administration and collection of various taxes, duties, and excise fee on activities within its jurisdiction in the federal capital territory. Apart from registration of motor vehicles, its primary mandate is to ensure the fair and efficient collection of revenues that contribute to the development of the region and the provision of essential public services.

The Department has multidimensional functions that encompass gathering of both direct and indirect taxes. It oversees the collection of Road Tax, Income Tax (Adjustable), Professional Tax, Advance Tax and Capital Value Tax, Bed Tax, etc. which are direct taxes levied on individuals and businesses based on their earnings. Additionally, the department administers indirect taxes such as the federal excise duty, which is levied on specific goods and services, contributing to the national revenue pool.

2.1.2 Overview of Digital Initiatives

To enhance operational efficiency and to facilitate ease of compliance, the Excise and Taxation Department has embraced technological advancements. It has introduced several online platforms and digital services that enable taxpayers to book online appointments, make payments, and access relevant information through user-friendly interfaces. This modernization can potentially simplify the tax/fee payment process. It can also promote transparency and reduce administrative burdens. Some of the initiatives taken by the department are as under:

- i. Online payment collection system
- ii. Introduction of bio-metric verification system

- iii. Introduction of online appointment system
- iv. Door to door registration

i.

The following are the overall objectives of these digital initiatives:

- i. To facilitate the taxpayers and enhance Govt. revenue receipts and recovery
- ii. To bring evolution in tax management system and promote tax culture
- iii. To ease out mechanism of vehicle registration through digital platforms
- iv. To authenticate the process of vehicle transfer through biometric

In order to analyze the impact of these initiatives on public facilitation, improvement in revenue and service delivery, in comparison with manual services before such interventions, DGA (FG) has performed Impact Audit by employing different data analysis and audit techniques.

2.2 Audit Scope

The scope of this Audit is to evaluate the impact of introduction of digital services including the systems of online payment, biometric verification, online appointment and door to door registration services of Excise and Taxation Department Islamabad on revenue collection, ease of accessing services and improvement in vehicle registration and transfer processes.

2.3 Audit Objectives:

- i. To evaluate the effectiveness and efficiency of digital services in terms of tax collection, vehicle registration and biometric verification etc.
- ii. Provide recommendations for improvement and enhancement.

2.4 Audit methodology

The audit methodology involved a structured approach using time-series analysis. It encompasses a comprehensive review of pre-computerization processes to establish a baseline for comparison. Quantitative and qualitative data on relevant performance indicators were used. Data was collected on indicators of improvement in revenue generation, ease of accessing services and improvement in vehicle registration and transfer processes. Analysis was made employing statistical techniques to measure changes in performance metrics. A qualitative survey was also conducted on a random sample to assess the awareness and effectiveness of new digital systems.

2.5 IMPACT AUDIT FINDINGS

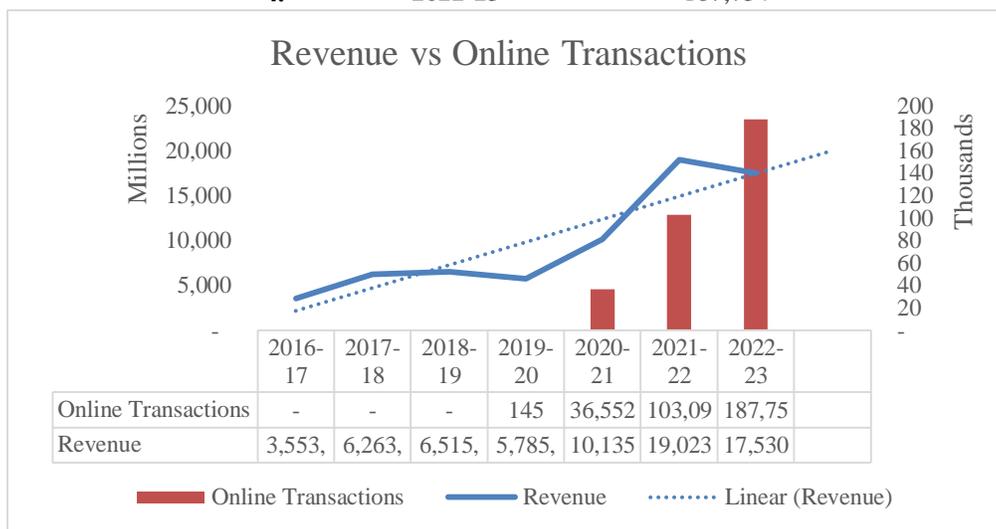
Excise & Taxation Department Islamabad had taken following digital and citizen friendly initiatives in larger public interest. Audit evaluated the impact of each of these digital initiatives

for improved service delivery and revenue generation. There was no rival cause involved for comparison as these initiatives were taken as a replacement of manual operations. However, percentage increases were calculated with regard to base year data, where applicable.

2.5.1 Online Payment Collection System

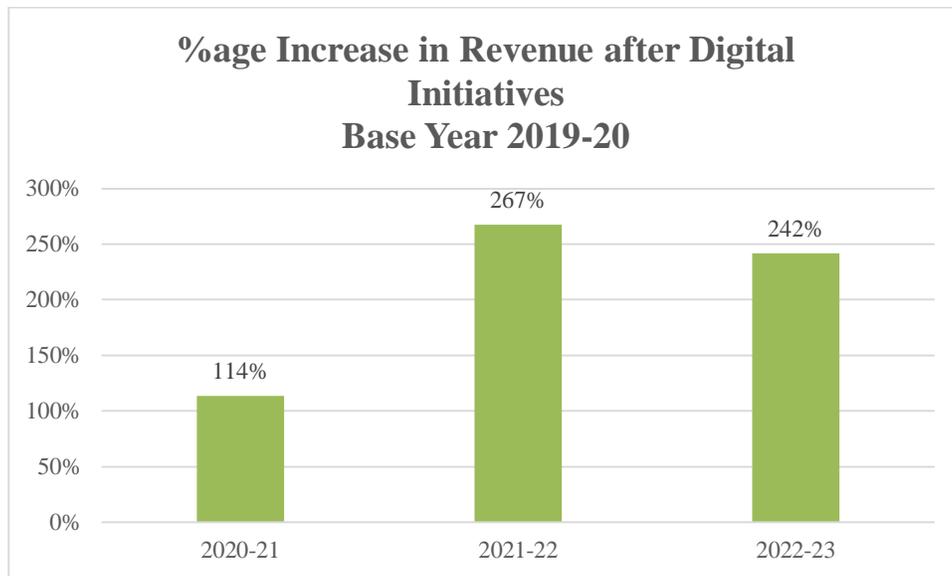
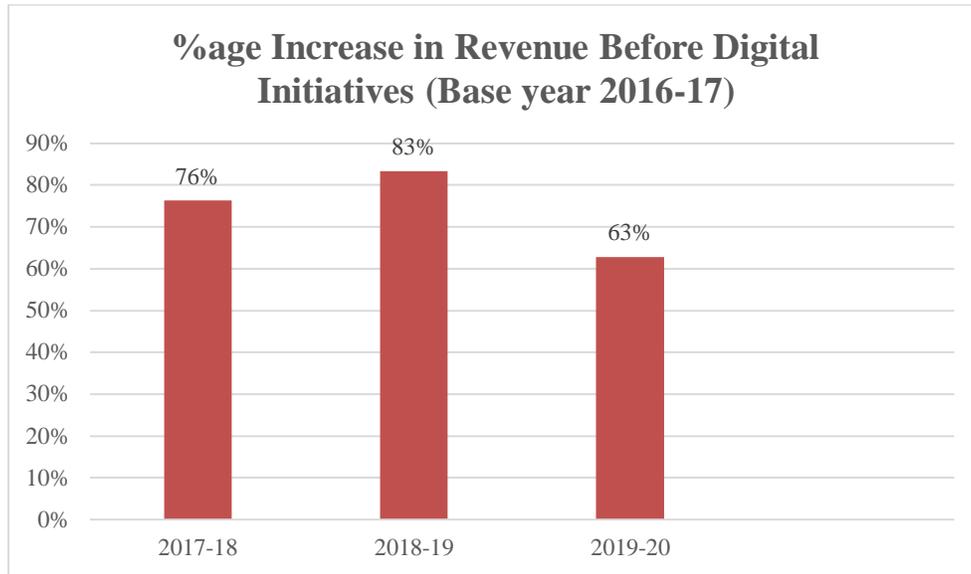
Through the online payment system implemented by the department on 01.06.2020, the general public can pay the Road Tax / Token Tax and registration fee/transfer of ownership fee through a software application namely “CITY ISLAMABAD”. The application generates a unique Payment Slip ID which provides option to pay the fees/taxes either by e-Sahulat Center of NADRA across the country or through 1-link service. The above said service has enabled the vehicle owners to pay registration fee/transfer of ownership and Road Tax/Token Tax of their respective vehicles in a more facilitated manner. The initiative helps them to avoid the past practice of standing in long queues for payment. The trend of online transactions for vehicle registration is as under:

S. No.	Financial Year	No. of online Transactions
1.	2019-20	145
2.	2020-21	36,552
3.	2021-22	103,098
4.	2022-23	187,754



The above graph shows that the number of online transactions has been consistently growing, as more citizens have preferred to use online payment facility over the years. The same is further substantiated from the fact that due to the introduction of online payment system, the revenue generated by Excise and Taxation Department, Islamabad has increased from Rs. 6.515

billion during 2018-19 to Rs. 17.530 billion in 2022-23. The charts below depict the yearly revenue growth percentage before the introduction of digital initiatives (with base year 2016-2017) and after the digital initiatives (with base year 2019-2020).



The charts show that the revenue growth has significantly increased after the introduction of digital initiatives by Excise and Taxation Department, Islamabad.

The increase in revenue was less significant in 2022-23 as compared to substantiated increase in revenue after online system introduced in 2019. It to mention that the revenue growth

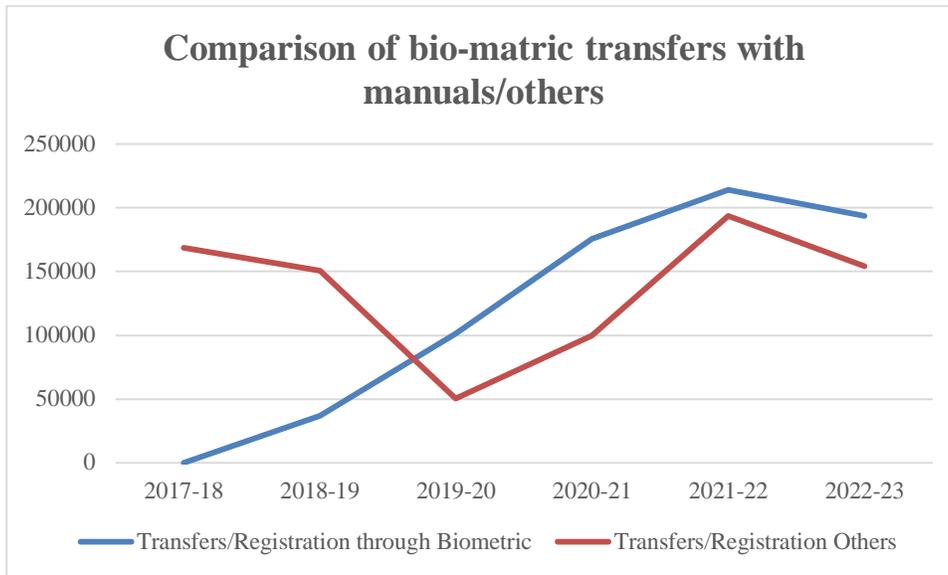
has slowed down a little during 2022-23 due to the fact that taxation rate of new registration in Islamabad is much higher than that in Rawalpindi.

During a qualitative survey by Audit, it was noted that 76.4 percent of survey respondents were aware of digital services, though almost 98 percent considered it as a useful initiative by the Excise and Taxation Department Islamabad.

2.5.2 Introduction of Biometric Verification System

Before introduction of biometric verification system for registration / transfer of ownership of vehicles there were chances of ownership transfer fraudulently by presenting fake/fabricated transfer letter. Biometric verification provides for a unique authentication system with no chance of malpractice and connivance.

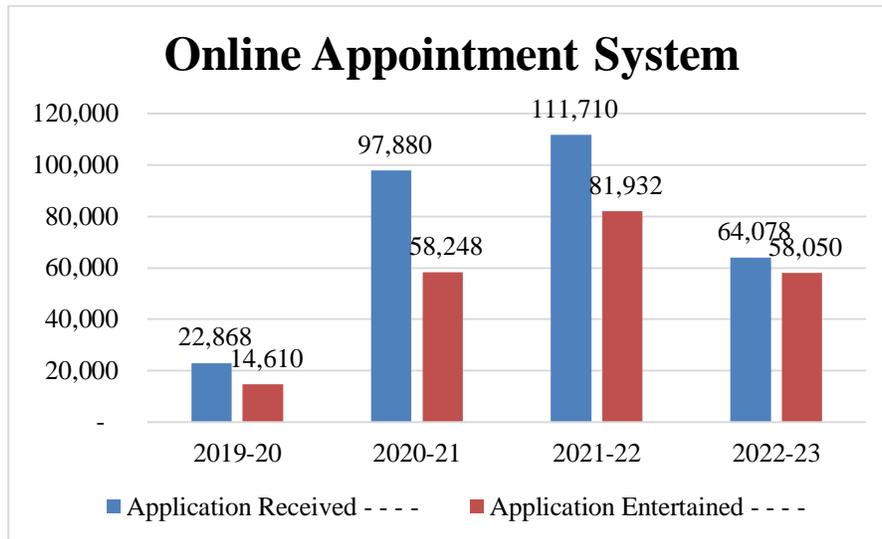
Since the start of initiative of Biometric Verification System on 01.03.2019, the chance of getting a vehicle transferred fraudulently or illegally must have considerably reduced owing to the inherent security feature of biometric verification system. It is even more robust in comparison with the previous system of vehicle transfers through manual buyer/seller verification. The said system made the registration process transparent and ensured elimination of agent mafia involvement. Currently, the BVS facility is available at e-Sahulat centers of NADRA all over Pakistan. With the start of Biometric Verification, the number of vehicle transfers has increased two times because now the purchaser must have to transfer the vehicle in his name in certain period of time otherwise a penalty will be imposed on purchaser. In previous system, the purchaser needed only a transfer letter signed by the seller without any validity. Trend of bio-metric registration/transfer cases vs manual /other transfers (companies/government vehicles, engine change, duplicate book, etc.) is as under:



It is clear from above chart that the number of transfers through bio-metric was on increasing trend as vehicle transfer in case of individuals is mandatory to be routed through biometric verification. However, Audit noted that transfers / registrations of bank-leased, auctioned and imported vehicles are still lying outside bio-metric verification, which also showed upward trend and will remain potential cases of fraudulent transfers. The absence of fraudulent cases data in manual system possesses a limitation to Audit for analyzing the trend in fraudulent cases. During a qualitative survey by Audit, an overwhelming majority of respondents (98.3 percent) have considered it as an initiative that is an effective control against fraudulent practices.

2.5.3 Introduction of Online Appointment System

During Covid-19 pandemic, the department initiated an online appointment system for registration /transfer of vehicles w.e.f. 20.08.2019. After initial data entry the system generates an appointment number and also intimates the date and time for client to approach the office for registration / transfer of vehicle. A separate counter has also been designated at the premises for the said purpose. Due to the online appointment system, the general public has been facilitated for registration / transfer of their respective vehicles without standing in long queues at department. Detail of online application cases is as under:

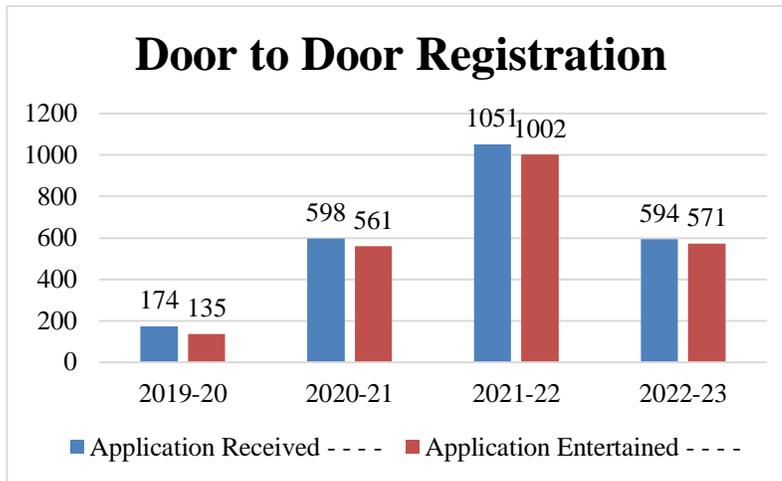


Audit noted that citizens have been increasingly utilizing the online appointment facility which indicates it as a citizen friendly initiative. However, Audit noted a decline in the use of online appointment application during 2023, which is a cause of concern, and the department should take measures to maintain this facility.

During the survey by Audit, 94.3 percent responses showed that people consider it a useful digital initiative but on the other side, only 52.8 percent were aware of this service.

2.5.4 Door To Door Registration

The Excise & Taxation Department, with collaboration of NADRA, started a Door to Door Registration of Vehicle w.e.f. 20.08.2019 for facilitation of general public. Through this service, the applicants can contact with a call center and take appointment for the service. The staff of Excise & Taxation Department will then visit the applicants at their vicinity for completing due process at doorstep.



Audit noted that registration/transfer of vehicles at doorstep of citizens has shown an increasing trend with a little decline in 2022-23. Overall, the chart shows an upward trend but it is not a hugely popular service, probably because of increased fees involved. The decline in use of above service is a matter of concern for audit and the department should take measures to keep it intact. As per survey results, most of the respondents considered it as a useful initiative, a significant number (38.4 percent) was not even aware of this service.

2.6 Conclusion

Audit concludes that the digital initiatives taken by the department have shown positive impact on service delivery and thereby brought improvement in revenue generation. The impact is mainly attributable to the increased number of digital transaction over a period, facilitation of citizens by enhancing outreach of the service through door to door facility, saving time through online appointments and improvement in revenue generation. Biometrically authenticated transfers are inherently more secure, therefore, it is a strong step by the department to reduce fraudulent/bogus transfers of vehicles. Further, the online accessibility of digital service to the citizens has also reduced the role of agent mafia. The online initiative has also offered 24/7 accessibility of departmental facilities. On contrary, Audit also noted a decline in all the key indicators during 2022-23 which needs to be explored for ensuring continuation of digital efforts for enhanced service delivery. Moreover, awareness among masses for using digital services needs to be enhanced.

2.7 Audit Recommendations

- i. The continuation of digital initiatives is strongly recommended to ensure continuity of public facilitation and improvement in revenue generation.

- ii. A mechanism should be devised to authenticate transfer of vehicles lying outside the system to avoid fraudulent transfer.
- iii. Audit recommends that the Department should take measures to ensure that more residents become aware of the digital services to stay facilitated.
- iv. Audit recommends ensuring the effectiveness and reliability of online tax collection systems. In this regard, IS Audit of the technology infrastructure including security protocols and data encryption methods are highly recommended to identify the potential vulnerabilities.
- v. Continuous monitoring of transaction logs and system activities are recommended to help detect anomalies or irregularities which may result in fraudulent activities.
- vi. Audit recommends investing in employees training programs to enhance the skills of tax administration personnel responsible for managing online tax collection systems. This includes staying abreast of the latest technological advancements and cyber security measures to effectively respond to evolving threats and risks posed to the system.

CHAPTER 3

MINISTRY OF AVIATION

3.1 Introduction

As per Schedule II [Rule 3 (3)] Distribution of Business among the Divisions read with Schedule III [rule-4(4)] Rules of Business 1973 following main businesses have been assigned to the Division amongst the other functions.

- i. Aircraft and air navigation; administration of the Civil Aviation Ordinance, 1960
- ii. Regulation, organization and safety of air traffic and of aerodromes and administration of Airports Security Force
- iii. Matters related to Pakistan International Airlines Corporation
- iv. Air Service agreements with different countries and other international agencies concerned with aviation.
- v. Federal Meteorological Organizations and Meteorological observations and World Meteorological Organizations

ATTACHED DEPARTMENTS / AUTONOMOUS BODIES/COMPANIES

- i. Pakistan Meteorological Department
- ii. Airports Security Force
- iii. Civil Aviation Authority (CAA)
- iv. PIACL

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY 2022-23) Rs. in million	Revenue/Receipt Audited (FY 2022-23) Rs. in million
1	Formations	20	4	3,546.362	-
2	Assignment Accounts (Excluding FAP)	-	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	-	-	-	-
4	Foreign Aided Project (FAP)	-	-	-	-

3.2 Comments on Budget & Accounts (Variance Analysis)

The final budget allocated to the Aviation Division for the financial year 2022-23 was Rs. 15,485.26 million, out of which the Division expended an amount of Rs.15,474.02 million. Grant-wise detail of current and development expenditure is as under:

(Rs. In millions)

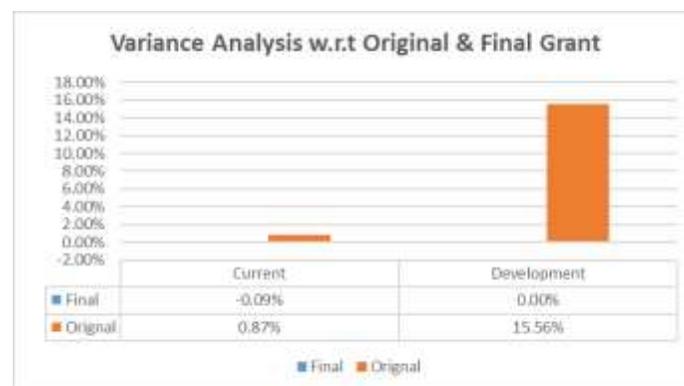
Grant No	Type of Grant	Original Grant	Supplementary Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
1	Current	2,227.23	.00	-15.77	2,211.45	2,194.90	-16.55	-0.75%
2	Current	10,195.97	222.04	-87.15	10,330.86	10,336.19	5.33	0.05%
	Total Current	12,423.20	222.04	-102.92	12,542.31	12,531.09	-11.22	-0.09%
91	Development	2,484.87	839.13	-381.05	2,942.95	2,942.93	-.02	0.00%
	G Total	14,908.07	1,061.17	-483.97	15,485.26	15,474.02	-11.24	-0.07%

Audit noted that there was an overall savings of Rs.11.24 million, which was mainly due to current expenditure.

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of GFR (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, bifurcating total allocation into current and development expenditure it is observed that, in case of development expenditure, there was 15% of excess w.r.t original grant which finally became 0% w.r.t Final Grant and in case of current expenditure 0.87% of excess expenditure reduced to 0.09% of saving in expenditure.



3.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs. 16.994 million, were raised in this report during the audit of **Aviation Division**. Summary of the audit observations classified by nature is as under:

(Rupees in million)

S. No	Classification	Amount
1	Non-production of record	-
2	Reported cases of fraud, embezzlement and Misappropriation	-
3	Irregularities	

S. No	Classification	Amount
A	<i>HR/Employees related Irregularities</i>	-
B	<i>Procurement related irregularities</i>	4.901
C	<i>Management of account with commercial banks</i>	-
D	<i>Recovery</i>	-
E	<i>Internal Control</i>	12.093
4	Value for money and service delivery	-
5	Others	-

3.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
2011-12	1	0	0	1	-
2013-14	1	1	0	1	-
2015-16	1	1	1	0	100
2017-18	1	1	0	1	-
2018-19	2	2	0	2	-
2019-20	9	0	0	9	-
2020-21	2	0	0	2	-
2021-22	4	0	0	4	-
2022-23	14	0	0	14	-
Total	35	5	1	34	-

3.5 AUDIT PARAS

Airport Security Force Headquarters, Karachi

3.5.1 Irregular obtaining of pay orders in the name of ASFF Surety Fund – Rs. 12.093 million

Clause 2(j) of the Public Finance Management Act 2019 calls for the compliance of law, rules, regulations, maintaining high standard of prudence, vigilance, due diligence and ensuring value for money while incurring expenditure and collecting government receipts.

Clause 7(a) of invitation to tender and general instructions of bidding documents regarding earnest money states that Pay Order/Bank Draft in Favor of ASFF Surety Fund from Schedule banks of Pakistan at 3% of total contract be deposited in separate envelope along with tender documents. Firms' offer will be disqualified in absence of Earnest Money.

Clause 21(a) of the contract agreement signed between all the suppliers and ASF HQ, Karachi states that to ensure timely and correct supply of stores, the firm will furnish unconditional

guarantee in the form of pay order in favor of ASFF Surety Fund within 10 days of signing of contract of total amount i.e. 10% of the total value of the contract. The pay order will remain valid for 60 days after acceptance of the stores, it will be returned to supplier after acceptance of stores by the consignee.

The management of Airports Security Force (HQ), Karachi purchased different items from contractors and obtained a pay order/demand draft amounting to Rs. 12,093,546 as 3% Earnest money and 10% performance guarantee during the financial year 2022-23. The summary is given below:

Particulars	Amount (Rs)
3% Earnest Money	3,072,209
10% Performance Guarantee	9,021,337
Total	12,093,546

Audit observed that:

- i. Earnest Money & Performance Guarantee in the shape of pay orders was obtained in the name of Airport Security Force Foundation Security Fund Account which is a separate account of i.e. ASF Foundation, and is not related to ASF HQ.
- ii. Whether the Pay orders were deposited into ASFF Funds or returned to bidders/suppliers was neither known nor any proof thereof was provided.
- iii. Utilization of Government money for Foundation Activities was not covered under the rule.

Audit is of the view that the accounts of the Foundation were benefited by the Government money which was irregular.

Audit recommends that inquiry may be conducted to fix the responsibility.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide para number 2.5.2 having financial impact of Rs. 65.865 million. Recurrence of same irregularity is a matter of serious concern.

Airport Security Force Islamabad

3.5.2 Whereabouts of Tents not known– Rs. 4.901 Million

GFR 23 stays that every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or

negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

Airport Security Force, Headquarters, Karachi purchased 44 Tents for 8 men and 46 tents for 4 men amounting to Rs. 9.960 million from M/s BSF Associate, Karachi during 2021-22, and delivered them to Airport Security Force, Islamabad for 23rd March Parade, 2022.

Audit observed that during audit of ASF Headquarters, Karachi the management provided receiving note of 90 tents from Islamabad Office whereas during audit of ASF, Islamabad it was observed that only 45 tents were received as per Receiving Voucher dated 20.06.2022 by ASF Islamabad. Details are as under:

S. No.	Description	Qty	Rate	Amount
1.	Tent for 8 Men	19	123,950	2,355,050
2.	Tent for 4 Men	26	97,950	2,546,700
			Total	4,901,750

Audit is of the view that one of the receiving notes may be fake. It could either be the note provided during audit of ASF Headquarters, Karachi, or the one provided during audit of ASF, Islamabad.

The PAO was requested to provide justification on 27.06.2023 but neither reply was received nor was DAC convened till finalization of the report.

Audit recommends that the matter may be inquired and outcome may be shared with audit.

CHAPTER 4

BOARD OF INVESTMENT

4.1 Introduction

The Board of Investment (BOI) was established with broad based responsibilities of promotion of investment in all sectors of economy, facilitation of local and foreign investors for speedy materialization of their projects, enhancement of Pakistan's international competitiveness and contribution to economic and social development.

BOI assists companies and investors who are investing or intend to invest in Pakistan as well as facilitates the implementation and operation of their projects. The wide range of services provided by BOI also includes provision of information on the opportunities for investment and facilitating companies that are looking for joint ventures.

BOI acts as a focal point of contact for existing and prospective investors, both domestic and foreign, to provide them with all necessary information and assistance in coordination with other Government Departments/Agencies at Federal and Provincial level.

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY 2022-23) Rs. in million	Revenue/Receipt Audited (FY 2022-23) Rs. in million
1	Formations	-	-	-	-
2	Assignment Accounts (Excluding FAP)	1	1	219.916	-
3	Authorities / Autonomous Bodies etc. under the PAO	-	-	-	-
4	Foreign Aided Project (FAP)	-	-	-	-

4.2 Comments on Budget & Accounts (Variance Analysis)

The final budget allocated to the Board of Investment for the financial year 2022-23 was Rs. 450.77 million, out of which the Division expended an amount of Rs.463.77 million. Grant-wise detail of current expenditure and development expenditure is as under:

(Rs. in millions)							
Grant No	Type of Grant	Original Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
13	Current	377.67	-1.89	375.77	388.89	13.11	3.37%
92*	Development	107.50	-32.50	75.00	74.75	-25	-0.34%
	Total	485.17	-34.39	450.77	463.63	12.86	2.77%

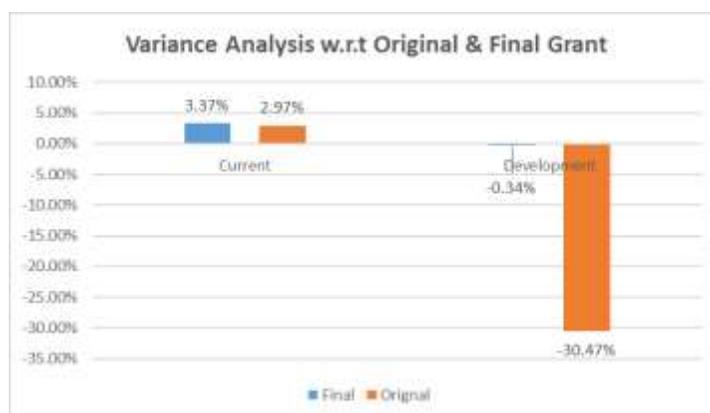
* Development Project of BoI named CPEC-ICDP (ID9436) was reflected under grant 92 of Cabinet

The audit noted that there was an overall excess expenditure of Rs.12.86 million, mainly pertaining to current expenditure.

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of GFR (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, bifurcating total allocation into current and development expenditure, it is observed that, in case of development expenditure, there were 30.47% of saving w.r.t original grant which was finally reduced to 0.34% w.r.t Final Grant and in case of current expenditure 2.97% of excess expenditure rose to 3.37%.



4.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs.13.872 million, were raised in this report during the current audit of **Board of Investment**. Summary of the audit observations classified by nature is as under:

(Rupees in million)		
S. No	Classification	Amount
1	Non-production of record	-
2	Reported cases of fraud, embezzlement and Misappropriation	-
3	Irregularities	
A	<i>HR/Employees related Irregularities</i>	-
B	<i>Procurement related irregularities</i>	13.872
C	<i>Management of account with commercial banks</i>	-

S. No	Classification	Amount
<i>D</i>	<i>Recovery</i>	-
<i>E</i>	<i>Internal Control</i>	-
4	Value for money and service delivery	-

4.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
2014-15	4	0	0	4	-
2016-17	3	0	0	3	-
2019-20	6	5	1	5	20
2020-21	2	0	0	2	-
Total	15	5	1	14	-

4.5 AUDIT PARAS

4.5.1 Hiring of services without competition - Rs. 5.555 million

Rule 12(1) of the Public Procurement Rules, 2004 states that procurement over five hundred thousand Pakistani Rupees and up to the limit of three million Pakistani Rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the Authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency.

Rule 42(c)(v) of PPRA states that a procuring agency shall engage in direct contracting in case of an emergency: Provided that the procuring agencies shall specify appropriate fora vested with necessary authority to declare an emergency.

The management of the project titled "Establishment of PMU on CPEC – Industrial Cooperation Development Project (CPEC-ICDP)" incurred an expenditure of Rs.5,554,904 on account of Conferences & Seminar during 2021-22.

(Rupees)				
Sr	Firm	Particulars	Amount	
1	M/S Shift Three Media	Event Management at PC Lahore	3,017,114	
2.	M/s Quarks (pvt) Ltd	Making of HD 4k Documentary	2,537,790	
Total Rs.			5,554,904	

Audit observed that services of above said firms were hired without open competition as required under PPRA Rules,2004.

Audit further observed that M/s Shift Three Media was registered for GST in September, 2020 and had less than one year of experience.

Audit is of the view that hiring of services in violation of PPRA Rules,2004 was irregular.

The management replied that considering the COVID-19 restrictions imposed on holding gatherings during that period, it is understandable that the event was organized on short notice due to unforeseen circumstances and the need to adapt to changing circumstances. PPRA Rules 42(c)v allows for emergency procurement in exceptional situations where the delay in following the regular procurement process could cause significant harm or damage to the organization or its objectives. Given the urgency of the B2B event and the limited time available for planning and execution, it can be argued that the situation warranted the application of this rule. In this regard the approval of the Secretary was obtained, which signifies adherence to the internal protocols and decision-making hierarchy. This demonstrates responsible governance and ensures that the necessary authorization was obtained before proceeding with the emergency procurement. As there was no pre-qualified vendor for the making of a documentary movie was associated with BOI, hence all arrangements are being made in extreme emergency in the public interest and open bidding method cannot be met.

The reply of the management was not acceptable as neither evidence regarding declaration of emergency in accordance with 42(c)v was provided to audit nor fora specified, vested with the authority to declare emergency, recommended the procurement.

Audit recommends fixing of the responsibility for violation of PPRA Rules besides regularization of expenditure.

4.5.2 Hiring of hotel services without competition – Rs.8.317 million

Rule-12(1) of the Public Procurement Rules, 2004 states that procurement over five hundred thousand Pakistani Rupees and up to the limit of three million Pakistani Rupees shall be advertised on the Authority’s website in the manner and format specified by regulation by the Authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency.

The management of the project titled “Establishment of PMU on CPEC – Industrial Cooperation Development Project (CPEC-ICDP)” hired services of different hotels to conduct conferences including lunch / dinners for the participants and incurred an expenditure of Rs. 8,317,082 as detailed below:

Year	Vendor Name	Amount	Cheque No	Date
------	-------------	--------	-----------	------

2021-22	Pearl Continental Hotel Lahore	2,936,830	8812659	13/04/2022
2021-22	Hashwani Hotels Limited	2,881,726	8979469	21/06/2022
2020-21	Hashwani Hotels Limited	1,309,236	8429180	15/06/2021
2019-20	Islamabad Marriott Hotel	907,410	7814143	20/06/2020
2020-21	Hashwani Hotels Limited	281,880	8026305	01/01/2021
	Total	8,317,082		

The audit observed that services were hired without open competition as required under PPRA Rules.

The audit also observed that the signed list of participants was also not available with the management.

Audit is of the view that irregularity was committed by hiring services without any competition and in violation of PPRA Rules, 2004.

The management replied that regarding the challenges faced during the procurement of hotel services for conferences in the project. It is noted that there were two main issues firstly, the ban on public gatherings due to COVID-19 restrictions, and secondly, the restriction on the movement of Chinese investors by the Chinese Embassy. As a result, B2B events were organized on short notice, leading to services being hired without going through a competitive bidding process. The COVID-19 pandemic has indeed imposed various restrictions and limitations on public gatherings, including conferences and events.

The management, however, accepted the viewpoint of audit that services of hotels were hired without any competition.

Audit recommends fixing the responsibility for violation of PPRA Rules and regularization of the expenditure from Finance Division.

CHAPTER 5

CABINET DIVISION

5.1 Introduction

As per Schedule II [Rule 3 (3)] Distribution of Business among the Divisions read with Schedule III [rule 4(4)] Rules of Business 1973 (As amended up to 23rd April, 2019) following main businesses have been assigned to the Division amongst the other functions.

- 1- All secretarial work for the Cabinet, National Economic Council and their Committees, Secretaries' Committee.
- 2- Appointments, resignations, salaries, allowances and privileges of Provincial Governors.
- 3- Setting up of a Division, allocation of business to a Division and constitution of a Division or group of Divisions as a Ministry.
- 4- Coordination of defense effort at the national level by forging effective liaison between the Armed Forces, Federal Ministries and the Provincial Governments at the national level.
- 5- Instructions for delegations abroad and categorization of international conferences.
- 6- Security and proper custody of official documents and security instructions for protection of classified matter in Civil Departments.
- 7- Resettlement and rehabilitation of civilians and civil Government servants uprooted from East Pakistan including policy for grant of relief and compensation for losses suffered by them.
- 8- Administrative control of the National Electric Power Regulatory Authority, Pakistan Telecommunications Authority, Frequency Allocation Board, Oil and Gas Regulatory Authority, Public Procurement Regulatory Authority, Intellectual Property Organization of Pakistan and Capital Development Authority.
- 9- People's Works Program (Rural Development Program).
- 10- Selection of scholars against Pakistan Chairs Abroad by the Special Selection Board.

ATTACHED DEPARTMENTS/ AUTONOMOUS BODIES

- i. Abandoned Property Organization
- ii. Department of Communication Security.
- iii. Department of Stationery Forms.
- iv. Department of Archives.
- v. Intelligence Bureau
- vi. Islamabad Club as an Autonomous Body.

vii. Public Procurement Regulatory Authority

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY-2022-23) Rs. in million	Revenue / Receipt Audited (FY 2022-23) Rs. in million
1	Formations	59	7	4,785.278	-
2	Assignment Accounts (Excluding FAP)	4	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	3	3	2,285.000	-
4	Foreign Aided Project (FAP)	-	-	-	-

5.2 Comments on Budget & Accounts (Variance Analysis)

The final budget allocated to the Cabinet Division for the financial year 2022-23 was Rs.52,471.66 million, out of which the Division expended an amount of Rs.52,405.64 million. Grant-wise detail of current expenditure and development expenditure is as under:

(Rs. in million)

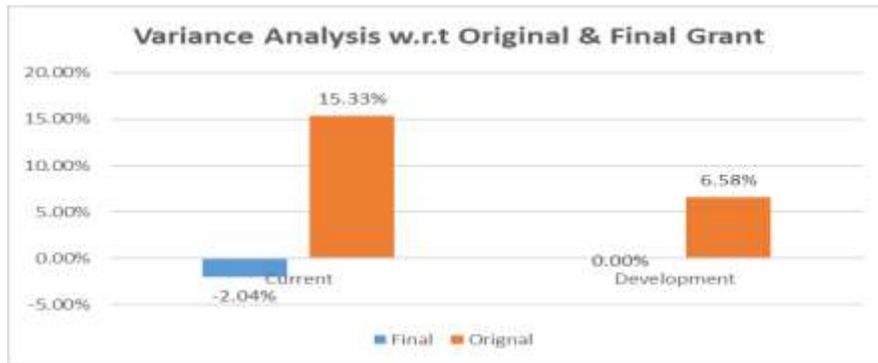
Grant No	Type of Grant	Heads	Original Grant	Supplementary Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
1	Current	Cabinet	277.00	.00	-80.39	196.61	185.32	-11.29	-5.74%
2	Current	Cabinet Division	2,048.00	1,055.00	-619.71	2,483.29	2,429.91	-53.38	-2.15%
3	Current	Emergency Relief and Repatriation	387.00	125.82	0.00	512.82	512.42	-.40	-0.08%
	Total Current		2,712.00	1,180.82	-700.10	3,192.72	3,127.65	-65.07	-2.04%
86	Development	Development Expenditure	46,235.00	18,729.38	-15,685.43	49,278.94	49,277.99	-.95	0.00%
	G Total		48,947.00	19,910.19	-16,385.53	52,471.66	52,405.64	-66.02	-0.13%

Audit noted that there was an overall saving of Rs.66.02 million, which was mainly due to saving in current grants.

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of General Financial Rules (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, bifurcating total allocation into current and development expenditure, it is observed that, in case of current expenditure 15.33% of excess expenditure becomes 2.04% of saving in expenditure.



5.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs. 990.339 million, were raised in this report during the current audit of the Cabinet Division. Summary of the audit observations classified by nature is as under:

(Rupees in million)

S. No	Classification	Amount
1	Non-production of record	-
2	Reported cases of fraud, embezzlement and Misappropriation	-
3	Irregularities	
A	<i>HR/Employees related Irregularities</i>	-
B	<i>Procurement related irregularities</i>	431.262
C	<i>Management of account with commercial banks</i>	19.167
D	<i>Recovery</i>	-
E	<i>Internal Control</i>	539.91
4	Value for money and service delivery	-
5	Others	-

5.4 Status of compliance with PAC Directives

PAO	Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
Cabinet Division	2010-11	1	1	1	0	100
	2012-13	3	0	0	3	-
	2013-14	4	4	4	0	100
	2014-15	9	5	4	5	80
	2015-16	2	2	2	0	100
	2016-17	22	9	0	22	-
	2018-19	25	25	21	4	84
	2019-20	15	7	3	12	43
	2020-21	2	0	0	2	-
	2021-22	3	1	1	2	100
	2022-23	22	0	0	22	-
	Total		108	54	36	72

5.5 AUDIT PARAS

Special Audit of Toshakhana

5.5.1 Irregular and unauthorized modification in Toshakhana Rules 1973

In Case NO. 233/31/73 dated 9.10.1973, the Federal Cabinet has approved the Rules for the acceptance of gifts and their disposal. The Prime Minister while approving the Rules prior to Federal Cabinet noted his remarks “The Prime Minister was pleased to observe that in the past different standards of conduct were observed with regard to the Toshakhana rules. While honest people had observed these rules strictly, the corrupt people had manipulated these for their own ends. Some of the past Governments had been particularly notorious in this regard. “In 1956 when the then Prime Minister of Pakistan visited Brother Country the members of the Pakistan delegation were given some very expensive gifts by the Chinese Government. However, these people deposited imitations bought in Hong Kong in the Toshakhana and retained the original gifts. It is necessary to frame proper and realistic rules of Toshakhana in such a way that honest people are not placed at a disadvantage”.

Serial No. 2 (23) Schedule II Rule 3 (3) of Rules of Business, 1973 states that the business of government shall be distributed among the Divisions in the manner indicated in Schedule II in which Toshakhana was distributed to Cabinet Division.

The management of Cabinet Division (Toshakhana) converted Toshakhana Rules to Toshakhana procedures after 1973. These procedures were continuously amended, i.e., 2001, 2004, 2006, 2007, 2011, 2017 and 2018 (Supporting documents pages-35 to 41 Policy 2018 Volume-I).

During Special Audit of Toshakhana, audit observed as under:

- i. Amendments in Toshakhana Rules framed in 1973 were made frequently from time to time without approval from the Federal Cabinet as was done in 1973.
- ii. Relaxation of rules was obtained for Prime Minister against the Rules.
- iii. Rules were superseded ab initio through framing of procedures in 2001, 2004, 2006, 2007, 2011, 2017 and 2018.

Further, other paras of personal nature pertaining to the Special Audit of Toshakhana are pending for want of replies from the management and verifications of record. Special Audit Report will be issued separately after completing necessary requirements.

Audit is of the view that amendments and replacing of Toshakhana Rules with policies procedures and relaxation of Rules was irregular and unauthorized.

Audit recommends that matter may be inquired and responsibility be fixed.

5.5.2 Non-reconciliation of receipt collected through challans against gifts – Rs. 226.987 million

Regulation 7 (P) of Financial Management and Powers of Principal Accounting Officers Regulations, 2021 The principal accounting officer shall be responsible for monitoring the budget execution progress, and undertake reconciliation with accounting offices on monthly basis, related to revenues and expenditure of the division, department, sub-ordinate office or demand for grant under his control, through chief finance and accounts officer and furnish reconciled statement of revenue and expenditure, separately to Finance Division on quarterly basis, through chief finance and accounts officer.

Para 7 (i) of the System of Financial Control and Budgeting issued vide Finance Division O.M. dated 13.06.2006 states that the Chief Finance and Accounts Officer shall systematize proper maintenance of accounts and their timely reconciliation with the actual figures of the CGA/AGPR and maintenance of 'Liability Register' in the Ministry/Division, its Attached Departments and SubOrdinate Offices. He shall monitor the progress of the expenditure and receipts and furnish, with the approval of the Principal Accounting Officer, a monthly statement of departmental expenditure and receipts to Financial Adviser's Organization and the Finance Division (budget and Accounts Section –Budget Wing) by the 10th and the reconciled statement of expenditure and receipts by the 25th of the month following the month to which it relates.

The management of Cabinet Division (Toshakhana) has collected an amount of Rs. 226.987 million as percentage of assessment value of gifts from recipients and through auction from 2002 to February 28, 2023 through bank chalans. Detail is as under:

S. No.	Year	Amount
1.	2022	5,702,530
2.	2021	4,068,543
3.	2020	14,437,250
4.	2019	10,802,9464
5.	2018	47,527,586
6.	2017	62,404,078
7.	2016	25,032,057
8.	2015	9,927,085
9.	2014	1,520,915

10.	2013	1,246,800
11.	2012	2,209,480
12.	2011	3,634,282
13.	2010	1,524,035
14.	2009	21,643,499
15.	2008	1,130,971
16.	2007	5,473,274
17.	2006	2,883,962
18.	2005	1,535,766
19.	2004	1,720,347
20.	2003	2,219,130
21.	2002	342,665
	Total	226,987,201

During Special Audit of Toshakhana, it was observed that the Cabinet Division has not reconciled the bank challans figure with the Federal Treasury Office.

Further, other paras of personal nature pertaining to the Special Audit of Toshakhana are pending for want of replies from the management and verifications of record. Special Audit Report will be issued separately after completing necessary requirements.

Audit is of the view that in the absence of reconciled figures audit is not in a position to verify the actual amount deposited in Government kitty.

Audit recommends that matter may be inquired, verification of each challan be carried out and responsibility be fixed for non-reconciliation of receipts.

5.5.3 Non-Production of record relating to Toshakhana Cabinet Division

The Honorable Supreme Court of Pakistan in its judgment dated 08.07.2013 declared and directed in Para 27(b) that the Auditor General, in order for him to fulfill his duties under Articles 169 and 170 of the Constitution, is not only authorized but also obliged to seek access to any and all records actually maintained by all Federal and Provincial Governments, as well as all entities established by or under the control of the Federal and Provincial Governments, regardless of the designation of such records as secret or otherwise.

Section 14 (2) of Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 states that the officer in-charge of any office or department shall afford all facilities and provide record for audit inspection and comply with requests for information in as complete a form as possible and with all reasonable expedition.

Section 14(3) of Auditor General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 states that any person or authority hindering the auditorial functions of the Auditor General regarding inspection of accounts shall be subject to disciplinary action under relevant Efficiency and Discipline Rules, applicable to such person.

During Special Audit of Toshakhana, the Cabinet Division was requested to provide the following auditable record pertaining to Toshakhana vide requisition Nos. 5 (Supporting documents pages-1147 to 1148 Policy 2018 Volue-IV).

- i. List of complete gifts received in Toshakhana from 1990 to 2002 Requisition No. 5 dated 19.04.2023.
- ii. All gifts' files (in original) along with files index register from 1990 to 2002 Requisition No.5 dated 19.04.2023.
- iii. Copies of approved Rules/Regulations/SoPs of Toshakhana and subsequent amendments made from 1990 to 2002 Requisition No.5 dated 19.04.2023.
- iv. First Entry Registers (FER), Toshakhana Stock Registers and Bank Challan Register from 1990 to 2002, Requisition No.5 dated 19.04.2023.
- v. Physical verification report of gifts displayed in various government buildings' as well as in Toshakhana from 1990 to 2002. Requisition No.5 dated 19.04.2023.
- vi. List of items auctioned along with bank challan from 1990 to 2002, Requisition No. 5 dated 19.04.2023.

Further, other paras of personal nature pertaining to the Special Audit of Toshakhana are pending for want of replies from the management and verifications of record. Special Audit Report will be issued separately after completing necessary requirements.

Audit of the view that in the absence of aforementioned information/record Audit is unable to ascertain the authenticity of data.

The management replied that as per the recommendation of Inter-Ministerial Committee on Toshakhana, the Federal Cabinet on 22.02.2023 approved the declassification of Toshakhana record from 2002 onwards. The record prior to 2002 is classified and hence cannot be provided letter No.F.No.8/3/2022-TK dated 19.04.2023.

The reply of the management is not acceptable because the clarified in its verdict that under Articles 169 and 170 of the Constitution, the Auditor General is not only authorized but also obliged to seek access to any and all records actually maintained by all Federal and Provincial

Governments, as well as all entities established by or under the control of the Federal and Provincial Governments, regardless of the designation of such records as secret or otherwise.

Audit recommends inquiry to fix responsibility besides production of record.

5.5.4 Non-conducting of physical verification of Toshakhana gifts displayed in prominent places

Para 8 of Office Memorandum No. 8/5/2017-TK dated 18.12.2018 states that the Gifts deposited in the Toshakhana which are fit for display, shall be properly catalogued and then displayed in the prominent buildings/institutions owned by Government or in the official residences of the Head of the State or the Head of the Government. Such articles shall be properly entered in the Toshakhana register and in the stock registers of the respective offices/institutions.

Para 9 of Office Memorandum No. 8/5/2017-TK dated 18.12.2018 states that an annual physical verification shall be carried out in respect of such articles by an authorized officer of the Cabinet Division in the first quarter of each calendar year.

The management of Cabinet Division was required to carry out physical verification of first quarter of each calendar year of those gifts which were displayed by the Toshakhana in the prominent buildings/institutions owned by the Government or in the official residences of the Head of the State or the Head of the Government (Supporting documents pages-1377 Policy 2018 Volume-IV).

Further, other paras of personal nature pertaining to the Special Audit of Toshakhana are pending for want of replies from the management and verifications of record. Special Audit Report will be issued separately after completing necessary requirements.

Further, other paras of personal nature pertaining to the Special Audit of Toshakhana are pending for want of replies from the management and verifications of record and will be issued separately after completing necessary requirements.

Audit recommends that matter may be inquired and necessary verification as required under procedures be carried out without further delay.

5.5.5 Non provision of certificate regarding physical verifications in original form and actual quantity

Para 9 of Office Memorandum No. 8/5/2017-TK dated 18.12.2018 of Procedure for acceptance and disposal of gifts states that an annual physical verification shall be carried out in respect of such articles by an authorized officer of the Cabinet Division in the first quarter of each calendar year.

Rule 159 of GFR Volume I states that a physical verification of all stores should be made at least once in every year under rules prescribed by competent authority, and subject to the condition that the verification is not entrusted to a person i. who is the custodian, the ledger, keeper, or the accountant of the stores to be verified, or who is a nominee of, or is employed under the custodian, the ledger keeper or the accountant or ii. Who is not conversant with the classification, nomenclature and technique of the particular classes of stores to be verified. The verification should never be left to low paid subordinates and in the case of large and important stores, it should be as far as possible, entrusted to a responsible officer who is independent of the superior executive officer in charge of the stores.

Rule 160 of GFR Volume I states that a certificate of verification of stores with its results should be recorded on the list, inventory or account, as the case may be, where such a verification is carried out.

Rules 161 of GFR Volume I states that in making a physical verification the following instructions should invariably be observed: i. verification must always be made in the presence of the officer responsible for the custody of the stores or of a responsible person deputed by him; ii. All discrepancies noticed should be brought to account immediately, so that the stores account may represent the true state of the stores; and iii. Shortages and damages, as well as unserviceable stores, should be reported immediately to the authority competent to write off the loss.

During Special Audit of Toshakhana, the Cabinet Division was requested to provide the following auditable record pertaining to Toshakhana vide requisition Nos. 5 (Supporting documents pages-1377 Policy 2018 Volume-IV).

- i. Physical verification certificate for existence of articles in original form and quantity as received in Toshakhana from Competent Authority – Serial No. 1, Requisition No. 5 dated 19.04.2023 and Reminder dated 28.04.2023.
- ii. Physical verification certificate for existence of articles in original form and quantity as displayed in prominent places from Competent Authority – Serial No.2, Requisition No. 5 dated 19.04.2023.

The management replied that Physical verification of articles in original form and quantity is time taking activity that requires services of an official and private expert to assess and evaluate the value and quality of each item. At present, there is no private appraiser engaged with the Cabinet Division. As and when the hiring process is completed the required physical verification will be carried out and the report will be submitted to the Audit. Letter No.8/3/2022-TK dated 09.05.2023.

Moreover, they also stated that last physical verification report for displayed items issued in 2019 are attached. Letter No.9/3/2022-TK dated 09.05.2023.

The reply of the management is not acceptable as this process is regular annual exercise which was not yet completed.

Further, other paras of personal nature pertaining to the Special Audit of Toshakhana are pending for want of replies from the management and verifications of record. Special Audit Report will be issued separately after completing necessary requirements.

Audit is of the view that in the absence of aforementioned information/record Audit is unable to ascertain the authenticity of data.

Audit recommends inquiry to fix responsibility besides production of record.

5.5.6 Irregular conducting of auction of Toshakhana articles as per given time line

Para 9 of Office Memorandum NO. 8/5/2017-TK dated 18.12.2018 of Procedure for acceptance and disposal of gifts states that gifts which are not fit to be retained or displayed shall be disposed off by periodical sales to be arranged by the Cabinet Division, Government of Pakistan. These sales shall be held once or twice a year. The list of gifts to be sold shall be circulated to all Federal Government officers and officers of the Armed Forces. The articles not purchased in two consecutive auctions by the Government Servants should be disposed of to the public through sealed bids.

The management of Cabinet Division (Toshakhana) auctioned Toshakhana gifts through restricted circulation to Federal Government officers from 1973 to 2022 as per following details (Supporting documents pages-1378 to 1829 Policy 2018 Volume-V):

S #	Auction Year
1.	1987
2.	1993
3.	1995
4.	2001
5.	2007
6.	2010
7.	2012
8.	2015

During Special Audit of Toshakhana, Audit observed as under:

- i. As per Toshakhana procedures the management was required to dispose off gifts through auctions at least once or twice in a year but the management failed to carry out the auctions in time.
- ii. The management also failed to provide the evidence for circulation of auction notification to all federal government and armed forces organizations.
- iii. No public auction was held as of to date.

Further, other paras of personal nature pertaining to the Special Audit of Toshakhana are pending for want of replies from the management and verifications of record. Special Audit Report will be issued separately after completing necessary requirements.

Audit is of the view that delays in conducting of auction, non-catering of all federal government and armed forces and non-conducting of open auctions was irregular.

Audit recommends inquiry to fix responsibility.

5.5.7 Irregular enlistment of Private Appraiser for evaluation of gifts

Para 5 (i) of Office Memorandum No. 8/5/2017-TK dated 18.12.2018 of Procedure for acceptance and disposal of gifts states that Cabinet Division will get the value of the gifts assessed from Government Sector experts in FBR. Cabinet Division will also get the value of gifts assessed by the private appraisers borne on its approved panel.

Para 2 of the Tender Notice dated 05.08.2018 states that only those firms which have resource to evaluate the goods of latest designs and technology should apply for enlistment.

The Cabinet Division vide letter dated 13.12.2016 taken the two firms namely M/s Agilent and M/s Immix Prime and appraisers for assessment of gifts articles (Supporting documents pages-1830 to 1877 Policy 2018 Volume-V).

During Special Audit of Toshakhana, Audit observed as under:

- i. Both firms i.e. M/s Agilent and M/s Immix Prime were registered as importer/exporter and other personal services and have no experience of evaluation of articles.
- ii. As per company profile M/s Agilent has no evaluator having expertise to evaluate the goods of latest designs and technology of wrist watches, jewelries, handicraft etc.
- iii. Company profile of M/s Immix Prime was not available on record.
- iv. Another tender notice was published in the press on 05.08.2018 for enlistment of the evaluators by the Cabinet Division.

- v. As per Minutes of the Tender Committee held on 20.08.2018 M/s Agilent was again enlisted as evaluator/appraiser on the basis of its previous 02 years' experience with the Cabinet Division for assessment of gifts articles.

Audit is of the view that the firm was selected without having any experience of assessment of diamonds, gold, watches, jewelries, handicrafts etc. and undue favour was extended to the firm.

Further, other paras of personal nature pertaining to the Special Audit of Toshakhana are pending for want of replies from the management and verifications of record. Special Audit Report will be issued separately after completing necessary requirements.

Audit recommends the fact finding inquiry be made and responsibility be fixed for irregular enlistment of private evaluator.

5.5.8 Irregular and unauthorized approval for disposal of gifts without delegation of powers – Rs.42.505 million

Para 1 (23) Schedule II Rule 3(3) of Rules of Business, 1973 describes that the business of government shall be distributed among the Divisions in the manner indicated in Schedule II which also includes "Toshakhana".

Regulation 8 (b) of the Financial Management and Powers of Principal Accounting Officers Regulations, 2021 under these regulations. Finance Division is delegating financial powers to principal accounting officers, heads of departments and sub-ordinates offices as per the attached Schedule. The principal accounting officers and other officers shall exercise the delegated powers and sanction expenditure accordingly.

The management of Cabinet Division was requested through requisition to provide copies of delegation of powers with regard to disposal of gifts in Toshakhana. The management of Toshakhana stated that there was no delegation for disposal of gifts in Cabinet Division before 18.12.2018. The first delegation letter was issued on 18.12.2018 and second was on 18.06.2021. Prior to 18.12.2018 approval were given by the officers without delegation of powers. (Supporting documents pages-2186 to 2749 Policy 2011 Volume-1 & 2):

During Special Audit of Toshakhana, Audit observed as under:

- i. The disposal of cases other than Secretary Cabinet without any delegation was irregular and unauthorized.
- ii. On sample test basis it was found that cases amounting to Rs. 13.985 million was disposed of by the Deputy Secretary Administration and Rs. 28.520 million by Joint Secretary Administration.
- iii. Because of handling of disposal of gift cases proper procedures for acceptance and disposal of gifts were not followed.

iv. Irregularities in assessment of gifts and disposal of gifts were observed.

Further, other paras of personal nature pertaining to the Special Audit of Toshakhana are pending for want of replies from the management and verifications of record. Special Audit Report will be issued separately after completing necessary requirements.

Audit is of the view that disposal of gifts without any delegation by the Secretary Cabinet was irregular and unauthorized.

Audit recommends the fact finding inquiry be made and responsibility be fixed for irregular and unauthorized use of powers.

Islamabad Club, Islamabad

5.5.9 Irregular Payment for Purchases and Civil Work under Development of Lake at cricket ground Rs.14.462 million

As per rule-21 of PPR, subject to the provisions of rules 22 to 37 the procuring agencies shall engage in open competitive bidding if the cost of the object to be procured is more than the prescribed financial limit (of Rs. one hundred thousand) which is applicable under sub-clause (i) of clause (b) of rule 42.

As per PPR-9 , save as otherwise provided and subject to the regulation made by the Authority, with the prior approval of the Federal Government, a procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly without any splitting or regrouping of the procurements so planned. The annual requirements thus determined would be advertised in advance on the Authority's website as well as on the website of the procuring agency in case the procuring agency has its own website.

The management of Islamabad Club made payment of Rs.14,462,049/-during the financial year, 2022-23 on account of purchase of various items and execution of civil works for development of a lake at cricket ground.

Audit observed as under:

- i. The civil works were performed in the absence of any approved civil works rules.
- ii. The approved annual procurement plan was not found on record.
- iii. The items were procured by splitting the purchase to avoid open competitive bidding and sanction from the higher authority.
- iv. The works performed were of the same nature and performed with repeated orders.

Audit is of the view that execution of civil works without approved civil works rules and without open competitive bidding was unauthorized and in violation of PPRA Rules.

The management did not reply till finalization of report.

Audit recommends that the matter may be inquired at appropriate level under intimation to audit and responsibility be fixed for violation of PPRA Rules.

5.5.10 Payment on account of Ex-Gratia to club employees despite operating loss and without budget provision - Rs. 96.082 million

As per Fundamental Rule 9(9) states that honorarium means a recurring or non-recurring payment granted to a government servant from general revenues as remuneration for special work of an occasional or intermittent character.

As per Islamabad club service regulations- 2022, schedule-vi policy regarding ex-gratia payment (formerly annual bonus) states that, yearly ex-gratia will be paid to employees who are permanent or on contract of minimum one year and/or as per terms of the contract. Ex-gratia payment shall be calculated on the last drawn basic salary. One ex-gratia payment is equal to three basic salaries.

The management of Islamabad Club made ex-gratia payment of Rs.100.32 million to club employees during the financial year, 2022-23.

Audit observed as under;

- i. Ex-gratia payment of Rs.69.061 million was made as annual ex-gratia (equal to 03 Basics of Decemeber-2022) on 04.04.2023.
- ii. Later on, ex-gratia payment of Rs.24.909 million equal to (one month basic) was made on 20.06.2023 as advance ex-gratia.
- iii. No-budgetary allocation was available under the relevant head of expenditure in the budget estimates for the year 2022-23.
- iv. The organization showed an operating loss of Rs.199.270 million for the financial year 2022-23.

Audit is of the view that, the payment of ex-gratia without any approved performance indicators and budget provision in budget estimates 2022-23 was unauthorized.

The management did not reply till finalization of report.

Audit recommends that the unauthorized payments may be recovered/regularized from competent forum in accordance with approved performance criteria as per rules.

5.5.11 Unauthorized refund of corporate membership entrance fee - Rs. 25.10 million

As per Islamabad club membership regulations- 2022, Part-vii membership affairs, fee (1) (3) states that, a candidate for Membership in any category shall deposit 50% or relevant amount of the applicable Entrance Fee, in the category they are applying for, at the time of submission of

membership application form. The remaining balance of Entrance Fee shall be paid at the rate applicable at the time of grant of membership. Once the successful candidate deposits the full entrance fee, they shall be issued a membership card and provided /referred to the E-copy of membership regulations (on Club's website). Membership thereafter shall be governed by the rules, regulations, policies and SOPs of the Club. Entrance fee once paid shall be non-refundable for all categories of memberships after grant of membership.

The management of Islamabad Club cancelled the corporate membership of National Endowment Scholarships for Talent (NEST) and refunded Rs. 25.10 million including application processing fee to NEST.

Audit observed as under:

- i. The entrance fee and application processing fee were not refundable once membership had been granted.
- ii. The membership was granted after an interview and recommendation of the Balloting Committee.

Audit is of the view that refund of entrance fee was in violation of above referred regulations and resulted in reduced club revenues.

The management did not reply till finalization of report.

Audit recommends that the unauthorized refund may be recovered under intimation to audit and responsibility be fixed for allowing refund in violation of club membership regulations.

5.5.12 Non-Recovery/receipts of receivable against the members - Rs. 104.560 million

Section 4 (f) of the Islamabad Club (Administration) Ordinance, 1978 states that “any sum Payable to, or recoverable by, the Company shall be deemed to be payable to, or recoverable by the Administrator”.

The financial statement for the financial year 2021-22 (un-approved) at note No.27.1-Credit Risk states that overall receivables from members amounted to Rs. 104,560,187 for the year. Furthermore, the notes to the financial statements also state that an amount of Rs. 23,277,599 comprises long outstanding dues from members since 2018.

Audit observed that the club had receivables outstanding since 2018. The heavy amount of receivables from the members constitutes a serious lapse on the part of local management as the main source of income for the Club is entrance fee and monthly subscription from the members.

Audit is of the view that non-collection of outstanding receivables from the members is a violation of Section 4(f) of the Islamabad Club (Administration) Ordinance, 1978 and indicates weak internal control on the part of the management.

The management did not reply till finalization of report.

Audit recommends that the receivables amount may be recognized/receive under intimation to audit.

5.5.13 Irregular execution of works (in-house schemes) without detailed estimates and payments without any measurements - Rs. 302.625 million

Para 56 of CPWD Code states that a properly detailed estimate must be prepared for the sanction of competent authority; this sanction is known as the technical sanction to the estimate and, except in cases such as are referred to in paragraphs 58 and 75, must be obtained before the construction of the work is commenced. As its name indicates, it amounts to no more than a guarantee that the proposals are structurally sound, and that the estimates are accurately calculated and based on adequate data.

Para 208 of Central Public Works Account (CPWA) Code states that “payments of all work done otherwise than by daily labour and for all supplies are made on the basis of measurements recorded in Measurement Books (MBs) in Form 23 in accordance with rules in Para 209 of CPWA Code.”

The management of Islamabad Club, Islamabad executed different in-house schemes/projects (construction, repair, renovation, etc.) amounting to Rs. 173,344,972 during 2021-22 and Rs. 129,279,882 during 2022-23.

Audit observed that all the works amounting to Rs. 302,624,854 were executed without any detailed estimates and payments were also made without any measurement in violation of rules.

Audit is of the view that execution of works without detailed estimates and further payments amounting to Rs. 302.625 million without detailed measurement was unauthorized.

Audit is also of the view that without detailed estimates and measurements the authenticity of the expenditure could not be ascertained.

Audit recommends that responsibility may be fixed for the irregularity.

5.5.14 Unauthorized procurement of flood lights without open competition – Rs. 16.120 million

Para 12(2) of Public Procurement Rules, 2004 states that all procurement opportunities over three million Pakistani Rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

Islamabad Club purchased 62 LED lights from M/s Signify Pakistan Limited at a cost of Rs. 16.120 million through purchase order No. 201473 dated 09.02.2021 on the rates offered by the said company to Mari Petroleum Company Limited (MPCL).

Audit observed that the purchases were made without open competition and without any confirmation of rates offered by the said company to MPCL in violation of rules.

Audit observed that management procured 62 flood lights without open competition amounting to Rs. 16,120,000.

Audit also observed that 10 flood lights amounting to Rs. 2.600 million were missing.

Audit is of the view that procurement without open competition was unauthorized and missing of flood lights is a serious lapse on the part of club management.

Audit recommends that responsibility may be fixed for the irregular procurement and missing flood lights.

5.5.15 Unauthorized execution of permanent civil works without approval of drawing / design from CDA – Rs. 93.655 million

Section 6 of the Islamabad Building Regulations, 1963 states that every person who intends to erect or re-erect a building shall submit to the Authority an application in writing on the prescribed form A-1 for permission to execute the work and the name of the Licensed Architect/Engineer whom he employs to supervise its erection.

Clause-2 of Lease Agreement dated 10.11.1970 between Islamabad Club and CDA states that the Lessee shall utilize the leased land only for the purpose of Golf Courses and may erect with the prior approval of the Authority necessary building in accordance with the designs, plans and specification submitted by the lessee and approved, in writing by the Lessor, and thereafter, the Lessee shall not make any structural alteration or addition to such building without previous approval of the Lessor.

Islamabad club awarded work vide letter IC/SO/2021/1.1/271 dated 20.04.2021 "Construction of Futsal Court, Service blocks, Gazebos, Hospitality boxes and Tuck Shop in Polo

complex, Islamabad Club” to M/s Khewa Khan and Brothers amounting to Rs. 59,177,655. The work was completed at a cost of Rs. 67.816 million.

Similarly, Islamabad Club awarded work of “construction of Cricket Ground Pavilion (Grey Structure) to M/s Al-Qaim Construction Pvt. Ltd amounting to Rs. 25,839,291.

Audit observed that all permanent civil works were executed without approval of drawing and design from Capital Development Authority (CDA) in violation of lease agreement.

Audit is of the view that execution of projects/schemes without approval from CDA was unauthorized.

The management did not reply till finalization of the report.

Audit recommends that responsibility may be fixed for the irregularity.

5.5.16 Unauthorized payment development projects without measurement – Rs. 105.268 million

Para 208 of Central Public Works Account (CPWA) Code states that “payments of all work done otherwise than by daily labour and for all supplies are made on the basis of measurements recorded in Measurement Books (MBs) in Form 23 in accordance with rules in Para 209 of CPWA Code.”

Islamabad Club executed development projects/Schemes during 2021-23 amounting to Rs. 105,268,286.

Audit observed that payments against civil works were made without recording detailed measurement in Measurement Books in violation of Rules.

Audit is of the view that payment without actual assessment and recording of measurements was unauthorized.

The management did not reply till finalization of the report.

Audit recommends that responsibility may be fixed for the irregularity besides maintenance of measurement books.

5.5.17 Unauthorized hiring of consultant without open competition - Rs 4.4 million

Para 20 of Public Procurement Rules states that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

The management of Islamabad club, Islamabad hired consultancy services from M/s Suhail & Fawad Architect for project “Construction of Futsal Court, Service blocks, Gazebos, Hospitality boxes and Tuck Shop” in Polo complex, Islamabad Club and made payment amounting to Rs.4.4 million.

Audit observed that the management hired consultancy services without open competition.

Audit is of the view that hiring consultancy services without open competition is violation of PPRA rules.

Audit recommends that responsibility may be fixed for the irregularity.

Public Procurement Regulatory Authority

5.5.18 Non-collection of receivables - Rs. 208.900 million

Para 26 of GFR (Vol-I) states that subject to any special arrangement that may be authorized by competent authority with respect to any particular class of receipts, it is the duty of the departmental Controlling officers to see that all sums due to Government are regularly and promptly assessed, realized and duly credited in the Public Account.

The management of Public Procurement Regulatory Authority (PPRA), Islamabad issued invoices amounting to Rs. 417,802,458, received payments of Rs. 251,713,773 (including backlog of Rs. 24,115,527) and an amount of Rs. 208,900,000 was outstanding/receivable on account of tenders, sales auctions, evaluations, trainings, etc. as on 30.06.2023.

Audit observed that the management did not collect the amount(s) of due receivables.

Audit recommends early recovery/collection of receivables/outstanding amounts.

5.5.19 Non-Investment of Contributory Provident Fund (CPF) – Rs.19.167 million

Sr. 66(1) of Public Procurement Regulatory Authority (PPRA) Service Regulations states that the amount of CPF (comprising of the employees’ contribution and the equivalent amount provided by the Authority) will be invested in such profitable ventures or placed in a bank account as approved by the Management Committee of the Fund.

The management of Public Procurement Regulatory Authority (PPRA), Islamabad collected by deduction of Rs. 9,583,741 as “employees’ contribution” towards Contributory Provident Fund (CPF) and equivalent amount as “employer’s contribution” during the financial year 2022-23.

Audit observed that the accumulated balances of the CPF of PPRA employees were neither invested nor were placed in a (separate) bank account as required under the Regulations.

Audit is of the view that non-investment of CPF deprived the employees of the profit on one hand and violation of provisions of Regulations on the other hand.

The management did not reply till finalization of the report.

Audit recommends investment of CPF at the earliest.

CHAPTER 6

COMMERCE DIVISION

6.1 Introduction

As per Schedule II [Rule 3 (3)] Distribution of Business among the Divisions read with Schedule III [rule 4(4)] Rules of Business 1973 following main business have been assigned to the Division amongst the other functions.

- 1- Imports and exports across custom frontiers.
- 2- Interprovincial trade.
- 3- Commercial intelligence and statistics.
- 4- Tariff policy and its implementation.
- 5- Regulation and control of insurance agencies.
- 6- Intellectual property organizations Pakistan

ATTACHED DEPARTMENTS/ AUTONOMOUS BODIES

- i. Trading Corporation of Pakistan
- ii. National Tariff Commission
- iii. State Life Insurance Corporation
- iv. Foreign Trade Institute of Pakistan
- v. Pakistan Reinsurance Company
- vi. Pakistan Institute of Fashion and Design
- vii. National Insurance Company
- viii. Pakistan Tobacco Board
- ix. Federation of Chambers and Industry
- x. Pakistan Horticulture Development and Export Board

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY-2022-22)	Revenue / Receipt Audited (FY 2022-23)
1	Formations	15	2	4,107.972	
2	Assignment Accounts (Excluding FAP)	1	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	2	2	280.000	-
4	Foreign Aided Project (FAP)	-	-	-	-

6.2 Comments on Budget & Accounts (Variance Analysis)

The final budget allocated to the Commerce Division for the financial year 2022-23 was Rs. 12,241.70 million, out of which the Division expended an amount of Rs.12,183.66 million. Grant-wise detail of current expenditure and development expenditure is as under:

(Rs. In million)

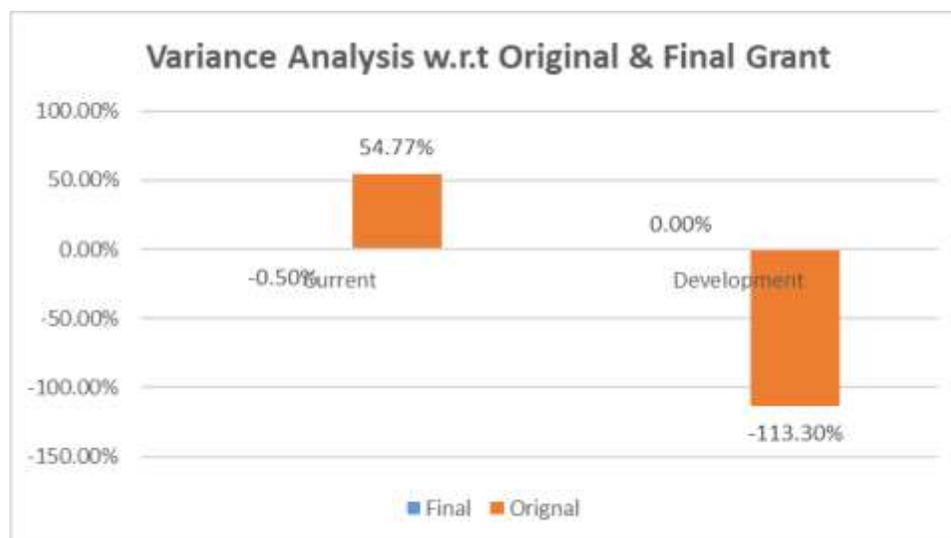
Grant No	Type of Grant	Original Grant	Suppl Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
23	Current	5,261.80	6,480.43	-51.13	11,691.09	11,633.06	-58.03	-0.50%
96	Development	1,174.44	.00	-623.83	550.61	550.61	.00	0.00%
	G Total	6,436.24	6,480.43	-674.97	12,241.70	12,183.66	-58.03	-0.50%

Audit noted that there was an overall saving of Rs.58.03 million, mainly comprising saving in current expenditure.

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of General Financial Rules (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, bifurcating total allocation into current and development expenditure, it was observed that, in case of development expenditure, there was 113.3% of saving w.r.t original grant which finally became 0% excess/saving w.r.t Final Grant, and in case of current expenditure 54.77% of excess expenditure reduced to 0.5% of saving in expenditure.



6.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs.606.037 million, were raised in this report during the current audit of **Ministry of Commerce**. Summary of the audit observations classified by nature is as under:

(Rupees in million)

S. No	Classification	Amount
1	Non-production of record	-
2	Reported cases of fraud, embezzlement and Misappropriation	-
3	Irregularities	
A	<i>HR/Employees related Irregularities</i>	-
B	<i>Procurement related irregularities</i>	81.94
C	<i>Management of account with commercial banks</i>	423.9
D	<i>Recovery</i>	-
E	<i>Internal Control</i>	99.197
4	Value for money and service delivery	-
5	Others	-

6.4 Status of compliance with PAC Directives

PAO	Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
Commerce Division	2012-13	1	0	0	1	-
	2013-14	7	7	2	5	29
	2014-15	1	1	0	1	-
	2015-16	1	1	0	1	-
	2016-17	3	1	1	2	100
	2017-18	1	1	0	1	-
	2019-20	1	0	0	1	-
	2020-21	4	0	0	4	-
	2021-22	15	0	0	15	-
	2022-23	4	0	0	4	-
Total		38	11	3	35	-

6.5 AUDIT PARAS

Export Development Fund, Karachi

6.5.1 Mis-procurement of Event Manager Services during EHCS, 2023 - Rs 67.319 million

Rule 29 of Public Procurement Rules, 2004 states that procuring agencies shall formulate an appropriate evaluation criterion listing all the relevant information against which a bid is to be evaluated. Such evaluation criteria shall form an integral part of the bidding documents. Failure to provide for an unambiguous evaluation criterion in the bidding documents shall amount to mis-procurement.

Rule 30(1) of Public Procurement Rules, 2004 states that all bids shall be evaluated in accordance with the evaluation criteria and other terms and conditions set forth in the prescribed bidding documents.

Clause 17.2 of the Instructions to Bidder (ITB) states that the original and copy or copies of the bid shall be typed or written in indelible ink and shall be signed by the Bidder or a person or persons duly authorized to bind the Bidder to the contract. All pages of the bid, except for un-amended printed literature, shall be initialed by the person or persons signing the bid.

A Tender Notice for hiring the services of Event Manager for Engineering and Healthcare Show (February 23-25, 2023) was published on 14.09.2022 based on Single Stage Two Envelops procedure as per Rule 36(b) of Public Procurement Rules, 2004.

In response to the advertisement, two firms, i.e. M/s Pegasus Consultancy (Pvt) Ltd and M/s Badar Expo Solutions were technically qualified for further procurement process.

The management of EDF, Karachi awarded a contract of event management to M/s Pegasus Consultancy (Pvt) Ltd and paid an amount of Rs 67.319 million to the firm during FY 2022-23.

Audit observed that:

- i. The bid quoted by M/s Pegasus was not signed by the bidder or a person(s) duly authorized to bind the bidder to the contract. Furthermore, all pages of the bid were not initialed by the person or persons signing the bid.
- ii. The procuring agency provided ambiguous evaluation criteria in the bidding process as the quantity of carpeting area at Sr. 4 of the BOQs was not disclosed.
- iii. The procuring agency did not evaluate the bids in accordance with prescribed evaluation criteria, as M/s Pegasus quoted rates without taxes.

Audit is of the view that:

- i. Procurement was made in violation of provisions of Public Procurement Rules, 2004 and constituted mis-procurement.
- ii. Awarding of contract to a non-compliant bidder was unauthorized.
- iii. The incurrence of expenditure was irregular and unauthorized.

The management replied that M/s Pegasus Consultancy PVT Ltd was duly signed as per clause 17(ii) of the bidding document.

The procuring agency, upon inquiry from the bidders informed them about the quantity of carpet. M/s Pegasus was informed via email in reply to their query raised through the email, whereas the M/s Badar Expo Solution was informed verbally via telecom & further M/s BAXXX was requested to send any further query in writing.

The procuring agency evaluated the bids in accordance with prescribed evaluation criteria as M/s Pegasus quoted the rates with all Government taxes. Furthermore, the invoices submitted by the bidder amounting to Rs. 68.1 million are inclusive of 13% SRB.

The reply was not accepted as the contract was awarded to a non-compliant bidder. Furthermore, the procuring agency provided ambiguous evaluation criteria in the bidding process.

Audit recommends fixing of responsibility for the irregularity.

6.5.2 Non-refund of unspent balance of EDF and income generated during EHCS-2022 - Rs 41.665 million

Rule 668 of FTRs states that advances granted under special orders of competent authority to Government officers for departmental or allied purposes may be drawn on the responsibility and receipt of the officers for whom they are sanctioned, subject to adjustment by submission of detailed accounts supported by vouchers or by refund, as may be necessary.

Ministry of Commerce (EDF Wing) O.M. No.EDF-6(8)/2009-EDF dated 26.06.2023 states that EDF will have the right on the income accruing to the beneficiaries from the moneys provided by the EDF in the form of interest or renting of assets to entities other than exporters, trade promotion officers and trade bodies.

The management of Export Development Fund (EDF), Karachi released an amount of Rs 179,639,051 for holding “Engineering and Health Care Show-2022” by the Trade Development Authority of Pakistan (TDAP) vide cheque No. B-955381 dated 27.12.2021.

The project completion report along with summary of actual cost of EHCS-2022 shows that there was a saving of Rs 34,164,972 and an income of Rs 7,500,000 generated from the event.

Audit observed that TDAP management did not refund the saving/unspent amount and income generated from the event to EDF.

Audit is of the view that non-refund of saving/unspent amount and income deprived the Fund from its due receipts.

The management replied that the E&M Division concluded the event, submitted the Completion Form-III of EDF and the file was submitted to MS-Division to send back the saved balance of EHCS 2022 to EDF, the file is under process and the amount will be sent back to EDF accordingly, the EDF will be informed in next fortnight.

The management has accepted the audit observation, but the amount has not yet been refunded by TDAP management.

Audit recommends early refund of saving/unspent amount and income generated from event along with interest.

6.5.3 Non-obtaining of performance guarantee / non-forfeiture of bid security resulted in provision of substandard items for EHCS, 2023 - Rs 14.621 million

Rule 39 of Public Procurement Rules, 2004 states that where needed and clearly expressed in the bidding documents, the procuring agency shall require the successful bidder to furnish a performance guarantee which shall not exceed ten per cent of the contract amount.

The management of EDF/TDAP, Karachi issued Work Order for hiring of Event Management Company for Engineering and Health Care Show (EHCS), 2022 to M/s Badar Expo Solution vide No. TDAP/EHCS-TDAP/1/2022 dated 15.02.2022 attached therewith BOQs amounting to Rs 76,699,952. During the event of EHCS-2022, a BOQ item (Fashion Show) amounting to Rs 18,205,452 was cancelled, resulting in remaining BOQ amounting to Rs 58,195,500.

An amount of Rs 46.782 million was paid to M/s Badar Expo Solution against their provided BOQ items' claim amounting to Rs 61.404 million during FY 2021-22, as per following details:

Sr.	Bill No.	Amount Claimed	Claim Admitted	Deductions
1	First Running Bill	19,828,500	14,189,356	5,639,144
2	Second Running Bill	41,575,000	32,593,000	8,982,000
Total		61,403,500	46,782,356	14,621,144

Audit observed that:

- i. No performance guarantee was obtained from M/s Badar Expo Solution while awarding the contract resultantly deductions amounting to Rs 14.621 million were made from the bills/claims due to either non-provision of items or provision of substandard items/services.
- ii. The bid security of the contractor was not forfeited on non-provision of items or provision of substandard items / services.

Audit is of the view that the non-obtaining of performance guarantee and non-forfeiture of bid security was in violation of PPRA rules and provision of the contract agreement.

The management replied that as per bidding document/BoQ requirement, the bidder provided substandard services in many heads, due to which amount of Rs. 14.6 million was deducted. The Bidder submitted the bid guarantee of Rs. 3 million on stamp paper verified by its bank, the same was held by TDAP, the same was returned back to firm after the settlement of

payment. The procuring agency deducted an amount of Rs. 14.6 million from bidder's amount of 61.4 million as penalty for providing the substandard items/services.

The reply was not accepted as the amount was deducted for the provision of services which were of inadequate quality and no penalty was charged to the Bidder. Furthermore, the bid guarantee was also returned to the Bidder without taking any action against the Bidder.

Audit recommends fixing responsibility on the person(s) at fault for non-obtaining of performance guarantee & non-forfeiture of bid security and non-initiating the case for blacklisting of the firm for non-provision of BOQ items.

6.5.4 Un-authorized retention and investment of EDF's fund in four PLS Accounts by Karachi Garment City - Rs. 423.9 million

According to OM No.6(8)/2009-EDF dated 21.07.2014 issued by EDF Secretariat, all beneficiaries shall be required to open a Joint Account with TDAP to receive the amount approved by EDF Board.

In continuation of the aforesaid OM another OM dated 02.01.2015 was issued by EDF Secretariat which states it should be mandatory for all the Accounts to be opened in National Bank of Pakistan only, and EDF funds should not be placed in any profit-oriented accounts.

The management of EDF, Karachi released funds from EDF to Karachi Garment City. These funds were deposited into different PLS accounts maintained by the Garment City, Karachi and later invested in TDR and earned profit of Rs. 48 million on the EDF funds.

Audit observed as under:

- i. EDF, Karachi did not monitor the expenditure made from these unauthorized accounts.
- ii. EDF, Karachi did not have the details of the exact amount of balances in these accounts.
- iii. The record of expenditure made from these Accounts over the years is not available with EDF, Karachi.
- iv. These accounts are still operative, and the amount has not been transferred to the joint account.
- v. Karachi Garments City, Karachi invested the amounts in TDR without approval of EDF Board.

- vi. A statement available in the file shows that the total allocation of Rs. 375 million was kept in commercial banks and profit of Rs. 48.9 million was earned over the years.

Audit is of the view that the investment of funds and its retention in commercial bank accounts without the approval of the Board is against the EDF Board instructions.

The management provided reply/response of the KGCC:

- i. For EDF funds of Rs 375 million released during 2007 to 2014, KGCC was never informed of instructions to deposit these in joint account with TDAP. As such, funds were put in the company's bank account with the approval of KGCC-BOD. Later, KGCC invested available idle/unutilized EDF funds as TDR to meet administrative/running expenses of KGCC office from the profit earned.
- ii. The instructions for depositing EDF funds in joint account were conveyed for the first time when funds of Rs 52.930 million were released on 15.06.2015, which were fully complied with. Presently, an amount of Rs 125.932 million is parked in a joint account with TDAP in NBP.

The EDF management did not respond to the audit observation regarding violation of instructions issued on utilization of EDF funds.

Audit recommends holding of an inquiry to fix responsibility on person(s) at fault.

6.5.5 Non-utilization of EDF Funds provided to PHMA - Rs. 27.532 million

Para 23 of GFR states that every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

The EDF, Karachi released funds amounting to Rs 20.880 million to Pakistan Hosiery Manufacturers Associations (PHMA)- Institute of Knitwear Technology (IKTK) as approved by the board in its 76th meeting held on 22.6.2017 for the following purpose, and funds were transferred to joint account on October 25,2017.

S.No.	Particulars	Amount (Rs)
1	Color matching equipment	4,200,000
2	Knitting Machines (3)	6,000,000
3	Dying Equipment	2,325,000
4	Computer Lab	943,000
5	Fashion Design Studio	1,500,000

6	Testing & Quality Control Equipment	5,912,120
	Total	20,880,120

Audit observed as under:

- i. The EDF Board approved the proposal of PHMA without analyzing the space requirement of the institute. It was later found that PHMA did not have accommodation to install the machinery and equipment due to which the funds allocated remained unutilized to date.
- ii. After a lapse of five years the building of the closed PKTI institute, Nazimabad was handed over to PHMA-Institute of Knitwear Technology (IKTK) and further allocation of funds amounting to Rs. 6,652,000 was made with the approval of Board for renovation and operationalization of the building/institute of PKTI, Nazimabad but the same were also not utilized till 31.08.2023.

Audit is of the view that non-utilization of funds was serious lapse on the part of stakeholders, as the proposal of PHMA was not analyzed properly and funds were allocated without recognizing the fact that the institute did not have accommodation to install machinery.

The EDF management did not provide its reply to the audit observation.

Audit recommends holding of inquiry to fix responsibility and retrieval of unutilized EDF funds along with interest.

6.5.6 Whereabouts of money withdrawn from profit bearing joint account of EPB and SMA Rizvi Textile Institute not known- Rs 30.00 million

Para 23 of GFR states that every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

Endowment amounting to Rs. 30 million was given to S.M.A Rizvi, Textile Institute, Karachi vide cheque No.451840 dated 09.02.2001. The entire amount was deposited into the profit oriented joint account of EPB and SMA Rizvi Textile Institute maintained in Metropolitan Bank Ltd Main Branch I.I Chundrigar Road, Karachi. In 2005, the amount was withdrawn from the bank for avoiding zakat deduction which was not redeposited.

Audit observed as under:

- i. The amount of Rs 30.00 million was withdrawn from the above-mentioned Bank Account and was not deposited back into the bank account.
- ii. The detail of Profit earned from the investment was not provided to audit.
- iii. The whereabouts of the funds drawn were not known to the EDF management.

Audit is of the view that it is serious negligence on the part of management of EDF, Karachi and the likelihood of risk of misappropriation of the amount was high .

The EDF management did not provide its reply to the audit observation.

Audit recommends holding of inquiry to fix responsibility and retrieval of unutilized EDF funds.

CHAPTER 7

DEFENCE DIVISION

7.1 Introduction

As per Schedule II [Rule 3 (3)] Distribution of Business among the Divisions read with Schedule III [rule 4(4)] Rules of Business 1973 following main business have been assigned to the Division amongst the other functions.

Defence of the Federation or any part thereof in peace or war including Army, Naval and Air Force of the Federation and any other armed forces raised or maintained by the Federation; and armed forces which are not the forces of the Federation but are attached to or operating with any of the armed forces of the Federation.

- 1- Civilian employees paid by the Defence services.
- 2- International Red Cross and Geneva Conventions in so far as they affect belligerents.
- 3- Pardons, reprieves and respites, etc. of all personnel belonging to the Armed Forces.
- 4- Administration of Military Lands and Cantonments Group.
- 5- National Maritime Policy.
- 6- Marine surveys and elimination of dangers to navigation.

ATTACHED DEPARTMENTS/ AUTONOMOUS BODIES

- i. Directorate of Military Land and Cantonments.
- ii. Federal Government Educational Institutions (Cantonments/Garrisons) Directorate.
- iii. Pakistan Military Accounts Department.
- iv. Office of the Surveyor General of Pakistan.
- v. Pakistan Armed Services Board.
- vi. Pakistan Maritime Security Agency.

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY 2022-23) Rs. in million	Revenue/Receipt Audited (FY 2022-23) Rs. in million
1	Formations	6	2	2934.205	-
2	Assignment Accounts (Excluding FAP)	-	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	-	-	-	-
4	Foreign Aided Project (FAP)	-	-	-	-

7.2 Comments on Budget & Accounts (Variance Analysis)

The final budget allocated to the Defence Division for the financial year 2022-23 was Rs. 11,431.79 million, out of which the Division expended an amount of Rs.11,322.56 million. Grant-wise detail of current and development expenditure is as under:

(Rs. In million)

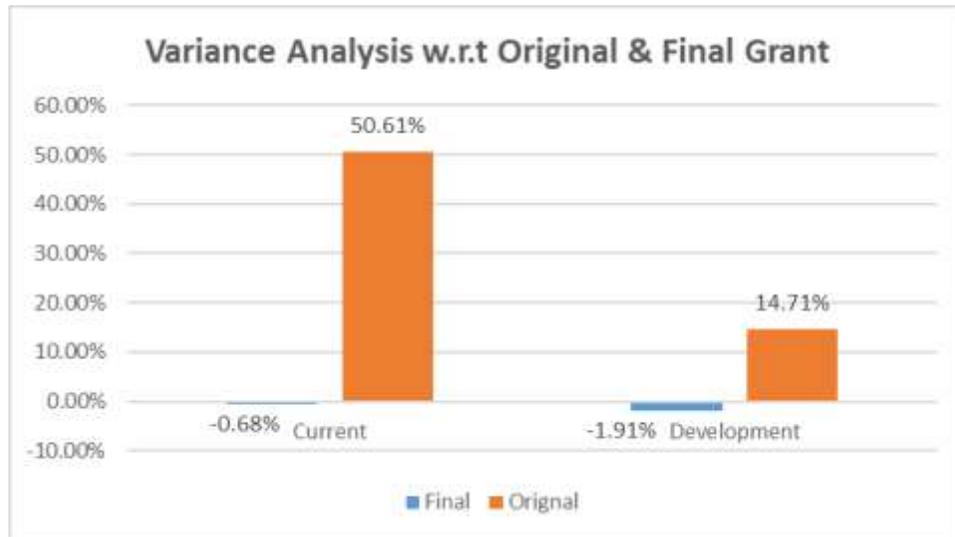
Grant No	Type of Grant	Original Grant	Suppl Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
27	Current	4,299.25	4,572.36	-107.01	8,764.61	8,705.38	-59.23	-0.68%
98	Development	2,232.09	450.00	-14.91	2,667.19	2,617.18	-50.00	-1.91%
	G Total	6,531.34	5,022.36	-121.92	11,431.79	11,322.56	-109.23	-0.96%

Audit noted that there was an overall saving of Rs. 109.23 million, which was mainly due to savings in current / development expenditure.

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of General Financial Rules (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, bifurcating total allocation into current and development expenditure it is observed that, in case of development expenditure, there was 14.71% of excess w.r.t original grant which was finally become 1.91% saving w.r.t Final Grant and in case of current expenditure 50.61% of excess reduced to 0.68% of saving.



7.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs.36.588 million, were raised in this report during the current audit of **Defence Division**. Summary of the audit observations classified by nature is as under:

(Rupees in million)

S. No	Classification	Amount
1	Non-production of record	
2	Reported cases of fraud, embezzlement and Misappropriation	
3	Irregularities	
A	<i>HR/Employees related Irregularities</i>	
B	<i>Procurement related irregularities</i>	29.702
C	<i>Management of account with commercial banks</i>	
D	<i>Recovery</i>	
E	<i>Internal Control</i>	6.886
4	Value for money and service delivery	
5	Others	

7.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
2011-12	3	0	0	3	-
2012-13	5	0	0	5	-
2013-14	2	0	0	2	-
2014-15	5	0	0	5	-
2016-17	1	0	0	1	-

2017-18	1	1	0	1	-
2019-20	4	0	0	4	-
2020-21	7	0	0	7	-
2021-22	23	0	0	23	-
Total	51	1	0	51	-

7.5 AUDIT PARAS

Pakistan Maritime Security Agency (PMSA)

7.5.1 Irregular expenditure on Pakistani Delegations Abroad - Rs. 6.886 million

As per GFR 10(i) every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

According to Finance Division's O.M. No.7(1)Exp.IV/2016-340 dated 07.07.2022, there shall be a complete ban on official visit abroad by Govt. functionaries.

The management of Pakistan Maritime Security Agency, Karachi incurred an expenditure of Rs. 6,886,569 on Pakistani delegation abroad during Financial Year 2022-23.

Audit observed that expenditure on Pakistani delegation abroad was incurred during the ban period.

Audit is of the view that expenditure on visits abroad during the ban period was unjustified and irregular.

The Management did not reply till finalization of report.

Audit recommends that either ex-post facto approval be taken from Prime Minister or recoveries may be initiated.

Survey of Pakistan

7.5.2 Irregular procurement of GNSS sets - Rs. 29.702 million

Rule 37(A)(1) of Public Procurement Rules, 2004 states that an unsolicited proposal received by the procuring agency from any individual or agency, private or public, consistent with the mission of the procuring agency, shall be assessed by the assessment committee, consisting of at least three technical experts, to be notified by the procuring agency. The assessment committee shall ascertain the viability of the proposal.

The management of Survey of Pakistan (SoP), Rawalpindi constituted a Technical Committee-I for the procurement of GNSS sets under the project titled “Cadastral Mapping” vide notification No. 93-c/14-A-8/IHD dated 11.11.2020 comprising of following officers for technical input assessment of equipment as under:

- i. Mr. Shah Muhammad, Director (Chairman)
- ii. Mr. Irshad Ali, Assistant Director (Member)
- iii. Mr. Atif Shoaib, Survey Officer (Member)
- iv. Mr. Farhan Zafar, Survey Officer (Member)

The tender was floated in newspapers on 31.03.2021 and M/s Shaheen was technically qualified and was the lowest at a cost of Rs. 47,802,649. Later on, it was revealed that the firm did not possess relevant experience in supply of GNSS as per complaint lodged by M/s KBS on 28.05.2021 and on this contention tender was rejected. An inquiry was initiated which gave its recommendation on 26.08.2021 that the Technical Committee was not aware of technicality of items and Public Procurement Rules, 2004. The same procurement was retendered on 05.08.2021 but the Technical Committee remained unchanged which was found technically unqualified in the inquiry report. A supply order was issued after evaluation to M/s Sandhu Engineering at a cost of Rs. 29,702,802.

Audit observed as under:

- i. Bids were evaluated by the same Technical Committee which was declared disqualified in the inquiry report.. Furthermore, financial bids were opened after one month of technical evaluation without any solid reason.
- ii. An amount of Rs. 1,271,360 was paid to M/s Sandhu as rent of similar equipment without tender for the period April, 2021 to June, 2021 and an amount of Rs. 13,659,725 was paid to M/s Sandhu as rent after tender for the period July, 21 to December, 2021.
- iii. Had the selection process of the firm been undertaken with due care during the first tendering process, there would have been no need to make rental payment(s) for the equipment.

Audit is of the view that due to negligence in constitution of Technical Committee public exchequer sustained loss in the form of payment of rent of equipment. Moreover, equipment in 2nd tendering process was also procured on the recommendation of same Technical Committee which had been declared technically unqualified by the inquiry committee.

The management replied that procurement of GNSS was made in accordance with PPRA Rules. The re-tender was initiated in accordance with Rule 33 (Rejection of bid) & Rule 34 (Re-bidding). The Rule does not require reconstitution of a technical or purchase committee. The

procuring Agency can revise specifications, evaluation criteria or any other condition for bidders as it may deem necessary for re-tendering. Accordingly, framing technical specifications and subsequent evaluation of bid by the same technical committee (as for initial bid) was not mandatory. The report of the Inquiry Committee and its recommendation were not received by the Project Management Unit till completion of evaluation and procurement process. Therefore, the technical committee was not revised. The Rules are silent about duration of time frame between technical evaluation and financial evaluation. There is only condition that contract is signed within validity period of the bid which was duly full filled.

The reply was not accepted because the management kept the same technical committee which was termed unqualified by the inquiry committee due to their incapacity to evaluate such types of bids.

Audit recommends holding of inquiry to probe the matter.

CHAPTER 8

ECONOMIC AFFAIRS DIVISION

8.1 Introduction

As per Schedule II [Rule 3 (3)] Distribution of Business among the Divisions read with Schedule III [rule 4(4)] Rules of Business 1973 (as amended up to 1st December 2021) following main functions have been assigned to the Division:

1. Assessment of requirements; programming and negotiations for external economic assistance from foreign Governments and organizations.
2. Matters relating to IBRD, IDA, IFC, ADB and IFAD.
3. Economic matters pertaining to the Economic and Social Council of the United Nations, Governing Council of UNDP, ESCAP (Economic and Social Commission for Asia and Pacific), Colombo Plan and OECD (DAC).
4. Negotiations and coordination activities, etc., pertaining to economic cooperation with other countries (excluding RCD and IPECC).
5. Assessment of requirements, programming and negotiation for securing technical assistance to Pakistan from foreign Governments organizations including nominations for EDI Courses.

6. External debt management, including authorization of remittances for all external debt servicing, compilation and accounting and analysis of economic assistance from all foreign governments and organizations.
7. Review and appraisal of international and regional economic trends and their impact on the national economy. Proposals concerning changes in International Economic Order.
8. Matters relating to transfer of technology under UNDP assistance.
9. Matters relating to International Islamic Development Bank.
10. Financial Action Task Force (FATF) Cell.

ATTACHED DEPARTMENTS / AUTONOMOUS BODIES

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY 2022-23) Rs. in million	Revenue / Receipt Audited (FY 2022-23) Rs. in million
1	Formations	1	1	590.693	
2	Assignment Accounts (Excluding FAP)				
3	Authorities / Autonomous Bodies etc. under the PAO				
4	Foreign Aided Project (FAP)				

8.2 Comments on Budget & Accounts (Variance Analysis)

The final budget allocated to the Economic Affairs Division for the financial year 2022-23 was Rs. 11,288.70 million, out of which the Division expended an amount of Rs. 11,270.40 million. Grant-wise detail of current expenditure is as under:

Rs. in million

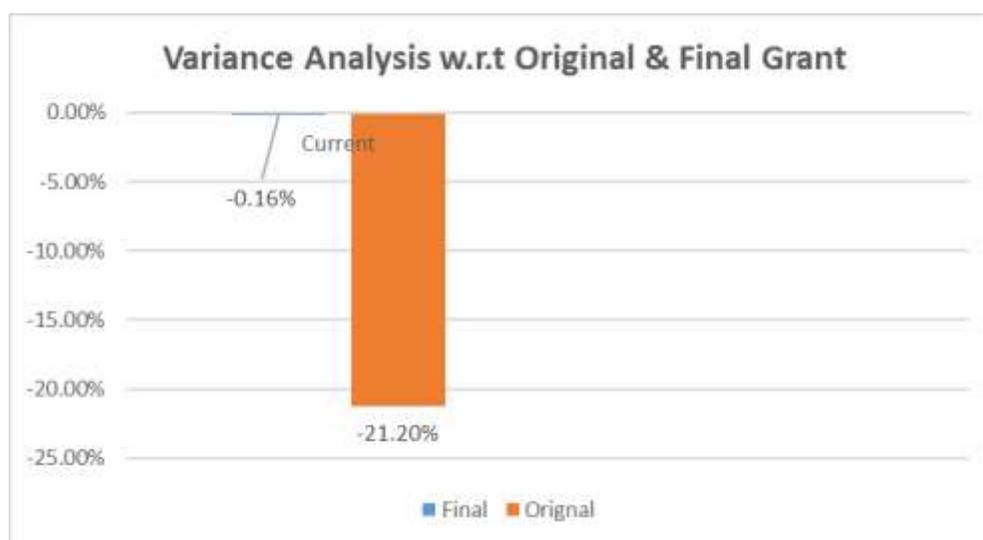
Grant No	Type of Grant	Heads	Original Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
31	Current	Main	681.06	16.71	664.35	658.30	-6.05	-0.92%
32	Current	Misc	12,978.99	2,354.64	10,624.35	10,612.11	-12.25	-0.12%
	Total		13,660.05	2,371.35	11,288.70	11,270.40	-18.30	-0.16%

Audit noted that there was an overall saving of Rs.18.30 million, which was mainly due to saving in development grant.

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of General Financial Rules (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, bifurcating total allocation into current expenditure, it was observed that there was 21.20 % of saving w.r.t original grant which was finally reduced to 0.16 % w.r.t final grant.



8.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs. 52.018 million, were raised in this report during the current audit of the Economic Affairs Division. Summary of the audit observations classified by nature is as under:

(Rupees in million)		
S. No	Classification	Amount
1	Non-production of record	
2	Reported cases of fraud, embezzlement and Misappropriation	
3	Irregularities	
A	<i>HR/Employees related Irregularities</i>	
B	<i>Procurement related irregularities</i>	
C	<i>Management of account with commercial banks</i>	
D	<i>Recovery</i>	
E	<i>Internal Control</i>	52.018
4	Value for money and service delivery	

5	Others	
---	--------	--

8.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
2010-11	1	0	0	1	-
2011-12	4	0	0	4	-
2013-14	4	4	1	3	25
2020-21	5	0	0	5	-
2022-23	2	0	0	2	-
Total	16	4	1	15	-

8.5 AUDIT PARAS

Economic Affairs Division

8.5.1 Irregular cash withdrawal of honorarium by DDO-Rs. 52.018 million

According to Rule-157 of Federal Treasury Rules “Cheques drawn in favour of Government officers and departments in settlement of Government dues shall always be crossed “A/c payee only - not negotiable”.

Drawing and Disbursing Officer Ministry of Economic Affairs, Islamabad had drawn cash money of Rs. 52,018,240 for disbursement of honorarium to their officers & officials during financial years 2021-22 and 2022-23. Details are as under:

F.Y	Gross Amount (Rs.)	Net amount (Rs.)	Cheque No. & date
2021-22	27,785,420	26,742,321	8995165 dated 30-06-2022
2022-23	21,006,160	20,104,044	9652146 dated 23-06-2023
2022-23	3,226,660	3,065,327	9695590 dated 21-06-2023
Total	52,018,240	49,911,692	

Audit observed that instead of making payment of honorarium through crossed cheques or through pay roll, the cash money of Rs. 52.018 million was withdrawn by the DDO for making payment to officers/officials of the Ministry.

Audit is of the view that cash withdrawal of honorarium amounting to Rs. 52.018 million by the DDO was in violation of rules and irregular.

The management replied that the approval of the honorarium from the Minister was received on 29th June 2022 and 22nd June, 2023, respectively. After which the last date for

acceptance of change statement by AGPR had also passed and it was not possible to make all cheques in such a short time and deliver to each employee separately.

The reply is not tenable as the late processing of case for grant of honorarium resulted in cash payment through DDO in violation of rules.

The DAC was convened on 26.12.2023 and directed to avoid this practice in future.

Audit recommends appropriate action against the persons concerned for not processing the case of honorarium timely well before close of financial year. Audit further recommends that such practice should be discontinued in future.

CHAPTER 9

ESTABLISHMENT DIVISION

9.1 Introduction

As per Schedule II [Rule 3 (3)] Distribution of Business among the Divisions read with Schedule III [rule 4(4)] Rules of Business 1973 (As amended up to 23rd April 2019) following main businesses have been assigned to the Division amongst the other functions.

Regulation of all matters of general applicability to civil posts in connection with the affairs of the Federation:

1. Formation of Occupational Groups
2. Policy regarding recruitment to various grades
3. The Federal Government functions in regard to Federal Public Service Commission.
4. Career Planning
5. Services Tribunal Act, 1973.
6. Idea Award Scheme.
7. Pakistan Public Administration Research.

ATTACHED DEPARTMENTS / AUTONOMOUS BODIES

- i. Secretariat Training Institute.
- ii. Staff Welfare Organization.
- iii. Akhtar Hameed Khan National Centre for Rural Development.
- iv. Federal Benevolent Fund & Group Insurance

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY-2022-23) Rs. in million	Revenue / Receipt Audited (FY 2022-23) Rs. in million
1	Formations	2	3	4,505.316	-
2	Assignment Accounts (Excluding FAP)	-	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	1	1	7,050.759	-
4	Foreign Aided Project (FAP)	-	-	-	-

9.2 Comments on Budget & Accounts (Variance Analysis)

The final budget allocated to the Establishment Division for the financial year 2022-23 was Rs. 6,580.71 million, out of which the Division expended an amount of Rs.6,500.34 million. Grant-wise detail of current and development expenditure is as under:

(Rs. In million)

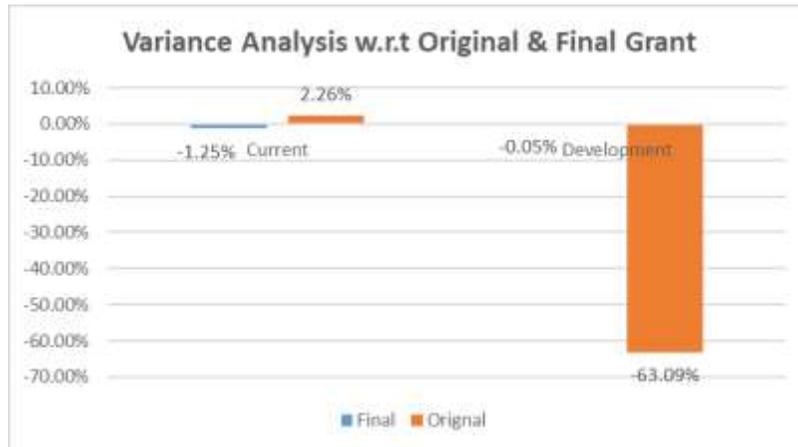
Grant No	Type of Grant	Original Grant	Suppl Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
16	Current	6,203.07	261.03	-40.35	6,423.75	6,343.46	-80.29	-1.25%
93	Development	425.00	0.00	-268.03	156.97	156.89	-0.08	-0.05%
	G Total	6,628.07	261.03	-308.39	6,580.71	6,500.34	-80.37	-0.05%

Audit noted that there was an overall saving of Rs. 80.37 million, which was mainly due to saving in current grant.

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of General Financial Rules (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, bifurcating total allocation into current and development expenditure, it was observed that, in case of development grant, there was a 63.09% saving w.r.t original grant which was finally reduced to 0.05% saving w.r.t Final Grant and in case of current grant 2.26% of excess was become 1.25% saving.



9.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs.599.93 million, were raised in this report during the current audit of **Establishment Division**. Summary of the audit observations classified by nature is as under:

(Rupees in million)

S. No	Classification	Amount
1	Non-production of record	
2	Reported cases of fraud, embezzlement and Misappropriation	
3	Irregularities	
A	<i>HR/Employees related Irregularities</i>	8.66
B	<i>Procurement related irregularities</i>	
C	<i>Management of account with commercial banks</i>	14.539
D	<i>Recovery</i>	173.087
E	<i>Internal Control</i>	51.907
4	Value for money and service delivery	
5	Others	351.734

9.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
2010-11	2	2	2	0	100
2012-13	11	11	9	2	82
2013-14	3	3	1	2	33
2014-15	6	6	4	2	67
2015-16	1	1	0	1	-
2016-17	5	5	4	1	80
2017-18	1	1	1	0	100
2018-19	6	6	3	3	50
2019-20	16	10	2	14	20
2020-21	5	0	0	5	-
2021-22	6	0	0	6	-
2022-23	6	0	0	6	-
Total	68	45	26	42	-

9.5 AUDIT PARAS

Establishment Division (Main)

9.5.1 Irregular expenditure on engagement of Contingent Paid Staff - Rs. 8.666 million

Finance Division vide U.O.Nos.F.1(2)DFA(Estt)/2012-13 dated 15.08.2018, 06.08.2019, 30.07.2020, 24.08.2021 & 13.09.2022 gave concurrence to the proposal of Establishment Division for continuation / extension of post of Contingent Paid Staff in Establishment Division for the FYs 2018-19, 2019-20, 2020-21, 2021-22 & 2022-23, respectively, subject to the condition(s) that

Establishment Division was to fill up posts on regular basis on merit as soon as possible (while approving every year).

The management of the Establishment Division incurred an expenditure amounting to Rs. 8,665,776 on payment of salaries to twenty-eight (28) persons appointed as Contingent Paid Staff (CPS) during the FY 2022-23.

Audit observed that the Establishment Division did not appoint the staff on a regular basis, as per instructions of the Finance Division from time to time, instead the expenditure was incurred on engagement of Contingent / Daily Paid Staff.

Audit is of the view that non-compliance of the Finance Division's instructions regarding appointment of staff on regular basis and incurrence of expenditure (every year) on engagement of Contingent Paid Staff is irregular and unauthorized.

The DAC was held on 17.01.2024. The DAC was apprised that the appointment of contingent paid staff was made in BPS-01-04 against the sanctioned /vacant posts duly endorsed by the Finance Division. The process of recruitment was initiated, and vacancies were advertised in National Dailies on 28.05.2023. In the meantime, the Election Commission of Pakistan imposed ban on all kinds of recruitments in Ministry/Division during Care-Taker Government vide ECP's letter dated 15.08.2023.

The DAC directed the management to expedite the recruitment process after lifting the ban on completion of General Election process and proof of recruitment may be provided to audit.

Audit recommends that decision of the DAC may be implemented.

Staff Welfare Organization

9.5.2 Non-Recovery of Outstanding Rent from Utility Stores Corporation - Rs. 12.379 Million

Section 10(I) of the Islamabad Rent Restriction Ordinance, 2001 states that the rent of residential as well as a non-residential building shall stand automatically increased at the end of every three years of its tenancy by twenty-five percent of the rent already being paid by the tenant.

Pak. PWD vide letter No. CIII/WXIII/111/565 dated 22.02.2005 and vide letter dated 09.03.2005 visited the building and made a rent assessment of the premises on Plot No. ID-2, G-6/1-1 and ID-16, Sector G-6, Aabpara Islamabad.

The properties of Staff Welfare Organization (SWO), Islamabad primarily meant for setting up Lady Industrial Home and Library for the welfare of Federal Government Employees and their Families were rented to the Utility Stores Corporation on temporary basis on 01.07.1971 with monthly rent of Rs 600. No written / formal lease agreement had been signed since that time till now. The detail of outstanding rent is as under:

Period	Rent Due	Rent Paid	Rent Recoverable
01.07.1971 to 31.07.2023	20,275,292	7,896,240	12,379,052

Audit observed that:

1. The management did not recover outstanding rent of Rs.12.379 million after applying 25% increase in rent after every three years.
2. The SWO management failed to make a lease agreement with Utility Stores Corporation.

Audit is of the view that non-recovery of outstanding amount from the tenant resulted in non realization of revenue amounting to Rs. 12.379 million.

The DAC was held on 17.01.2024. The DAC directed the management to expedite the recovery of outstanding rent and vacation of building.

Audit recommends that recovery of outstanding rent be ensured besides fixing responsibility for non-execution of rent agreement.

Federal Employees Benevolent & Group Insurance Fund

9.5.3 Payment of escalation over and above the approved PC-I – Rs. 351.734 million

Section 4.3 of the revised PC-I for Multi Storey FEB&GIF Tower Multipurpose Building in Blue Area (Jinnah Avenue) Islamabad elaborates the Project Cost which included the Escalation cost as Rs. 515.730 million.

The management of the FEB&GIF provided the Price Adjustment Summary which reflects the escalation of Rs. 867.464 million.

Audit observed that the escalation amount as per summary provided is over and above the approved escalation by Rs. 351.734 million.

Audit is of the view that escalation over and above the approved project cost is irregular and unauthorized.

The management informed that PC-I of the subject project is under revision and the subject over and above escalation amount is being covered in the proposed revision.

The DAC was held on 17.01.2024. The DAC directed the management to produce the revised PC-I and get it verified from audit.

Audit recommends that responsibility may be fixed for payment of escalation over and above the provision of revised PC-I without further revision.

9.5.4 Recovery of wrongly transferred funds to NBP – Rs. 9.414 million

Section 7(c) of the Federal Employees Benevolent Fund and Group Insurance Act, 1969 states that the Board shall have power to do or cause to be done all acts and things necessary for the proper administration and management of the moneys or properties in the Benevolent Fund and the Insurance Fund.

The FEB&GIF made an analysis of the payments and identified an amount of Rs. 12,623,839 as wrong/overpayment by the NBP, out of which an amount of Rs. 3,210,1564 was refunded by the Bank.

Audit observed as under:

- i. The remaining overpaid amount of Rs. 9,413,675 has not yet been refunded to FEB&GIF.
- ii. No disciplinary proceedings were initiated against the persons who wrongly transferred the amount to the Bank.

Audit is of the view that non-retrieval of the amount was an undue financial favour to the bank.

The management replied that the FEB&GIF disbursed the amount of Monthly Benevolent Grant amongst the beneficiaries through NBP across the country. During this exercise some of the beneficiaries either die or get married/remarried or their accounts become dormant/inactive, but FEB&GIF remains unaware of such facts till NBP authorities or beneficiaries themselves intimate it to that extent. Till such time, the amount of Monthly Benevolent Grant keeps remitting to their accounts as per SOPs provided by NBP for Direct Credit System (DCS).

The DAC was held on 17.01.2024. The DAC directed the management to reconcile the figures with NBP and share final reconciliation with Audit.

Audit recommends a mechanism for timely sharing of beneficiary data between NBP and the department be implemented ; and that recovery of overpaid amount from NBP may be made and got verified by audit besides fixing of the responsibility on the persons who wrongly transferred the amount to the Bank.

9.5.5 Recovery of balance lying in the in-active accounts from NBP – Rs. 160.708 million

Section 7(c) of the Federal Employees Benevolent Fund and Group Insurance Act, 1969 states that the Board shall have power to do or cause to be done all acts and things necessary for the proper administration and management of the moneys or properties in the Benevolent Fund and the Insurance Fund.

The management of FEB&GIF established Contribution Branch with the responsibility to keep record of contribution received from the contributors for both funds (Benevolent and Group Insurance) and also reconciliation of Demand Draft Payments (DDPs) made by the bank.

Audit observed as under:

- i. As per the analysis report on the status of the payments made, un-claimed balance of Rs. 160.708 million was lying in various inactive NBP accounts up to 11-05-2023.
- ii. The NBP on 12-06-2023 accepted partially an amount of Rs. 78.297 million as lying in the inactive accounts thereby admitting that the NBP had been keeping the funds in inactive accounts.
- iii. The Bank has not yet started refunding the amount.

Audit is of the view that non-retrieval of the amount was an undue financial benefit to the bank besides being an inherent risk in the internal control system of the organization.

The DAC was held on 17.01.2024. The DAC decided that the amount may be reconciled in consultation with the National Bank of Pakistan and the detail may be shared with the Audit.

Audit recommends that the matter of inactive accounts and keeping balances thereof, may be resolved and amounts lying in the inactive accounts may be retrieved. Audit further recommends that the internal control system be strengthened to avoid such lapses in the future.

Civil Services Academy, (CSA)

9.5.6 Un-authorized maintenance of Employees Welfare Fund and incurring of expenditure without approved rules - Rs. 42.493 million

Serial No. 11(16) of Schedule-II of Rule 3(3) of Rules of Business, 1973 has assigned the Finance Division to frame rules on pay and allowances, retirement benefits, leave benefits and other financial terms and conditions of service.

Para 25 of GFR Vol-I states that all Departmental regulations in so far as they embody orders or instructions of a financial character or have important financial bearing should be made by, or with the approval of, the Ministry of Finance.

Management of Civil Services Academy (CSA), Lahore was maintaining Employees Welfare Fund Account No. 1250-00501589-01 with HBL, Walton Road, Lahore. The receipts and expenditure of this account as per bank statement was as under:

(Rupees)			
Opening Balance as on 01-07-2022	Receipts (Cr)	Expenditure (Dr)	Closing Balance as on 30-06-2023
10,282,359	32,816,278	42,493,248	605,389

Audit observed that the Welfare Fund was established and being maintained, without the approval of the Finance Division. Moreover, the expenditure of Rs 42.493 million was incurred without approved rules/regulations/policy.

Audit is of the view that the maintenance of bank account and incurring of expenditure without approved rules from Finance Division was unauthorized.

The management did not reply till finalization of the report.

Audit recommends obtaining approval of the Finance Division for maintenance and operation of bank account and rules & regulations for incurring expenditure.

9.5.7 Unauthorized transfer of fund from Assignment Account to bank accounts – Rs. 14.539 million

Section 23 (2) of Public Finance Management Act, 2019 states that “No authority shall transfer public moneys for investment or deposit from government account including the assignment accounts to other bank account without prior approval from the Federal Government.”

Para ix of Provisional Indicative Budget Ceiling of Civil Services Academy, Lahore for FY 2022-23 issued by Finance Division on 09-05-2022 stipulates that money cannot be transferred from an assignment account to other bank accounts.

Management of Civil Services Academy (CSA), Lahore was maintaining Assignment Account No.1001 (1158391924) at NBP, Main Branch the Mall, Lahore. The management transferred an amount of Rs. 14,538,940/- from assignment account to following bank accounts during FY 2022-23. Details are as under:

Sr. #	Transfer To Whom	Amount
1.	DG's Misc. Receipts Fund NBP Account No.1618-3150986885	3,885,268
2.	Director (F&A) NBP Account No. 1618-003069947250	7,996,772
3.	Employees Welfare HBL Account No. 1250-00501589-01	2,656,900
	Total	14,538,940

Audit observed that the management transferred an amount of Rs. 14.538 million from assignment account to bank accounts which was in violation of instructions of the Finance Division.

Audit is of the view that transfer of fund from assignment account to non-lapsable accounts and commercial bank accounts was in violation of instructions of the Finance Division and Article 80 of the Constitution of Islamic Republic of Pakistan was irregular and unauthorized.

The management did not reply till finalization of the report.

Audit recommends fixing of the responsibility for the said lapse and refund of unspent amount into Government Account.

CHAPTER 10

FEDERAL EDUCATION AND PROFESSIONAL TRAINING DIVISION

10.1 Introduction

As per Schedule II [Rule 3 (3)] Distribution of Business among the Divisions read with Schedule III [rule 4(4)] Rules of Business 1973 (As amended up to 23rd April 2019) following main businesses have been assigned to the Division amongst the other functions.

- 1- Academy of Educational Planning and Management (AEPAM), Islamabad.
- 2- Federal Board of Intermediate and Secondary Education (FBISE), Islamabad.
- 3- National Education Assessment Centre, Islamabad.
- 4- National Talent Pool, Islamabad.
- 5- Youth Centers.
- 6- All matters relating to the National Commission for Human Development (NCHD) and National Education Foundation (NEF).
- 7- Pakistan National Commission for UNESCO (PNCU).
- 8- Higher Education Commission.
- 9- External examination and equivalence of degrees and diplomas.
- 10- Commission for standards for higher education.
- 11- National Institute of Science and Technical Education, Islamabad.
- 12- National College of Arts, Lahore and Rawalpindi.
- 13- Pakistan Chairs Abroad.
- 14- Selection of Scholars against Pakistan Chairs Abroad by the Special Selection Board.
- 15- Boy Scouts and Girl Guides; Youth Activities and Movement.
- 16- International exchange of students and teachers, foreign studies and training and international assistance in the field of education.
- 17- Social Welfare, Special Education, Welfare, development and rehabilitation of children and disabled in the Federal area.
- 18- Federal College of Education, Islamabad.
- 19- Federal Directorate of Education and education in the Capital.
- 20- Federal Government Polytechnic Institute of Women, Islamabad.
- 21- Sir Syed School and College of Special Education, Rawalpindi.
- 22- Training, education and rehabilitation of disabled in Islamabad.
- 23- Private Educational Institutions Regulatory Authority.
- 24- Dealing and agreements with other countries and international organizations in the fields of social welfare.

25- Relationship with UNESCO and participation in its activities, liaison with other international agencies and organizations in educational programs.

ATTACHED DEPARTMENTS / AUTONOMOUS BODIES

- i. National Training Bureau.
- ii. Pakistan Manpower Institute.
- iii. Federal Directorate of Education Islamabad.
- iv. Directorate General of Special Education.
- v. Academy of Educational Planning and Management, Islamabad
- vi. Federal Board of Intermediate and Secondary Education, Islamabad
- vii. National Education Assessment Centre, Islamabad
- viii. Pakistan National Commission for UNESCO (PNCU)
- ix. Inter-Board Committee of Chairmen
- x. National College of Arts Rawalpindi & Lahore.
- xi. Private Educational Institution Regulation Authority.

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY-2022-23) Rs. in million	Revenue / Receipt Audited (FY 2022-23) Rs. in million
1.	Formations	495	17	8,312.503	428.419
2.	Assignment Accounts (Excluding FAP)	16	-	-	-
3.	Authorities / Autonomous Bodies etc. under the PAO	5	5	9,891.263	-
4.	Foreign Aided Project (FAP)	-	-	-	-

10.2 Comments on Budget & Accounts (Variance Analysis)

The final budget allocated to the Federal Education and Professional Training Division for the financial year 2022-23 was Rs. 28,089.62 million, out of which the Division expended an amount of Rs. 31,780.75 million. Grant-wise detail of current and development expenditure is as under:

(Rs. In million)

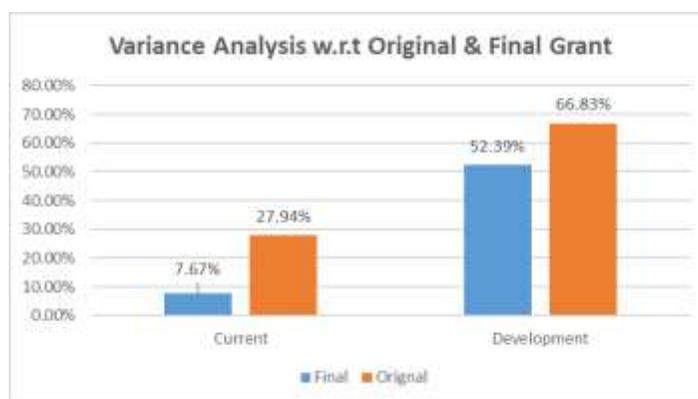
Grant No	Type of Grant	Original Grant	Suppl Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
36	Current	20,746.61	4,040.00	-134.01	24,652.60	26,542.91	1,890.31	7.67%
102	Development	3,139.60	567.12	-269.70	3,437.02	5,237.84	1,800.82	52.39%
	Total	23,886.21	4,607.12	-403.71	28,089.62	31,780.75	3,691.13	13.14%

Audit noted that there was an overall excess of Rs. 3,691.13 million, which was mainly due to excess in current / development grants.

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of General Financial Rules (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, bifurcating total allocation into current and development expenditure, it was observed that in case of development grant, there was 66.83% of excess w.r.t original grant which was finally reduced to 52.39% excess w.r.t Final Grant and in case of current grant 27.94% of excess was reduced to 7.67%.



10.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs.1,067.813 million, were raised in this report during the current audit of **Federal Education And Professional Training Division**. Summary of the audit observations classified by nature is as under:

(Rupees in million)

S. No	Classification	Amount
1	Non-production of record	
2	Reported cases of fraud, embezzlement and Misappropriation	
3	Irregularities	

A	<i>HR/Employees related Irregularities</i>	139.988
B	<i>Procurement related irregularities</i>	87.514
C	<i>Management of account with commercial banks</i>	191.864
D	<i>Recovery</i>	
E	<i>Internal Control</i>	648.447
4	Value for money and service delivery	
5	Others	

10.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
2010-11	17	17	5	12	29
2011-12	18	7	4	14	57
2012-13	8	0	0	8	-
2013-14	28	25	17	11	68
2014-15	20	10	2	18	20
2015-16	8	0	0	8	-
2016-17	13	1	0	13	-
2017-18	14	10	2	12	20
2018-19	27	23	9	18	39
2019-20	34	0	0	34	-
2020-21	19	0	0	19	-
2021-22	19	0	0	19	-
2022-23	22	0	0	22	-
Total	247	93	39	208	-

10.5 AUDIT PARAS

National Rahmatul-Lil-Aalameen Wa Khatamun Nabiyyin Authority

10.5.1 Irregular appointment of Chairman and Members in MP Scales without advertisement – Rs. 13.350 million

Clause 3 (i to vii) of Establishment Division O.M. No. 1/3/2020-E-6 dated 22-06-2020 related to management position scales policy 2020 provide insights about the following criteria such as sanction of post (s), wide advertisement of posts including terms of reference, Job description, Job Specifications, Tenure of appointment and Pay package in the national press, composition of scrutiny committee, scrutinize applications based on the advertised criteria, no short listing of eligible candidates and all candidates having basic eligibility as per advertised eligibility criteria will be called for interview by the Selection Committee, list of all eligible candidates duly signed by the scrutiny committee, original score sheet and minutes of the meeting of the selection committee duly for initial recruitment.

Clause 5 (1 & 2) of ibid determines the required qualification, experience and age limit. The required qualification and experience for MP-I scale is PhD in relevant subject(s) with 14 years-professional experience or Masters in relevant subject(s) with 18 years' post qualification experience in the relevant field. However, the age limit is 45-62 on the closing date of submission of applications.

Clause 6 (iii) of ibid states that a civil servants/government servant is selected through competitive process against any such position, he/she shall either resign from government service or seek early retirement, severing his/her connection/lien with their parent cadre/Ministry/Division/organization, etc., before joining the MP Scale Position.

The following officers were appointed as a Chairman and Members in Authority since its inception and made payments of Rs 13.350 million as under:

S. #	Employee Name	Member Name	Duration	Payment	Age at time of Appointment
1	Dr Ejaz Akram	Chairman	06-12-2021 to 31-12-2021	565,233	Not Available
2	Dr Amir Tauseef	Member Media	10-02-2022 to 07-11-2022	6,235,824	Not Available
3	Mr. Tanveer Anjum	Member International Research	03-02-2022 to 30-06-2022	3,166,091	Not Available
4	Mr. Ayesha Laghari	Member Prescribing Curricula	24-01-2022 to 30-06-2022	3,383,128	Not Available

Audit observed as under:

- i. The recruitment of Chairman and members was made through service provider firm in violation of the instructions of the Establishment Division.
- ii. All the appointments were made on MP scale without following the process as envisaged in Clause 3 (i to vii) of MP Scale Policy, 2020.
- iii. Copies of academic qualification, experience certificates, CV, NIC, etc., were not available on record to determine the eligibility criteria of each candidate/applicant.
- iv. The evidence relating to resignation or seeking of retirement from the previous posts/service or serving his/her connection/lien with their parent cadre/Ministry/Division/organization, etc., before joining the new assignment, was not available on record.
- v. Copy of approval of arrears allowed to officers placed at Serial # 2 from the Prime Minister was not shared.

Audit is of the view that the appointment of Chairman and Members was made through service provider firm instead of advertisement, in violation of MP Scale policy, and therefore was irregular.

The management did not reply.

Audit recommends fixing the responsibility for making appointment without advertisement in violation of government rules and procedures.

National College of Arts, Lahore

10.5.2 Unauthorized expenditure due to appointments of visiting faculty without advertisement of posts - Rs. 114.397 million

Cabinet Secretariat establishment Division Notification No F.53/I/2008-SP dated 22.10.2014 for recruitment in Ministries / Division / Attached/ Departments / Subordinate offices/ Autonomous Bodies/ Semi-Autonomous envisages that vacancies as per the Provincial Regional Quota etc. shall be advertised through widely published National / Provincial / Regional newspaper.

The management of National College of Arts Lahore made recruitments of the visiting faculty, but the vacancies were not advertised in the print media as required in the above Establishment Division Notification. An expenditure of Rs. 114.397 million was incurred on account of lecture fees.

Audit observed that

- i. The appointments without advertisement of posts in the print media were irregular.
- ii. The appointment contracts were further extended by the Vice Chancellor without prior approval of the competent authority.
- iii. Appointment in violation of Government instructions were irregular.

Audit is of the view that appointments without advertisement of posts and grant of increment were irregular.

The management did not reply.

Audit recommends that responsibility may be fixed for the irregularity.

10.5.3 Non-investment of pension contribution - Rs. 80.816 million.

BOG(NCA) in its meeting approved deduction of pension contribution from its employees as conveyed vide letter No. NCZ/178 dated 9-10-2019 and an equal contribution by the college to the pension fund BoG also:

- i. Decided to open a pension fund bank account and invest the money in profit earning securities.
- ii. Directed that the employees be given the right to choose between paying the pension contribution or relinquish the right to pension.

The management of NCA has been deducting pension contribution along with college contribution equal to 7.5% of salary which has accumulated to total of Rs. 80.816 Million.

Audit observed that:

- i. Management did not open pension fund account.
- ii. Management did not invest the contributed amount in profitable schemes.
- iii. Non-maintaining of pension Funds is a violation of BOG instructions.

Audit is of the view that non-investment of pension contribution funds in profitable schemes deprived the college from the benefit of its due revenue.

The management did not reply.

Audit recommends that responsibility may be fixed for the irregularity.

10.5.4 Irregular expenditure on repair of building - Rs. 24.923 million

Para 192 of GFR Volume-I states that “When works allotted to a civil department other than the Public Works Department are executed departmentally, whether directly or through contractors, the form and procedure relating to expenditure on such works should be prescribed by departmental regulations framed in consultation with the Accountant General generally on the principles underlying the financial and accounting rules prescribed for similar works carried out by the Public Works Department. In the absence of departmental regulations, Federal Government rules were applicable.

Para 178 of GFR Vol-1 states that except in cases covered by any special rules or orders of Government, no work should be commenced or liability incurred in connection with it until Administrative approval has been obtained from the authority appropriate in each case; sanction, either special or general, of competent authority has been obtained authorizing the expenditure; a

properly detailed design and estimate has been sanctioned; and funds to cover the charge during the year have been provided by competent authority.

Management of National College of Arts Lahore incurred an expenditure of Rs. 24.923 million under the head repair of building during the financial year 2020-21 & 2022-23 as follows:

Sr. No.	Head of Account	Financial year	Amount (Rs.)
1	Repair of Office Building	2020-21	8,423,284
2	Repair of Office Building	2021-22	8,122,195
3	Repair of Office Building	2022-23	8,377,672
Total			24,923,151

Audit observed that;

- i. Expenditure was split up to avoid the requirement of open tender.
- ii. Management did not prepare estimates for each repair, for administrative approval from the competent authority.
- iii. Management did not prepare the measurement books / sheet for each work to calculate the cost viz a viz the work done.
- iv. The expense amount of Rs. 24.923 million on account of repair for each work was not got verified by audit.
- v. Technical sanction from technical qualified officer / Competent Authority was not obtained prior to execute the work.

Audit is of the view that expenditure without technical sanction from the Competent Authority and preparation of Measurement Book was irregular and doubtful.

The management did not reply.

Audit recommends that responsibility may be fixed for the irregularity.

10.5.5 Unsecured expenditure without surety bond and payment of scholarships - Rs. 45.272 million

Clause 10 of Agreement Surety bond pertaining to scholarship award states that the person getting scholarship shall regularly submit the 6 monthly report related to her study work through the academic supervisor, to the Principal and a final comprehensive report immediately on completion of study for which scholarship was obtained.

Clause 12 of agreement Surety bond states that the person will produce two sureties of Government Officers of Grade-17 or above with more than five years of service left.

Clause 13 of Agreement Surety bond states that Surety Bond and Guarantee Bond need to be registered with Registrar Sub-Court City Lahore.

Management of National College of Arts Lahore awarded scholarship for higher education abroad to the teaching staff during financial year 2020-23. The detail is given below:

Sr	Name	From	To	Leave Type	Reason	Amount in PKR
1	Ms. Zunaira Batool	1/1/2023	12/31/2023	Study Leave	PhD	1,120,160
		Continue / Extended				
2	Ms. Amina Ejaz	9/9/2020	9/8/2022	Study Leave	PhD	3,643,440
		10/17/2022	10/16/2023	Study Leave	PhD	
		Continue / Extended				
3	Ms. Amna Qureshi	8/13/2020	8/12/2022	Study Leave	PhD	2,260,356
		8/13/2022	8/12/2023	Study Leave	PhD	
		Continue / Extended				
4	Ms. Hafsa Imtiaz	3/1/2021	22/3/23	Study Leave	PhD	7,269,720
		Joined	3/22/2023			
5	Ms. Sher Jalil	9/12/2021	9/11/2022	Study Leave	PhD / M.Phil	10,378,280
		9/12/2022	9/11/2023	Study Leave	PhD / M.Phil	
		Continue / Extended				
6	Mr. Ajmal Hussain	9/25/2021	9/24/2022	Study Leave	Masters	8,248,579
		10/4/2022	10/3/2023	Study Leave	D.Phil	
		Continue / Extended				
7	Ms. Javaria	8/29/2021	8/28/2022	Study Leave	Masters	4,570,680
		Joined	8/21/2023			
8	Mr. Khalid Ibrahim	5/6/2022	5/22/2022	ex-Pakistan	Residency	727,200
		Joined				
9	Ms. Ghazala Raees	6/6/2022	9/12/2022	ex-Pakistan	Summer School	1,959,200
		Joined				
10	Ms. Sobia Ahmed	9/18/2022	10/12/2022	ex-Pakistan	Workshop	412,200
		Joined				
11	Ms. Aqsa Akbar Khan	9/18/2022	10/12/2022	ex-Pakistan	Workshop	412,200
		Joined				
12	Mr. Qasim Naem	10/28/2022	12/5/2022	ex-Pakistan	Short Course	1,508,760
		Joined				
13	Mr. M. Shahzad Tanveer	11/5/2022	12/10/2022	ex-Pakistan	Residency	1,852,930
		Joined				
14	Ms. Rida Fatima	11/5/2022	12/10/2022	ex-Pakistan	Residency	18,453
		Joined				
15	Mr. M. Zafar Iqbal	4/21/2023	7/20/2023	ex-Pakistan	Short Course	890,000
		Joined				
Total						45,272,158

Audit observed that:

- i. Management did not obtain surety of Government officer of Grade 17 or above on the approved format.
- ii. Signatures of two witnesses were recorded on surety bond in all cases instead of obtaining signatures of Guarantors.

Audit is of the view that non-obtaining of surety bond / guarantee from office of BPS – 17 or above is violation of surety Bond Agreement.

Audit is also of the view that payment of Rs. 45.272 million without Surety Bond is irregular, carries financial risk and reflects weak administrative control.

The management did not reply.

Audit recommends that surety bonds may be obtained besides fixing responsibility for the irregularity.

10.5.6 Non-maintaining of record of paintings / sculptures available at NCA valuing millions of Rupees

Rule 148 of GFR states that all materials received should be examined, counted, measured or weighed as the case may be, when delivery is taken, and they should be taken in charge by a responsible Government officer who should see that the quantities are correct and their quality good, and record a certificate to that effect. The officer receiving the stores should also be required to give a certificate that he has actually received the materials and recorded them in the appropriate stock register.

Rule 155 of GFR states that a reliable list, inventory or account of all stores in the custody of Government officers should be maintained in a form prescribed by competent authority to enable a ready verification of stores and check of accounts at any time, and transactions must be recorded in as they occur.

During scrutiny of auditable record of National College of Arts Lahore for the financial year 2021-23, it was noted that the paintings / sculptures / antiques worth millions of rupees were available at the premises of NCA Lahore, however, these valuable items were not taken on stock. No entry was found in the stock register of NCA produced to audit. In the absence of complete record, the facts could not be verified.

The record submitted to audit relating to paintings/ sculptures is not verifiable as it does not contain any list, inventory duly verified by competent authority. Moreover the record is not maintained in the prescribed stock register format.

Audit is of the view that due to not being taken on proper stock register, these paintings / sculptures are vulnerable to theft / embezzlement.

The management did not reply.

Audit recommends maintaining asset register, stock register along with assessing and recording the estimated value of articles painting, etc.

Pakistan Institute of Fashion & Design, Lahore

10.5.7 Non-Deduction of withholding taxes from M/S AGCN Pakistan for purchase of IT Equipment– Rs.12.939 million

Section 159 (2) of Income Tax Ordinance States that a person required to collect advance tax under Division II of this Part or deduct tax from a payment under Division III of this Part 1 [or deduct or collect tax under Chapter XII] shall collect or deduct the full amount of tax specified in Division II or III 2 [or Chapter XII], as the case may be, unless there is in force a certificate issued under sub-section (1) relating to the collection or deduction of such tax, in which case the person shall comply with the certificate.

Project Management of “Purchase of Equipment, Furnishing, Curriculum Development and Training of PIFD Lahore” made procurement of IT equipment costing Rs. 67.995 million from M/S AGCN Pakistan. Details are as under:

Sr. No	Name of Company	Invoice NO	Amount (Rs)	Income Tax @ 4.5%	Sales Tax @ 17%	Total (Rs)
1	AGCN Pak	2016/AGCN/07	35,327,699	1,589,746	5,133,084	6,722,831
2	AGCN Pak	2016-04	32,667,741	1,470,048	4,746,595	6,216,643
Total			67,995,440	3,059,795	9,879,679	12,939,474

Audit observed that:

- i. Management of PIFD processed the claim of the vendor for payment but did not withhold income tax due on supplies.

- ii. The exemption claimed by the supplier / vendor was not admissible as the supplier did not provide the essential documents for the exemption i.e. bill of entry, certificate of exemption issued by the FBR.
- iii. Payment without deduction of tax is irregular.

Audit is of the view that payment to the supplier without deduction of Income Tax & Sales Tax of Rs. 12.939 million is irregular and Government may sustain loss of Rs. 12.939 million due to non-recovery of tax.

The management did not reply till finalization of the report.

Audit recommends that inquiry may be held to fix the responsibility.

10.5.8 Irregular termination of PSDP project resulting in likely misappropriation of Government Property for Rs. 648.447 million

Para 1.21(iv) of Manual of PSDP Projects states that “the project closure brings project execution to a formal conclusion, informing all stakeholders about the completion of the project, and winding up technical, operational, and administrative actions. PC-IV form is required to be submitted at the time of project closure or the termination of the physical implementation of the project. At the stage of project closure, PC-IV is submitted”.

Rule 10 of GFR Vol 1 states that “every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money”.

PSDP project titled “Purchase of Equipment Furnishing Curriculum Development and Training of PIFD Lahore” was approved by CDWP on 20-3-2007 and by ECNEC on 20th September 2007. The original cost of Project was 755.747 million. The project was required to be completed by June 2011”.

Later on, time extension with approved cost & scope was granted up to 30-6-2018 by CDWP in a meeting held on 19-10-2017. Again, a time extension up to 30.06.2020 was allowed.

Audit observed that:

- i. The executing agency failed to complete the project even by the extended time i.e. 30.06.2020.
- ii. The project was discontinued by the Administrative Ministry at a cost of Rs.583.447 million instead of the approved cost.

- iii. Handing over/taking over was not done between Ministry of Commerce & Ministry of Education.
- iv. Closure of project without preparation & submission of PC-IV was against the Government instructions.
- v. Proper stock/inventory of the durable goods/equipment was not maintained.
- vi. The aims and objectives of the project to sustain the PIFD as a competitive university were not achieved.

Audit is of the view that project management / ministry failed to establish the status of PIFD as world class competitive institute.

Audit notes that there was inefficiency on the part of project management to complete the project despite extension up to 30.06.2020 .

The management did not reply till finalization of the report.

Audit recommends that inquiry may be held to fix the responsibility.

10.5.9 Irregular utilization of interest on investments of pension fund- Rs. 25.048 million

Para 12 of GFR Vol-1 states that “a controlling officer must see not only that the total expenditure is kept within the limits of the authorized appropriation but also that the funds allotted to spending units are expended in the public interest and upon objects for which the money was provided”.

Rule-23 of GFR Vol-I also states that “every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence”.

The management of Pakistan Institute of Fashion and Design (PIFD), Lahore made investments in Term Deposit Receipts (TDRs) in commercial banks from pension funds and earned interest on these investments for Rs.25.048 million during the financial years 2019-23. The details are given below:

(Amounts in Rs.)				
Sr. No.	Financial Year	Amount of Investment	Interest Earned	Amount re-invested
1.	2019-20	30,000,000	3,780,000	30,000,000
2.	2020-21	30,000,000	3,240,000	30,000,000

3.		30,000,000	3,240,000	30,000,000
4.	2021-22	56,000,000	939,879	56,000,000
5.		56,000,000	8,807,803	56,000,000
6.	2022-23	30,000,000	5,040,000	30,000,000
	Total		25,047,682	

Audit observed that:

- i. The management of PIFD did not prepare a rational working balance.
- ii. The management transferred the interest amount Rs. 25.048 million in recurring Account No. 50397000268851 and spent it for its operational expenditure during financial years 2019-23.
- iii. Spending of interest earned for its operational expenditure was irregular.

Audit is of the view that:

- i. Utilization of earned interest of Rs. 25.048 million is irregular and unauthorized.
- ii. Management deprived the institute of the benefits of optimal use/further investment of earned interest.
- iii. Inefficiency on the part of management to maintain a rational working balance cannot be ruled out.

The management did not reply till finalization of the report.

Audit recommends that inquiry may be held to fix the responsibility.

10.5.10 Irregular establishment of pension fund and retention of public money - Rs.86.00 million

The Senate of PIFD in its meeting held on 8th May 2018 approved Pension Rules, actuarial valuation of the Pension liability and opening of separate bank account for Pension Fund. Further, the senate approved Pension Fund Rules for the regular employees of PIFD having service with PIFD since 1st July 2002 and onwards, subject to issuance of NOC by HEC.

The management of Pakistan Institute of Fashion and Design (PIFD), Lahore established Pension Fund for the regular employees of PIFD having service with PIFD since 1st July 2002 and onwards and retained an amount of Rs.86.00 million for the financial years 2019-23. Details are as under:

(Rs. in million)

Sr. No.	Financial Year	Amount contributed by Institute
1	2019-20	30.00
2	2021-22	56.00

Total	86.00
--------------	--------------

Audit observed that:

- i. The management created Pension Fund without pension contribution by the employees.
- ii. The management created Pension Fund without approval of Higher Education Commission (HEC).
- iii. The management opened a bank account for pension fund without the approval of Finance Division.
- iv. Management did not conduct actuarial studies/ valuation to ascertain pension liability.

Audit is of the view that:

- i. Creation of pension fund without the approval of HEC is irregular.
- ii. Non recovery of Pension contribution by the employees is huge burden on the Institute and violation of Government Instructions.

The management did not reply till finalization of the report.

Audit recommends that inquiry may be held to fix the responsibility.

10.5.11 Irregular expenditure due to appointment of visiting faculty without advertisement - Rs. 12.241 million

Cabinet Secretariat establishment Division Notification No F.53/I/2008-SP dated 22.10.2014 for recruitment in Ministries / Division / Attached/ Departments / Subordinate offices/ Autonomous Bodies/ Semi-Autonomous envisages that vacancies as per the Provincial Regional Quota etc. shall be advertised through widely published National / Provincial / Regional newspaper.

Management of Pakistan Institute of Fashion and Design Lahore made recruitments of the visiting faculty, but the vacancies were not advertised in the print media. The detail of payments made to visiting faculty is given below:-

Sr. NO	Financial Year	Amount
1	2019-20	1,674,400
2	2020-21	4,027,520
3	2021-22	2,722,560
4	2022-23	3,816,800
Total		12,241,280

Audit observed that:

- i. The appointments without advertisement of posts in print media were irregular.
- ii. The appointment contracts were further extended by the management without prior approval of the competent authority.
- iii. The officers were granted annual increments without any provision in the recruitment rules / statues.
- iv. Appointments in violation of Government instructions were irregular.

Audit is of the view that appointments without advertisement of posts and grant of increment were irregular.

Audit is also of the view that payment of pay & allowances to the visiting faculty without advertisement of vacancies was unauthorized.

The management did not reply till finalization of the report.

Audit recommends that inquiry may be held to fix the responsibility.

Pakistan Boy Scouts Association

10.5.12 Irregular Drawl in Cash to DDO Rs. 6.614 million

According to Rule-157 of Federal Treasury Rules “Cheques drawn in favor of Government officers and departments in settlement of Government dues shall always be crossed “A/c payee only—not negotiable”.

Drawing and Disbursing Officer PBSA, Islamabad had drawn cash money of Rs. 6.614 million for expenditure on various training courses, events, and camping activities.

Sr No.	Voucher No.	Cheque No.	Cheque Date	Amount Rs.
1	GF-20	268202625	18.07.2022	318,000
2	GF-30	268202644	12.08.2022	499,000
3	GF-64	276639314	01.11.2022	450,000
4	GF-68	276639318	04.11.2022	362,000
5	GF-77	289889181	18.11.2022	250,000
3	GF-113	289889222	26.12.2022	450,000
4	GF-131	289889245	18.01.2023	350,000
5	GF-136	289889249	30.01.2023	200,000
5	GF-145	289889257	09.02.2023	100,000
6	GF-149	289889261	16.02.2023	190,000
7	GF-169	26615041	20.03.2023	384,000
8	GF-170	26615042	21.03.2023	300,000
9	GF-174	26615048	29.03.2023	299,000

10	GF-181	26614983	07.04.2023	470,000
11	GF-194	26614997	04.05.2023	300,000
12	GF-197	26615000	05.05.2023	237,000
13	GF-210	26615117	15.05.2023	299,000
14	GF-211	26615118	15.05.2023	330,000
15	GF-220	26615127	02.06.2023	490,000
16	GF-225	26615132	05.06.2023	180,500
17	GF-229	26615136	06.06.2023	155,500
	TOTAL			6,614,000

Audit observed that instead of making payment through crossed cheques or through pay roll, the cash money of Rs. 6.614 million was withdrawn by the DDO for various expenditure throughout the year.

Audit is of the view DDO payments of Rs. 6.614 million are in violation of rules and are irregular.

The management replied that the amount was spent through-out the FY 2022-23 in different Training / Programs & events which was required to be spent in different sub-parts. Thus, drawing an amount through crossed cheques in this regard was unbearable for disbursement in various requisitions. However, such practice would be restricted in future, seeing the possibility.

The reply indicates that the management has accepted the audit observations.

Audit recommends that responsibility for the lapse be fixed, and the practice be discontinued.

10.5.13 Non-transparent Appointment of Director and Consultant

Para-3 of the Pakistan Boy Scouts Association Ordinance, 1959 (Ordinance No.XLIV of 1959) states that “the constitution, powers and functions of the Association shall, notwithstanding anything in the Companies Act, 1913(III of 1913(III of 1913), be such as may be prescribed by rules to be made by the Association, with the previous approval in writing of Central Government, and until such rules are made, the rules of the Pakistan Boy Scouts Association registered under the Societies Registration Act, 1860(XXI of 1860), and in force immediately before the commencement of this Ordinance, shall continue in force and be deemed to have been made under this section”.

According to Establishment Division’s O.M.No.F.53/1/2008-SP dated 22nd October, 2014 “Ministries / Divisions / Attached Departments /Subordinate Offices/Autonomous Bodies / Semi-

Autonomous Bodies/Corporations/Companies /Authorities etc. are required to follow the recruitment policy as under:

- i. Initial appointment shall be made strictly in accordance with the provisions contained in the Recruitment Rules of the post concerned. In the absence of Recruitment Rules, Ministries / Divisions/Attached Departments / Subordinate Offices/Autonomous Bodies / Semi-Autonomous Bodies / Corporations / Companies / Authorities etc. are first required to frame the Recruitment Rules and lay down the eligibility conditions for such appointments. No recruitment shall be made in the absence of approved Recruitment Rules.
- ii. Administrative Ministries/Divisions shall ensure merit and transparency in the recruitment process at all levels.

PBSA appointed Director and Consultant during FY 2022-23:

S. No.	Post	Date of Appointment
1	Director Youth Programme	31.10.2022
2	Consultant PBSA	03.02.2023

Audit observed as under:

- i. The appointment of the Director and Consultant was made without approved Recruitment Rules as required under Pakistan Boy Scouts Association Ordinance, 1959 (Ordinance No.XLIV of 1959) and instructions issued by the Establishment Division.
 - ii. Both Officers were appointed without completion of codal formalities i.e. advertisement, conducting of written test, short-listing for interview, preparation of merit list, and minutes of the meeting signed by the recruitment committee etc.
 - iii. No Character Certificate, Medical Certificate, or Bachelor's degree was furnished.
- Audit is of the view that the appointment was made in a non-transparent manner in violation of rules and instructions of the Government.

The management replied that with the sudden departure of our previous Director Youth Program, the vacuum within the organization was left. There was a risk of Programs disruption and a negative impact on the youth affairs were not tolerable for our organization as, after Covid-19 there was rush of the programs which the only Director Youth Program has to shoulder it.

So, accordingly to stopgap arrangement, Mr. Naik Akhtar Javed (LT) – M.Phil (Part-I), was preferred to station as Director Youth vide this office letter No. PBSA/4-17/PF/MNA/81 dated 31st October, 2022, who was recommended by National Executive committee, PBSA in its 154th

Meeting held at National Headquarters, Pakistan Boy Scouts Association on 27th October, 2022. Further, the highest forum i.e. National Council, PBSA in its 77th Extra Ordinary Meeting held at National Headquarters, PBSA on 30th January, 2023 also endorsed the said recommendations of 154th meeting of National Executive Committee.

It is pertinent to mention here that Mr. Naik Akhtar Javed is M. Phil (Pak studies), M.A (Persian and Pak. Studies) and a qualified Scout Leader (LT) and has been attached since 1978 to this profession. He has 30 year plus experience of educational institutions of Pakistan, and also attended many international events to present Pakistan and he brought good name in the field of scouting. He equally had performed very well, in Pakistan as well as abroad.

Further, management replied that a consultant was required to improve the liaison with sister organizations at national & international level along with donor organizations. The matter was discussed in 152nd Meeting of the National Executive Committee of PBSA, held at NHQ, Pakistan Boy Scouts Association, Islamabad dated 3rd April, 2022. Consequently, the forum has given the approval to hire a suitable candidate for the purpose.

In the light of that decision, the management of PBSA hired Ms. Tamana Banori on an initial basis for a period of three months w.e.f 23rd November, 2022, keeping her vast experience in the same field.

During this short period of her contract, she succeeded and got a project from the International Labour Organization (ILO). However, the National Executive Committee, being the second highest forum of PBSA, in its 154th meeting, held at Islamabad dated 27-10-2022 has approved her contract on a lump-sum salary of Rs. 300,000/-. After completion of the contract on 22nd February, 2023, it was extended up to 22nd May, 2023 for an additional term of 3 months. This decision was taken in the 155th meeting of the National Executive Committee, PBSA held on 18th November, 2022. Similarly, the management has extended her contract for a 3rd term from 23rd May, 2022 to 22nd August, 2023

The reply is not cogent. Nothing was explained about non- preparation of rules, non-observing merit in selection of the consultant.

Audit recommends responsibility for the lapse be fixed.

CHAPTER 11

FEDERAL PUBLIC SERVICE COMMISSION

11.1 Introduction

The Federal Public Service Commission (FPSC) is a statutory body of the Government of Pakistan, constituted in 1947, functions under the guiding principles of Articles 18, 25, 27, 34, 36, and 38 of the Constitution of the Islamic Republic of Pakistan 1973 and under Section 7 of the Federal Public Service Commission Ordinance 1977.

ATTACHED DEPARTMENTS / AUTONOMOUS BODIES

- i. FPSC Regional Office, Lahore
- ii. FPSC Regional Office, Karachi
- iii. FPSC Regional Office, Peshawar
- iv. FPSC Regional Office, Quetta
- v. FPSC Regional Office, Gilgit
- vi. FPSC, Regional Office D.I.Khan
- vii. FPSC, Regional Office Sukkur.
- viii. FPSC, Regional Office, Multan.

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY-2022-23) Rs. in million	Revenue / Receipt Audited (FY-2022-23) Rs. in million
1	Formations	9	1	845.483	-
2	Assignment Accounts (Excluding FAP)	-	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	-	-	-	-
4	Foreign Aided Project (FAP)	-	-	-	-

11.2 Comments on Budget & Accounts (Variance Analysis)

The final budget allocated to the Federal Public Service Commission for the financial year 2022-23 was Rs.991.64 million, out of which the Division expended an amount of Rs.988.64 million. Grant detail of current expenditure is as under:

(Rs. In million)

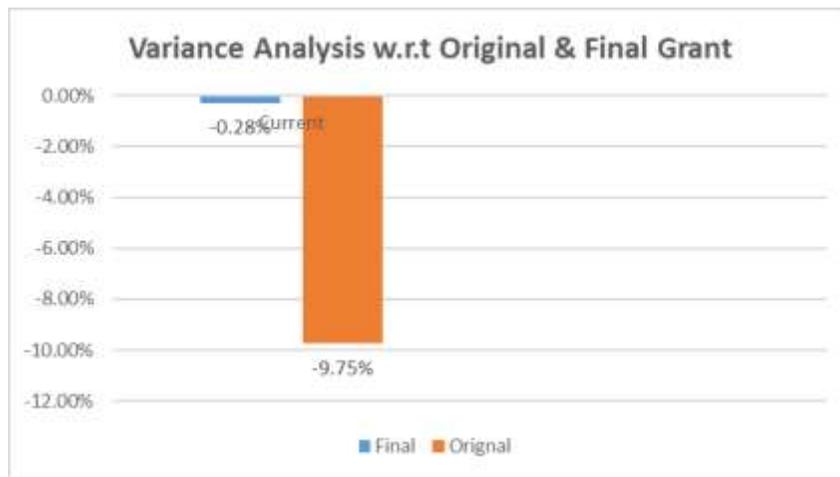
Grant No	Type of Grant	Original Grant	Suppl Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
17	Current	1,085.30	0.00	-93.65	991.64	988.84	-2.80	-0.28%

Audit noted that there was an overall saving of Rs. 2.80 million in current grant.

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of General Financial Rules (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, bifurcating total allocation into actual expenditure, it is observed that there was 9.75% of saving w.r.t original grant and become 0.28% with respect to Final Grant:



11.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs. 413.69 million, were raised in this report during the current audit of **Federal Public Service Commission**. Summary of the audit observations classified by nature is as under:

(Rupees in million)

S. No	Classification	Amount
1	Non-production of record	
2	Reported cases of fraud, embezzlement and Misappropriation	
3	Irregularities	
A	<i>HR/Employees related Irregularities</i>	
B	<i>Procurement related irregularities</i>	
C	<i>Management of account with commercial banks</i>	59.005
D	<i>Recovery</i>	
E	<i>Internal Control</i>	354.687
4	Value for money and service delivery	
5	Others	

11.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
2015-16	1	0	0	1	-
2016-17	1	1	0	1	-
2020-21	7	7	4	3	57
2021-22	7	0	0	7	-
Total	16	8	4	12	-

11.5 AUDIT PARAS

Federal Public Service Commission, Islamabad

11.5.1 Irregular cash payments - Rs. 354.687 million

Rule 157 of Federal Treasury Rules Vol-I states that “payment of two thousand and above to local bodies firms and private persons may be made through bank order. Cheque shall always be crossed Payee’s Account only-not negotiable”.

The management of Federal Public Service Commission, Islamabad made payment to vendors as well as its employees during financial year 2021-22.

Audit observed that:

- i. Funds amounting to Rs. 354,244,361 were drawn in cash through open cheques for disbursement to individuals instead of payment to them through crossed cheques or through direct credit to their bank accounts.
- ii. Payments were made to Deputy Supervisors (Honorary) in cash amounting to Rs. 0.442 million instead of cross cheques/payees account only who are usually gazetted officers.

Audit is of the view that payments made in cash instead of through cross cheque are against the provisions of FTRs.

The management did not reply.

Audit recommends that cash payments be stopped forthwith, payments be made through cross cheques, fix the responsibility on persons at fault besides regularization of expenditure from the Finance Division.

11.5.2 Irregular drawl of funds for depositing into Commercial Bank Account maintained under the title “Director Secrecy” - Rs. 6.767 million

Establishment Division letter No.11/7/52-SE. II dated 07.06.1952 method of payments to examiners provides for opening of a bank account by the Secretary, Pakistan Public Service Commission in his own name with an amount of Rs. 5,000 at an approved bank and to making payments to examiners by means of cheques out of that amount. The sum of Rs. 5,000 will be drawn from the State Bank of Pakistan and will be deposited in the personal accounts of the Secretary, Pakistan Public Service Commission. This sum will be recouped from time to time by drawing further advances, as and when required, through bills which will not bear the names of any examiners. There will be no pre-audit of such bills and the accounts will be audited secretly by an official of the office of the AGPR (Now DG Audit) at stated intervals. Such bills should, however, be supported with certificate in the following form:

“Certified that the amounts shown in the bill have been disbursed to the examiners and their receipts duly stamped have been obtained and filed in the confidential branch of the Commission’s office”.

The management of Federal Public Service Commission (FPSC), Islamabad drew an amount of Rs. 6.767 million during the year 2021-2022 from the head of account “A-03919-Payment to Others for Services Rendered” and deposited into Bank Account No. 0854-22-000775-4, National Bank of Pakistan, Super Market Branch, Islamabad. The bank account was opened and is maintained under the title “Director Secrecy”

Audit observed as under:

- i. The bank account was required to be opened under the title of Secretary but was opened and is being maintained by the Director Secrecy irregularly.
- ii. No arrangements were made since the opening of the bank account to carry out the proper audit of the accounts of Secrecy Wing of FPSC in accordance with the instructions contained in the Establishment Division’s letter No.11/7/52-SE. II dated 07.06.1952.

Audit is of the view that amounts from the government account were drawn in disregard to the instructions contained in the Establishment Division’s letter No.11/7/52-SE. II dated 07.06.1952.

The management did not reply.

Audit recommends that a proper inquiry into the matter should be carried out.

11.5.3 Irregular Withdrawal of Funds under Account No. 4019573836 (Titled Secretary FPSC) - Rs. 52.238 million

Section 30(2)(d) of Public Finance Management Act, 2019 states that all the Ministries and Divisions, attached departments and subordinate offices shall ensure placement of all public moneys into the Treasury Single Account.

The management of Federal Public Service Commission, Islamabad maintained bank account for the purpose of payment to exam/paper setter only payee's account during financial year 2021-22.

Audit observed that:

1. Heavy amounts were withdrawn from this bank account.
2. The funds were transferred to another bank account from this bank account.

Audit is of the view that heavy amounts were withdrawn from this bank in spite of only payee's account. Withdrawal of heavy amount from this account and transfer to other accounts are irregular and unauthorized.

The management did not reply.

Audit recommends that payment should be made through payees only account and stoppage of irregular practice. Audit also recommends that responsibility may be fixed for irregular withdrawal of amounts.

11.5.4 Non-appointment of Member from Private Sector

In terms of Section 3(4) of Federal Public Service Commission (FPSC) Ordinance, 1977 the Commission shall have:

(a) not less than one half of the members who shall be persons having held office in the service of Pakistan in basic pay scale 21 or above post, provided that no serving Government servant shall be appointed as a member.

(b) at least one member each from:-

- (i) retired judges of the superior judiciary.
- (ii) retired officers not below the rank of Major-General or equivalent of the Armed Forces; and

(iii) Women and the private sector possessing such qualifications and experience as the Federal Government may by rules prescribe.

Regulation 3 of Federal Public Service Commission (Composition and Condition of Service) Regulations, 1978 states that the Commission shall consist of a Chairman and not more than eleven members.

There are ten (Including two Additional Members) serving members in the Commission and one seat is vacant. Details are as under:

S. No.	Name	Date of joining FPSC	Ex-Service (Group)
1	Mr. Fazal Abbas Maken	12.11.2020	PAS
2	Mr. Muhammad Nafees Zakria	17.11.2020	FSP
3	Mr. Muhammad Tahir	30.11.2020	PSP
4	Capt. ® Shahid Ashraf Tarar	18.01.2021	PAS
5	Mr. Akbar Hussain Durrani (TI)	01.04.2022	PAS
6	Dr. Akhtar Nazir Warraich	01.04.2022	PAS
7	Flt Lt. (Retd.) Khawaja Daud Ahmed	01.04.2022	PAS
8	Dr. Tanveer Ahmed Qurashi	04.04.2022	PAS
9	Ms. Yasmeen Masood	04.04.2022	PAS
10	Mr. Zaheer Pervaiz	30-06-2022	FSP

Audit observed that:

1. No member from the private sector has been posted in the Commission.
2. Two additional members were nominated/ posted on vacant posts without observing the requirement of ordinance.

Audit is of the view that non-appointment of Member from Private Sector is violation of FPSC Ordinance and due to this FPSC is deprived of expertise from other respected professions.

The management did not reply.

Audit recommends that appointment of member from private sector should be made for completion of composition of the Commission.

CHAPTER 12

FINANCE DIVISION

12.1 Introduction

Following functions are main functions assigned to the Finance Division under the Rules of Business, 1973 amongst the other functions:

1. The finances of the Federal Government and financial matters affecting the country as a whole.
2. The Annual Budget Statement and the Supplementary and Excess Budget Statements to be laid before Parliament, the Schedules of Authorized Expenditure.
3. Allocation of share of each Provincial Government in the proceeds of divisible Federal Taxes; National Finance Commission.
4. Public debt of the Federation both internal and external; borrowing money on the security of the Federal Consolidated Fund.
5. Currency, coinage and legal tender, Pakistan Security Printing Corporation and Pakistan Mint.
6. Banking, investment, financial and other Corporations:
 - i) State Bank of Pakistan.
 - ii) Other banking (not including co-operative banking) and investment and financial corporations with objects and business not confined to one Province.
 - iii) Incorporation, regulation and winding up of corporations including banking, insurance and financial corporations not confined to or controlled by or carrying on business in one Province.
7. Company Law: Accountancy, Matters relating to the Partnership Act, 1932.
8. Investment policies: Capital Issues (Continuance of Control) Act, 1947; statistics and research work pertaining to investment and capital.
9. Financial settlement between Pakistan and India and division of assets and liabilities of the Pre-Independence Government of India.
10. International Monetary Fund.
11. Competition Commission of Pakistan and anti-Cartel Laws.
12. Administration of Economic Reforms Order, 1978.

13. Negotiations with international organizations and other countries and implementation of agreements thereof.

ATTACHED DEPARTMENTS

1. Office of the Auditor-General of Pakistan
2. Office of the Controller General of Accounts
3. Central Directorate of National Savings (CDNS)
4. Competition Commission of Pakistan
5. Pakistan Mint
6. Securities & Exchange Commission of Pakistan

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY-2022-23) Rs. in million	Revenue / Receipt Audited (FY 2022-23) Rs. in million
1	Formations	58	14	41,325.660	264.490
2	Assignment Accounts (Excluding FAP)	1	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	14	3	30,142.605	-
4	Foreign Aided Project (FAP)	5	-	-	-

12.2 Comments on Budget & Accounts (Variance Analysis)

The final budget allocated to the Finance Division for the financial year 2022-23 was Rs. 30,788,680.14 million, out of which the Division expended an amount of Rs. 30,800,772.99 million. Grant-wise detail of current and development expenditure is as under:

(Rs. In million)

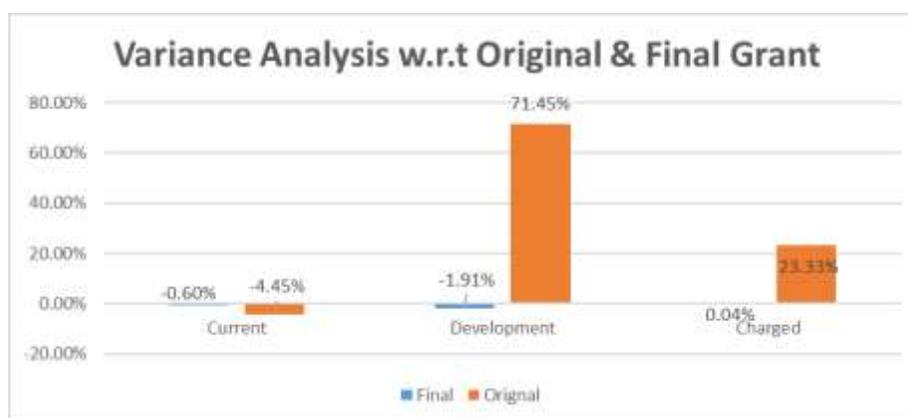
Grant No	Type of Grant	Original Grant	Suppl Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
41	Current	2,609.97	.00	-86.96	2,523.01	2,478.64	-44.37	-1.79%
42	Current	5,468.31	.00	-210.63	5,257.68	5,255.23	-2.45	-0.05%
	Total Current	8,078.28	.00	-297.59	7,780.69	7,733.87	-46.82	-0.60%
106	Development	1,660.00	7,840.00	-3,572.60	5,927.40	5,814.28	-113.11	-1.91%
C	Charged	510,971.76	214,398.09	.00	725,369.85	759,891.50	34,521.65	4.54%
G	Charged	3,439,090.26	1,510,909.74	-.50	4,949,999.50	4,936,024.76	-13,974.74	-0.28%
H	Charged	19,654,367.91	5,445,234.79	.00	25,099,602.70	25,091,308.58	-8,294.12	-0.03%
	Total Charged	23,604,429.94	7,170,542.62	-.50	30,774,972.05	30,787,224.83	12,252.78	0.04%
	G Total	23,614,168.21	7,178,382.62	-3,870.69	30,788,680.14	30,800,772.99	12,092.85	0.04%

Audit noted that there was an overall excess of Rs. 12,092.85 million, which was mainly due to excess in charged expenditure.

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of General Financial Rules (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, bifurcating total allocation into current, development and charge expenditure, it is observed that, in case of charged expenditure, there was 23.33% of excess w.r.t Original grant which finally became 0.4% excess w.r.t Final Grant, in case of development grant 71.45% of excess was reduced to 1.91% saving and in case of current grant 4.45% saving was finally became 0.60% saving.



12.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs.20,111.38 million, were raised in this report during the current audit of **Finance Division**. Summary of the audit observations classified by nature is as under:

(Rupees in million)		
S. No	Classification	Amount
1	Non-production of record	
2	Reported cases of fraud, embezzlement and Misappropriation	53.808
3	Irregularities	
A	<i>HR/Employees related Irregularities</i>	
B	<i>Procurement related irregularities</i>	
C	<i>Management of account with commercial banks</i>	
D	<i>Recovery</i>	22.938
E	<i>Internal Control</i>	18,970.33

4	Value for money and service delivery	
5	Others	1,064.3

12.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
2010-11	9	9	8	1	89
2011-12	17	0	0	17	-
2012-13	35	6	5	30	83
2013-14	21	19	8	13	42
2014-15	30	2	0	30	-
2015-16	9	8	3	6	38
2016-17	13	8	1	12	13
2017-18	15	15	8	7	53
2018-19	61	0	0	61	-
2019-20	42	0	0	42	-
2020-21	34	1	0	34	-
2021-22	26	0	0	26	-
2022-23	20	0	0	20	-
Total	332	68	33	299	-

12.5 AUDIT PARAS

Special Study on House Building Advance and Conveyance Advance on the Direction of President of Pakistan

12.5.1 Unauthorized grant of Advances under hardship cases

As per procedures and mechanism decided by the Finance Division in consultation with AGPR in a meeting held on 07.12.2015 under the Chairmanship of Federal Finance Secretary

- i. Out of total allocation, 10% funds instead of 5% approved earlier would be earmarked for the hardship cases.
- ii. The hardship cases shall be decided by a two-member committee consisting of AGPR and AFS (IGF).
- iii. For hardship cases criteria would be prepared jointly by the Finance Division and AGPR.

The management of AGPR Islamabad and its sub-offices at Karachi & Quetta incurred an expenditure of Rs 9,102 million on account of HBA and MCA during 2022-23. However, as per SAP data of FACs amounting to Rs 2,486.09 million were issued under hardship quota.

Audit observed as under:-

- i. Payments were made without the approval of two-member committee consisting of AGPR and AFS (IGF).
- ii. 38% of the funds were utilized for payment under hardship in violation of 10% quota as detailed below:

Amount in million			
House Building Advance (AGPR Islamabad, Karachi, Quetta)	Particulars	Amount	%
	AGPR	519	11%
	MOF	1,338	27%
	Hardship	1,857.09	38%
	Other	3,074	62%
	Grand Total	4,931.05	
Motor Car Advance (AGPR Islamabad)	Particulars	Amount	%
	AGPR	168	10%
	MOF	461	28%
	Hardship	629	38%
	Other	1025	62%
	G Total	1,654	

Audit is of the view that out of turn HBAs and MCAs were granted in violation of approved criteria and without approval of the committee.

Audit recommends that cases for hardship should be processed on the recommendations of hardship committee as per SoPs already approved and quota for 10% hardship cases should be strictly followed.

12.5.2 Non processing of Advances through SAP by Sub-Offices at Lahore, Gilgit and Peshawar

As per procedures and mechanism decided by the Finance Division in consultation with AGPR in a meeting held on 07.12.2015 under the Chairmanship of Federal Finance Secretary, AGPR would ensure a transparent and merit-based mechanism for preparation and maintenance of priority and general waiting lists for the advances. A web-based mechanism would be developed to maintain priority and a general waiting list of various advances. The list would be displayed on the web pages of AGPR and Finance Division.

The management of AGPR was requested to provide SAP data pertaining to Islamabad and all sub-offices. However, SAP data and waiting list of HBA/MCA pertaining to sub-offices at Gilgit, Lahore and Peshawar were not provided being maintained manually, as informed by the management of AGPR. It was observed that waiting list and payment of advances are being processed manually by the sub-offices of AGPR at Gilgit, Lahore and Peshawar. Therefore, SAP data of advances was not available to audit for analysis.

Audit is of the view that non-processing of HBA / MCA cases through SAP was a violation of decisions made during meeting dated 07.12.2015 which provide room for grant of advances in violation of the policy/merit.

Audit recommends that all cases at sub-offices of AGPR should be processed through SAP instead of manual processing.

Ministry of Finance

12.5.3 Payment of honoraria without approved policy – Rs.240.167 million

Fundamental Rule 9(9) states that honorarium means a recurring or non-recurring payment granted to a government servant from general revenues as remuneration for special work of an occasional or intermittent character. Government decision No. 5 under FR 9(9) clarifies that any work which falls within the orbit of the normal duties of a government servant cannot, as far as he is concerned, be treated as ‘special work’.

The Cabinet vide Decision in Case No.438/24/2018 dated 31.05.2018 directed inter alia that a new policy for the grant of honorarium may be presented to the newly elected government for approval. Based on the above decision of the Cabinet, Honorable Prime Minister on 16th April, 2020 directed Finance Division to place a draft policy before the Cabinet. Furthermore, Financial Management and Powers of Principal Accounting Officers Regulations, 2021 at Serial No.62 warrants formulation of a policy for grant of honoraria.

The Finance Division incurred expenditure amounting to Rs.240,167,079 on account of payment of honoraria, up to four running basic pay, during financial year 2022-23 as under:

Sr. No.	Pay Scale	Amount
1	BPS-01 to 20	225,456,397
2	BPS-21 to 22	13,513,682
3	Secretary Office	1,024,327
4	FBR Employees	172,700
Total Rs.		240,167,106

Audit observed as under:

- i. The payment of four honoraria without approved policy of the Cabinet is violation of rules.
- ii. The honoraria were granted through DDO Vendor No.30005932 instead of crossed cheques or inclusion in pay slip of the employees.
- iii. The honoraria were not included in salaries i.e. payment through salary slips of the employees which reduced the tax slabs for the purpose of payment of income tax.

Audit is of view that grant of honoraria without approved policy of the Cabinet is not only serious lapse on the part of management but also violation of the directives of the Prime Minister and financial instructions laid down in Financial Management and Powers of Principal Accounting Officers Regulations, 2021.

The management replied that during financial year 2022-23, honoraria were granted amounting to Rs.240,025,940 to the employees of Finance Division on three (03) occasions, as per detail below:

- i. Amounting to Rs. 220,860 in August, 2022 through pay slip (left over employees of Finance Division).
- ii. Amounting to Rs.947,161 in the month of May, 2023 through pay slip (granted by the outgoing Finance Secretary).
- iii. Amounting to Rs.238,857,919 (budget honoraria up to 4-month basic pay) in recognition of the services rendered as per criteria duly approved by Finance Minister as Chairman (ECC). ECC decision dated 01-07-1996 allows payment of honoraria to BS 1-20 for officers BPS 21-22, specific approval was obtained from Finance Minister in the capacity of Chairman, ECC.

Financial Management and Powers of PAO Regulation, 2021 vide Sr. No.63 allows payment of honoraria as per prescribed policy. The Cabinet vide its decision dated 31.05.2018 directed that a new policy for grant of honoraria may be presented to newly elected government for approval. The Prime Minister also directed the Finance Division on 16.04.2020 to place a policy on honoraria before the Cabinet. In compliance with these directions, Finance Division submitted honoraria policy before the ECC, which was considered / approved by the Committee in its meeting dated 03.06.2022.

The Pay Roll System runs on 21st of each month whereas the budget honoraria are usually approved in the last week of June of each Financial Year, it is not possible to draw the honoraria through Pay Roll System of AGPR. Therefore, AGPR approve Cash payment through DDO in the last days of closing of Financial Year.

It is stated that the tax from the Budget Honoraria was deducted as per following rates:

35,000	0%
35,000 - 80,000	2%
80,000 - 140,000	5%
140,000 - 200,000	7%
200,000 – above	10%

The reply of the management is not acceptable as the honoraria was paid without approval of policy from the Cabinet. Further, the ECC in its decision granted honoraria for the specific time

period as no directions for the future was included in the decision and as per Rules of Business. Functions of ECC does not includes the mandate for provision of honoraria.

Audit recommends recovering the excess amount paid more than provision of rules besides formulation and approval of policy from Cabinet in the light of decision of the Prime Minister.

12.5.4 Excess drawl of subsidies by Utility Stores Corporation of Pakistan – Rs.1,064.300 million

As per Para-4(c) of Finance Division (Budget Wing) letter No. F.3(1)FO/2022-23 dated 07.07.2022 states that in pursuance of the provisions of the Public Finance Management Act, 2019, Rule 3(9) of the Cash Management and Treasury Single Account Rules 2020 and Financial Management and Powers of Principal Accounting Officers Regulations, 2021, the budget release strategy for Recurrent Budget for the Current Financial Year (CFY) 2022-23 is being issued for implementation with immediate effect and until further orders.

- i. The PAOs concerned shall prepare quarterly funds requirement plans within allocated budget for Current Financial Year and shall share with relevant Wings of Finance Division before start of each quarter.
- ii. Finance Division may review the quarterly requirement plan for subsidies and may convey its views and comments to the PAO concerned within two weeks.
- iii. While firming up its views and comments Finance Division shall consider, inter-alia, fiscal space as well as cash balances availability.
- iv. Release of funds by the PAO for subsidies shall be made in accordance with the fund's requirement plans, as modified in light of Finance Division's comments.
- v. The sanction for expenditure will be issued by PAO concerned and copy will be sent to Budget Wing, Finance Division for entry in SAP System.

During financial year 2022-23 the Utility Stores Corporation of Pakistan (Pvt.) Limited drawn amount of Rs.4,997.020 million from AGPR for payment of subsidy for utilization of fund under Ramzan Relief Package. As per Ministry of Industries & Production letter No. CFO/Subsidy/2023-13 dated 07.06.2023 subsidy consumed for Special Package and Prime Minister's Free Ata Initiative for 2023 the total subsidy claimed was Rs.3,932.720 million. Audit observed as under:

- i. The actual claimed amount was less than the amount drawn from the AGPR (i.e. Rs.1,064.300 million less) without taking into consideration funds requirement plans.
- ii. The subsidy drawn for Ramzan Relief Package was utilized in PM Free Ata Initiative
- iii. The amount was paid in advance for payment of subsidies for sale of commodities.

- iv. The difference in the subsidies for the last three years indicates the unusual enhancement of subsidies provided to Utility Stores Corporation of Pakistan (Pvt.) Limited.
- v. The amount was not reconciled by the Finance Division.

Audit is of the view that the drawl of advance subsidies in excess and non-reconciliation of the same is a serious lapse on the part of management.

The management did not reply till finalization of this report.

Audit recommends inquiring the matter.

Regional Directorate of National Savings, Sukkur

12.5.5 Non recovery/write off of amount lost against dacoity and embezzlement at different centers in Sukkur Region - Rs. 6.377 million

GFR-23 states that, every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

Para 20 (1) GFR Volume-I states that, any loss of public money, departmental revenue or other property held by or on behalf of Government, caused by defalcation or otherwise, which is discovered in a treasury or other office or department; should be immediately reported by the officer concerned to his immediate official superior as well as to the Accountant General, even when such loss has been made good by the party responsible for it.

Serial No. 7 of Appendix-2 Rule 23 of GFR Volume-I states that, in all cases of fraud, embezzlement or similar offences, departmental proceedings should be instituted at the earliest possible moment against all the delinquents and conducted with strict adherence to the Rules.

The management of Regional Directorate of National Savings, Sukkur provided a statement showing an amount of Rs. 6,377,866 outstanding up to March 2023 against losses involving incidents of different nature i.e. dacoity, embezzlement, fraud and forgery that have been occurred over the years at different saving centers in Sukkur region. The summary is as under:

S#.	Nature of Incidents	Amount
1	Embezzlement, fraud, forgery etc.	3,535,224
2	Dacoity / looted amount	2,842,642
	Total	6,377,866

Audit observed that only Rs.4,150,074/- (39%) of total amount of Rs.10,527,940 was recovered through insurance claims and from culprits whereas as a sum of Rs.6,377,866/-(61%) was still outstanding as most of the proceedings of cases were pending since long. No efforts were made to expedite the proceedings and finalize the cases of loss.

Audit is of the view that non-recovery of amount lost was lapse on the part of management as most of the incidences were neither covered with insurance claims nor finalized for recovery from concerned officials/culprits or got written off from Finance Division.

The irregularity was pointed out vide OS-01 dated.27.03.2023 to justify the position, but no reply was received till the finalization of report.

Audit recommends that efforts may be made to finalize proceedings for recovery of outstanding amount otherwise the same may be got written off/regularized from Finance Division.

12.5.6 Non-recovery on account of over/wrong payment to depositors Rs.4.880 million

Rule 26 of GFR Vol-I states that it is the responsibility of every controlling officer to see that all sums due to the government are regularly and promptly assessed and realized and duly credited.

As per rule No.35 of Mahana Amadni Rules 1983, the depositor shall repay in lumpsum any payment made by mistake or overpayment received by him.

In terms of para 7.2 (I)(ii)(a) of national savings accounting procedures given in Handbook vol-II, it shall be the joint responsibility of officer/official and the centre in-charge/authorized officer, to effect recoveries from the customers.

The management of Regional Directorate of National Savings, Sukkur provided a statement showing different recoveries against depositors relating to audit period 2009-10 to 2021-22 outstanding up to March 2023.

The audit observed that an amount of Rs. 4,880,153/- was still outstanding on account of over/wrong payment made to depositors at different centers under administrative control of RDNS Sukkur.

Audit is of the view that non-recovery/adjustment of amount outstanding against depositors was lapse on the part of management and violation of above rules.

The irregularity was pointed out vide OS-03 dated.27.03.2023 to justify the position, but no reply was received till the finalization of report.

Audit recommends that outstanding amount regarding over/wrong payment may be recovered/adjusted from depositors under intimation to Audit.

12.5.7 Non-recovery on account of Excess/Irregular payment of profit on investment Rs.8.284 million

Rule 26 of GFR Vol-I states that it is the responsibility of every controlling officer to see that all sums due to the government are regularly and promptly assessed and realized and duly credited.

As per rule No.35 of Mahana Amadni Rules 1983, the depositor shall repay in lumpsum any payment made by mistake or overpayment received by him.

In terms of para 7.2 (I)(ii)(a) of national savings accounting procedures given in Handbook vol-II, it shall be the joint responsibility of officer/official and the centre in-charge/authorized officer, to effect recoveries from the customers.

The management of Regional Directorate of National Savings, Sukkur provided a statement showing different recoveries against depositors relating to audit period 2009-10 to 2021-22 outstanding up to March 2023.

Audit observed that an amount of Rs.8,284,880/- was still outstanding on account of excess/irregular payment of profit on investment made by customers at different centers under administrative control of RDNS Sukkur.

Audit is of the view that non-recovery/adjustment of amount outstanding against depositors on account of excess payment of profit was lapse on the part of management and violation of above rules.

The irregularity was pointed out vide OS-04 dated.27.03.2023 to justify the position, but no reply was received till the finalization of report.

Audit recommends that outstanding amount regarding excess payment of profit on investment may be recovered/adjusted from investors under intimation to Audit.

12.5.8 Non-recovery on account of non-deduction/less deduction of tax on profit & Zakat -Rs.9.774 million

Section 151(1)(d) of Income tax ordinance 2001, requires that where a banking company or a financial institution pays any profit on any bond, certificate, debenture, security or instrument of any kind , the payer of the profit shall deduct tax at the rate 15% of amount exceeding 5 lac (30% in case on non-active tax payer) as reduced by the amount of Zakat, if any, paid by the recipient under the Zakat and Ushr Ordinance, 1980 (XVII of 1980), at the time the profit is paid to the recipient.

As per rule No.35 of Mahana Amadni Rules 1983, the depositor shall repay in lumpsum any payment made by mistake or overpayment received by him.

In terms of para 7.2 (I)(ii)(a) of national savings accounting procedures given in Handbook vol-II, it shall be the joint responsibility of officer/official and the centre in-charge/authorized officer, to effect recoveries from the customers.

The management of Regional Directorate of National Savings, Sukkur provided a statement showing different recoveries against depositors relating to audit period 2009-10 to 2021-22 outstanding up to March 2023. Accordingly, detail of recovery on account of non-deduction/less deduction of tax on profit and zakat is as under:

S#.	Recovery of	Amount
1	WHT on Profit	8,522,835
2	Zakat	1,251,182
	Total	9,774,017

The audit observed that an amount of Rs. 9,774,017/- was still outstanding on account of non-deduction/less deduction of withholding tax on profit and zakat against customers at different centers under administrative control of RDNS Sukkur.

Audit is of the view that non-recovery/adjustment of amount outstanding against depositors on account of non-deduction/less deduction of tax on profit and zakat was lapse on the part of management and violation of above rules.

The irregularity was pointed out on 27.03.2023, but no reply was received till the finalization of report.

Audit recommends that outstanding amount regarding non-deduction/less deduction of tax on profit & zakat may be recovered/adjusted from depositors under intimation to Audit.

12.5.9 Unverified payment to nominees of deceased depositors – Rs. 15.740 million

Section 4 of Government Savings Bank Act, 1873 states that a depositor may, in such manner and form as may be prescribed by rules of the Government Savings Bank, make nomination conferring upon any person or persons the right to receive on the death of depositor the whole or any part of the deposit standing to his credit.

The Management of Regional Directorate of National Savings, Sukkur provided death case register of deceased depositors from 01.01.2017 to 20.12.2022 of NSC-III Sukkur wherein an amount of Rs.15,740,000 was paid against deceased depositors.

Audit observed that above payments were made without any entry in relevant columns of nominee, transfer and cheque no. against names of deceased depositors as shown in death case register. Furthermore, no acknowledgment was obtained from the recipient of the amount.

Audit is of the view that in the absence of record of payments made to nominees, audit could not verify the authenticity of disbursement of payments.

The irregularity was pointed out on 30.03.2023, but no reply was received till finalization of the report.

Audit recommends that matter may be enquired to verify payments made to genuine nominees of deceased depositors and acknowledgement by them in respect of all centers.

Regional Directorate National Savings, Karachi

12.5.10 Public money placed at risk Rs.18,714.423 million

CDNS Islamabad letter No. 1(17)ADMN-IV/2016-VOL-I dated 29.04.2021 states that the insurance coverage for the cash in transit through National Savings Treasury Vans is Rs. 180 million.

The management of Regional Directorate of National Savings, Karachi receives cash from the State Bank of Pakistan on a daily basis for payment to different clients during the audit period 2021-2022.

The audit observed that the cash ceiling limit of Rs. 360 million was not complied with by the management as in a number of cases cash amounting to Rs. 18,714.423 million over and above the prescribed ceiling was received by the management.

Audit is of the view that retention of cash beyond ceiling/insurance coverage is held irregular and might be at risk of loss/robbery etc. as no insurance can be claimed against the excess amount.

The matter was reported to the management vide audit memo No.01 dated 17.07.2023 and No.02 dated 14.04.2023 to justify the matter, but no reply was received till the close of the audit.

Audit recommends that either the cash ceiling limit be observed in letter and spirit or may be enhanced as per requirement.

12.5.11 Loss due to Dacoity and embezzlement not yet recovered - Rs. 47.431 million

Rule 23 of GFR Vol-I states that “every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence”.

The incidents of dacoity, embezzlement, fraud and forgery etc. had occurred in different National Saving Centers located in the Karachi Region over a period of four decades. The total amount involved in all such cases was Rs. 23,307,702/- as detailed below. Out of this, a sum of Rs. 7,367,579/- (31.61% of the principal amount) has been recovered either by the management through departmental proceedings or from the Insurance Company.

Amount involved in Embezzled, Fraud, Dacoity	Amount Recovered till June 2022	Amount Outstanding	Recovery%
23,307,702	7,367,579	15,940,123	31.61%

Similarly, during review of record and Internal Audit Report of RDNS Hyderabad for the period 2016-17, it was noted that a fraud, forgery and embezzlement of Rs.31.49 million was pointed out in a few branches of National Savings Centers.

SC Code	Name of Centre	Recoveries other than Dacoity and Embezzlement	Looted and Embezzled	Total Outstanding Recoveries
HD-03	NSC Digri	350	0	350
HD-04	NSC Gari Khata	650	0	650
HD-05	NSC Gurnagar	62429	0	62,429
HD-07	NSC Hali Road	0	32,456	32,456

HD-08	NSC Hussainabad-I	10,229	0	10,229
HD-10	NSC-II Latifabad	2,739	0	2,739
HD-13	NSC-I Mirpur Khas	69,668	37,000	105,668
HD-18	NSC Qasimabad	30,950	0	30,950
HD-20	NSC Sakrand	0	42,145	42,145
HD-23	NSC Sambara Tower	737,957	29,663,618	30,401,575
HD-26	Tando M. Khan	14,500	567,206	581,705
HD-29	NS Treasury	0	200,000	200,000
HD-30	DDO RDNS	21,013	0	21,013
Total		949,495	30,542,425	31,491,917

Audit observed that a sum of Rs. 15.940 million (61% of the principal amount) was still outstanding at the close of the fiscal year 2021-22 from National Saving Centers located in the Karachi Region. Besides, there was no evidence on record to show that the whole amount of loss had been recovered from the Insurance Company or the departmental action had been finalized against the officials involved. Further, the management could not recover the embezzled/ looted amount from RDNS Hyderabad concerned persons till the closing of audit.

Audit is of the view that non-recovery of outstanding amounts even after lapse of four decades **since** 1980 and embezzled amount from the concerned is negligence on the part of the management and loss to government.

The irregularity was reported to the management on 17.04.2023 for National saving Centers in Karachi regions and on 27.03.2023 for RDNS Hyderabad regarding recovery and details of the cases but no reply received.

Audit recommends that the amount may be recovered from the concerned persons besides fixing responsibility on the person at fault.

CHAPTER 13

HIGHER EDUCATION COMMISSION

13.1 Introduction

Higher Education Commission (HEC) was set up through an Ordinance in September, 2002 to facilitate the development of indigenous universities to be world-class centers of higher education, research and development.

To address the challenges of higher education a comprehensive strategy has been defined by HEC that identifies the core strategic aims for reform as (i) Faculty development, (ii) Improving access, (iii) Excellence in learning and research, and (iv) Relevance to national priorities. These strategic aims are supported by well-integrated cross-cutting themes for developing leadership, governance and management, enhancing quality assessment and accreditation and physical and technological infrastructure development.

ATTACHED DEPARTMENTS/ AUTONOMOUS BODIES

- All Public-Sector Universities

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY 2022-23) Rs. in million	Revenue/Receipt Audited (FY 2022-23) Rs. in million
1	Formations	27	21	90,380.549	9,723.400
2	Assignment Accounts (Excluding FAP)	37	6	34,943	
3	Authorities / Autonomous Bodies etc. under the PAO	21	0		
4	Foreign Aided Project (FAP)	2	2	1,980.852	

13.2 Comments on Budget & Accounts (Variance Analysis)

The final budget allocated to the Higher Education Commission for the financial year 2022-23 was Rs. 113,413.91 million, out of which the Division expended an amount of Rs. 113,098.89 million. Grant-wise detail of current and development expenditure is as under:

(Rs. In million)

Grant No	Type of Grant	Original Grant	Suppl Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
37	Current	66,025.00	3,960.00	0.00	69,985.00	69,750.77	-234.23	-0.34%
103	Development	44,178.91	0.00	-750.00	43,428.91	43,348.12	-80.78	-0.19%

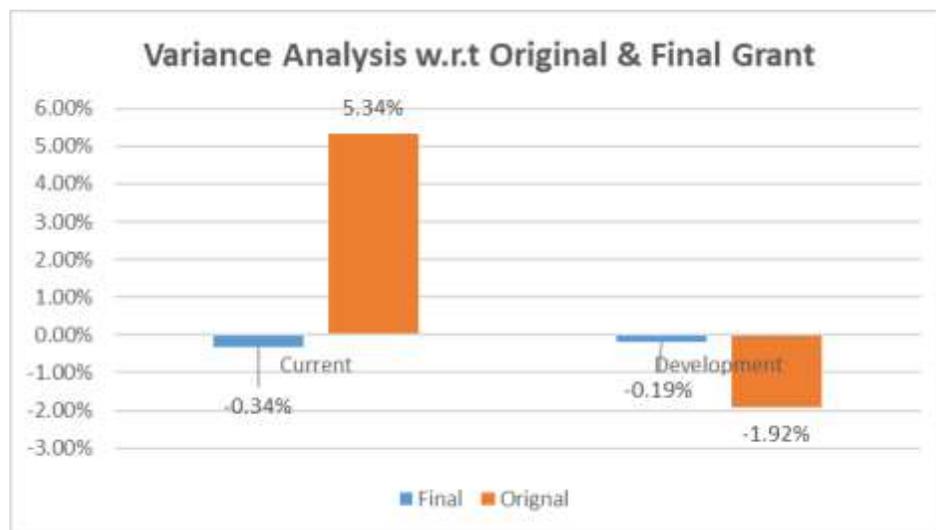
	Total	110,203.91	3,960.00	-750.00	113,413.91	113,098.89	-315.02	-0.52%
--	-------	------------	----------	---------	------------	------------	---------	--------

Audit noted that there was an overall saving of Rs.315.02 million, which was mainly due to saving in development grant.

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of General Financial Rules (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, bifurcating total allocation into current, development and charge expenditure, it was observed that, in case of development grant, there was 1.92% of saving w.r.t original grant which was finally reduced to saving of 0.19% w.r.t Final Grant and in case of current grant 5.34% excess was finally reduced to 0.34% saving.



13.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs. 3,231.579 million, were raised in this report during the current audit of **Higher Education Commission**. Summary of the audit observations classified by nature is as under:

(Rupees in million)

S. No	Classification	Amount
1	Non-production of record	-
2	Reported cases of fraud, embezzlement and Misappropriation	
3	Irregularities	

A	<i>HR/Employees related Irregularities</i>	16.25
B	<i>Procurement related irregularities</i>	98.53
C	<i>Management of account with commercial banks</i>	105.92
D	<i>Recovery</i>	1,609.10
E	<i>Internal Control</i>	455.16
4	Value for money and service delivery	-
5	Others	946.62

13.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
2010-11	5	5	4	1	80
2011-12	25	0	0	25	-
2012-13	17	0	0	17	-
2013-14	44	39	15	29	38
2014-15	6	6	5	1	83
2015-16	22	22	8	14	36
2016-17	51	10	3	48	30
2017-18	72	44	18	54	41
2018-19	60	15	3	57	-
2019-20	21	3	0	21	-
2020-21	39	0	0	39	-
2021-22	48	1	0	48	-
2022-23	49	0	0	49	-
Total	459	145	56	403	-

13.5 AUDIT PARAS

Higher Education Commission

13.5.1 Non-Utilization of funds released under IPFP/SRGP - Rs. 248.917 million

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

Rule 170-B (7) of Federal Treasury Rules states that no money shall be drawn from the assignment account unless it is required for immediate disbursement.

Rule 170-B (8) of Federal Treasury Rules states that it shall not be permissible to draw the whole amount authorized or part thereof and to place it in a separate account at the treasury or in a commercial bank.

Clause 14 of the Policy on Interim Placement of Fresh PhDs (IPFP) Phase-II states that the duration of IPFP placement will be one year from the date of joining.

The management of Higher Education Commission (HEC), Islamabad released research grants amounting to Rs 272.869 million for 344 Start Up Research Grant Program (SRGP) under IPFP during March – April 2021.

Audit observed that:

- i. Out of 344 research grants/proposals, only 26 projects involving Rs 23.952 million could be completed by June, 2022.
- ii. Research grants for 247 projects amounting to Rs 248.917 million released from Assignment Account were neither utilized nor refunded by the researchers/institutes/ universities.
- iii. Cheque Numbers and Dates of release(s) of research grants for fifty (50) projects involving the amount of Rs 43.214 million were not available with HEC.
- iv. University Name, Title of Research Proposal, Cheque Numbers, Amounts, Dates of release(s) of research grants for 21 projects/proposals were not available with HEC.

Audit is of the view that non-utilization of research grants within a one-year period and retention of unutilized research grants released from Assignment Account under IPFP/SRGP was irregular.

Audit is also of the view that funds were drawn from Assignment Account merely to park in bank accounts of researchers/institutes/universities without any immediate need.

Audit recommends retrieval of unutilized research grants and depositing same into the Federal Consolidated Fund (FCF) immediately.

13.5.2 Unauthorized drawl of funds from Assignment Account and retention thereof in bank accounts- Rs. 101.042 million

Rule 170-B (7) of Federal Treasury Rules states that no money shall be drawn from the assignment account unless it is required for immediate disbursement.

Rule 170-B (8) of Federal Treasury Rules states that it shall not be permissible to draw the whole amount authorized or part thereof and to place it in a separate account at the treasury or in a commercial bank.

The management of Higher Education Commission (HEC), Islamabad drew funds amounting to Rs 36,635.991 million from Assignment Accounts, incurred expenditure / released funds amounting to Rs 36,534.949 million and retained an amount of Rs 101.042 million during the financial year 2021-22, as per following details:

S.	Account No.	Account Description	Receipt	Expenditure / Release	Balance Amount (Rs)
1	270345-5	Recurring Grant - Promotion of Research IUAA	15,940,000,000	15,845,411,613	94,588,387
2	2167-7	PSDP Grant	20,695,991,000	20,689,537,373	6,453,627
		TOTAL	36,635,991,000	36,534,948,986	101,042,014

Audit observed that the funds drawn from Assignment Accounts which were not required for immediate disbursement were retained in the bank accounts.

Audit is of the view that drawl of funds from the Assignment Accounts without any immediate need and deposit/retention thereof in bank accounts was irregular.

Audit recommends discontinuation of irregular practices besides depositing of drawl amount into Federal Consolidated Fund (FCF) immediately.

13.5.3 Unauthorized appointment of Contingent Paid Staff in BPS - 6 to 17 - Rs. 16.248 million

In terms of Para 81(j) of General Financial Rules (Volume-I) contingent expenditure may be incurred on hiring/appointment of contingent staff (part time employees such as Sweepers, Farashes, Malis, etc.,).

The management of Higher Education Commission (HEC), Islamabad incurred an expenditure of Rs. 70.070 million on payment of salaries to three hundred and three (303) Contingent Paid Staff (CPS) appointed/engaged during the financial year 2021-22.

Audit observed that out of 303, thirty-nine (39) Contingent Paid Staff (CPS) were appointed/engaged in BPS-6 to BPS-17 and expenditure of Rs. 16.248 million was incurred on payment of their salaries.

Audit is of the view that appointment of Contingent Paid Staff (CPS) in BPS-6 to BPS-17 and incurrence of expenditure on payment of their salaries in violation of provisions of the General Financial Rules was irregular.

Audit recommends discontinuation of irregular practice, fixing responsibility for misuse of authority and appointment on regular basis, if so required.

13.5.4 Non-Recovery of scholarship amount from defaulters - Rs 1,557.547 million

Para 1 of minutes of the 30th meeting of National Scholarship Management Committee (NSMC) states that the scholars may be held for the breach of agreement. If it fails in any of the following states: 1.1: withdrawal from course of study; 1.2: non-response during the study period; 1.3: MS completed but failed to seek PHD admission; 1.6: refuse to serve the bond period after completion of approved course of study; 1.19: failed to submit the required progress reports or comprehensive reports within specific period.

Para 2 of the minutes of the 30th meeting of National Scholarship Management Committee (NSMC) states that in case of breach of agreement, the scholars shall be bound to pay the HEC a penalty at the rate of 25% beside compensate the HEC by making a refund of total expenditure amount including travel cost, etc.

The management of Higher Education Commission (HEC), Islamabad awarded foreign scholarships. Detail is as under:

S.No	Project Name	Awarded	Completed	Studying	Canceled	Absconder
1	Overseas Scholarship Phase-II	1876	1383	82	341	70
2	HRDIUESTP PH-I	1245	756	425	45	19
3	Master leading to PHD	165	56	106	3	0
4	Academic and research linkages	761	167	594	0	0
5	PH-D Scholarship program under PAK-US knowledge corridor	409	8	396	1	4
6	Overseas scholarship Phase-III	597	594	0	3	0
7	Post Doctoral Phase-III	163	95	67	1	0
8	Law Graduate program for Baluchistan	13	7	6	0	0
9	Full bright scholarship Phase-III	92	0	92	89	3

Audit observed that the following scholars were absconders/defaulters and did not return to Pakistan to serve in different universities after completion of their education as per agreement:

S. No	Project Name	Absconder	EUR	US	GBP	CAD	AUD	AIR Fare	Total (Rs.)
1	Overseas Scholarship Phase-II	70	2,770,522€ (2,770,522*300= 831,156,600	264,890 \$ (264,890*300= 79,467,000	498,279(£) (498,279*350= 174,397,650	26,845\$ 26,845* 200=5,369,000	552,574 \$ (552,574*300=165,772,200	7,784,061	1,263,946,511
2	HRDI UESTP PH-I	19	888,416€ (888,416*300= =266,524,800					2,302,051	268,826,851
3	PHD Scholarship PAK-US Knowledge corridor	5		55,949\$ (55,949*300=16,784,700				281,250	17,065,950
4	Full bright scholarship Phase-III	3	9002€ (9002*300=2,700,600		3806(£) (3806*350=1,332,100		12,251\$ (12,251*300=3,675,300		7,708,000
Grand Total									1,557,547,312

Audit is of the view that non-recovery from defaulted scholars indicates the wasteful and unstructured spending of taxpayers' money.

The management replied that HEC at the time of scholarship award, sign a deed of agreement with every scholar on agreed terms and conditions before the scholarship award. In case, the scholar violates any terms and conditions written in the agreement during course of study or refused to abide by after completion of study, HEC follow the Standard Operating Procedures (SOPs) duly approved by National Scholarships Management Committee (NSMC). Efforts are being made to recover funds/public/taxpayers' money from defaulters as early as possible which are permissible under the law.

The reply is not satisfactory as documentary evidence in support of the reply was not provided.

Audit recommends that efforts should be made to recover the public money from the defaulters or guarantors as the case may be.

13.5.5 Irregular expenditure on repair of office buildings - Rs. 39.064 million

Para 192 of GFR (Vol-I) states that when works allotted to a civil department other than the Public Works Department are executed departmentally, whether direct or through contractors, the form and procedure relating to expenditure on such works should be prescribed by departmental regulations framed in consultation with the Accountant General generally on the

principles underlying the financial and accounting rules prescribed for similar works carried out by the Public Works Department.

The management of Higher Education Commission (HEC), Islamabad incurred an expenditure of Rs. 39.064 million on repair of buildings/civil works during the financial year 2022-23, as per following details:

(Amounts in Rupees)				
S.	Electrification Plumbing and Other Infrastructure	Office Buildings R&M	Other Civil Works Construction of Building & Structure	Total
1	8,104,076	1,565,292	29,395,104	39,064,472

Audit observed that the expenditure on repair of buildings/civil works was incurred without making departmental regulations.

Audit is of the view that the expenditure incurred without framing departmental regulations was irregular.

The management replied that the expenditure was incurred by following PPRA regulations through an open competitive bidding process and framework agreements as per relevant PPRA rules. All the codal formalities were met while awarding the tender and expenditure thereof. HEC Executive Director, being the PAO of the organization, is fully authorized by HEC Commission to sanction all expenditure within budget in connection with implementation of HEC projects. Moreover, HEC is also in the process of getting approval of its departmental regulations/SOP's for civil works.

The reply is not satisfactory as HEC incurred expenditure without framing its departmental regulations/SOP for civil works and without technical approval of estimates by a competent Engineer.

Audit recommends that the management should either frame rules or get the works executed from a civil works organization/Deptt. besides regularization of the expenditure.

13.5.6 Non adjustment of advances - Rs. 84.287 million

Para 11 of GFR (Vol-I) states that each head of a department is responsible for enforcing financial order and strict economy at every step. He is responsible for observance of all relevant financial rules and regulations both by his own office and by subordinate disbursing officers.

Rule 668 of the FTR Volume-I states that advances granted under special orders of competent authority to Government officers for departmental or allied purposes may be drawn on the responsibility and receipt of the officers for whom they are sanctioned, subject to adjustment by submission of detailed accounts supported by vouchers or by refund, as may be necessary.

The management of Higher Education Commission (HEC), Islamabad paid advances amounting to Rs. 84,287,674 to its employees and universities during FY 2022-23.

Audit observed that advances were neither adjusted nor refunded till the close of the financial year.

Audit is of the view that non-adjustment of advances in violation of provisions of Federal Treasury Rules was irregular.

The management replied that the advances are paid for the recurring activities and are in process of adjustment accordingly. Out of Rs. 84.287 million advances, Rs. 36.731 million has already been adjusted, the remaining advances amounting to Rs. 47.556 million, mostly issued to HEIs are in process of adjustment. Although the expenses have already been incurred the adjustment procedure takes time. All concerned divisions/sections have been directed to submit adjustments of advances at the earliest.

The reply is not satisfactory as management did not provide complete details of adjustment of Rs. 36.731 million as claimed in the reply and remaining balance of Rs. 47.556 million is still outstanding.

Audit recommends that adjustment of outstanding amount may be made, besides providing complete detail adjusted amount.

Pakistan Study Centre, Jamshoro

13.5.7 Non-recovery of outstanding fee from the students and University of Sindh – Rs. 11.253 million

Para 26 of GFR Volume-I states that it is the duty of department Controlling Officers to see that all sums due to Government are regularly and promptly assessed, realized and duly credited in the Public Account.

Further Para 28 of GFR Vol-I “No amount due to Government should be left outstanding without sufficient reason, and where any dues appear to be irrecoverable the orders of competent authority for their adjustment must be sought”.

Pakistan Study Centre, Jamshoro provided list of students who were studying in different batches of MA and BS programs during financial year 2022-23.

Audit observed that the Centre did not recover the outstanding fees of Rs. 5.622 million from students. Similarly, in some cases the University of Sindh collected fee from the students on behalf of the Center but retained the amount in its own account. Details are as under:

(Rupees)

S. No.	Defaulter	Programs	Year of Admission	Outstanding amount
1	Students	BS-II	2022	1,526,550
2		BS-III	2021	1,962,100
3		BS-IV	2020	2,063,400
4		MA-Final	2022	70,400
5	University of Sindh	MA-merit	2022	903000
6		BS-merit		3495900
7		BS-Self		540900
8		BS-Special Self		675900
9		BS-SU Employees		14600
Total				11,252,750

Audit is of the view that non-recovery of Rs. 11.253 million in time from students and University of Sindh was a serious lapse on the part of management as the Centre was already facing an acute shortage of funds.

The irregularity was pointed out vide memo No.02 dated 06.09.2023 to justify the position, but no reply was received till the finalization of report.

Audit recommends that the outstanding fee may be recovered deposited into the Centre's account under intimation to audit.

Federal Urdu University of Arts Science and Technology , Karachi

13.5.8 Irregular expenditure of Need Based Scholarship amount – Rs. 40.321 million

Rule 12 of General Financial Rules Vol-I states that a Controlling Officer must see not only that the total expenditure is kept within the limits of the authorized appropriation but also that the fund allotted to spending units are expended in the public interest and upon objects for which the money was provided.

The management of FUUAST, Karachi received Rs. 40.321 million from HEC on account of Need Based Scholarship in the Askari Bank Account No.0861650501457.

Audit observed that the management utilized the amount of Need Based Scholarship in recurring expenditure instead of granting scholarships to needy students. Moreover, the management did not provide a record for total funds received through need-based scholarship.

Audit is of the view that utilization of funds of need-based scholarship in incurring regular expenditure is irregular.

Management was requested on 28.09.2023 but no reply was received till finalization of the report.

Audit recommends that the matter may be investigated at the highest forum against the person(s) who violated the government rules.

13.5.9 Non-adjustment/Non-recovery of advances amounting to Rs.16.281 million

Rule 668 of Federal Treasury Rules Volume-I, states that, “advances granted under special orders of the competent authority to officers/officials for departmental or allied purposes may be drawn on the responsibility and receipt of the Officers for whom they are sanctioned subject to adjustment by submission of detailed account supported by vouchers or by refund as may be necessary.”

Rule 11.8 of TA Manual states, “TA Advances should be adjusted through TA bill immediately on return to headquarters or on 30th June, whichever is earlier. A Second Advance cannot be allowed until the previous advance has been adjusted. If a Government servant has been paid an advance for a particular journey, the TA bill for that journey will not be admitted in audit unless the advance drawn for the purpose is properly adjusted”.

Rule 666 (b) of Federal Treasury Rules Volume-I, states that, “An advance must be adjusted on or before the close of the financial year.

The management of Federal Urdu University of Arts, Science and Technology Karachi granted TA/DA and Miscellaneous advances amounting to Rs. 16.281 million up to June 2023.

Audit observed that the advances were neither recovered nor adjusted from the concerned employees up to 30.06.2023.

Audit is of the view that non adjustment of TA/DA/Miscellaneous Advances since long has resulted in blockage of public funds and shows financial indiscipline in the university.

An audit memo No.01 dated 25.09.2023 was issued to the management for clarification but it was replied that the management has recovered only Rs.0.455 million leaving outstanding of Rs.15.826 million, but no evidence of recovery was shown to audit.

Audit recommends that the advances may be recovered from the concerned employees and deposited into government treasury.

13.5.10 Non-recovery of Outstanding Rent from National Bank of Pakistan – Rs. 4.879 million

Rule 26 of GFR Volume-I states that it is the duty of the departmental Controlling Officers to see that all sums due to Government are regularly and promptly assessed, realized and duly credited in the Public Account.

Rule 28 of GFR Volume-I “No amount due to Government should be left outstanding without sufficient reason, and where any dues appear to be irrecoverable the orders of competent authority for their adjustment must be sought”.

The management of FUUAST, Karachi rented out 5400 sq ft building to National bank of Pakistan @ Rs. 225 per sq ft amounting to Rs. 1,215,000.

Audit observed that the management had not recovered the rent from National Bank of Pakistan amounting to Rs. 4.879 million.

Audit is of the view that the University sustained loss of above amount due to non-recovery of outstanding rent.

An audit memo No.16 dated 28.09.2023 was issued for clarification but no reply was received till the closing of audit.

Audit recommends that the outstanding rent may be recovered from the NBP.

Shaikh Zayed Islamic Centre (SZIC), Karachi

13.5.11 Non-recovery of house rent ceiling from the unauthorized employees of SZIC & Others – Rs. 8.394 million

As per rule 25(4) of Accommodation Allocation Rules, 2002, “In case an accommodation is occupied or retained without legitimate allotment or is trespassed, the Estate Office shall charge rent at the rates given below from the occupant for the period of unauthorized occupation or retention:

(a) in case of unauthorized retention beyond legally allotted period, rent equivalent to one rental ceiling of the category of his entitlement or the category of the house under occupation, whichever is more, shall be charged for each month for the entire period of unauthorized occupation.

(b) in case of trespassing or unauthorized occupation, rent equivalent to two rental ceilings of the category of his entitlement or the category of the house occupied, whichever is more, shall be charged for each month for the entire period of unauthorized occupation.

The management of the SZIC, Karachi is maintaining 22 houses in its Residential Colony.

The audit observed that the management recovered only Rs. 1.413 million instead of Rs.9.807 million in accordance with their entitlement of house ceiling resulting in less recovery of Rs.8.394 million.

Audit further observed that House No. A-1 and No. C-1 measuring 500 sq. yards and 240 sq. yards respectively had been occupied by the officers of the non-entitled departments and rent paid by them is Rs. 84,000 (Rs.7,000 x 12) and Rs.54,000 (Rs.4500 x 12) respectively during 2022-2023 instead of charging double rental house ceiling as per entitlement or category of house, whichever is higher in disregard of above (b) rule

Six retired employees of the Centre continue to occupy the houses without the approval of competent authority. They are not even paying monthly rent in accordance with the above rule (a)

Audit is of the view that due to non-recovery from the unauthorized retired employees and others, the Centre sustained a loss of income Rs. 8.394 million and presently serving employees also could not avail the residential facility.

The management replied that notices were being issued from time to time for eviction of house to the retired staff and deduction from the retired staff had been made from the monthly pension according to the rental house ceiling as per their grades.

Audit recommends that fruitful efforts may be made to vacate government property from illegal occupants and recover the outstanding amount at the earliest.

National Skill University, Islamabad

13.5.12 Irregular appointments of ninety (90) officers/officials on regular basis and 73 officers/officials on contract basis

Establishment Division letter No. F.53/1, 2008-SP dated 16.01.2015 states the Mechanism to Ensure Merit Based Recruitment in the Ministries/ Divisions /Sub-ordinate Offices/Autonomous/Semi-Autonomous Bodies/ Corporations/ Companies /Authorities.

The initial screening of the applicants would be conducted by the centralized Screening test to be carried out by a Testing Agency which would be hired by the Administrative Ministries/ Divisions in consultation with the Establishment Division. Top 05 (five) candidates would be short listed for interview for each post to be filled through fresh recruitment,

The short-listed applicants as a result of screening test would be interviewed after verification of academic/ professional credentials and testimonial. The Departmental Selection Committee (DSC) constituted vide Rule 2(e) of the Civil Servants (Appointment, Promotion, and Transfer) Rules 1973 would adjudge the applicant on the following criteria for selection in term of %.

Test %	Interview %
70%	30%

The management of National Skill University advertised posts on 07.02.2020, 23.08.2020, 24.11.2020, 24.01.2021, 01.10.2021, 01.01.2022, 20.03.2022 and 10.05.2023 for appointments in different grades on regular and contract basis. The appointments were made by adopting 50% criteria for interview and 25% each for academic and written test.

Audit observed as under:

- i. Complete detail of candidates who applied for the posts was not available from record provided to audit.
- ii. Record reveals that few appointments in BPS-19 to BPS-21 were made directly through interview basis without conducting written tests.
- iii. Record pertaining to skill test and its results was not found available on record.
- iv. Details of candidates who applied for the posts and the list of top five candidates who were called for interview were not available on record.
- v. Complete list of shortlisted candidates for appointment from BPS-01 to BPS-18 submitted to NTS to conduct written test was not found available on record.
- vi. National Testing Service conducted the written test BPS-01 to BPS-18 but NTS report of test qualified candidates was not found available on record.

- vii. The management of NSU did not frame its statutes, rules and regulations, therefore, Government rules for appointment should have been followed.

Audit is of the view that appointments without following Establishment Division's instructions and other codal formalities were irregular.

Management did not reply.

Audit recommends that matter may be inquired to fix the responsibility for irregular appointments.

13.5.13 Non-preparation and approval of statutes from Senate, non-provision of Rules and Regulations by National Skill University and incurring of an expenditure of Rs. 946.621 million

Section 28 of the National Skill University Act, 2018 states that the Authorities and the other bodies of the University may make rules, to be published in the official Gazette consistent with this Act; statutes or regulations for any matter relating to the affairs of the University which have not been provided for by this Act, or that is not required to be regulated by Statues for Regulations, including rules for the conduct of business.

The management of NSU, Islamabad incurred an expenditure of Rs. 946,621,587 as detailed below:

(Rupees)				
S, No.	Financial Year	Expenditure from Recurring/ own source.	Expenditure from Development	Total expenditure
1	2017-18	-	6,797,042	6,797,042
2	2018-19	-	4,377,964	4,377,964
3	2019-20	3,520	27,893,931	27,897,451
4	2020-21	8,333,086	127,554,843	135,887,929
5	2021-22	27,621,642	257,326,971	284,948,613
6	2022-23	116,751,361	369,961,227	486,712,588
			Total	946,621,587

Audit observed as under:

- i. The management of NSU incurred expenditure without any approved statutes.
- ii. Management of NSU appointed several officers/officials on contract and on regular basis in the last five years and paid salaries without statutes.
- iii. Management established Muridke campus without statutes.

Audit is of the view that non preparation of statutes, rules/regulations and incurring of expenditures, making appointments and establishing other campuses was in violation of the NSU Act, 2018.

Management did not reply.

Audit recommends that responsibility may be fixed for incurring of expenditure without preparation and approval of rules and statutes from Senate.

13.5.14 Wasteful expenditure on hiring of consultant firm for development of Business Plan for National Skill University - Rs. 9.998 million

Para 10 of GFR states that every officer incurring or authorizing expenditure from public funds should be guided by high standards of financial propriety. Every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

The management of National Skill University (NSU), Islamabad signed consultancy contract agreement with Consultant (Pvt) Ltd Lahore on 15.01.2018 for development of business plan and made payment of Rs. 9,998,532. The firm submitted its final report on 05.09.2018.

Audit observed that the report was not utilized for the establishment of National Skill University, Islamabad. Therefore, expenditure on consultancy was wasteful.

Management did not reply.

Audit recommends that matter may be inquired into, and responsibility may be fixed.

Allama Iqbal Open University, Islamabad

13.5.15 Irregular appointment of ninety nine (99) employees without observing provincial/regional quota

Cabinet Secretariat Establishment Division Notification No F.53/1/2008- SP dated 22.10.2014, for recruitment in Ministries/Divisions/Attached Departments/ Subordinate Offices/ Autonomous Bodies/semi-Autonomous envisages that vacancies as per the Provincial/ Regional quota etc. shall be advertised through widely published National/Provincial/Regional newspapers.

The management of AIOU Islamabad appointed 99 employees on regular and contract basis during 2022-2023, as per following details:

S.No.	Designation	PBS	No. of employees
1	Assistant Professor	19	6
2	Deputy Controller	18	1
3	Deputy Registrar	18	1
4	Deputy Regional Director	18	1
5	Asst. Controller of Exams	17	1
6	Assistant Registrar	17	2
7	Horticulture Officer	17	1
8	Assistant Treasurer	17	1
9	Assistant Libertarian	17	1
10	Assistant Regional Director	17	3
11	Assistant Manager	17	1
12	Research Assistant	16	3
13	Technical Store Officer	16	1
14	Assistant	15	8
15	Data Entry Operator	14	5
16	Accounts Assistant	14	2
17	Transport Supervisor	13	1
18	UDC	11	14
19	Dispenser Dresser	9	1
20	LDC	9	37
21	Chowkidar	2	2
22	Sanitary Worker	2	6
	Total		99

Audit observed as under:

- i. The appointment of 99 officers/officials was made without observing Provincial/Regional/Male/ Female/Disabled Quota.
- ii. The merit list based on tests administered to applicants was not shown to audit.
- iii. Scrutiny test / exam papers were not shown to Audit to check the authenticity of marks obtained in merit list.
- iv. The primary criteria of scrutiny was not observed before taking exam/scrutiny test.
- v. The recruitment was neither made on the recommendation of the Selection Board nor with the approval of the Executive Council as required by the AIOU Act 1974.

Audit is of the view that appointment of employees without observing Provincial/Regional/Male/Female/ Disabled Quota is violation of Government rules. The appointments are irregular and unauthorized due to non-observance of the prescribed quota. The process of recruitment is doubtful and unauthentic due to the non-provision of access to the record of recruitment.

The management did not reply till finalization of the report.

Audit recommends that matter may be inquired into, and responsibility be fixed for the irregularity besides making future appointments through open competition and observing all codal formalities.

Bahria University, Islamabad

13.5.16 Irregular expenditure without calling open tender - Rs. 16.201 million

According to Rule 12(1) of Public Procurement Rules 2004, procurements over five hundred thousand Pakistani Rupees and up to the limit of three million Pakistani Rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the Authority from time to time.

Rule-10 ibid further states that any terms, specifications, standards, features, characteristics and requirements prescribing the technical or quality characteristics shall be generic in nature and shall not include reference to brand name, model number, catalogue number, name or origin of the country or similar classification.

The management of Bahira University, Islamabad executed contract agreement with M/s Islamabad Industrial & Trading Corporation, Karachi for supply, installation and commissioning of two (02) Vertical Transportation Units consisting of Hyundai's Korea-made elevators at total cost of Rs. 14,660,500 for the project titled "New Academic Block Bahira University, Islamabad". The final payment of Rs. 16,201,580 was made to the firm vide voucher No.100001-02-27 dated 06.02.2020.

Audit observed as under:

- i. The expenditure was incurred on supply, installation and commissioning of two elevators without calling open tender as required under the PPRA Rules, 2004.
- ii. Supply Order for two 1000 Kg Hyundai lifts (Chinese origin) was issued vide Para-4 of Minutes-25 for which no quotation was received. The elevators were not imported from original manufacturer i.e. M/s Hyundai South Korea.
- iii. As per the contract agreement the total cost of elevators with local installation was Rs. 15,960,580 (Rs. 14,660,580 + 1,300,000), whereas the additional payment of Rs. 241,000 was made to the supplier without any claim/invoice, which resulted in an overpayment.
- iv. No installation and commissioning report of elevators was enclosed with the final bill of the firm due to which the Audit could not verify the actual date of supply, installation and commissioning of the elevators.

Audit is of the view that the expenditure was incurred without open competition in violation of PPRA Rules, 2004 which is irregular.

The management replied that procurement of 02 Hyundai elevators was done on proprietary basis under PPRA Rule 42c(ii). A Technical Committee was formed by the Rector for purchase of lift. Quotations were called from three firms, i.e. M/s DWP Technologies Pvt Ltd which was authorized distributor of Sanyo Japan, M/s Horizon Elevator Engineers which was authorized distributor of HD-Fauji and M/s IITC Islamabad, the authorized distributor of Hyundai Elevators. After technical scrutiny by the Committee, M/s IITC Islamabad was selected as the only authorized sole / exclusive agent of Hyundai Elevators. The Technical Committee recommended Hyundai Brand because lifts of same brand are installed at different locations in BU while considering available trained staff and maintenance activities. Payment of Rs 241,000 was made to the firm after obtaining approval from the Rector.

The reply is not cogent as the University was required to float open tender without mentioning brand name of the elevators.

Audit recommends fixing of responsibility on the persons at fault besides regularization of expenditure from the Finance Division.

13.5.17 Irregular purchase of Air Conditioners without calling open tender - Rs. 4.783 million

Rule 12(1) of Public Procurement Rules,2004 states that procurements over five hundred thousand Pakistani Rupees and up to the limit of three million Pakistani Rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the Authority from time to time.

Rule-10 ibid further states that any terms, specifications, standards, features, characteristics and requirements prescribing the technical or quality characteristics shall be generic in nature and shall not include reference to brand name, model number, catalogue number, name or origin of the country or similar classification.

The management of Bahria University Islamabad incurred an expenditure of Rs. 4,783,200 on purchase of 55 wall-mounted inverter ACs for new building of Innovation and Commercialization Centre building from M/s DWP Technologies (Pvt) Ltd. The payment was made to the firm vide Voucher No.100001-09-59 dated 20.09.2019.

Audit observed that the expenditure was incurred without calling open tender as required under PPRA Rules, 2004. Thus the University was deprived of the benefit of competitive rates.

Audit is of the view that incurring expenditure on purchase of ACs without observing PPRA Rules, 2004 is irregular.

The management replied that procurement of ACs for ICCB building is in accordance with PPRA Rule 42c (ii). Gree Brand was recommended by the technical committee because of standardization and ease of subsequent maintenance as its ACs are already installed at different locations on same Purchase Order rates. Issuance of work order was on proprietary basis as M/s DWP is the exclusive agent / dealer of Gree Brand A/Cs in Pakistan.

The reply is not convincing as Rule 10 of PPRA Rules, 2004 states that any terms, specifications, standards, features, characteristics and requirements prescribing the technical or quality characteristics shall be generic in nature and shall not include reference to brand name, model number, catalogue number, name or origin of the country or similar classification. Therefore, the purchase of Gree air conditioners from authorized dealer and without calling open tender is violation of PPRA Rules, 2004.

Audit recommends fixing of responsibility on the persons at fault besides regularization of expenditure from the Finance Division.

Quaid-i-Azam University, Islamabad

13.5.18 Irregular procurement without open tender - Rs. 28.482 million

Rule 20 of Public Procurement Rules, 2004 states that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

The management of Quaid-e-Azam University (QAU), Islamabad incurred an expenditure of Rs. 28,481,767 on procurement of various items from different vendors / firms during financial year 2022-23.

Audit observed as under:

- i. Expenditure was incurred through quotations by splitting up sanctions to avoid calling of open tender(s).
- ii. No open tender was floated to get the benefit of competitive rates as required under PPRA Rules, 2004.

Audit is of the view that expenditure was incurred by splitting up of sanctions to expenditure to avoid open calling of open tender. Therefore, audit holds the expenditure as irregular.

Audit recommends discontinuation of irregular practice besides fixing of responsibility for the irregularity.

Karakoram International University, Gilgit

13.5.19 Irregular appointment of members of the Syndicate and Academic Council

Clause 19(1)(c) of KIU Order, 2008 states that three professors from diverse departments, who are not members of the Senate, (are) to be elected by the University Teachers in accordance with the procedure to be prescribed by the Senate.

Clause 19(3) of KIU Order, 2008 states that as regards the three professors described in clause 19(1)(c) the Senate may, as an alternative to elections, prescribe a procedure for proposal of a panel of names by the Representation Committee set up in the terms given in clause 23. Appointment of persons proposed by the Representation Committee may be made by the Senate on the recommendation of the Vice-Chancellor.

Clause 23 of Karakoram International University Order, 2008 states that there shall also be a Representation Committee constituted by the Senate through Statute for the recommendation of persons for appointment to the Academic Council in accordance with the provisions of clause 21(2).

The KIU provided the list of Syndicate members which included only one professor i.e. Dr. Sher Wali Khan, Professor (Tenured Faculty), KIU, Gilgit from diverse departments as member of Syndicate. Further, the KIU Senate vide Notification No.KIU-Adm-1(1)/2020/43835 dated 08.04.2021 appointed the following members of Academic Council i.e. five members representing the departments and three principles of affiliated colleges:

S# Name of Member

Five Members Representing the Departments

1. Dr. Akbar Khan, Biological Sciences
2. Dr. Sajjad Ali, Chemistry
3. Dr. Sadaruddin Qutoshi, Educational Development
4. Dr. Kifayat Ullah, Economics
5. Dr. Fazal Wahab, Physics

Three Principles of Affiliated Colleges

1. Principal, Government Degree College for Boys, Gilgit
2. Principal, Fatima Jinnah Women Degree College, Gilgit
3. Principal, Boys Degree College, Muhammad Abad, Danyore Gilgit

Audit observed that the above member of the Syndicate was appointed without recommendations of Representation Committee duly constituted by the Senate and the remaining

two Members (Professors) were yet to be appointed. Furthermore, members of the Academic Council were also appointed without recommendations of Representation Committee duly constituted by the Senate.

Audit is of the view that appointment of members of the Syndicate and Academic Council without the recommendations of Representation Committee was irregular.

The management did not reply till finalization of the report.

Audit recommends that the irregularity be regularized from the competent forum.

13.5.20 Non-recovery/adjustments of long outstanding advances - Rs. 15.623 million

Rule 668 of FTR Volume-I states that advances granted under special orders of competent authority to government officers for departmental or allied purposes may be drawn on the responsibility and receipt of the officers for whom they are sanctioned, subject to adjustment by submission of detailed accounts supported by vouchers or by refund as may be necessary.

The management of Karakorum International University (KIU), Gilgit provided a list of temporary advances amounting to Rs. 15,623,746 paid to 65 officers/officials on various occasions including research projects as per detail provided.

Audit observed as under:

- i. Reasons for the grant of temporary advances are not known to Audit.
- ii. The said officers/officials have not submitted adjustment accounts of the temporary advances of Rs. 15.623 million till July 2023.
- iii. No action or recovery was initiated against the said officers/officials by the Finance Department of KIU.

Audit is of the view that non-adjustment/recovery of advances is lapse on part of the management.

The management did not reply till finalization of the report.

Audit recommends that irregular practice be stopped forthwith besides immediate adjustment/recovery of the outstanding advances.

National University of Modern Languages Islamabad

13.5.21 Irregular expenditure on civil works without obtaining Technical Sanctions - Rs. 81.638 million

Para-56 of CPWD Code states that for each individual work proposed to be carried out, a properly detailed estimate must be prepared for the sanction of competent authority; this sanction is known as the technical sanction to the estimate to be obtained before the construction of the work is commenced. It indicates that the proposals are structurally sound and that the estimates are accurately calculated and based on adequate data. Such sanction will be accorded by the authorized officer of the Public Works Department.

The management of National University of Modern Languages, Islamabad incurred an expenditure of Rs. 81.638 million on execution of civil works and repairs of office buildings during financial year 2021-22.

Audit observed that the expenditure was incurred without obtaining Technical Sanctions by an authorized/competent engineer of Pak. PWD.

Audit is of the view that Technical Sanction can only be accorded by an authorized Engineer of the Pak PWD who has the competency to check the authenticity of the drawing designs and detailed estimates of civil work/building.

The management replied that expenditure was incurred on civil works for uplifting of university buildings and hostels giving better environment to faculty, staff and students after approval of competent authority. Furthermore, NUML University, Islamabad is an autonomous body, therefore, obtaining of technical sanction from Pak PWD is not required at this level. Technical Sanction of civil work and repair of office building has been obtained from the competent authority (Rector NUML) as per SOP's of Civil Work of University.

The reply is not convincing as the management of NUML is not empowered to grant Technical Sanction by overriding the General Financial Rules.

Audit recommends fixing of responsibility for non-obtaining of Technical Sanction from the Pak. PWD besides observing the rules in future.

Sheikh Zayed Islamic Centre, University of Punjab

13.5.22 Irregular expenditure due to non-transparent selection of visiting faculty - Rs.4.380 million

Cabinet Secretariat, Establishment Division Notification No. F.53/1/2008-SP, dated 22.10.2014 for recruitment in Ministries/Division/Attached Departments/Sub-Ordinate Officers/Autonomous Bodies, Semi-Autonomous bodies envisages that vacancies as per the provincial/Regional quota etc. shall be advertised through widely published National / Provincial /Regional newspapers.

Management of Sheikh Zayed Islamic Centre, University of Punjab, Lahore made appointments of visiting faculty for various disciplines during the financial year 2022-23. The details are given below.

Sr. No.	Name of Teacher	Date of Appointment	Date of Termination	Total Months	Total Days	Amount
1	Dr. H. A. Qayum	15-09-2022	30-06-2023	9	15	228,400
2	Habib Ur Rehman	15-09-2022	31-01-2023	4	16	42,000
3	Sohail Rafiq	15-09-2022	31-01-2023	9	15	170,800
4	Dr. H. A. Basit	15-09-2022	31-01-2023	9	15	205,600
5	Dr. Samina Sadia	15-09-2022	31-01-2023	9	15	84,000
6	Dr. Khalid Mahmood	15-09-2022	31-01-2023	9	15	124,000
7	Bilal Mustafa	15-09-2022	31-01-2023	9	15	355,800
8	M. Sohail	15-09-2022	31-01-2023	9	15	334,400
9	Tayyaba Razzaq	15-09-2022	31-01-2023	9	15	405,600
10	Dr. Asma Ali	15-09-2022	31-01-2023	9	15	426,000
11	Abdur Rehman Sajid	15-09-2022	31-01-2023	9	15	103,400
12	Maria Maqsood	15-09-2022	31-01-2023	9	15	213,600
13	Maria Ali	15-09-2022	31-01-2023	9	15	201,600
14	Syeda Fakhra Naseem	15-09-2022	31-01-2023	9	15	216,000
15	Prof. Dr. M. Abdullah	15-09-2022	31-01-2023	9	15	182,000
16	Mahnoor Saif	9/2/2023	30-06-2023	4	21	39,600
17	Dr. Razia Noor	15-09-2022	31-01-2023	9	15	324,000
18	Ms. Saima Yousaf	15-09-2022	31-01-2023	9	15	214,800
19	Sarwar Khan	9/2/2023	30-06-2023	9	15	84,000
20	Imran Malik	15-09-2022	31-01-2023	4	16	54,000
21	Dr. Mubashar Hussain	9/2/2023	30-06-2023	9	15	137,200
22	Dr. Muhammad Ijaz	15-09-2022	31-01-2023	4	16	72,000
23	Dr. Nauman Anwar	15-09-2022	31-01-2023	4	16	25,200
24	Mirza Imran	9/2/2023	30-06-2023	4	21	60,000
25	Ms. Shaheen	9/2/2023	30-06-2023	4	21	30,000
26	Ms. Rumaisa Mariam	9/2/2023	30-06-2023	4	21	45,600
		Total				4,379,600

Audit observed that:

- i. Management made appointments without advertisement of vacancies in the print media.
- ii. The requisite selection criteria, i.e. educational qualification, experience, age limit were not prepared for short listing of the candidates.
- iii. The minutes of the notified selection committee for short listing and selection of suitable candidates were not maintained.
- iv. Selection without following the requisite procedure was irregular and non-transparent.

Audit is of the view that appointment of faculty without advertisement and without following prescribed procedure was irregular and non-transparent.

The management did not reply.

Audit recommends that inquiry may be held to fix the responsibility.

CHAPTER 14

HOUSING AND WORKS DIVISION

14.1 Introduction

Following functions have been assigned to the Ministry of Housing and Works as per Rules of Business, 1973 amongst the other functions:

- i. Acquisition and development of sites, construction, furnishing and maintenance of Federal Government buildings, except those under the Defence Division.
- ii. Provision of Govt owned office accommodation and residential accommodation for officers and staff of the Federal Government.
- iii. Coordination of Civil Works Budget.
- iv. Execution of Federal Government works.
- v. Provision of Government owned office accommodation and residential accommodation for officers and staff of the Federal Government; acquisition; requisitioning and hiring of residential accommodation and payment of compensation or rent.
- vi. Land and buildings belonging to the Federation wherever situated, and revenues derived therefrom.
- vii. Administration of the Federal Government Lands and Buildings (Recovery of Possession) Ordinance, 1965.
- viii. Matters relating to the National Construction (Domestic) Limited.
- ix. Administrative control of the National Housing Authority.

ATTACHED DEPARTMENTS/ AUTONOMOUS BODIES

1. Estate Office.
2. National Housing Authority
3. Office of the Director General, Pakistan Public Works Department.

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY-2022-23) Rs. in million	Revenue / Receipt Audited (FY 2022-23) Rs. in million
1	Formations	2	1	382.477	-

2	Assignment Accounts (Excluding FAP)	-	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	-	-	-	-
4	Foreign Aided Project (FAP)	-	-	-	-

14.2 Comments on Budget & Accounts (Variance Analysis)

The final budget allocated to the Housing and Works Division for the financial year 2022-23 was Rs. 7,160.11 million, out of which the Division expended an amount of Rs.4,791.73 million. Grant-wise detail of current and development expenditure is as under:

(Rupees in million)

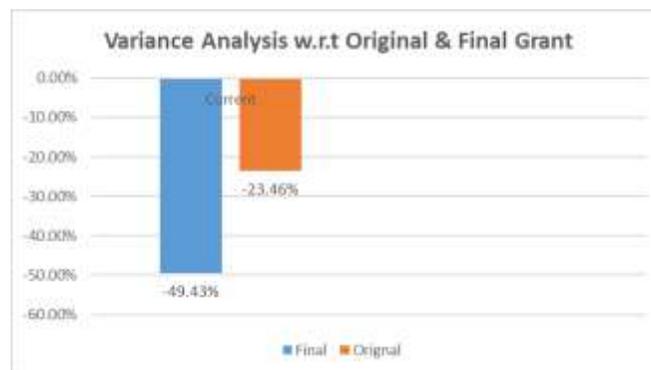
Grant No	Type of Grant	Original Grant	Suppl Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
50	Current	5,915.84	1,274.22	-29.95	7,160.11	4,791.73	-2,368.38	-49.43%

Audit noted that there was saving of Rs. 2,368.38 million, which was mainly due to saving in current grant.

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of General Financial Rules (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, bifurcating total allocation into current expenditure, it was observed that there was 23.46% of saving w.r.t original grant which was increased to 49.43% w.r.t final grant.



14.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs. 8,058.41 million, were raised in this report during the current audit of **Housing and Works Division**. Summary of the audit observations classified by nature is as under:

(Rupees in million)

S. No	Classification	Amount
1	Non-production of record	
2	Reported cases of fraud, embezzlement and Misappropriation	
3	Irregularities	
A	<i>HR/Employees related Irregularities</i>	
B	<i>Procurement related irregularities</i>	
C	<i>Management of account with commercial banks</i>	7,000.000
D	<i>Recovery</i>	108.945
E	<i>Internal Control</i>	949.468
4	Value for money and service delivery	
5	Others	

14.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
2011-12	3	3	2	1	67
2012-13	1	1	0	1	-
2015-16	1	1	0	1	-
2017-18	2	2	0	2	-
2019-20	1	1	0	1	-
2021-22	7	7	6	1	86
2022-23	12	0	0	12	-
Total	27	15	8	19	-

14.5 AUDIT PARAS

Ministry of Housing and Works

14.5.1 Unauthorized release of funds in commercial bank accounts of M/s Akhuwat Islamic Microfinance without obtaining approval of Accounting Procedure from Finance Division - Rs. 7.00 billion

Article 02(2.13) of the Agreement executed between Ministry of Housing and Works, Islamabad and M/s Akhuwat Islamic Microfinance (AIM) on 20.11.2019 for disbursement of interest free loans for Low-Cost Housing Schemes under Naya Pakistan Housing Authority Programme states that the AIM shall maintain two separate bank accounts: one for disbursement of loan and second for deposit of recovery of loan installments at head office level. However, the AIM may use its additional/subsidiaries bank accounts for disbursements and recoveries to ensure strong internal controls.

Article 02(2.14) of ibid agreement further states that the AIM shall reconcile main Recovery and Disbursement accounts (head office level) with the bank on a monthly basis within 30 days.

The Ministry of Housing and Works approached the Finance Division for vetting of the draft agreement before its finalization. In response, the Finance Division vide U.O No. 2(30) DFA(H&W)/2018-19 dated 27.07.2019, inter alia, raised observations on Article 02 (2.13, 2.14, 2.15, and 2.16) of the draft agreement as under:

Article No.	Remarks
2 (2.13)	<ul style="list-style-type: none"> Detailed accounting procedure with regards to withdrawal of public money from the Federal Consolidated Fund and payment to the beneficiaries through AIM must be approved from Finance Division. Specifically, instead of commercial bank accounts for deposit/use of public money, payments to the beneficiaries through operation of lapsable assignment account is recommended in view of constitutional and codal provisions. For receipt of repayments of loan and further revolving the amounts, a fund account under the head of account "G-Liabilities" be opened under the public account for the project.
2.14, 2.15 2.16	<ul style="list-style-type: none"> The allocated funds will be released by the Authority in the Assignment Account of AIM as per the agreed strategy whereas subsequent disbursement of amount to end-users will be in installments through crossed cheques. The amount repaid by the beneficiaries as per the Amortization Schedule will be deposited in the public account which is non-lapsable and revolved as per requirements. The trail of flow of funds from GoP to Akhuwat and onward disbursal to the eligible borrowers and backwards may be captured with a robust reporting reconciliation and monitoring regime.

The Ministry of Housing and Works released funds amounting to Rs. 7.00 billion in commercial bank accounts of M/s Akhuwat Islamic Microfinance (AIM) during financial year 2019-20 to 2020-21 as under:

S.No.	Cheque No.	Date	Amount (Rs.)
1	7663670	07.01.2020	1,000,000,000
2	7703968	05.03.2020	1,000,000,000
3	7890872	26.06.2020	1,000,000,000
4	8022609	12.02.2021	500,000,000
5	8225504	22.04.2021	1,500,000,000
6	8404497	04.06.2021	2,000,000,000
Total			7,000,000,000

The profit earned by the AIM since inception till 30.06.2023 was as under:

S.No.	Bank Account No.	Amount (Rs.)
1	20058447820155	58,621,546
2	20058447820178	22,462,301
3	50097918093052	14,974,096
4	50097918092852	5,179,930
	Total	101,237,873

Audit observed as under:

- i. The Ministry of Housing and Works released funds amounting to Rs. 7.00 billion in commercial bank accounts of M/s Akhuwat Islamic Microfinance (AIM) without obtaining approval of Accounting Procedure from Finance Division.
- ii. The insertion of articles in Agreement regarding release of funds in bank accounts of AIM was not in accordance with the advice of Finance Division. Thus, undue favour was extended to M/s Akhuwat Islamic Microfinance in this regard.
- iii. M/s Akhuwat Islamic Microfinance (AIM) did not reconcile main recovery and disbursement accounts as required under Article 02(2.14) of the Agreement as no Monthly Reconciliation Statement for the financial years 2019-20 to 2022-23 was provided to Audit.

Audit is of the view that release of funds amounting to Rs. 7.00 billion by the Ministry of Housing and Works in commercial bank accounts of M/s Akhuwat Islamic Microfinance (AIM) without obtaining approval of Accounting Procedure from the Finance Division was unauthorized.

The management replied that the funds were released with the concurrence of the Finance Division. The Service Agreement executed between M/o Housing and Works and M/s Akhuwat Islamic Microfinance (AIM) was approved by the Federal Cabinet in its meeting held on 22.10.2019. As per Article 2.13 of the Service Agreement the AIM shall maintain two separate Bank Accounts: one for disbursement of loan and second for deposit of recovery of loan installments at head office level. However, the AIM may use its additional / subsidiaries' bank accounts for disbursements and recoveries to ensure strong internal controls.

It is evident that the service agreement was approved by the Federal Cabinet in its meeting held on 22.10.2019 and it placed no restriction to release funds in Commercial Banks. As per agreement clause 2.14, the AIM shall reconcile main recovery and disbursement accounts (Head Office level) with the bank on a monthly basis within 30 days. However, all monthly reconciliation

statements of disbursement and recovery accounts are available with AIM in its Head Office. If Audit requires, the same may be demanded for further submission to Audit.

The reply is not convincing. Nothing was explained about approval of accounting procedure before the release of funds. Funds were released in bank accounts of the AIM despite observations of Finance Division.

Audit recommends holding of inquiry against the persons at fault besides getting approval of Accounting Procedure from the Finance Division.

14.5.2 Unauthorized collection of management fee by M/s Akhuwat Islamic Microfinance - Rs. 949.468 million

Rule 19(ii) of GFR (Volume-I) states that as far as possible, legal and financial advice should be taken in the drafting of contracts and before they are finally entered into.

Rule-19(v) of GFR (Volume-I) states that no contract involving an uncertain or indefinite liability or any condition of an unusual character should be entered into without the previous consent of the Ministry of Finance.

Ministry of Housing and Works, Islamabad executed an Agreement with M/s Akhuwat Islamic Microfinance (AIM) on 20.11.2019 for the disbursement of interest-free loans for Low-Cost Housing Schemes under the Naya Pakistan Housing Authority Programme. The Agreement, inter alia, contained the following articles regarding recovery of the Management Fee from the borrowers:

Article-2(2.22) states that the AIM will receive Management Fee as mentioned in clause 3.4(i) of Article-3 from borrowers along with each instalment amount over the repayment period.

Articles-3.4(i) states that management fee will be received from the borrower @ 4.49% per annum on total disbursed amount.

Prior to execution of the agreement, the Ministry approached the Finance Division for vetting of draft Agreement. In response, the Finance Division vide U.O No.2(30) DFA (H&W)/2018-19 dated 27.07.2019 raised observations on Article 02(2) and 3.4(i) of the draft Agreement as under:

Article No.	Remarks
--------------------	----------------

- 2.22
 - The spirit of the project is disbursement of interest-free micro-lending, whereas, AIM would be paid for its management fee. Payment of management fee should be through an arrangement at head office level, in the light of disbursed amount, duly verified through bank outflows.
 - AIM should not enter into any installment structure with borrowers for sake of management fee. Payment of management, at head office level, will eliminate the confusion at borrowers' level and minimize potential for exploitation.
- 3.4(i)
 - Management fee to be claimed from the authority, based on verified disbursed amount after due audit. Collection of management fees must not be made from the borrower by AIM or his sub-contractor.

M/s Akhuwat Islamic Microfinance (AIM) disbursed total loan of Rs. 1,1470,476,374 to applicants and collected Management Fee of Rs. 949,468,568 from the loanees up to 30.06.2023.

Audit observed that despite issuance of advice by Finance Division, the Ministry of Housing and Works did not make any arrangement for the collection of the Management Fee at the head office level after verification through bank and due audit. The Ministry allowed M/s Akhuwat Islamic Microfinance (AIM) to collect Management Fee of Rs. 949.468 million from the borrowers by setting aside the observation /advice of the Finance Division.

Audit is of the view that insertion of Article 2(2.22) and Articles 3.4(i) in the agreement regarding collection of management fee without the approval of the Finance Division is unauthorized.

The management replied that a meeting of Technical / Financial Advisor Committee on Low-Cost Housing under Naya Pakistan Housing Programme was held on 02.08.2019 in the Ministry of Housing and Works to discuss Finance Division's observations / recommendations on the draft Service Agreements between the Government of Pakistan and AIM. The meeting was also attended by the Joint Secretary, Finance Division. The observations/ recommendations of Finance Division were discussed. It was observed and agreed by all the participants that the recommendations were already in-built in the Operational Manual and were implicitly part of the draft agreement. With respect to Article 2.22, it was decided in the meeting that the management fee would be paid by the borrower. With respect to Article 3.4(i), it was decided in the meeting that since AIM was not demanding any Mobilization Advance, therefore, the same stood not relevant.

The reply is not convincing. The agreement was executed by setting aside the observation / advice of the Finance Division. No mechanism was devised at Ministry level for collection of the Management Fee.

Audit recommends that Ministry of Housing and Works should make necessary arrangements for collection of management fee instead of M/s Akhuwat Islamic Microfinance as per the advice of the Finance Division.

14.5.3 Non-deposit of markup into Government Account by M/s Akhuwat Islamic Microfinance - Rs. 90.362 million

Article-2(2.16) of the agreement dated 20.11.2019 executed between Ministry of Housing and Works and M/s Akhuwat Islamic Microfinance (AIM), Lahore states that the AIM shall remit (after deducting bank charges or applicable taxes, if any) the mark-up earned from the bank deposits of main Disbursement and Recovery accounts relating to the project to the Authority as and when demanded.

The Ministry of Housing and Works released funds amounting to Rs. 7.00 billion in commercial bank accounts of M/s Akhuwat Islamic Microfinance (AIM) during financial year 2019-20 to 2020-21 for Low-Cost Housing Scheme.

As per M/s Akhuwat Islamic Microfinance (AIM)'s letter No.CR-2023-00131 dated 15.07.2023 the markup of Rs. 101,237,873 was earned by the AIM on bank deposits as under:

(Rupees)		
S. No.	Bank Account No.	Profit Earned since inception till 30.06.2023
1	20058447820155	58,621,546
2	20058447820178	22,462,301
3	50097918093052	14,974,096
4	50097918092852	5,179,930
Total		101,237,873

Out of the total markup of Rs. 101,237,873 the AIM deposited an amount of Rs. 10,875,000 into Government account vide cheque No. 25502158 dated 03.12.2021. Thereafter, no further amount of markup was deposited till 30.06.2023 by the company.

Audit observed as under:

- i. M/s Akhuwat Islamic Microfinance (AIM) did not deposit the remaining markup of Rs. 90,362,872 into Government Account as per provision of the Agreement.
- ii. Ministry of Housing and Works never asked the AIM to deposit the balance amount of mark up of Rs. 90.362 million into Government account which was retained outside the Public Exchequer for period of more than one and half year.

Audit is of the view that due to non-deposit of mark up of Rs. 90.362 million, the public exchequer was deprived of its due receipt, besides violation of the provision of Agreement by M/s Akhuwat Islamic Microfinance.

The management did not reply.

Audit recommends recovery of balance amount and deposit the same into Government account.

14.5.4 Irregular allotment of Federal Lodge-II Shami Road Peshawar to Office of Provincial Election Commissioner and non-recovery of rent thereof - Rs. 18.583 million

Rule-04 of Allotment of Semi-Permanent Accommodation in Federal Government Hostel Rules, 2019 states that Accommodation (except 48-Family suits) shall be allotted on semi-permanent basis to the Federal Government employees, holding substantive posts in BS-17 and above on regular basis, for the period and within the quota as specified.

Ministry of Housing and Works Islamabad vide letter No.F.10(2)/2020-Policy dated 22.07.2020 allotted Federal Lodge-II, Shami Road, Peshawar to Office of the Provincial Election Commissioner KPK, Peshawar and executed lease agreement w.e.f. 20.07.2020 for period of three years at monthly rent of Rs. 511,000. Ministry of Housing and Works further directed the Pak. PWD to take over the items relating to bedding and other accessories and safely store at Federal Lodge-I or for disposal before handing over the possession of building to the allottee.

The allottee department was required to make payment of monthly rent for the period w.e.f. 20.06.2020 to 30.06.2023 into Government Account as under:

S.No.	Period	(Rupees)	
		Rent per month	Rent recoverable
1	20.06.2020 to 30.06.2020	511,000	187,366
2	01.07.2020 to 30.06.2023 (36 months)	511,000	18,396,000
Total			18,583,366

Audit observed as under:

- i. The allotment of Federal Lodge-II, Shami Road, Peshawar to Office of Provincial Election Commissioner for office accommodation was violation of Allotment of Semi-Permanent Accommodation in Federal Government Hostel Rules, 2019.
- ii. Office of the Provincial Election Commissioner did not deposit the rent of the said building amounting to Rs. 18.538 million.

- iii. The whereabouts of items taken over from Federal Lodge-II by Pak. PWD was not known to Audit.
- iv. Handing over / taking over reports signed by the Pak. PWD and representative of Office of Provincial Election Commissioner, KPK Peshawar were not available in the Ministry. Therefore, Audit could not verify actual date of possession of the building by the allottee organization.

Audit is of the view that the allotment of Federal Lodge-II was made in violation of the above quoted rules. Due to non-recovery of outstanding rent the public exchequer was deprived of its due receipt.

The management did not reply.

Audit recommends recovery of outstanding rent besides taking appropriate action against the people responsible for the lapses.

CHAPTER 15

KASHMIR AFFAIRS AND GILGIT BALTISTAN DIVISION

15.1 Introduction

As per Schedule II [Rule 3 (3)] Distribution of Business among the Divisions read with Schedule III [rule 4(4)] Rules of Business 1973 (As amended up to 1st December, 2021) following main business have been assigned to the Division amongst the other functions.

1. Policy, Planning and Development for Gilgit-Baltistan.
2. Co-ordination with the Government of Gilgit-Baltistan and Gilgit-Baltistan Council.
3. Co-ordination with the Azad Government of the State of Jammu and Kashmir and the AJ&K Council.
4. Matters relating to the Settlement of Kashmir dispute, other than those falling within the purview of the Foreign Affairs Division.
5. Administration of Jammu and Kashmir State Property in Pakistan.
6. Processing of development schemes reflected in the PSDP of M/o Kashmir Affairs and Gilgit-Baltistan at the level of CDWP and ECNEC.
7. Co-ordination between the Federal Government Organizations and the Government of Gilgit-Baltistan and the Gilgit-Baltistan Council.
8. Mainstreaming population factor in development planning process, in Azad Jammu and Kashmir and Gilgit-Baltistan.
9. Management and distribution of Zakat and Ushr in Azad Jammu and Kashmir and Gilgit-Baltistan and the related and ancillary matters including distribution setup and monitoring and auditing thereof.

ATTACHED DEPARTMENTS / AUTONOMOUS BODIES

- i. Administrator Jammu and Kashmir state properties Lahore.
- ii. Gilgit Baltistan Council
- iii. AJK Council

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY-2022-23) Rs. in million	Revenue / Receipt Audited (FY 2022-23) Rs. in million
---------	-------------	-----------	---------	---	---

1	Formations	3	2	178.319	
2	Assignment Accounts (Excluding FAP)	-	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	-	-	-	-
4	Foreign Aided Project (FAP)	-	-	-	-

15.2 Comments on Budget & Accounts (Variance Analysis)

Final budget allocated to the Kashmir Affairs and Gilgit Baltistan Division for the financial year 2022-23 was Rs. 1,267.27 million, out of which the Division expended an amount of Rs.1,259.87 million. Grant-wise detail of current and development expenditure is as under:

(Rs. in million)

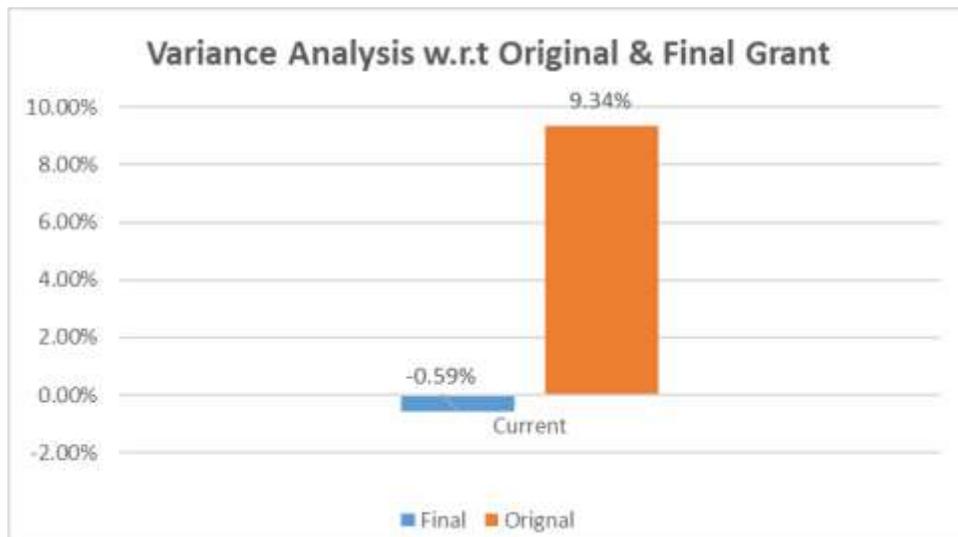
Grant No	Type of Grant	Original Grant	Suppl Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
63	Current	1,142.16	147.91	-22.80	1,267.27	1,259.87	-7.40	-0.59%

The audit noted that there was an overall saving of Rs.7.40 million.

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of General Financial Rules (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, it was observed that, in the case of current grant, there was 9.34% excess w.r.t original grant which was finally become 0.59% saving w.r.t final grant.



15.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs. 105.59 million, were raised in this report during the current audit of Kashmir Affairs and Gilgit Baltistan Division. Summary of the audit observations classified by nature is as under:

(Rupees in million)

S. No	Classification	Amount
1	Non-production of record	
2	Reported cases of fraud, embezzlement and Misappropriation	
3	Irregularities	
A	<i>HR/Employees related Irregularities</i>	
B	<i>Procurement related irregularities</i>	
C	<i>Management of account with commercial banks</i>	6.946
D	<i>Recovery</i>	35.637
E	<i>Internal Control</i>	48.049
4	Value for money and service delivery	
5	Others	14.959

15.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
2011-12	4	4	2	2	50
2014-15	1	0	0	1	-
2016-17	5	0	0	5	-
2018-19	9	0	0	9	-
2019-20	10	0	0	10	-
2022-23	1	0	0	1	-

Total	30	4	2	28	-
-------	----	---	---	----	---

15.5 AUDIT PARAS

Ministry of Kashmir Affairs & Gilgit-Baltistan

15.5.1 Irregular maintenance of Special Purpose Funds - Rs. 6.946 million

Section 32(1) of Public Finance Management Act, 2019 states that if monies have been appropriated by the National Assembly for a fund established under any law or with the approval of the Federal Government, the Finance Division shall notify rules or regulations and issue directives for the management and control of such a fund. Any statutory instrument shall-

- i. State the purposes for which the special fund has been established.
- ii. Identify the principal accounting officer responsible for its operations; and
- iii. Specify that the cash balances of such funds shall form part of the Public Account of the Federation.

Section 32(2) of Public Finance Management Act, 2019 states that where the Federal Government is satisfied that either:

- i. The purposes for which any special fund was established have been fully served; or
- ii. It is in the public interest to wind up a special fund, it shall notify dissolution of the said special fund and any credit balances in such fund shall be transferred to the Federal Consolidated Fund. An evaluation report and regulation of such funds shall be notified by the Finance Division.

The management of Ministry of KA&GB is maintaining following funds:

- i. Prime Minister's Welfare Fund for grant of stipends to the students from State of Jammu and Kashmir under NBP Account No. 3001108033; an amount of Rs 6,946,187 was disbursed during 2021-22.
- ii. The Prime Minister's Welfare Fund for J & Kashmir Refugees through NBP under Account No. 4001131873; an amount of Rs 300,000 was disbursed during 2021-22.

Audit observed that rules and regulations for the management and control of Funds were not approved / notified by the Finance Division.

Audit also observed that no record was available regarding creation of these Funds before promulgation of PFM Act, 2019.

Audit is of the view that maintenance of Funds without approval of rules and in the absence of record relating to approval/creation thereof was irregular.

The management replied that in the compliance of the O.M No. WR-4(2)/83 dated 08.08.1984, the Bank account titled ‘Prime Minister’s Welfare Fund’ at NBP, ‘S’ Block, Pak Secretariat, Islamabad was opened on 30.08.1992 for granting the stipends to the students of AJ&K & Refugees completing all the codal formalities. After the lapse of 30 years the record is not available because the record falls in ‘C’ Category of record, under which the record is maintained only for 03 to 09 years vide retention schedule of the Secretariat Instructions. The matter will be taken up with the Finance Division in the light of Section 32 of PFM Act, 2019.

The reply is not relevant as rules / regulations governing the funds do not fall in C category of record. The fund is being operated without approved rules / regulations which is an irregularity.

Audit recommends that rules and regulations for the management and control of these Funds be framed and approved from Finance Division.

Special Audit of Jammu and Kashmir States Property, Lahore

15.5.2 Illegal construction of residential society ‘Jammu and Kashmir Garden’

Rule 3B (2) of Jammu & Kashmir (Administration of Property) Rules, 1961 states that if the tenant desires to change the purpose of tenancy due to change in category or nature of land because of urbanization or development and to use the agriculture land or residential properties for residential or commercial purposes and to make construction thereon accordingly he shall apply to the Administrator.

Rule 3B(3) of Jammu & Kashmir (Administration of Property) Rules, 1961 states that on application under sub-rule (2) the Administrator may grant the permission subject to the following conditions, namely:- a) In case of change of use from agricultural to commercial due to urbanization, a committee comprising of the Administrator, Administrative Officer (Admin) and Patwari of the Office of the Administrator shall determine the magnitude of the area that has to be converted with the approval of the Management Committee of the J&K State Property. Provided that property up to a maximum of one kanal may be allowed to be used for commercial purpose and the rest of holding should be surrendered to the department

The J&K State Property have 2325 Acres land situated at villages of Sultan-Pura and Rehman-Pura, Jalo, Lahore. Land measuring 156 Kanal under Khata No. 16 and 63 situated at village Rehmanpura, Lahore. The land was under the tenancy of Mst. Zahida Begum and Mr. Ali Hassan & Humayun Jahangir.

Audit observed as under:

- i. An illegal society namely 'Awan Garden' was established at Khasra No. (509, 661, 665, 659, 660, 662, 666, 667, 511, 512, 513 and 508) 10.01.2019.
- ii. As per Note of Deputy Secretary, Mst Shumail (Zahida Begum) and others had given their consent and commitment on 10.05.2019 during the hearing of the case by the Rent Enhancement committee to restore the land to its original position within 4 weeks, and that the land was only used for agriculture purpose without changing the status of the land.
- iii. As per affidavit submitted by Mst Zahida Begum she had sold the land to Mr. Waseem Ahmed Khan and received the amount.
- iv. The land measuring 100 Kanal was transferred in the name of Mr. Waseem Ahmed on 22.07.2017 and 56 Kanal 8 Marla to Mr. Muhammad Shafiq without changing the status of land as agricultural land, as per commitment of the original lessees.
- v. The new lessees, i.e. Mr. Waseem Ahmed and Mr. Muhammad Shafiq applied for change of status of the land as almost 100 Kanal land was already developed as a housing scheme due to which the management changed the status of the land and changed the name of the society from 'Awan Garden' to 'Jammu and Kashmir Garden'.
- vi. On new agreements, official stamp of 'Jammu Kashmir Garden' was affixed dated 11.02.2021.

Audit is of the view that giving legal status to an illegal housing society without the approval of the Management Committee was unauthorized.

The management replies that land measuring 156 kanal bearing khasra Nos. 508 to 513, 600, 661, 662, 666 to 667 situated at Village Rehmanpura was under tenancy of Mst. Zahida Begum, Ali Hassan and Humayun Jahangir @ Rs. 120/- per/acre/annum. On receipt of information regarding unauthorized construction of houses by the illegal occupant in the name of Awan Garden immediate action was taken by demolishing the construction with the help of local administration in January, 2019. However, an illegal occupant namely Imran Mir obtained status quo from the court of law. It may also be noted that the illegal occupant filed four cases against the department on this issue in different courts of law. The legal branch of this office had got the status quo vacated from the concerned court and the department is still vigorously pursuing the case related to the said property.

Later on, tenancy of above land was changed in favor of. M/s Waseem Ahmad Khan & Muhammad Shafique w.e.f. 01.07.2019 @ Rs. 7,000/- per/acre/annum vide agreement dated 22-

07-2019, resulting in an increase in the Government revenue from Rs.2,400 to Rs.137,244/- per annum on restoring to its original status, i.e. agricultural land, besides depositing of transfer fee amounting to Rs.50,000/- Later, on the request of the tenants the status of the land measuring 100-kanals was changed from Agriculture to Residential @ Rs.56,000/- per acre/annum amounting to Rs.700,000/- and rest of 56-Kanal remains on agriculture status.

During DAC meeting held on 12.06.2023 and 21.06.2023 it was informed that a fact-finding inquiry had been conducted by the Ministry which has established that change of land use and consequent contracts were without any lawful authority and were therefore without any legal effect. The inquiry report therefore, recommended criminal and administrative proceedings. The DAC recommended that the fact-finding inquiry report may also be shared with the Audit.

The DAC further recommended that the illegal residential units or the so-called housing society namely Jammu & Kashmir Garden may be demolished along with cancellation of lease agreements. It was also recommended that criminal and departmental proceedings may be taken to their logical end within the next two months. The DAC recommended that subject Para may be placed before the PAC for final decision.

Audit recommends that the decision of the DAC may be implemented.

15.5.3 Illegal sale of property of four (04) Kanal at Sultanpura

Rule 3B (2) of Jammu & Kashmir (Administration of Property) Rules, 1961 states that if the tenant desires to change the purpose of tenancy due to change in category or nature of land because of urbanization or development and to use the agricultural land or residential properties for residential or commercial purposes and to make construction thereon accordingly he shall apply to the Administrator.

Rule 3B(3) of Jammu & Kashmir (Administration of Property) Rules, 1961 states that on application under sub-rule (2) the Administrator may grant the permission subject to the following conditions, namely:- a) In case of change of use from agricultural to commercial due to urbanization, a committee comprising of the Administrator, Administrative Officer (Admin) and Patwari of the Office of the Administrator shall determine the magnitude of the area that has to be converted with the approval of the Management Committee of the J&K State Property.

Provided that such property shall be up to a maximum of one Kanal may be allowed to be used for commercial purpose and the rest of holding should be surrendered to the department.

The Administrator, J&K State Property awarded tenancy of land situated in Khasra No. 2-min, 3-min and 17 mint mouza Sultanpura, Lahore to M/s Mian Imtiaz Ali & Mian Zaheer-ud-din Babar on 23.08.2001 as per following details:

- i. Kanal 12 Marla (Commercial) @ Rs. 1,800 per Kanal per month
- ii. Kanal 18 Marla (Residential) @ Rs. 400 per Kanal per Annum

Audit observed as under:

- i. Out of total land 4 Kanals were sold by Mr. Mian Imtiaz Ali (one of the owners) @ Rs. 400,000 to Mr. Rashid Ali on 15.08.2008.
- ii. The lease was transferred to Mr. Rashid Ali without any permission from the other owner, i.e. Mian Zaheer-din Babar. As per the statement of rent collector Mian Zaheer-ud-Babar disowned the property but in the original file there is no proof of this statement.
- iii. Mr. Rashid Ali purchased the remaining land from different persons and total land was transferred in the name of Mr. Rashid Ali by the Administrator, J&K State Property.

Audit is of the view that original lessee sold the land illegally and the management transferred the land in the name of new tenant illegally without the approval of the Management Committee.

The management replied that M/s Mian Imtiaz Ahmed and Zaheer-ud-Din Babar submitted an application on 15.08.2001 and stated that an area of 5-Kanal and 10-Marla of government land was under the occupation of encroachers. They requested that the said land may be allotted to them for rent and they will get the land vacated from the illegal occupants.

The Administrator considered their application and allotted an area measuring 3-Kanal and 18-Marla on rent @ Rs.1800/- per kanal per annum. Now the department is receiving income from this land @ Rs. 333,475/- per annum. It is worth mentioning that Government of Pakistan had imposed complete ban on sale of J&K State properties since 1986.

The DAC held on 12.06.2023 and 21.06.2023 recommended the management to cancel tenancy and ensure fresh leasing on the basis of competitive bidding. The DAC also recommended departmental proceedings against the delinquents.

Audit recommends that the decision of the DAC may be implemented.

15.5.4 Illegal construction on agricultural land Property No. 109

Rule 3B (2) of Jammu & Kashmir (Administration of Property) Rules, 1961 states that if the tenant desires to change the purpose of tenancy due to change in category or nature of land because of urbanization or development and to use the agricultural land or residential properties

for residential or commercial purposes and to make construction thereon accordingly he shall apply to the Administrator.

Rule 3B(3) of Jammu & Kashmir (Administration of Property) Rules, 1961 states that on application under sub-rule (2) the Administrator may grant the permission subject to the following conditions, namely:- a) In case of change of use from agricultural to commercial due to urbanization, a committee comprising of the Administrator, Administrative Officer (Admin) and Patwari of the Office of the Administrator shall determine the magnitude of the area that has to be converted with the approval of the Management Committee of the J&K State Property.

Provided that such property shall be up to a maximum of one kanal may be allowed to be used for commercial purpose and the rest of holding should be surrendered to the department

Administrator vide Notice dated 27.11.2020 states that Mr. Mian Abbas was making illegal construction on agricultural land of this office land situated at mouza Rehmanpura, Lahore.

On 05.02.2021 Mr. Abbas Ali admitted that he had started construction of the boundary wall and House at Property No. 109 and requested to change the status from agricultural to residential purpose.

The management entered into agreement dated 30.03.2021 with Mr. Mian Abbas with the condition for use of land only for residential purpose and to allow raising of superstructure on the land in form of residential units, fix and realize the rent thereof, and also transfer the lease-hold rights in accordance with the procedure.

Audit observed as under:

- i. Mr. Mian Abbas Ali started construction of house on agriculture land but instead of cancellation of lease and further lease through open competition the management changed the status of the agricultural land to favor Mr. Mian Abbas in violation of rules.
- ii. On 25.08.2021 the change of status from agriculture to residential was cancelled but the property was further divided into 18 units which were transferred in the name of new tenants by the Administrator before 25.08.2021 and 6 units were transferred after 25.08.2021.

Audit is of the view that change of status of property by Administrator without the approval of the Management Committee was unauthorized.

The management replied that Administrator J&K State Property was authorized to change the status of property from agricultural to residential as per rule 3B (2) and 3B (3) of J & K

Administration of Property Rules, 1961. The matter of changing the status of the said land is pending with the Joint Secretary, KA & GB for a final decision.

The DAC held on 12.06.2023 and 21.06.2023 recommended early completion of the appeal process. The DAC also recommended reversal of all transfers after the cancellation. The DAC further recommended action against the persons responsible for transfer of property after the cancellation.

Audit recommends that inquiry may be held to fix the responsibility.

15.5.5 Illegal sale of property No.65, Sultan-Pura

Rule 3B (2) of Jammu & Kashmir (Administration of Property) Rules, 1961 states that if the tenant desires to change the purpose of tenancy due to change in category or nature of land because of urbanization or development and to use the agricultural land or residential properties for residential or commercial purposes and to make construction thereon accordingly he shall apply to the Administrator.

Rule 3B(3) of Jammu & Kashmir (Administration of Property) Rules, 1961 states that on application under sub-rule (2) the Administrator may grant the permission subject to the following conditions, namely:- a) In case of change of use from agricultural to commercial due to urbanization, a committee comprising of the Administrator, Administrative Officer (Admin) and Patwari of the Office of the Administrator shall determine the magnitude of the area that has to be converted with the approval of the Management Committee of the J&K State Property.

Provided that such property shall be up to a maximum of one kanal may be allowed to be used for commercial purpose and the rest of holding should be surrendered to the department.

Property No 65 (8 Marla commercial) was allotted to Mr. Mia Imtiaz Ali in which he sold shop No 21 on 3.2.2006 to Mr. Kismat Zada at amount Rs. 90 per Marla and development charges Rs. 100,000; Shop Nos. 25 and 26 dated 30.4.2006 to Mr. Muhammad Ramzan at amount Rs. 200 per Marla and development charges Rs. 200,000; and on 06.04.2006 shop No 24 to Mr. Abid Tanveer at Rs. 90 per marla and development charges Rs. 140,000 with all rights of further construction. Mr. Abid Tanveer on 07.02.2008 again sold shop No 24 to Mr. Shahbaz Ahmad at Rs. 240,000.

Mr. Muhammad Ramzan on 10.9.14 sold shop no 25 and 26 to Mr. Muhammad Shafiq-ur-Rehman at Rs. 350,000 each; Mr. Muhammad Shafiq-ur-Rehman on 5.12.2015 further sold the same shops to Mr. Sayeed Ahmed Rs. 700,000 each. Mr. Muhammad Ramzan dated 18.3.2017 sold shop to Mr. Usman Butt at Rs.700,000 with all rights of use and further construction.'

The audit observed that property was divided into 13 shops/units and sold at market value without approval from lessor i.e. M/s Jammu and Kashmir State Properties, Lahore in violation of rules and agreement and without approval from the Management Committee.

Audit is of the view that division of property and further selling at market rate and payment of nominal amount of rent to Jammu and Kashmir State Properties, Lahore put significant loss to public exchequer.

Audit is also of the view that instead of agreements with new tenants the lease with the original lessee should be canceled as provided in the agreement as the lessee cannot sell the property to anyone.

The management replied that M/S Mian Imtiaz Ahmed and Zaheer-ud-Din Babar submitted an application on 15.08.2001 and stated that an area of 5-Kanal and 10-Marla of government land was under the occupation of encroachers. They requested that the said land may be allotted to them for rent and they will get the land vacated from the illegal occupants.

The Administrator considered their application and allotted an area measuring 3-Kanal and 18-Marla on rent @ Rs. 1800/- per kanal per annum. Now the department is receiving income from this land @ Rs. 333,475/- per annum. Zaheer-ud-Din Babar and Mian Imtiaz Ahmed constructed the shops from their own pocket and rented them out to the different persons receiving the cost of structure. After the death of above tenant, sitting tenants of shops requested the department that they were willing to pay the rent to the department on the condition that tenancy of shops may be transferred to them.

The DAC held on 12.06.2023 and 21.06.2023 recommended cancellation of the tenancy and holding of inquiry for fixing the responsibility.

Audit recommends that matter may be inquired, and responsibility may be fixed.

15.5.6 Illegal award of tenancy and further transfer of property No. 104

Rule 3B (2) of Jammu & Kashmir (Administration of Property) Rules, 1961 states that if the tenant desires to change the purpose of tenancy due to change in category or nature of land because of urbanization or development and to use the agricultural land or residential properties for residential or commercial purposes and to make construction thereon accordingly he shall apply to the Administrator.

Rule 3B(3) of Jammu & Kashmir (Administration of Property) Rules, 1961 states that on application under sub-rule (2) the Administrator may grant the permission subject to the following

conditions, namely:- a) In case of change of use from agricultural to commercial due to urbanization, a committee comprising of the Administrator, Administrative Officer (Admin) and Patwari of the Office of the Administrator shall determine the magnitude of the area that has to be converted with the approval of the Management Committee of the J&K State Property.

Provided that such property shall be up to a maximum of one kanal may be allowed to be used for commercial purpose and the rest of holding should be surrendered to the department.

On 27.11.2020, the Administrator served notice to Mr. Zaheer Khan S/o Faqir Muhammad Khan that he had illegally occupied the agricultural land measuring 21 Kanal 9 Marla situated at Mouza Sultanpura, Lahore. On 19.11.2020, Mr. Zaheer Khan applied for allotment of 21 Kanal 9 Marla as he had the possession of the said land. On 14.12.2020 Patwari of the Area reported that the land is vacant and nobody had physical possession of the land. On 08.01.2021, the land was leased to Mr. Zaheer Khan for residential purposes only as per orders of the Administrator.

The management entered into agreement dated 19.01.2021 that land of 17 Kanal was allotted for Residential/Commercial purpose and allowed Mr. Zaheer Khan to construct residential/commercial units on the department land and fix and realize the rent, and also transfer the lease-hold rights in accordance with the procedure. On 28.06.2021, Mr. Zaheer Khan applied for change of status of 12 Marlas from residential to Commercial. Rent Collector submitted the proposal for change of residential land to commercial land on which the Rent Inspector objected that: 'How does the law of the department allow in this regard to make residential land to commercial?' but the Administrator approved the proposal of rent collector on 09.07.2021.

Audit observed as under:

- i. The land should be allotted on the basis of an open auction as Mr. Zaheer Khan was not in possession of the land at the time of allotment as per reports and order of the Administrator.
- ii. The tenant sold almost 16 Kanal to 10 different persons and the management changed the tenancy in the name of new lessees illegally.
- iii. The land was allotted for residential purpose only as per orders of the Administrator but at the time of agreement commercial purpose was also included illegally.
- iv. After observing the mistake in the agreement, the management again entered into two new agreements with Mr. Zaheer Khan, one for 17 Kanal (Residential) and 12 Marla (Commercial) on 11.03.2022 and 10.03.2022, respectively.

Audit is of the view that allotment of land and change of status without approval of the Management Committee and further transfer was illegal and without any law.

Audit is also of the view that lessee was given undue favor at the cost of the government.

The management replied that the land measuring 17 kanal situated at Sultanpura, Lahore, was lying vacant. Irrigation Department, Government of Punjab and Anti-Narcotics Force time and again tried to illegally occupy the above land. Furthermore, there was also a dispute regarding ownership of subject land between the Irrigation Department, Govt. of Punjab and J&K State Property.

In order to safeguard the valuable property of the government from illegal encroachers, it was leased out to Mr. Zaheer Khan on his own request and in the best interest of the department. Furthermore, the Irrigation department filed an appeal before the Commissioner Lahore for ownership of land which was contested by the department, and it was decided in favor of J&K State Property.

On 08.01.2021, on the request of the tenant, the status of the above land changed from agricultural to residential as per the J&K State Property Rules 1961. The department entered into agreement with Mr. Zaheer Khan and allotted him an area measuring 17 Kanal on rent for residential purpose @ Rs.600/- per Marla per annum which comes to Rs.204,000/- per annum.

On 28.06.2021, Mr. Zaheer Khan applied for change of status of 12 Marlas from residential to commercial and agreed to pay the rent at commercial rate of Rs.1,094/- per Marla per annum, which was accepted.

The land was rented out in line with Rule 3B (2) and 3B (3) in the interest of the department for raising its income from the piece of land which was lying vacant and to protect Government land from illegal occupation.

The DAC held on 12.06.2023 and 21.06.2023 recommended that documentary evidence for legal transfer of tenancy as per rules may be shared with the Audit.

Audit recommends that inquiry may be held to fix the responsibility.

15.5.7 Illegal construction on agricultural land Property No. 111

Rule 3B (2) of Jammu & Kashmir (Administration of Property) Rules, 1961 states that if the tenant desires to change the purpose of tenancy due to change in category or nature of land because of urbanization or development and to use the agricultural land or residential properties for residential or commercial purposes and to make construction thereon accordingly he shall apply to the Administrator.

Rule 3B(3) of Jammu & Kashmir (Administration of Property) Rules, 1961 states that on application under sub-rule (2) the Administrator may grant the permission subject to the following conditions, namely:- a) In case of change of use from agricultural to commercial due to urbanization, a committee comprising of the Administrator, Administrative Officer (Admin) and Patwari of the Office of the Administrator shall determine the magnitude of the area that has to be converted with the approval of the Management Committee of the J&K State Property.

Provided that such property shall be up to a maximum of one kanal may be allowed to be used for commercial purpose and the rest of holding should be surrendered to the department.

Administrator vide Notice dated 27.11.2020 states that Mr. Nazar Iqbal Bawa was making illegal construction of the agricultural land of this office land situated at Mouza Sultanpura, Lahore.

On 22.03.2021 Mr. Nazar Iqbal admitted that he had started construction of plots at Property No. 111 and requested to change the status from agriculture to Residential purpose and requested to transfer the Khata 34 Kanal 11 Marla in the name of Nazar Iqbal, 3 Kanal 10 Marla in the name of Liaqat Ali and 4 Kanal in the name of Tasleem Iqbal. The Administrator, J&K on 08.04.2021 approved the request of Mr. Nazar Iqbal.

The management entered into agreements dated 08.04.2021 with all three persons with the condition for use of land only for residential purpose and allow to raise superstructure on the land in the form of residential units, fix and realize the rent thereof, and also transfer the lease-hold rights in the accordance with the procedure.

Audit observed that Mr. Nazar Iqbal started construction of plots illegally on agricultural land but instead of cancellation of lease and further lease through open competition, the management changed the status of the agricultural land in favor Mr. Nazar Iqbal in violation of rules and without approval of the Management Committee.

Audit also observed that as per 'khata register' of J&K State Property the land is still being used as agricultural land.

The management replied that property No. 111 is in the tenancy of Mr. Nazar Iqbal Bawa who sought permission for construction of superstructure and admitted raising the rent to Rs. 259,125/- instead of Rs. 519/- per annum. The tenancy of 34-Kanal 11-Marla was transferred to Nazar Iqbal, 3-Kanal 10-Marla to Liaqat Ali and 4-Kanal to Tasleem Iqbal @ 7,000/- per Kanal per annum in the light of Rule 3B (2) and 3B(3). The tenancy has been transferred in the interest of the department.

The DAC held on 12.06.2023 and 21.06.2023 recommended to cancel the tenancy as per observation of audit and inquiry be conducted to fix the responsibility.

Audit recommends that inquiry may be held to fix the responsibility.

15.5.8 Non-recovery of arrears from defaulters at Village Purab – Rs. 27.012 million

Section 5(c) of J&K State Property Ordinance, 1961 states that any sum due, whether as rent or otherwise, in respect of any of the aforesaid properties, if not paid within the time specified by the Administrator, shall be recoverable as arrears of land revenue.

The Administrator, J&K State Property rented out agriculture land of village Purab to 60 tenants during 2016.

Audit observed that an amount of Rs. 27.012 million was not recovered from 41 tenants.

Audit is of the view that non-recovery of rent amount was irregular and deprived the department of the benefit of its due receipts.

The management replied that the matter was referred to District Collector Sheikhpura for recovery of arrears of 'lagan' amounting to Rs. 27.012 million from the contractors of Village Purab, Tehsil Muridke, District Sheikhpura. District Collector Sheikhpura has repeatedly been requested for the recovery of arrears of lagan, but no positive response has been received so far.

The DAC held on 12.06.2023 and 21.06.2023 recommended that efforts may be made to recover the outstanding amount as per law. The audit also requested to share the efforts made by the department for recovery of arrears.

Audit recommends that arrears should be recovered and deposited into the government account.

15.5.9 Illegal encroachment on agricultural land at Sultanpura and Rehmanpura

Rule 3(d) of Jammu & Kashmir (Administration of Property) Rules, 1961 states that the Administrator may, for any purpose connected with, or incidental to, the administration and management of the property;- (a) Enter into any transaction or agreement; (b) Execute any contract or document or other instrument; (c) Receive and give full and effectual discharge for or in respect of any property or any money received or liabilities incurred; (d) Take necessary steps, having regard to the provisions of Sub-Section- (3) of Section-3, for taking possession and assuming

control of any property, for summarily evicting any person in unauthorized construction on any property;

The J&K State Property have 2325 Acres land situated at villages of Sultanpura and Rehmanpura, Jallo, Lahore.

Audit observed that out of total land of 2325 acres there was encroachment on 361 Kanal at Sultanpura and 118 kanal 10 Marla at Rehmanpura.

Audit is of the view that due to non-monitoring of land the encroachment occurred.

The management replied that this office requested the Deputy Commissioner Lahore to take legal action against the illegal occupants and illegal construction may be demolished through local Administration. The local administration along with the field staff of this office carried out a complete survey of illegal constructions but no further action has been taken in this regard so far.

The DAC held on 12.06.2023 and 21.06.2023 directed that all encroachments may be removed using all available resources including district administration and law enforcement agencies.

Audit recommends that all encroachment should be removed as per the provisions of the Ordinance.

15.5.10 Irregular release of Security at village Purab - Rs 7.500 million

Clause 14 of Lease Agreement the security/CDR amount of Rs. 750,000 deposited by the lessee at the time of bidding with the lessor will be retained till expiry of lease.

The management of Jammu and Kashmir State Properties, Lahore leased 10 lots at village Purab, Tehsil Muridke, District Sheikhpura at C.D.R amounting to Rs. 750,000 each lost to following lessors. Details are as under:

Sr.No	Lesser	Lot No. (A-K-M)
1.	Nabi Ahmad S/o Khursheed Ahmad	1 (51-2-15)
2.	Zulfiqar Ali S/o Wakeel Ahmad	2 (87-01-03)
3.	Muhammad Asif S/o Muhammad Yousaf	3 (89-04-17)
4.	Usama Qamar S/o Qamar-ul-Zaman	4 (94-00-11)
5.	Imran Ali S/o Riaz	5 (81-03-05)
6.	Rehmat Ali S/o Gulzar Ahmad Khan	6 (94-06-00)
7.	Mahmood Ahmad S/o Mushtaq Ahmad	7 (94-00-04)
8.	Rana Khalil-ur-Rehman S/o Nawab	8 (86-03-13)
9.	Syed Iqbal Hussain Shah S/o Bashir Shah	9 (79-03-12)

Audit observed that management released security deposit amounting to Rs. 7,500,000 (750,000 x 10) to lessee before completion of contract period of 3 years.

Audit is of the view that release of security deposit before completion of contract period was unauthorized.

The management replied that the said lots were leased out and received C.D.R amounting to Rs. 750,000 against each lot as security to different lessees. The contractors of village purab submitted an application stating that due to financial crises they were not in position to deposit the amount of lagan and requested to adjust the security deposit in the lagan.

The Deputy Administrator who was working as Administrator on a current charge basis allowed them to adjust the C.D.R.

The DAC held on 12.06.2023 and 21.06.2023 directed to conduct an inquiry to fix the responsibility.

Audit recommends that the matter may be inquired into to fix the responsibility and outcome may be shared with the Audit.

15.5.11 Illegal sale and change of status of agricultural land into commercial land – Rs. 25.000 million

Rule 3B (2) of Jammu & Kashmir (Administration of Property) Rules, 1961 states that if the tenant desires to change the purpose of tenancy due to change in category or nature of land because of urbanization or development and to use the agricultural land or residential properties for residential or commercial purposes and to make construction thereon accordingly he shall apply to the Administrator.

Rule 3B(3) of Jammu & Kashmir (Administration of Property) Rules, 1961 states that on application under sub-rule (2) the Administrator may grant the permission subject to the following conditions, namely:- a) In case of change of use from agricultural to commercial due to urbanization, a committee comprising of the Administrator, Administrative Officer (Admin) and Patwari of the Office of the Administrator shall determine the magnitude of the area that has to be converted with the approval of the Management Committee of the J&K State Property.

Provided that such property shall be up to a maximum of one kanal may be allowed to be used for commercial purpose and the rest of holding should be surrendered to the department.

Muhammad Asif Khan S/o Muhammad Sadiq Khan constructed dairy farm on agricultural land 8 kanal 15 Marla Khasra No. 1863, Sultanpura in 2011.

Mr. Asif Khan sold the land to Mr. Amir Kamal Raja at a cost of Rs. 25.000 million on 13.10.2015.

Mr. Nusrat Kamal Raja, father of Mr. Amir Kamal Raja applied that he had the physical possession of agriculture land and running a dairy farm and requested to change the status of the agriculture land to residential land.

Administrator, J&K vide order dated 26.03.2021 allowed the change of status of agricultural land into residential land without considering that the state land cannot be sold to another person. Instead of cancellation of the lease the status of the land was changed from agricultural to residential without the approval of the Management Committee.

Audit is of the view that agriculture land which was already used for commercial purpose and change of its status from agriculture to commercial was unauthorized.

Audit is also of the view that selling of J&K State property was not covered under any rule which should be cancelled and re-leased through open auction.

The management replied that the tenant, Mr. Amir Kamal Raja, applied for a change in use of land from agriculture to residential. Administrator, J&K vide order dated 26.03.2021 allowed the change of status of agricultural land into residential land in line with rule 3B (2) and 3B(3) of J& K (Administration of Property) Rules, 961.

The DAC held on 12.06.2023 and 21.06.2023 recommended that relevant records be shared with the Audit.

Audit recommends that inquiry may be held to fix the responsibility.

15.5.12 Non-recovery of arrears from tenants – Rs. 8.625 million

Section 5(c) of J&K State Property Ordinance, 1961 states that any sum due, whether as rent or otherwise, in respect of any of the aforesaid properties, if not paid within the time specified by the Administrator, shall be recoverable as arrears of land revenue.

Administrator, J&K State Property rented out its property to different tenants at Lahore.

The audit observed that an amount of Rs. 8.625 million was not recovered as rent from the tenants.

Audit is of the view that non-recovery of rent deprived the department of the benefit of its due receipt.

The management replied that accumulation of arrears and their recovery was a continuous phenomenon. Concerned field staff have been strictly directed to recover the arrear up to 30.06.2023 failing which strict action will be taken against them. It is worth mentioning here that the amount of Rs. 6.397 million has been recovered out of the above-mentioned amount. As soon as the arrears are fully recovered, the audit will be informed accordingly.

The DAC held on 12.06.2023 and 21.06.2023 recommended that the recovery of remaining amount be ensured on priority.

Audit recommends that arrears should be recovered, and notices should be issued to defaulter for ejection from the property.

15.5.13 Loss due to non-deduction of tax on advertisement - Rs. 15.549 million

Section 153(1) states that every prescribed person making a payment in full or part including a payment by way of advance to a resident person or (a) for the sale of goods; (b) for the rendering of or providing of services; (c) on the execution of a contract, other than a contract for the sale of goods or the rendering of or providing services, shall at the time of making the payment, deduct tax from the gross amount payable (including sales tax, if any) at the rate specified in Division III of Part III of the First Schedule.

The management of Jammu and Kashmir State Property, Lahore incurred an expenditure on advertisement during 2018-22. Details are as under:

Sr.No	Year	Amount Rs.	(Rupees)
1.	2018	234,935	
2.	2019	9,565,339	
3.	2020	35,271,375	
4.	2021	35,953,044	
5.	2022	16,161,580	
	Total	97,186,273	

Audit observed that the management paid advertisement charges without deducting tax amounting to Rs. 15.550 million.

Audit is of the view that due to non-deduction of tax amounting to Rs. 15,549,804 the government was deprived of the benefit of its due revenue.

Audit is also of the view that the suppliers were favored by not deducting tax from payments.

The management replied that the amount mentioned by the audit team had been miscalculated. On total expenditure of Rs. 74,904,632 an amount of Rs. 3,181,568 @ 4.5% was deducted as income tax.

The reply was not accepted because audit objected to non-deduction of sales tax on service only.

The DAC held on 12.06.2023 and 21.06.2023 directed that the record of payment by the Ministry and deduction of the sales tax be shared with the Audit.

Audit recommends that amount may be recovered and deposited into Government Treasury and matter may be inquired to fixed responsibility.

15.5.14 Irregular execution of development project ‘Construction of Muridke Road, Sheikhpura’ - Rs. 14.959 million

Planning and Development Division letter No. 21(2-Gen) PIA/PC/2004 dated 18.12.2004 states that the autonomous organizations whether commercial or non-commercial having Board by whatever name called, should be competent to sanction their development schemes with 100% self-financing with no government guarantee and involving less than 25% foreign exchange / foreign assistance. A Development Working Party should be constituted by each organization and notified to consider and approve their self-financed projects. The Development working party should be headed by the Chairman/Head of the Organization and among others, should include representatives of the Planning and Development Division, Finance Division and the concerned Ministry/Division each not below the rank of Joint Secretary.

The DDWP meeting held on 20.02.2018 approved the development scheme titled ‘Rehabilitation/Construction of Metaled Road from Village Purab to Kot Pindi-Das Tehsil Muridke, Sheikhpura 2.3 KM’ at a cost of Rs. 14.959 million.

The Administrator, Jammu and Kashmir State Property, Lahore awarded a contract to M/s Chaudhary Enterprises for “Rehabilitation/construction of Metaled Road from village to Kot Pindi Das Muridke Road, Sheikhpura” on 30.03.2018.

Audit observed as under:

- i. There was no member from the Planning Division in DDWP meeting in violation of the instruction of the Planning Division.
- ii. The road which was constructed was not the property of the J&K State Property.
- iii. The work was carried out by a contractor not registered with Pakistan Engineering Council.
- iv. The work was executed without any technical sanction of estimates.

Audit is of the view that expenditure on a property not owned by J&K State Property, without approval from the delegated forum and construction by a non-registered contractor was unauthorized.

The management did not reply till finalization of the report.

Audit recommends matter may be inquired to fix the responsibility.

CHAPTER 16

MINISTRY OF INDUSTRIES AND PRODUCTION

16.1 Introduction

As per Schedule II [Rule 3 (3)] Distribution of Business among the Divisions read with Schedule III [rule 4(4)] Rules of Business 1973 (as amended up to 23rd April, 2019) following main businesses have been assigned to the Division:

1. National industrial planning and coordination.
2. Industrial policy.
3. Employment of foreign personnel in commercial and industrial enterprises.
4. Federal agencies and institutions for:
 - i. promoting industrial productivity.
 - ii. promoting of special studies in the industrial fields; and
 - iii. testing industrial products.
5. Keeping a watch, from the national angle, over general price trends and supply position of essential commodities; price and distribution control over items to be distributed by statutory orders between the provinces.
6. Import and distribution of white oil.
7. Explosive (excluding the administration of Explosive Substances Act, 1908) and safety measures under the Petroleum Act, 1934 and Rules made thereunder.
8. Prescription and review of criteria for assessment of spare parts and raw materials for industries.
9. Administrative, financial, operational, personnel and commercial matters of Pakistan Garments Corporation.
10. Ghee Corporation of Pakistan Limited, and Pakistan Edible Oils Corporation Limited.
11. National Fertilizer Corporation, Lahore.
12. Development of Industries (Federal Control) (Repeal) Ordinance, 1979.
13. Economic Reforms (Protection of Industries) Regulation, 1972.
14. All matters relating to state industrial enterprises, especially, in basic and heavy industries, namely:
 - a) State Engineering Corporation, Karachi.
 - b) State Cement Corporation, Lahore.
 - c) Automobile Corporation, Karachi.
 - d) State Petroleum Refining and Petrochemical Corporation, Karachi.
 - e) Federal Chemical and Ceramics Corporation, Karachi.
 - f) Pakistan Steel Mills Corporation, Karachi.

g) Pakistan Industrial Development Corporation (PIDC).

ATTACHED DEPARTMENTS/ AUTONOMOUS BODIES

- i. Department of Explosives.
- ii. Pakistan Industrial Technical Assistance Centre, Lahore
- iii. Engineering Development Board

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY 2022-23) Rs. in million	Revenue/Receipt Audited (FY 2022-23) Rs. in million
1	Formations	10	2	84.693	-
2	Assignment Accounts (Excluding FAP)	2	2	251.328	-
3	Authorities / Autonomous Bodies etc. under the PAO	-	-	-	-
4	Foreign Aided Project (FAP)	-	-	-	-

16.2 Comments on Budget & Accounts (Variance Analysis)

The final budget allocated to the Industries and Production Division for the financial year 2022-23 was Rs. 50,067.18 million, out of which the Division expended an amount of Rs. 50,024.09 million. Grant-wise detail of current and development expenditure is as under:

(Rs. In million)

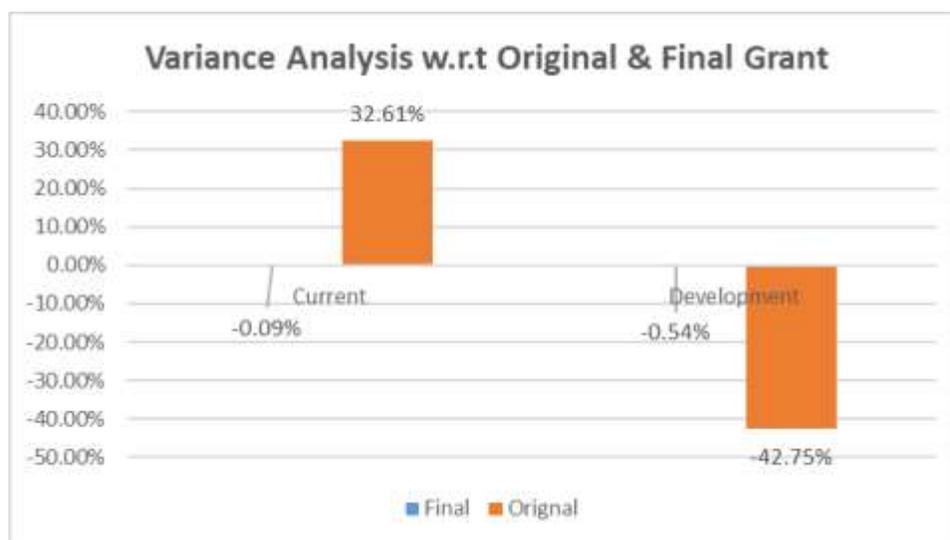
Grant No	Type of Grant	Heads	Original Grant	Suppl Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
52	Current	Industries and Production Division	33,631.42	16,411.04	-57.67	49,984.79	49,944.64	-40.14	-0.08%
53	Current	Financial Action Task Force (FATF) Secretariat	79.72	7.00	-4.32	82.40	79.44	-2.96	-3.72%
	Current Total		33,711.14	16,418.04	-61.99	50,067.18	50,024.09	-43.10	-0.09%
129	Development	Industrial Development (Capital Outlay)	2,850.00	.00	-842.69	2,007.31	1,996.48	-10.83	-0.54%
	Total		36,561.14	16,418.04	-904.69	52,074.49	52,020.56	-53.93	0.10%

Audit noted that there was an overall saving of Rs. 53.93 million due to saving in Current and Development grants.

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of General Financial Rules (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, bifurcating total allocation into current, development and charge expenditure, it was observed that, in case of development grant, there was 42.75% of saving w.r.t original grant which was finally reduced to 0.54% w.r.t final grant and in case of current grant 32.61% excess was finally reduced to 0.09% saving.



16.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs. 170.13 million, were raised in this report during the current audit of **Ministry of Industries and Production**. Summary of the audit observations classified by nature is as under:

(Rupees in million)

S. No	Classification	Amount
1	Non-production of record	
2	Reported cases of fraud, embezzlement and Misappropriation	
3	Irregularities	
A	<i>HR/Employees related Irregularities</i>	9.56
B	<i>Procurement related irregularities</i>	9.031
C	<i>Management of account with commercial banks</i>	146
D	<i>Recovery</i>	
E	<i>Internal Control</i>	
4	Value for money and service delivery	

5	Others	5.541
---	--------	-------

16.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
2010-11	3	3	1	2	33
2012-13	2	0	0	2	-
2013-14	5	0	0	5	-
2014-15	5	5	0	5	-
2015-16	1	1	1	0	100
2016-17	12	0	0	12	-
2018-19	4	4	0	4	-
2019-20	6	1	0	6	-
2020-21	2	0	0	2	-
2021-22	1	0	1	0	-
Total	41	14	3	38	-

16.5 AUDIT PARAS

Engineering Development Board (EDB) Islamabad

16.5.1 Unauthorized payment of Pay & Allowances to the CEO, EDB without obtaining approval of extension from the Prime Minister - Rs. 9.560 million

Para 04 of the Establishment Division's O.M No. 1/3/2020-E-6 dated 22.06.2020 states that the appointment in MP Scale shall initially be for a period of three (03) years which will be extended to two (02) years on annual basis subject to satisfactory performance evaluation of the incumbent by the Performance Evaluation Committee provided in Schedule -II.

Para-5 of ibid further states that annual extension in the contract will also be given by the Prime Minister on the recommendations of Performance Evaluation Committee.

Mr. Raza Abbas Shah was appointed as Chief Executive Officer, EDB, (MP-I Scale) vide Establishment Division's Notification No.1/70/2019-E-6 dated 17.12.2019 for a period of two years. The officer assumed the charge of the post w.e.f. 19.12.2019. The two years' tenure of the officer expired on 18.12.2021. Ministry of Industries and Production vide letter No. F1(1)/2014-LED-4 dated 21.04.2022 allowed Mr. Raza Abbas Shah to continue working as CEO, EDB and draw salary till appointment of a regular CEO. The management of EDB made a payment of Pay & Allowances amounting to Rs. 9,560,213 to the officer.

Later on, the officer was also appointed as regular CEO, EDB vide Establishment Division's Notification No.1/70/2019-E-6 dated 26.01.2023 and he assumed the charge of the post on 27.01.2023 for a further period of two years.

Audit observed that the Ministry of Industries & Production did not obtain approval of the Prime Minister for extension of period of the CEO, EDB in MP-I Scale w.e.f. 19.12.2021 to 26.01.2023 after completion of all codal formalities as required under Management Position Scale Policy, 2020 issued by the Establishment Division. Therefore, the payment of Pay & Allowances of Rs. 9.560 million made to the said officer was unauthorized.

Audit is of the view that the approval of extension granted by the Ministry of Industries and Production in violation of Policy of the Establishment Division is irregular.

The management replied that Mr. Raza Abbas Shah, CEO, EDB was appointed in MP-I Scales vide Establishment Division's Notification dated 17.12.2019 for a period of two years, he joined EDB on 19.12.2019 and he completed his tenure on 18.12.2021. The agenda for extension in the contract of the CEO, EDB with performance rendered during the contract period, was taken up with the Board of Management in its 50th meeting held on 17.12.2021. The Rules of Business of EDB delegate all the administrative and financial power to the Chairman to run the affairs of the Board within the budgetary allocation approved by the government. The Chairman in consideration of his performance and to ensure continuity in framing/implementing policies recommended an extension in the contract period of the CEO subject to approval of the government. EDB took up the case of extension in the contract period case accompanied by the performance of the CEO with the Ministry. Ministry vide letter No.F.No.1(1)/2014-LED-IV dated 21.04.2021 provided that Mr. Raza Abbas Shah be allowed to continue working as CEO, EDB and draw salary till the appointment of a regular CEO. Pay and Allowances were released consequent to the extension order by the Ministry/Government.

The reply is not cogent because the extension was granted without the approval of the Prime Minister who is the competent authority for MP Scales.

Audit recommends holding of inquiry to fix the responsibility for the lapse besides getting ex-post approval of the Prime Minister for extension in period of the CEO, EDB.

16.5.2 Unauthorized payment of insurance premium to M/s EFU Life Assurance Ltd. - Rs. 5.541 million

As per Rule-17 of EDB Employees Contribution Provident Fund Modified Rules, 2010 a withdrawal of any amount by employees shall not be allowed by the Trustee, except on special

grounds in the following circumstances, or a similar nature: “To pay premium on policies of insurance on the life of the subscriber or his wife, provided that policy is assigned to the Trustee of the fund and deposited with them.”

The management of Engineering Development Board (EDB), Islamabad paid Rs. 5,541,112 to M/s EFU Life Assurance Ltd. on account of insurance premium of 24 employees and its renewal as under:

				(Rupees)
S. No.	Particular of Payment	Invoice No & Date	Cheque No.& date	Amount
1	Payment of Insurance Premium	No. NIL dated 24.09.2020	76819365 dt.29.09.2020	2,770,556
2	Premium Renewal	No. NIL dated 27.07.2021	19493636 dt. 20.09.2021	2,770,556
Total Rs.				5,541,112

In addition to the above payments, these 24 employees were also provided insurance coverage by the Federal Employees Benevolent and Group Insurance Fund and their monthly group insurance contribution was being sent to Federal Employees Benevolent and Group Insurance Fund regularly.

Audit observed as under:

- i. The EFU Life Assurance Policies of employees were neither assigned to the Board of Trustees nor it was their obligation to pay insurance premium of 24 employees amounting to Rs.5.541 million to EFU Life Assurance Ltd. out of EDB Employees Provident Fund.
- ii. The selection of M/s EFU Life Assurance Ltd. was made without obtaining open competition as required under Public Procurement Rules, 2004.
- iii. The payment was made to EFU Life Assurance Ltd. without any written agreement containing terms and conditions.

Audit is of the view that payment of insurance premium in violation of above said rules is unauthorized.

The management replied that the insurance policies were assigned to the Fund. The Board of Trustees made all the payments of premium since 2013 on the request of the employees complying to the Rules 17.5 and 18.4 of the EDB Employees Contributory Provident Fund Modified Rules, 2010. In 2013, the Board of Trustees and employees of the organization took presentations from M/s State Life Insurance Corporation and EFU Life Assurance Limited. M/s EFU Life Assurance Limited quoted a better policy and was selected after completing all the codal

formalities and to the satisfaction of the employees of the organization. The original policies in which all the terms and conditions are mentioned are in the safe custody of the Secretary, Board of Trustees, Contributory Provident Fund. Moreover, all the codal formalities was completed in 2013. EDB Employees Contributory Provident Fund is a recognized Provident Fund of the organization managed by the Board of Trustees duly approved by the Income Tax Commissioner. The Fund was established back in 1980 and since then it has continued in compliance with the provisions of the Trust Deed.

The reply is not convincing. Nothing was explained about registration of the said employees with Federal Government Employees Benevolent and Group Insurance Fund for insurance coverage. The employees were extended double benefit.

Audit recommends holding of inquiry to fix responsibility besides regularization of expenditure from the Board.

National Productivity Organization (NPO)

16.5.3 Irregular printing of books from M/s PASTIC - Rs. 9.031 million

Financial Management and Powers of Principal Accounting Officer Regulations, 2021 states that printing at a press other than a Press of the Printing Corporation of Pakistan should be undertaken only if the Principal Accounting Officer is satisfied that it is in public interest to do so and record a certificate to that effect.

Rule 12(1) of Public Procurement Rules, 2004 states that procurement over five hundred thousand Pakistani rupee and up to the limit of three million Pak rupees shall be advertised on the authority's web site in the manner and format specified by the authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency.

The management of National Productivity Organization (NPO), Islamabad called three quotations for printing of 100,000 booklets and the work amounting to Rs. 9,031,315 was awarded to M/s PASTIC.

Audit observed that:

- i. That printing from a press other than Printing Corporation of Pakistan was carried out in violation of FMP Regulations, 2021 and without observing Public Procurement Rules, 2004.

- ii. No certificate from the PAO regarding printing of booklets from a press other than PCP was obtained.

Audit is of the view that expenditure on printing of booklets from M/s PASTIC is irregular.

The management replied that NPO followed PPRA Rule 42(C)(VI) which allowed a procuring agency may utilize the alternative methods of procurement of goods, services and works through direct contracting method. Procuring agency shall only engage in direct contracting if the following conditions exist “when the price of goods, services or works is fixed by the government or any other authority, agency or body duly authorized by the Government, on its behalf. As the M/s PASTIC, Ministry of Science & Technology is a department of Federal Government. M/s PASTIC has been assigned role by Government of Pakistan for information, dissemination of related documents and therefore, department assigned the task to M/s PASTIC.

The reply of the department was not acceptable as printing of booklets was carried out in violation of FMP Regulations, 2021 and without observing Public Procurement Rules, 2004.

Audit recommends that the irregular practice be discontinued and irregularity be got condoned from the competent authority.

CHAPTER 17

INFORMATION TECHNOLOGY AND TELECOMMUNICATION DIVISION

17.1.1 Introduction

As per Schedule II [Rule 3 (3)] Distribution of Business among the Divisions read with Schedule III [rule 4(4)] Rules of Business 1973 (As amended up to 23rd April, 2019) following main businesses have been assigned to the Division amongst the other functions.

Preparation of an overall integrated plan as well as formulation of policy for the development and improvement of Information Technology & Telecommunications Division, including related infrastructure, in Pakistan.

- i. Co-ordination with the Provincial Governments, autonomous bodies, private sector, international organizations and foreign countries in respect of information technology and telecommunications.
- ii. Human resource development in the field of information technology and telecommunications.
- iii. Promotion of information technology applications.
- iv. Providing guidelines for the standardization of software for use within the Government.
- v. Planning, policy making and legislation covering all aspects of telecommunications excluding radio and television and issuance of policy directives.
- vi. Matters relating to Pakistan Computer Bureau, Pakistan Software Export Board and the Electronic Government Directorate.
- vii. All matters relating to National Telecommunication Corporation (NTC), Telecommunications Foundation (TF), Special Communications Organization (SCO), Virtual University (V.U) and Electronic Certification Accreditation Council.
- viii. The administration of the Prevention of Electronic Crimes Ordinance 2007, and the rules made there under.
- ix. Safeguard interest of Government of Pakistan in entities having public shares or government equity like PTCL, USF Co & ICT R&D Co.
- x. Federal Government functions in regard to Pakistan Telecommunication Authority (PTA) and Frequency Allocation Board (FAB).

ATTACHED DEPARTMENTS/ AUTONOMOUS BODIES

- i. National Information Technology Board
- ii. COMSATS (Inter-Islamic Network for Information Technology)
- iii. Virtual University

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY 2022-23) Rs. in million	Revenue/Receipt Audited (FY 2022-23) Rs. in million
1	Formations	55	3	10,690.917	1,550.367
2	Assignment Accounts (Excluding FAP)	2	0	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	2	0	-	-
4	Foreign Aided Project (FAP)	1	1	373.272	-

17.2 Comments on Budget & Accounts (Variance Analysis)

Final budget allocated to the Information Technology and Telecommunication Division for the financial year 2022-23 was Rs.13,516.64 million, out of which the Division expended an amount of Rs. 16,236.89 million. Grant-wise detail of current and development expenditure is as under:

(Rs. In million)

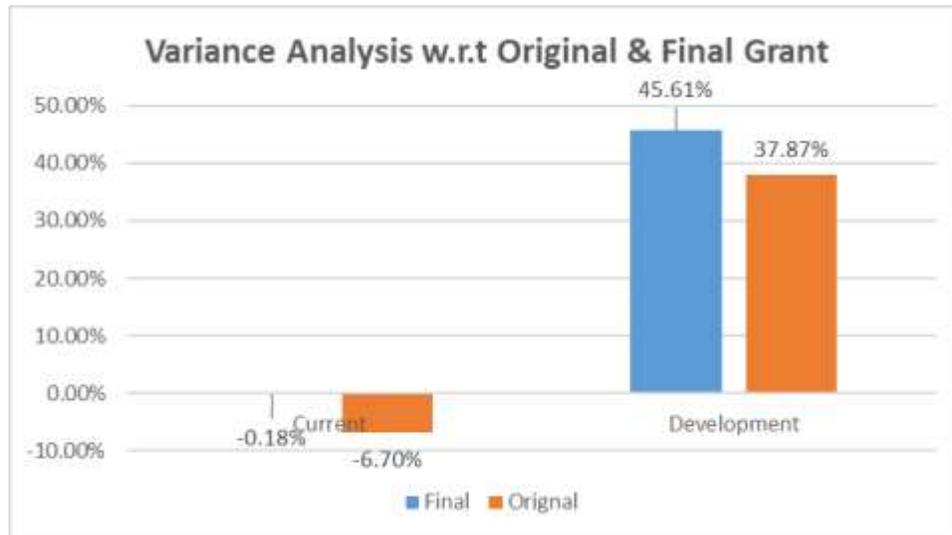
Grant No	Type of Grant	Original Grant	Suppl Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
56	Current	8,047.87	.00	-525.71	7,522.16	7,508.51	-13.65	-0.18%
111	Development	6,330.70	.00	-336.22	5,994.48	8,728.37	2,733.89	45.61%
Total		14,378.57	.00	-861.92	13,516.64	16,236.89	2,720.24	20.13%

Audit noted that there was an overall excess of Rs.2,720.24 million due to excess in Developments grant.

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of General Financial Rules (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, bifurcating total allocation into current and development expenditure, it was observed that, in case of development grant, there was 37.87% of excess w.r.t original grant which was finally increased up to 45.61% excess w.r.t final grant and in case of current grant 6.70% saving was finally reduced to 0.18%.



17.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs. 1,057.501 million, were raised in this report during the current audit of **Information Technology And Telecommunication Division**. Summary of the audit observations classified by nature is as under:

(Rupees in million)

S. No	Classification	Amount
1	Non-production of record	
2	Reported cases of fraud, embezzlement and Misappropriation	
3	Irregularities	
A	<i>HR/Employees related Irregularities</i>	
B	<i>Procurement related irregularities</i>	576.934
C	<i>Management of account with commercial banks</i>	
D	<i>Recovery</i>	319.568
E	<i>Internal Control</i>	108.999
4	Value for money and service delivery	
5	Others	

17.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
2010-11	2	2	2	0	100
2011-12	10	0	0	10	-
2014-15	1	0	0	1	-
2016-17	5	0	0	5	-

2018-19	3	0	0	3	-
2019-20	11	0	0	11	-
2020-21	2	0	0	2	-
2021-22	5	0	0	5	-
Total	39	2	2	37	-

17.5 AUDIT PARAS

National Information Technology Board (NITB)

17.5.1 Loss due to non-supply of IT items - Rs. 28.15 million

Rule 23 of GFR (Volume-I) states that every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

Rule 38B of Public Procurement Rules, 2004 states that the procuring agency shall consider a single bid in goods, works and services if it has financial conformance in terms of rate reasonability.

A Development Project (PSDP) titled “Smart Office” was approved by Departmental Development Working Party (DDWP) on 16.09.2020 under the administrative control of Ministry of Information Technology for a period of 36 months with the total original cost of Rs. 572.80 million. The implementation period of the project was 30 months.

The management of the project floated a tender for Enterprises Level Communication & Collaboration Unified Platform & E-Office Mobile Applications. Three bids were received. The Technical Committee in its meeting held on 10.11.2020 opened the technical bids and rejected two bidders on technical basis and only one vendor M/s TelcoNet Services (Pvt) Ltd was qualified for financial bid. The financial bid was opened on 29.02.2021. M/s TelcoNet Services (Pvt) Ltd was the only bidder in the financial bid.

Later on, the Ministry of Information Technology & Telecommunication took following decisions in its meeting held on 20.07.2022.

- The contract/Agreement with existing vendor M/s TelcoNet Services will be terminated as per terms and conditions of agreement, in consultation with Legal Wing of MOIT, NITB will take vendor on board to avoid any litigation or hindrance in the project.

- The procurement of software will be re-tendered in which technical and financial terms will be updated in view of best interest of NITB and avoid OEM related issues in future. The RFP shall be prepared in due consultation with Member-IT in line with the recommendation of the Planning Division.
- PMU shall be restored to complete the project activities by March, 2023 in compliance with Planning Division decision.

In the light of instructions received from Ministry of Information Technology & Communication, the NITB took following decision in its meeting with Project Director (TelcoNet Services Pvt Ltd) held on 03.09.2022 under the chairmanship of DG (PMO):

- Amount of Rs. 28.15 million already paid to the vendor shall be returned by the vendor.
- The vendor shall hand over the already developed Lot-II (Development of e-Office Mobile Version immediately).
- NITB shall clear the Lot-II payment of Rs. 15.75 million as per the signed agreement.
- The vendor shall adjust the Lot-II payments in the already paid amount of Rs. 28.15 million.

Audit observed as under:

- i. The management purchased items without financial conformance in terms of rate reasonability.
- ii. The tender for purchase of above items was floated without proper planning & PC-1 was submitted to Ministry of Planning Development & Special Initiatives without proper consultation with IT experts.
- iii. The management failed to recover overpayment of Rs. 28.15 million from M/s TelcoNet Services Pvt Ltd as decided in the meeting held on 03.09.2022.
- iv. The management failed to receive Lot-II (Development of e-Office Mobile Version) costing Rs. 15.75 million as decided in the meeting held on 03.09.2022.
- v. Financial bid of Development of e-Office Mobile APP (Lot-II) shows Rs. 14.999 million whereas at the time of agreement the management had agreed to pay Rs. 15.749 million.
- vi. Project activities were required to be completed by March, 2023, however, after lapse of considerable time the status of completion of project is unknown and no record has been presented to Audit regarding its current status.

Audit is of the view that management of NITB failed to properly plan and execute the project. Further, the management of Smart Office did not recover the overpayment of Rs. 28.15 million from vendor till date.

The management replied that within one month the recovery procedure will be initiated. Moreover, the vendor's Bank Guarantee of Rs. 30.2 million is in the custody of NITB.

The reply is not acceptable as the management failed to properly plan and execute the project. Further, overpayment of Rs. 28.15 million has not so far been recovered.

Audit recommends recovery of overpayment of Rs. 28.15 million after the adjustments (if any) from M/s TelcoNet Services Pvt Ltd.

17.5.2 Irregular procurement of IT Equipment without establishing fair competition - Rs. 44.658 million

Rule 38B of PPRA Rules, 2004 "Single responsive bid in goods, work and services" states that:

- The procuring agency shall consider single bid in goods, works and services if it:
 - (b) is not in conflict with any provision of the Ordinance.
 - (c) conforms to the technical specifications.
 - (d) has financial conformance in terms of rate reasonability.

The management of National Information Technology Board, Islamabad (NITB) incurred an expenditure of Rs. 44.658 million for Purchase of Software & Repair of Software during financial years 2021-23. Detail is given below:

Sr#	Cost Centre	Head of Account	Amount (Rs)	Vender	Financial Year
1	IB-3251	A09202-Software	17,614,707	D-Tech & Consultancy (pvt) Ltd	2022-23
2	IB-3251	A09202-Software	14,094,864	GlowBug Technologies Pvt	2022-23
3	IB-3251	A09202-Software	6,998,355	IGATE Solution	
4		A13702-Repair of Software	5,950,517	GBM Pakistan Ltd	2021-22

Audit observed as under:

- i. The management approved single bids at the time of evaluation and made purchases at single quoted prices without financial conformance in terms of rate reasonability.
- ii. The management did not establish fair competition for procurement and deprived the government of the benefits of fair competition.

Audit is of the view that expenditure incurred without financial conformance in terms of rate reasonability is irregular.

The management replied that it is mandate of NITB to provide assistance on governance to all Federal Government Ministries/Divisions/Departments etc. For provision of uninterrupted assistance, the NITB needs to procure software for which process was initiated and in instant case where single bidder was involved, the price reasonability has been checked from previous order issued to this firm of the same items and found reasonable.

The reply was not accepted as procurement was made in violation of Public Procurement Rules, 2004.

Audit recommends that irregularity may be got regularized from competent forum.

17.5.3 Irregular renewal of contract period without advertisement of posts - Rs. 222.115 million

The standard terms and conditions of contract employment issued by the Establishment Division vide O.M.No.10/52/95.2 dated 18.07.1996 as amended from time-to-time state that the period of contract should not exceed two years and the post should be advertised.

The management of National Information Technology Board (NITB), Islamabad made an agreement with M/s ALM Outsourcing Services Pvt Ltd on 16.01.2020 for hiring services of different IT professionals for a period of two years to develop customize, re-utilize existing code using contemporary software development platforms, tools, frameworks, languages and process application/services, mobile application and desktop application. The contract period was extended up to 30.06.2024. The amount of Rs. 222.115 million was paid to M/s ALM Outsourcing Services Pvt Ltd during the financial years 2021-22 and 2022-2023.

Audit observed that:

- i. The agreement was extended for a period of further two years w.e.f. 23.01.2022 to avoid the advertisement of the posts.
- ii. The services of professionals were hired without provision of posts in New Item Statement (NIS).
- iii. The professionals hired in different positions did not meet the minimum qualification and experience fixed for the positions.
- iv. The task completion reports of professionals were not available on record.

Audit is of the view that the contract was extended for more than two years to avoid the advertisement of the posts in the press is irregular.

The management replied that the contract was extended as a stopgap arrangement till the finalization of Employees’ Service/Recruitment Rules under Sections 19, 20(2)(c) of the recent enactment of the National Information Technology Board Act, 2022 and under Rule 3(2) of Civil Servant (Appointment Promotion and Transfer) Rules 1973. The said task is awarded to M/s ALM Outsourcing (Pvt.) Ltd. after completion of all PPRA processes.

The reply is not cogent because contract cannot be extended beyond two years.

Audit recommends irregularity may be condoned by the Competent Authority.

Virtual University of Pakistan, Lahore

17.5.4 Non-transparent procurement of desktop computers & laptops – Rs.252.746million

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

Para 2(c) (x to xii) of annexure 4 to a summary for the Economic Coordination Committee of the Cabinet No NG (11)-12 (64)/14-LNG- Interim –Pt dated 25th Feb-2014 states that the Secretary Law emphasized that in a case where there is a single bidder the same should be more calculative, vigilant and diligent as there are more chances of higher and non-competitive price. It is therefore imperative that the quote by the single bidder needs to be examined rationally keeping in view the precedents, market conditions, international best practices and interest of the people.

Management of Virtual University of Pakistan, Lahore floated a tender No.VU-22-23/04/683 as “Single Stage Two Envelope Bidding Procedure” for the procurement of Desktop Computers, Computer Workstations & Laptops in which two bidders participated as per following details:-

Item No.	Description	Quantity	M/S Bahria Enterprises Systems & Technologies	M/S ASMD
1a	All-in-One (AIO) Computer Systems	110	Technically non-Compliant	Did not quote
1b	All-in-One (AIO) Computer Systems	300	Technically non-Compliant	Did not quote
2	Desktop Computer Systems without LED's	250	Technically non-Compliant	Technically non-Compliant
3	Workstation Computers	4	Technically non-Compliant	Did not quote

4	Laptops	8	Technically Compliant	Did not quote
---	---------	---	-----------------------	---------------

Audit observed that:-

- i. Non-quoting of any technical specification by M/s ASMD indicates that there was collusion between M/S ASMD & M/S Bahria Enterprises Systems & Technologies.
- ii. The financial proposal of M/S ASMD was returned unopened.
- iii. The Technical evaluation committee relaxed the technical specifications for items 1 to 3 above in favor of M/S Bahria Enterprises Systems & Technologies after opening of bid.
- iv. The proposal of sole financial bidder M/S Bahria Enterprises Systems & Technologies was accepted despite being technically non-compliant at following rates:-

Item No.	Description	Quantity	Rate Per Unit (Incl of Taxes) Rs.	Total Amount/ Rate (Rs)
1a	All-in-One (AIO) Computer Systems	110	368,277	40,510,470
1b	All-in-One (AIO) Computer Systems	300	417,753	125,325,900
2	Desktop Computer Systems without LED's	250	310,406	77,601,500
3	Workstation Computers	4	1,524,938	6,099,752
4	Laptops	8	400,995	3,207,960
Total Amount				252,745,582

- v. Hence tender for an amount of Rs.252,745,582/- was awarded to technically non-compliant and sole financial bidder instead of re-bidding.

Audit is of the view that:

- i. The technical evaluation committee relaxed the technical specifications for items 1 to 3 contained in tender documents after opening bid.
- ii. Undue favor was granted to M/s Bahria Enterprise Systems & Technologies by awarding contract despite it being a technically non-compliant bidder.
- iii. Tender was awarded in violation of instructions of Economic Coordination Committee of the Federal Cabinet.

The reply was not furnished by the department.

Audit recommends investigating the matter for fixing responsibility.

17.5.5 Non-recovery of dues from students - Rs.200.160 million

Para 26 of General Financial Rules Vol-I states that it is the duty of the departmental Controlling officers to see that all sums due to the Government are regularly and promptly assessed, realized and duly credited in the Public Account.

Management of Virtual University of Pakistan, Lahore failed to recover dues from students amounting Rs.200.160 million during financial years 2021-22 & 2022-23.

Audit observed while scrutinizing the fee record that heavy amounts of fees were outstanding against students.

Audit is of the view that action of the management showed weak controls regarding collection of Campus dues from the students.

The reply was not furnished by the department.

Audit recommends that the dues may be recovered from the students at the earliest and deposited into government treasury under intimation to audit.

17.5.6 Non-deduction of tax from the private campus owners (PVCs) on account of payment of share - Rs.160.999 million

Para 2 of Revenue Division DO No. 1(1)/CH/FBR/19 dated 28-8-2019 states that “Federal Government, any development authority, other body corporate or institution established under a federal law, a corporation, company or a regulatory authority set up, owned and controlled either directly or indirectly by the Federal Government is required to withhold tax inter alia on payments on account of contracts executed”.

Management of Virtual University of Pakistan, Lahore entered into service provider contract for establishment of virtual campuses and made payment of the share to the concerned campus owners. The detail of payments made to the PVCs and tax recoverable is given as under:

S.N	Financial Year	Head of Accounts					Tax amount (Rs.) @ 7.5%
		PVC Tuition Fee Share	PVC Exam Share	PVC Prospectus Share	Total Payment		
1	2021-22	880,138,963	62,667,725	5,759,100	948,565,788	71,142,434	
2	2022-23	1,077,847,279	105,588,525	14,708,400	1,198,084,204	89,856,315	
	Total					160,998,749	

Audit observed that the University did not withhold income tax @ 7.5% amounting to Rs.160.999 million on the shares paid to the service providers for the period 2021-22 & 2022-23.

Audit is of the view that non-deduction of tax amounting Rs.160.999 million from the vendors deprived the Government of its due revenue.

The reply was not furnished by the department.

Audit recommends affecting the recovery of income tax after proper investigation besides fixing the responsibility.

17.5.7 Non-recovery of outstanding dues - Rs.119.408 million

Rule 26 of GFR Vol-I states that it is the duty of the departmental Controlling officers to see that all sums due to Government are regularly and promptly assessed, realized and duly credited in the Public Account.

Management of Virtual University of Pakistan, Lahore entered into service agreements with the various organizations during the financial year 2021-22& 2022-23. The amount of Rs.119.408 million was outstanding against the following organizations. The detail is given as under:

Sr. No	Name of Organization	Outstanding Amount	(Rupees)
1.	Federal Investigation Agency (FIA), Islamabad	26,100,000	
2.	Institute of Chartered Accountants of Pakistan (ICAP)	18,811,278	
3.	National Institute of Technology Board (NITB)	1,150,299	
4.	Digi Skills Training Program 2.0 (IGNITE)	37,412,848	
5.	Digi Skills Training & Support Program for Southern Baluchistan (Phase-1)	35,933,236	
	Total	119,407,661	

Audit observed that:

- i. The concerned agency/organization did not clear the outstanding dues by the target dates.
- ii. The management did not take effective steps for recovery of outstanding dues.
- iii. The reasons for non-payment by the agency / organization concerned were also not clarified in the audit.

Audit is of the view that the Government sustained a loss of Rs.119.408 million due to non-recovery of outstanding dues.

The reply was not furnished by the department.

Audit recommends investigating the matter for fixing responsibility and to make concrete efforts for early recovery of the outstanding dues.

17.5.8 Mis-procurement of janitorial services – Rs.29.265 million.

The technical evaluation criteria for janitorial services tender documents clause 1 states that “minimum (ten) 10 years of operational experience is required (& company less than 10 years of operational experience will not be considered)

The technical evaluation criteria for janitorial services tender documents clause 2 states that “A bidder not meeting the 70% pass marks limit will be rejected in Technical Evaluation.”

Management of Virtual University of Pakistan, Lahore floated a tender No. VU/22-23/08/622 as “Single Stage Two Envelope Bidding Procedure” for hiring of Janitorial Services. The following bidders participated:-

Sl.	Name of Bidder	Total	Marks
1	M/s Advanced Management & Maintenance Services Pvt Ltd	100	68
2	M/s One Source Maintenance Pvt Ltd	100	93
3	M/s Ali Brothers Pvt Ltd	100	77
4	M/s Adan Kiani Enterprises Pvt Ltd	100	78
5	M/s HRSG Pvt Ltd	100	55
6	M/s Outsiders Pvt Ltd	100	93

Audit observed that:

- i. M/s Advanced Management & Maintenance Services Pvt. Ltd and M/s HRSG Pvt. Ltd failed to secure 70% marks to secure the contract.
- i. As per the comparative statement (technical) it was revealed that M/s Adan Kiani Enterprises Pvt. Ltd was established in 2016 (only six years old at the time of awarding of contract), hence did not qualify for the competition.
- ii. However, M/s Adan Kiani Enterprises was awarded contract for Janitorial Services by the management of VU.
- iii. An expenditure of Rs.29,265,377/- has been incurred up till 30.06.2023.

Audit is of the view that the management granted undue favor to the vendor by violating the clause of its tender documents which tantamount to mis-procurement.

The reply was not furnished by the department.

Audit recommends investigating the matter for fixing responsibility.

CHAPTER 18

INFORMATION AND BROADCASTING DIVISION

18.1 Introduction

As per Schedule II [Rule 3 (3)] Distribution of Business among the Divisions read with Schedule III [rule 4(4)] Rules of Business 1973 (As amended up to 23rd April, 2019) following main business have been assigned to the Division amongst the other functions.

1. Policy relating to internal publicity on national matters including the administration of the provisions of the Post Office, Act, 1898, and section 5 (1) (b) of the Telegraph Act, 1885, in so far as they relate to the Press.
2. Broadcasting including television.
3. Production of films on behalf of the Government, its agencies, Government controlled Corporations, etc.
4. Press relations, including delegations of journalists and other information media.
5. Provision of facilities for the development of the newspaper industry.
6. (i) Policy regarding government advertisement; control of advertisement and placement; (ii) Audit of circulation of newspapers.
7. Administration of the Newsprint Control Ordinance, 1971.
8. National Anthem
9. Liaison and coordination with agencies and media on matters concerning Government policies and activities.
10. Administration of the Information Group.
11. External Publicity.
12. Pakistan National Centers.
13. (i) Administration of-
 - a. Pakistan Broadcasting Corporation Act, 1973.
 - b. Associated Press of Pakistan (Taking Over) Ordinance, 1961; and
 - c. Pakistan Electronic Media Regulatory Authority.(ii) Matters relating to-
 - a. The Pakistan Television Corporation; and
 - b. Omitted vide SRO NO.48(1)/2016 dated 26.01.2016.
 - c. Shalimar Recording and Broadcasting Company.
14. Training facilities for Radio and Television personnel.
15. Special Selection Board for selection of Press Officers for posting in Pakistan Missions abroad.
16. Establishment of tourists centers abroad.

17. Administration of the Newspapers Employees (Conditions of Service) Act, 1973.
18. (i) National Institute of Folk and Traditional Heritage of Pakistan (Lok Virsa).
(ii) Pakistan National Council of Arts.
19. Cultural pacts and protocols with other countries.

ATTACHED DEPARTMENTS/ AUTONOMOUS BODIES

1. Press Information Department.
2. Directorate of Electronic Media and Publication.
3. Implementation Tribunal for Newspaper employees.
4. Central Board of Films Censor, Islamabad.
5. Federal Land Commission
6. Pakistan Electronic Media Regulatory Authority
7. Audit Bureau of Circulation

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY 2022-23) Rs. in million	Revenue/Receipt Audited (FY 2022-23) Rs. in million
1	Formations	68	4	9,654.422	-
2	Assignment Accounts (Excluding FAP)	-	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	-	-	-	-
4	Foreign Aided Project (FAP)	-	-	-	-

18.2 Comments on Budget & Accounts (Variance Analysis)

The final budget allocated to the Information & Broadcasting Division for the financial year 2022-23 was Rs. 14,835.36 million, out of which the Division expended an amount of Rs. 14,968.26 million. Grant-wise detail of current and development expenditure is as under:

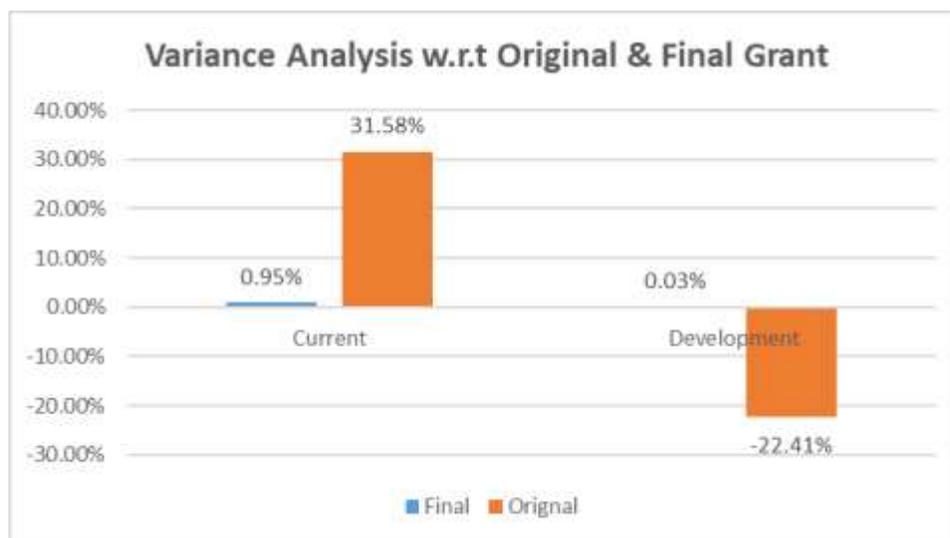
(Rs. In million)									
Grant No	Type of Grant	Heads	Original Grant	Suppl Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
54	Current	Main	2,822.33	3,438.40	-19.75	6,240.98	6,399.44	158.46	2.48%
55	Current	Misc	6,674.00	881.60	-49.48	7,506.13	7,480.20	-25.93	-0.35%
	Current Total		9,496.34	4,320.00	-69.23	13,747.11	13,879.64	132.53	0.95%
110	Development	Dev	1,332.57	.00	-244.32	1,088.25	1,088.62	.37	0.03%
	Total		10,828.91	4,320.00	-313.55	14,835.36	14,968.26	132.90	0.89%

Audit noted that there was an overall excess of Rs.132.9 million due to excess in current grants.

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of General Financial Rules (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, bifurcating total allocation into current, development and charge expenditure, it was observed that, in case of development grant, there was 22.41% of saving w.r.t original grant which finally became 0.03% excess w.r.t final grant and in case of current grant 31.58% excess was finally reduced to 0.95% excess.



18.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs. 5,733.77 million, were raised in this report during the current audit of **Information And Broadcasting Division**. Summary of the audit observations classified by nature is as under:

(Rupees in million)		
S. No	Classification	Amount
1	Non-production of record	
2	Reported cases of fraud, embezzlement and Misappropriation	
3	Irregularities	
<i>A</i>	<i>HR/Employees related Irregularities</i>	
<i>B</i>	<i>Procurement related irregularities</i>	1398.313
<i>C</i>	<i>Management of account with commercial banks</i>	
<i>D</i>	<i>Recovery</i>	2545.41
<i>E</i>	<i>Internal Control</i>	1,790.05

4	Value for money and service delivery	
5	Others	

18.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
2010-11	2	2	0	2	-
2011-12	2	0	0	2	-
2012-13	18	0	0	18	-
2013-14	17	17	0	17	-
2014-15	7	0	0	7	-
2015-16	4	4	3	1	75
2016-17	11	4	0	11	-
2017-18	5	1	0	5	-
2018-19	10	10	5	5	50
2019-20	24	0	0	24	-
2020-21	21	0	0	21	-
2021-22	2	0	0	2	-
2022-23	7	0	0	7	-
Total	130	38	8	122	-

18.5 AUDIT PARAS

Press Information Department, Islamabad

18.5.1 Use of Supplementary Grant within Press Information Department (PID), Islamabad-Rs. 1,790.045 million

Para 13 (viii) (c) of the New System of Financial Control and Budgeting, 2006 states that the funds obtained through Supplementary Grants shall be expended for the purposes for which these have been sanctioned. In Current Expenditure, demands for Supplementary Grants/Technical Supplementary Grants shall not be made, except in extraordinary circumstances for which full justifications shall have to be furnished to the Financial Adviser/Finance Division with reason as to why the additional expenditure could not be foreseen at the time of submission of proposals for budget provision.

The Economic Coordination Committee (ECC) of the Cabinet considered the summary dated 21st November 2022, submitted by the Ministry of Information & Broadcasting regarding “Allocation of Budget to Launch Comprehensive Media Awareness Campaign on Government’s Flood related initiatives, Programs and Projects and Rs. 50.000 head of account A03919 Payment to other for services rendered” and approved allocation of funds to the tune of Rs. 2.00 billion in favor of the Ministry of Information & Broadcasting through Supplementary Grant for Current Financial year 2022-23.

Press Information Department (PID) received a Supplementary Grant of Rs. 1,950,000,000 under Head of account A03907-Advertising & Publicity for campaign on government's flood related initiatives.

Audit observed that out of Rs. 1950.000 million only Rs. 159.955 million was utilized for the intended media campaign and the remaining amount of Rs. 1790.045 million was spent on unspecified expenditures in violation of the ECC and Cabinet decision.

Audit is of the view that use of the Supplementary Grant indicates significant irregularities as Rs. 1,790.045 million was diverted from the intended media campaign, constituting a breach of financial regulations.

Management did not reply till finalization of report.

Audit recommends that responsibility may be fixed for the irregularity.

Pakistan Electronic Media Regulatory Authority

18.5.2 Loss due to delay in the grant of various licenses to provisionally successful bidders - Rs. 1,393.575 million

Section 22 of PEMRA Amendment Act, 2007 states that the Authority shall take a decision on the application for a license within one hundred days from the receipt of the application.

Rule 09(5) of the Pakistan Electronic Media Regulatory Authority Rules, 2009 states that the Authority shall, within one hundred days from the date of its receipt, take decision on the application for grant of a license subject to clearance from the Ministry of Interior.

Item No. 5 of the Minutes of the 155th Authority Meeting held on 28.02.2020, the Authority, unanimously, decided that the following should be added as a provision to Rule 9(5) of PEMRA Rules, 2009:

- a) Provided that if the security clearance from the Ministry of Interior is not received within sixty days from the receipt of the application by the Ministry, final thirty days shall be provided to the Ministry of Interior to decide the pending application.
- b) Provided further that in the event, no final response is received within the extended thirty days, the application may be presented before the Authority for decision which shall in compliance to Section 22 of the PEMRA Ordinance, 2002 decide the application for grant of license accordingly.

The management of PEMRA awarded Provisional Licenses to 17 successful bidders (15 licenses to provisionally successful bidders on 03.05.2019 and 02 licenses to provisionally successful bidders on 11.10.2018) amounting to Rs 1,639,500,000 and 15% earnest money of the total bid price amounting to Rs. 245,925,000 was retained by PEMRA from these 17 successful bidders.

Audit observed that:

- i. Those 17 selected bidders were not granted licenses despite lapse of more than 44 months (three years and eight months) in violation of Section 22 of the PEMRA Ordinance, 2002 as amended by PEMRA Amendment Act 2007, Rule 09(5) of the PEMRA Rules, 2009 and Item No. 5 of the Minutes of the 155 Authority Meeting held on 28.02.2020.
- ii. The public exchequer was deprived of the remaining 85% of Applicable License Fee (ALF) revenue amounting to Rs 1,393,575,000 due to non-clearance of security from Ministry of Interior.

Audit is of the view that non-grant of licenses caused loss to the public exchequer and was a serious lapse on the part of Ministry of Interior as grant of license could not be pending for indefinite period of time.

The management did not reply till finalization of the Report.

Audit recommends that responsibility may be fixed for non-granting of licenses as per PEMRA Ordinance, Rules and Minutes of the Authority meeting.

18.5.3 Non-recovery of outstanding dues from M/s Shahzad Sky Pvt Ltd - Rs. 2,469.298 million

Clause 7 of the Terms and Conditions for the Direct-To-Home (DTH) license provides fee structure payable by the licensee. As per this clause, the licensee shall pay a fixed annual fee of Rs 10 million to the Authority. A late payment fee @ 5% per month, up to a maximum of 15%, for the late payment of annual fee shall be payable.

Clause 7.1 of the Terms and Conditions for the Direct-To-Home (DTH) license states that the licensee shall deposit with the Authority a bank guarantee equal to 10% of the Applicable License Fee as a performance guarantee from any bank of AA+ (Long Term Rating) and A+ (Short Term Rating), which shall remain with the Authority for the entire duration of this license.

Clause 2.3 of the Terms and Conditions for the Direct-To-Home (DTH) License states that the Licensee shall launch the DTH service within one year of grant of license.

The Authority issued DTH license to M/s Shahzad Sky Pvt (Ltd) Islamabad on 11.02.2019 with a bid price of Rs. 4,898 million. The remaining license fee was to be recovered from licensee @ Rs. 244.900 million on an annual basis in 10 equal installments.

The management of PEMRA, Islamabad was required to recover an amount of Rs. 2,469.298 million from M/s Shahzad Sky Pvt (Ltd) on account of annual installments, annual subscription, late payment surcharges up to 30.06.2023.

Audit observed as under:

- i. The remaining amount regarding installments, annual subscription and late payments charges amounting to Rs. 2,469.298 million up to 30.06.2023 has not been recovered.
- ii. Performance Bank Guarantee amounting to Rs. 489.800 million has not been deposited by licensee.
- iii. Advance tax amounting to Rs. 979.600 million has not been recovered by the management from licensee.
- iv. The licensee has not started its operation/services till September, 2023.

Audit is of the view that non-realization of outstanding dues from the licensee is a serious lapse on the part of PEMRA management which deprived the Authority/Government from its due receipts.

The management replied that audit has rightly observed about the relevant provisions of DTH license terms and conditions according to which the mentioned amount is leviable on the licensee. It is also a matter of fact that the project is first ever DTH to be launched in Pakistan requiring investment of billions of rupees for infrastructure, technology, human resources, establishment, maintenance and operationalization of the project. In line with the prevalent conditions and global scenarios, i.e. exchange rate difference, Covid-19, the PEMRA Authority had rightly extended one year to the licensee for launching of its operations. If the successful bidders remain unsuccessful to launch their licensed services for one or other reasons, then in light of the provisions of the law and approved process of the Authority, the other participant would be invited into the process subject to receipt of security clearance from Ministry of Interior. Whereas the matter of Advance Tax is subjudice in the Honorable Islamabad High Court.

The management has accepted the viewpoint of audit.

Audit recommends that matter may be investigated under intimation to audit.

18.5.4 Non-recovery of fines imposed by the PEMRA on various licensees - Rs. 24.350 million

Rule 5 of Pakistan Electronic Media Regulatory Authority Rules, 2009 states that the License shall be granted for a period of five, ten or fifteen years subject to payment of fee as set out in Schedule-B.

Rule 8(2) Pakistan Electronic Media Regulatory Authority, 2009 states that every licensee shall follow the specified timeline relating to the payment of any dues of the Authority.

Section 29(6) of Pakistan Electronic Media Regulatory Authority Ordinance, 2002 as amended by PEMRA Amendment Act 2007 states that the authority may, after the licensee has been given reasonable opportunity to show cause, impose fine up to one million rupees on a licensee who contravenes any of the provisions of this Ordinance or the rules or regulations made there under.

The Pakistan Electronic Media Regulatory Authority imposed fines amounting to Rs 24.350 million on various licensees during 2022-23.

Audit observed that the fine imposed had not been recovered from the licensees.

Audit is of the view that non-recovery of fines is a lapse on the part of the management which deprived the Government of its due receipts.

The management replied that out of the total amount of fine imposed, Rs. 1.9 million had already been recovered, case of Rs. 9.2 million is sub-judice and recovery of remaining amount of Rs. 13.25 million was actively pursued.

The management has accepted the audit observation.

Audit recommends that amount be recovered from concerned at the earliest.

18.5.5 Non-collection of outstanding license Fees - Rs. 51.762 million

Section 29-A of the Pakistan Electronic Media Regulatory Authority (Amendment) Act, 2007 states that all dues including outstanding license fee, annual renewal fee or any other charges including fine as imposed by the Authority shall be recoverable as arrears of land revenue.

The management of PEMRA issued licenses under various categories during the financial year 2022-23.

The audit observed that the management did not recover outstanding dues amounting to Rs. 51.762 million in violation of Section 29-A of the Pakistan Electronic Media Regulatory Authority (Amendment) Act, 2007, as per following details:

S. No.	Category	Amount (Rs.)
1	Cable TV	23,508,492
2	Satellite TV	20,200,000
3	FM Radio	4,131,500
4	Landing Rights	3,922,500
Total		51,762,492

Audit is of the view that non-recovery/collection of outstanding fees is lapse on the part of PEMRA which deprived the Government of its due receipts.

The management replied that PEMRA is actively perusing recovery of outstanding dues. The amount of Rs. 13.924 million has been recovered up to 31.08.2023. PEMRA is vigorously perusing the recovery and the remaining amount i.e. Rs. 37,838,992 will be recovered soon. It is an ongoing process.

The management has accepted the audit observation.

Audit recommends that outstanding dues may be recovered immediately.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide para number 12.5.7 having financial impact of Rs. 46.747 million. Recurrence of same irregularity is a matter of serious concern.

18.5.6 Irregular expenditure on internet services - Rs. 4.738 million

As per Para-11 of Policy for Internet, Intranet, Websites and E-mail in Federal Government Organizations issued by Cabinet Division, "Following guidelines are provided on provision and use of Internet facilities to Government Organizations:

- a. The Internet connection should be taken from the National Telecommunications Corporation (NTC), where available.
- b. The regions in Pakistan where NTC has not established its infrastructure yet, Government offices in those regions can acquire Internet connections from their local ISPs. The choice of the local ISP should be based on the ranking of ISPs done by Pakistan Telecommunication Authority (PTA).

As per Rule 12 of Public Procurement Rules, 2004 "procurements over five hundred thousand Pakistani Rupees and up to the limit of three million Pakistani Rupees shall be advertised

on the Authority’s website in the manner and format specified by regulation by the Authority from time to time.”

The management of Pakistan Media Regulatory Authority (PEMRA), Islamabad incurred an expenditure of Rs. 4.738 million on internet charges from M/s Nayatel Pvt Ltd, Islamabad during 2022-23.

Audit observed as under:

- i) The acquiring of internet services from the M/s Nayatel Pvt Ltd Islamabad, a private operator other than NTC, is in violation of instructions issued by the Cabinet Division. NTC was never approached for issuance of NOC and for getting to rank of ISPs before installation.
- ii) The expenditure was incurred without calling open tender thus the Government exchequer was deprived of the benefit of competitive rates.

Audit is of the view that incurrence of expenditure on internet services acquired from M/s Nayatel Pvt Ltd in violation of the instructions issued by the Cabinet Division and without open competition was irregular.

The management replied that PEMRA acquired the services of M/s PTCL and M/s Nayatel in addition to M/s NTC to provide uninterrupted internet services to its monitoring setup.

The reply was not accepted as instructions issued by the Cabinet Division were violated and services were acquired without open competition.

Audit recommends that matter may be taken up with NTC for issuance of NOC regarding using internet services of M/s PTCL and Nayatel.

18.5.7 Non-receipt of Annual Gross Advertisement Revenue from licensees Satellite TV Channels

Rule 17 of the Pakistan Electronic Media Regulatory Authority Rules, 2009 states that the licensee shall maintain proper accounts, as required by the applicable laws, and shall cause to be carried out the audit of its accounts by one or more auditors who are chartered accountants within the meaning of the Chartered Accountant Ordinance, 1961 (X of 1961) and shall submit the audited financial statements to the Authority not later than three months of the closing date of its financial year.

Schedule - B of the Pakistan Electronic Media Regulatory Authority Rules, 2009 states that annual gross advertisement revenue (ranging from 5% to 7.5% of the Annual Gross Advertisement Revenue) shall be realized from the licensees of Satellite TV Channels.

The management of PEMRA was required to ensure the receipts of 5% to 7.5% of the Annual Gross Advertisement Revenue from the licensees of Satellite TV channels along with audited financial statements.

Audit observed that:

- i. Duly audited annual Financial Statements were not submitted to PEMRA by the licensees in violation of Rule 17 of the Pakistan Electronic Media Regulatory Authority Rules, 2009.
- ii. PEMRA did not receive 5% to 7.5% of the Annual Gross Advertisement Revenue from the licensees of Satellite TV Channels.

Audit is of the view that PEMRA was deprived from its due receipts due to non-realization of the Annual Gross Advertisement Revenue from the licensees of Satellite TV Stations since formulation of the Rules from the year 2009 to 2022.

The management replied that STV licensees are required to pay 5% to 7.5% of annual gross advertisement revenue depending upon their license category. As a matter of fact, Pakistan Broadcasters Association had obtained stay order against PEMRA on the payment of Gross Annual Advertisement Revenue from the Honorable Sindh High Court vide its order dated 17.12.2009. The honorable Sindh High Court had suspended the notices issued by PEMRA and disposed of the matter against PEMRA. Against the court order, PEMRA filed a review petition with Honorable Supreme Court of Pakistan. The Court on 24.05.2019 has disposed of the appeals of PEMRA with the direction to PEMRA to proceed against the licensees under PEMRA Rules 2009. Accordingly, notices have been issued to licensees for recovery of Gross Annual Advertisement Revenue (GAAR) under Rule-17 of PEMRA Rules, 2009. The notices of PEMRA were subsequently challenged by Pakistan Broadcaster Association (PBA) in Islamabad High Court, which has issued a stay order.

Audit recommends that matter may be taken up with Honorable High Court for recovery.

CHAPTER 19

MINISTRY OF INTER PROVINCIAL COORDINATION

19.1 Introduction

As per Schedule II [Rule 3 (3)] Distribution of Business among the Divisions read with Schedule III [rule 4(4)] Rules of Business 1973 (As amended up to 23rd April, 2019) following main business have been assigned to the Division amongst the other functions.

1. General coordination between the Federal Government and the Provinces in the economic, cultural and administrative fields.
2. Promoting uniformity of approach in formulation of policy and implementation among the Provinces and the Federal Government in all fields of common concern.
3. Discussions of policy issues emanating from the provinces which have administrative or economic implications for the country as a whole.
4. All Secretarial work for the Council of Common Interests and their committees.
5. Any other matter referred to the Division by a Province or any of the Ministry or Division of the Federal Government.
6. Malam Jabba Resort Ltd.
7. Pakistan Veterinary Medical Council Islamabad.
8. Inter Board Committee of Chairmen, Islamabad.
9. Medical, nursing, dental, pharmaceutical, para-medical and allied subjects; -
 - i. education abroad; and
 - ii. Educational facilities for backward areas and for foreign nationals, except the nomination of candidates from Federally Administered Tribal Areas for admission to Medical College.
10. Legislation covering all aspects of sports affairs and matters ancillary thereto.
11. Administrative control of Board established for the promotion and development of sports under the Sports (Development and Control) Ordinance, 1962.
12. Pakistan Sports Board (PSB).
13. Pakistan Cricket Board (PCB).
14. Dealing and agreements with other countries and international organizations in matters relating to Youth Exchange Programs (External).
15. National Internship Program.
16. National Volunteer Movement.
17. Paralympics.
18. Gun and Country Club.
19. Federal Land Commission.

20. International Organizations and agreements relating to tourism.

ATTACHED DEPARTMENTS/ AUTONOMOUS BODIES

- i. Department of Tourist Services in Islamabad.
- ii. Pakistan Cricket Board
- iii. Pakistan Sports Board.
- iv. Guns & Country Club
- v. Pakistan Veterinary Medical Council, Islamabad.

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY-2022-23) Rs. in million	Revenue / Receipt Audited (FY 2022-23) Rs. in million
1	Formations	25	5	14,965.547	21,431.382
2	Assignment Accounts (Excluding FAP)	-	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	-	-	-	-
4	Foreign Aided Project (FAP)	-	-	-	-

19.2 Comments on Budget & Accounts (Variance Analysis)

The final budget allocated to the Inter Provincial Coordination Division for the financial year 2022-23 was Rs.3,650.80 million, out of which the Division expended an amount of Rs.3,524.35 million. Grant-wise detail of current and development expenditure is as under:

(Rs. In million)

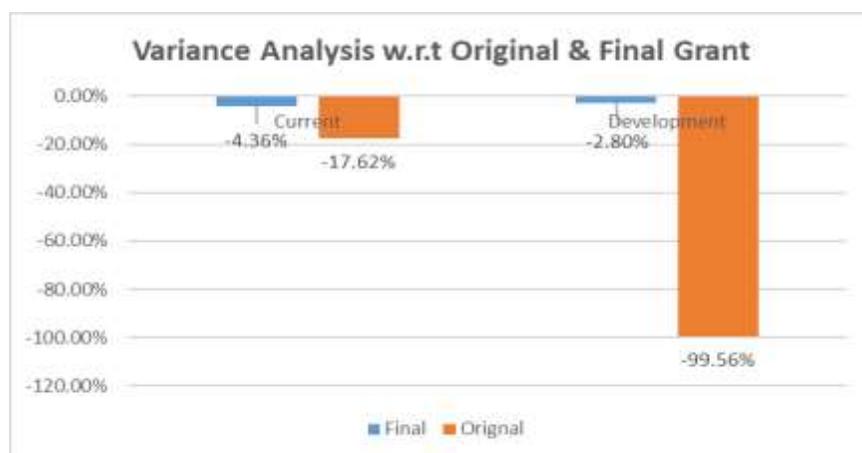
Grant No	Type of Grant	Original Grant	Suppl Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
62	Current	2,098.62	10.00	-246.57	1,862.05	1,784.28	-77.77	-4.36%
113	Development	3,472.42	.00	-1,683.68	1,788.74	1,740.07	-48.67	-2.80%
Total		5,571.04	10.00	-1,930.24	3,650.80	3,524.35	-126.45	-3.46%

Audit noted that there was an overall savings of Rs. 126.45 million, which was mainly due to savings in both grants.

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of General Financial Rules (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, bifurcating total allocation into current and development expenditure, it was observed that, in case of development grant, there was 99.56% of saving w.r.t original grant which was finally reduced to 2.80% w.r.t final grant and in case of current grant 17.62% saving was finally reduced to 4.36%.



19.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs. 2,981.954 million, were raised in this report during the current audit of **Ministry Of Inter Provincial Coordination**. Summary of the audit observations classified by nature is as under:

(Rupees in million)

S. No	Classification	Amount
1	Non-production of record	
2	Reported cases of fraud, embezzlement and Misappropriation	
3	Irregularities	
A	<i>HR/Employees related Irregularities</i>	22.808
B	<i>Procurement related irregularities</i>	8.62
C	<i>Management of account with commercial banks</i>	841.252
D	<i>Recovery</i>	42.775
E	<i>Internal Control</i>	2031.736
4	Value for money and service delivery	
5	Others	34.763

19.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
2010-11	7	7	1	6	14
2011-12	5	5	0	5	-
2012-13	11	0	0	11	-

2013-14	11	2	1	10	50
2015-16	6	6	5	1	83
2016-17	29	0	0	29	-
2017-18	5	0	0	5	-
2018-19	29	0	0	29	-
2019-20	13	0	0	13	-
2020-21	57	0	0	57	-
2021-22	10	10	0	10	-
2022-23	28	0	0	28	-
Total	211	30	7	204	-

19.5 AUDIT PARAS

Pakistan Sports Board

19.5.1 Unauthorized maintenance and operation of Staff Welfare Fund – Rs. 11.165 million

General Financial Rule 25 states that all department regulations in so far as they embody orders of instructions of a financial character or have important financial bearing should be made by or with the approval of the Ministry of Finance.

Section 5 of Sports (Development and Control) Ordinance, 1962 states that the Board may make rules and regulations for carrying its objects into effect.

Serial No. 11(16) of Schedule-II of Rule 3(3) of Rules of Business, 1973 has assigned the Finance Division to frame rules on pay and allowances, retirement benefits, leave benefits and other financial terms and conditions of service.

Pakistan Sports Board (PSB), Islamabad is maintaining a Staff Welfare Fund jointly contributed @ 2% of basic pay of the employees and @ 2% by PSB from government budget. An additional 10% share from PSB's receipt is also contributed to be part of the fund. A bank account No. 4171228734 is being maintained with National Bank Pakistan, Aabpara Branch, Islamabad with a balance of Rs. 11,164,969 as on 30.06.2023.

Audit observed that maintenance and operation of Staff Welfare Fund was a violation of PSB Ordinance. The contribution from receipt and government budget without the approval of the Finance Division was contrary to Rules of Business, 1973.

Audit is of the view that maintenance and operation of Staff Welfare Fund with the contribution from government budget / receipt without the approval of the Finance Division is unauthorized.

DAC in its meeting held on 18.01.2024 directed to formulate their rules regarding operation of Staff Welfare Fund and to also get Ex-post Facto approval of the expenditure in question from the Board for the operation of the Fund.

Audit recommends that this irregular practice should be discontinued forthwith besides fixing of responsibility.

19.5.2 Unauthorized grant-in-aid to non-affiliated sports organizations – Rs. 13.800 million

Article 7(xxxix) of Constitution of the Pakistan Sports Board, 2022 states that the Board shall have the function to give grants-in-aid and subsidies from time to time to the national games and sports organizations affiliated to the Board.

Article 20(9) of Constitution of the Pakistan Sports Board, 2022 states that only the duly recognized or affiliated national sports federation shall be entitled to financial grant as admissible.

Pakistan Sports Board (PSB), Islamabad disbursed an amount of Rs.13,800,000 as advance on account of grant-in-aid to M/s Sports in Pakistan, Karachi during financial year 2022-23. Details are as under:

(Amount in Rs.)				
Sl. No.	Description / Purpose	Cheque No.	Dated	Amount
1.	Official sponsor of 67 th National Track Championship, 2022	B-234106	08.11.2022	4,800,000
2.	Organization of Karachi Duathlon Season– III, 2023	B-356706	19.06.2023	9,000,000
Total				13,800,000

Audit observed that:

- i. M/s Sports in Pakistan, Karachi is neither a sports body nor an affiliated sport federation / association with PSB. Instead it is an event organizer of art, entertainment and recreation activities.
- ii. M/s Sports in Pakistan, Karachi was official sponsor of 67th National Track Championship, 2022 being conducted / organized by Pakistan Cycling Federation.

Audit is of the view that granting of Board funds to non-affiliated sports federation / associations was violation of PSB Constitution, and unauthorized.

DAC in its meeting held on 18.01.2024 directed that the para may be placed before the PAC.

Audit recommends recovering the amount and depositing it into government treasury besides fixing of responsibility.

Pakistan Cricket Board (PCB) including PSL-7 & 8

19.5.3 Unauthorized Payment of Meeting and Daily Allowances to the Members of BOG - Rs 16.386 million

Regulation 2 (C) of the Regulation for PCB Board of Governor's Entitlements states that the BOG Member shall be entitled to payment of following daily allowances when required to travel outside of Lahore on official duty, the Chairman shall be entitled to Daily Allowances as detailed below:

- a) Domestic PKR. 10,000 per day (For outstation only)
- b) International (Worldwide) US\$ 300 with accommodation to be arranged by PCB.
- c) International (UK) US\$ 400 with accommodation to be arranged by PCB.

Regulation 2(D) of the Regulations for PCB Board of Governor's Entitlements states that in the event any BOG Member is required to participate in meetings, as member of any PCB Committee, they will be paid a Committee Member Allowance amounting to PKR 10,000 (Pakistan Rupees Ten Thousand only).

The Pakistan Cricket Board paid Meeting and Daily Allowances amounting to Rs.11,725,000 @ Rs. 25,000 and Rs. 10,000 to the following Members of BOG/ Management Committee during the financial year 2022-23 as detailed below:

(Amount in Rupees)

Names of Member of BOG/MC	Meeting Allowance	Daily Allowance	Total Allowances
Mr. Shakil Ahmad Shaikh	2,700,000	1,560,000	4,260,000
Mr. Muhammad Haroon Rashid Dar	2,675,000	1,030,000	3,505,000
Mr. Aizad Sayid	He was paid meeting and daily allowances for 116 days from 23.01.2023 to 18.06.2023 (25,000*116+10,000*116) – Rs. 100,000 as meeting allowance for actual five meetings		3,960,000
Mr. Najam Sethi	2,650,000	2,010,605	4,660,605
Total			16,385,605

Audit observed that only five meeting of the BOG were held on 23.12.2022, 31.12.2022, 13.03.2023, 13.06.2023 and 14.06.2023 during December, 2022 to June, 2023 whereas the above-mentioned members were paid meeting and daily allowances for the entire month of February (28

Days), March (31 Days), April (30 Days) and June (18 Days). Similarly, Mr. Aizad Sayid, member Management Committee from Lahore was paid meeting and daily allowances @ Rs.25,000 and Rs.10,000 respectively. Payment of the daily allowance amounting to Rs 1,060,000 to Mr. Aizad Sayid was also not admissible to local member who did not travel outside Lahore to attend meeting of Management Committee.

Audit further observed that meeting allowance was claimed @ Rs25,000 instead of Rs.20,000 resulting over payment of Rs.1,655,000 to Mr. Shakil Ahmad Sheikh, Mr. Muhammad Haroon Rashid Dar, and Mr. Aizad Sayid

Audit is of the view that payment of Meeting and Daily Allowances over and above the prescribed period and at higher rates was unauthorized which resulted in the loss of Rs.11.725 million to the Board.

The management replied that BOG was replaced with Management Committee with executive powers that enhanced the rates of TA/DA.

The reply was not accepted because payment was irregular. Furthermore, TA/DA should not be a source of income.

DAC in its meeting held on 18.01.2024 directed to recover the excess amount paid under intimation to Audit.

Audit recommends that an inquiry may be conducted for unauthorized payment of meeting and Daily Allowances and the overpaid sums recovered.

19.5.4 Irregular appointment of Legal Advisors without concurrence of Law Division - Rs.22.808 million

Para (v) of Ministry of Law, Justice and Human Rights policy guidelines for nominations/recommendations for appointment of legal advisors and engagement/placement of advocates on the panel of advocates of various department issued vide letter No F.6/1/2013-LA dated 03.06.2015, every Government department or Semi Government or Public Corporate Body shall seek concurrence of the Law, Justice and Human Rights Division for engagement of lawyer where professional fee exceeds Rs 300,000. In such a case, the concerned Department will send a Panel of at least three Advocates for selection of one of them along with proposed professional fee for approval of the Law, Justice and Human Rights Division. Any failure in doing so will render the engagement of Advocate/Counsel etc. void and no ex-post facto approval will be allowed.

The Pakistan Cricket Board appointed following Law firms/ lawyers and paid an amount of Rs. 22,807,937 as legal charges during the financial year 2022-23. Details are as under:

Sr. No.	Name of Law firm/ Lawyer	Amount Rs.
1	Rizvi & Rizvi	17,852,437
2	M/s Justice Retired Fazal-e-Miran Chauhan	2,600,000
3	M/s Justice Faqir Khokhar	1,100,000
4	M/s FGE Ebrahim Hossain	1,255,500
	Total	22,807,937

Audit observed that the Law firms/ Lawyers were appointed without seeking concurrence of the Law, Justice and Human Rights Division for their engagement.

Audit is of the view that appointment of Law firms/Lawyers without concurrence of the Law, Justice and Human Rights Division was irregular, and payment of professional fee was unauthorized.

The management replied that individual payments made to lawyers are less than Rs. 300,000 in one instance and thus they do not fall under the purview of binding imposed by Ministry of Law and Justice.

DAC in its meeting held on 18.01.2024 directed to submit the case to Ministry of Law and Justice through Ministry of IPC for exemption from the above-mentioned restriction.

Audit recommends that responsibility may be fixed for irregular appointment of Legal Advisors without concurrence of Law and Justice Division.

19.5.5 Non-Distribution of Income realized from PSL-8-Rs 1,993.122 million

As per agreements signed for holding PSL-8 matches income realized from such tournaments/matches is distributed in prescribed ratio between PCB and Franchises.

The management of PCB incurred an expenditure of Rs.1,361.312 million against total income realized in Central Pool Revenue of Rs.3,354.435 million resulting in saving of Rs. 1,993.122 million in the event of PSL-8 during the financial year 2022-23.

Audit observed that savings worth Rs. 1,993.122 million was still lying undistributed between PCB and PSL franchises as no evidence of disbursement was produced to Audit.

Audit is of the view that non-distribution of Income realized from PSL-8 despite completion of the events and closing of financial year was a lapse on the part of local management.

The management replied that currently the financial statements pertaining to PSL-8 are being scrutinized. The amount would be distributed among franchises as soon as the final income after expenses is realized.

DAC in its meeting held on 18.01.2024 directed to finalize the accounts and distribute the amount among the franchises at the earliest.

Audit recommends that the decision of the DAC may be implemented.

19.5.6 Irregular insurance of property from a private insurance company - Rs. 9.238 million

Section 166(3) of the Insurance Ordinance, 2000 states that all insurance business relating to any public property, or to any risk or liability appertaining to any public property, shall be placed with the National Insurance Company Limited (NICL) under Ministry of Commerce only and shall not be placed with any other insurer.

Finance Division's U.O F.No.4 (1)/Coord-1/2022 dated 12.09.2022 emphasises the implementation of Section 166 (3) of the Insurance Ordinance, 2000.

PCB entered into an agreement with M/s Atlas Insurance Limited for the Assets insurance amounting to Rs. 9,238,100 @ Rs. 2,309,525 per quarter for the financial year 2022-23.

Audit observed that agreement was made with M/s Atlas Insurance Limited instead of NICL in violation of the Insurance Ordinance, 2000.

Audit is of the view that the insurance of the Property/ Assets from a private insurance company was irregular.

DAC in its meeting held on 18.01.2024 directed to initiate insurance agreement with NICL or process the case for exemption from the concerned Ministry.

Audit recommends that responsibility may be fixed for the irregularity.

Pakistan Veterinary Medical Council (PVMC)

19.5.7 Non-observance of limitation on annual admissions

Regulation 11 of the Pakistan Veterinary Medical Council (Accreditation and Equivalence) Regulations, 2015 states that number of annual admissions in an institution shall be determined and decided by the Committee after inspecting the facilities available in accordance with these

regulations. The maximum number of students allowed in the morning session may not exceed one hundred and twenty-five and in the evening, session may not exceed seventy-five. The Council may, however, increase the upper limit commensurate with available resources on recommendations of the Committee. The decision of the Committee shall be binding on the institution. Disregard of the committee's decision will render the institution liable to action under the Act and regulations made thereunder.

The record of Doctor of Veterinary Medicine (DVM) undergraduate registered students with PVMC revealed that 2415 students have been admitted in the 10 institutes/colleges all over Pakistan during financial year 2022-23.

Sr.#	Name of Institution	Morning			Evening		
		Enroll	Allowed	Excess	Enroll	Allowed	Excess
1	University of Veterinary & Animal Sciences, Lahore	128	125	03	75	75	-
2	University of Agriculture, Faisalabad	128	125	03	75	75	-
3	Sindh Agriculture University, Tandojam	154	125	29	75	75	-
4	Riphah College of Veterinary Sciences, Lahore	165	165	-	116	110	06
5	Peer Mehar Ali Shah, Arid Agriculture University, Rawalpindi	82	60	22	48	50	-
6	Bahauddin Zakariya University, Multan	54	60	06	47	40	07
7	College of Veterinary & Animal Sciences, Jhang	81	60	21	59	40	19
8	Gomal University, D.I.Khan	82	60	22	-	-	-
9	University of Agriculture, Peshawar	95	125	30	-	-	-
10	University of Poonch, Rawalakot	68	50	18	-	-	-
Total		1037	955	118	495	465	32

Audit observed that 150 students were given admission over and above prescribed authorization by the PVMC as approved in Accreditation and Equivalence Regulations, 2015.

Audit is of the view that council did not observe the above-mentioned regulations and excess admissions were irregular and unauthorized.

The management replied that as pointed out by the Federal Audit F.Y 2022-23, PVMC will ensure that in future all the Institutions/Colleges/Universities, providing veterinary education will be instructed to strictly adhere to the allowed enrollment of students in the morning and evening sessions. The instructions issued to the Institutions/Colleges/Universities will be shared with Federal Audit.

The management has accepted the viewpoint of Audit.

DAC in its meeting held on 18.01.2024 directed to strengthen their regulatory role and to initiate strict action against transgressing institutions and impose penalty on the analogy of PMDC and other regulatory bodies.

Audit recommends that responsibility may be fixed for unauthorized admission over and above prescribed limit.

19.5.8 Loss due to non-realization of outstanding fees from registered graduates - Rs. 42.775 million

Section-9(4) of the Pakistan Veterinary Medical Council Regulations, 2000 states that the Council may receive registration and renewal fee, from veterinary, Animal Husbandry Graduates and institutions, benefactions and contributions from the Federal Government, Provincial Governments and private persons and bodies and proceeds of sales of report.

The management of PVMC, Islamabad maintained a register of DVM Registration and Collecting Registration/ Renewal Fee received from Veterinary/ Animal Husbandry Graduates. As per record, there are 19500 DVM registered with the Council out of which 5941 registrations are expired and need to be renewed.

Audit observed as under:

- i. The management did not take any action for renewal fee and fine where registration validity had expired which resulted in the loss of Rs.42,775,000 to the Council.
- ii. The Council did not devise any mechanism for timely registration, renewal and collection of fees.
- iii. The Council was deprived of its due receipts of Rs.42.775 million on due time.

The management replied that the matter will be placed in the forthcoming Council meeting. In future the veterinarians will be reminded for renewal of their registration with PVMC, in this way, PVMC will increase its resources/earnings.

The management accepted the viewpoint of Audit.

DAC was not convened till finalization of this report.

Audit recommends that responsibility for the lapse may be fixed, and the outstanding fees and fines recovered.

Special Audit of Guns and Country Club, Islamabad

19.5.9 Unknown whereabouts / encroachment of 38.727 Acres of the Club land

Clause 3(b) of M.L. Regulation No.63 (CDA Byelaws) states that “encroachment” means illegal occupation of land or procuring its allotment in any unauthorized manner or by illegal means and includes the use of any land otherwise than in accordance with the terms of its lease, license or allotment.

Clause 6 of M.L Regulation No.63 (CDA Byelaws) states that if the authority is satisfied that any land given on lease to any person is not being used for the purpose within the meaning of the rules of the Capital Development Authority, it may cancel the lease and acquire the possession of such land without paying any compensation to the lessee.

As per 2(3) of Resolution No. F-4/1/2010-PCB/GC dated 30.09.2002 as amended on 29.01.2011 of Ministry of Minorities, Culture, Sports, Tourism & Youth Affairs through which Gun & Country Club was established states that the Club shall be located adjacent to Pakistan Sports Complex, Islamabad spanning on area of 72 Acres of land.

CDA Chairman gave presentation to the PAC on the Gun Club and stated that a land of 145 acres was allotted to Pakistan Sports Board (PSB) in 1977 and the total cost of the land was Rs.736,600 at the rate of Rs.5,060 per acre. He said in the year 2000, the 9th SAF Games were proposed to be held in Islamabad and steering committee was constituted which reserved 44 acres for shooting ranges at the PSB out of allocated 145 acres of land.

As per SUO MOTU CASE No.14 of 2011 date of hearing 09.07.2018 it was stated that ‘we would also like to highlight that the resolution dated 30.09.2022 upon which the club has placed reliance to justify its occupation of approximately 37 acres of land in its possession is neither a deed of transfer nor a deed or document of lease or license’.

Further letter No. GCC/MANCOM/2021 dated 31.08.2021 of the Gun & Country Club addressed to the Financial Advisor / Member, CDA states that the land measuring 33.273 acres is allotted to the Gun and Country Club with retrospective effect.

The Gun and Country Club, Islamabad was provided a land of 72 Acres by the Pakistan Sports Board for running a Gun Club.

Audit observed as under:

- i. The actual land as per resolution required to be under possession of the Gun and Country Club, Islamabad was 72 Acres, but 33.273 acres of land was retained by the Club.
- ii. As per CDA, Islamabad 72 acres of land was provided to the Club and Property Tax of the same was claimed. But before the Honorable Supreme Court of Pakistan the Gun & Country Club accepted that approximately 37 acres of land is in possession of the Club without any deed of transfer nor a deed or document of lease or license.
- iii. The Gun & Country Club accepted before the Honorable Supreme Court of Pakistan that approximately 37 acres of land is allotted to the Gun and Country Club however, as per letter addressed to the Financial Advisor / Member, CDA it was stated that the land measuring 33.273 acres is allotted to the Gun and Country Club which is further reduced by 3.727 acres than the actual land in possession of the Club.

Audit is of the view that the whereabouts of the 38.727 acres of land were not known, which was required to be under the possession of the Gun & Country Club. Further, no documents were available with the club which led towards the encroachment of land of the club.

The management replied that the matter has been put-up with CDA and the concerned Ministry. Two meetings have been conducted in this regard. The CDA is being approached for lease of the land.

Management accepted the view of Audit.

Audit recommends looking into the matter under intimation to Audit.

19.5.10 Non-deposit of excess balances in Sports Endowment Fund Account - Rs. 480.087 million

Section 8 of the Gun Club Resolution, 2002 states the income of the Club, howsoever, derived shall be applied to discharge all its liabilities and applied towards maintenance upkeep and improvement in the quality of service, the general ambiance and facilities extended by the Club to its members and the excess amount, if any, shall be deposited in Sports Endowment Fund.

The Gun and Country Club, Islamabad was established through a Resolution No. F-4/1/2002-S-II dated 30.09.2002 published on 18.11.2002 under Ministry of Minorities, Culture, Sports, Tourism and Youth Affairs and transferred to Ministry of Inter Provincial Coordination subsequently. The Club generated income amounting to Rs.166,448,164 and Rs.229,424,714 and

retained balances of Rs.384,092,260 and Rs.480,086,737 during financial year 2021-22 and 2022-23 respectively. Details are as under:

(Amount in Rupees)				
Sr. No.	Account No.	Bank Name.	Account Type	Balance as on 30.06.2023
1.	01940060002501	Faysal Bank	Current	1,297,167
2.	0010064100060019	Allied Bank	Business Account	11,205,015
3.	0010064100060031	Allied Bank	PLS Account	467,107,251
4.	01941450002504	Faysal Bank	Saving Account	383
5.	00351002493543	Bank Alfalah	Saving Account	116,225
6.	00351002493248	Bank Alfalah	Saving Account	360,696
Total Rs.				480,086,737

Audit observed that:

- i. As per the Gun Club Resolution, 2002 all the excess amount after upkeep and improvement expenditures was meant to be deposited into Sports Endowment Fund but the fund was not created and maintained.
- ii. The Gun & Country Club did not make rules of Endowment Fund to be presented by the Administrator to the Federal Government for approval.
- iii. The excess amount of Rs.480,086,737 during financial year 2022-23 was retained in bank accounts which was required to be deposited in Sports Endowment Fund.
- iv. The Gun & Country Club did not provide the bank statement of account at Faysal Bank, account No.0113-1490 at Blue Area Islamabad.

Audit is of the view that as per the Gun & Country Club Resolution the excess balances were required to be deposited in Sports Endowment Fund after approval of its rules and procedures from the Finance Division.

The management replied that the Endowment Fund was created and GCC was depositing the funds in the said account. In 2014 the then management of Gun and Country Club decided to merge the accounts to use fund for operational expenses. Merged accounts are also called Sports Endowment Fund Saving accounts. The account is to be used for Promotions of Sports, organizing sports events and Shooting Competitions with the operational/expenditure account.

The reply of the management is not acceptable as the Endowment Fund was not created as per the requirement of the Club's Act.

Audit recommends creating Endowment Fund under intimation to Audit.

19.5.11 Investment of funds without competition – Rs.350.00 million

Finance Division O.M. No. F.4(1)/2002-BR-11 dated 02.07.2003 states that investment of working balances / surplus funds be made subject to fulfillment of various requirements such as investment in A rating banks, competitive bidding process, investment exceeding Rs. 10 million shall not be kept in one bank, setting up of in-house professional treasury management functions, formation of Investment Committee, employment of qualified investment management staff, utilization of services of professional fund managers approved by SECP, annual certificate of the Chief Executive of the organization, etc.

The Gun & Country Club, Islamabad invested an amount of Rs.350.00 million in Allied Bank account No.0010064100060019 during financial year 2022-23.

Audit observed as under:

- i) Competitive bidding process was not carried out.
- ii) There existed no in-house professional treasury management functions.
- iii) Investment Committee was not constituted.
- iv) Qualified investment management staff were not employed.
- v) The services of professional fund managers approved by SECP were not obtained.

Audit is of the view that the investment made without in-house professional treasury management function and competitive bidding process was irregular and unauthorized.

The management replied that we have provided sufficient details of investment funds, to the Auditor.

The reply of the management is not cogent as the management invested an amount without competition.

Audit recommends inquiry to fix responsibility besides stopping the practice.

19.5.12 Non-payment of Property Tax - 32.000 million

Clause 89 (1) of the Islamabad Capital Territory Local Government Act, 2015 states that the property tax, under this Act, shall be collected by Metropolitan Corporation.

As per 2(3) Ministry of Minorities, Culture, Sports, Tourism & Youth Affairs Resolution No. F-4/1/2010-PCB/GC dated 30.09.2002 as amended on 29.01.2011 through which Gun &

Country Club was established states that the Club shall be located adjacent to Pakistan Sports Complex, Islamabad spanning on area of 72 Acres of land.

The same was also stated by CDA before the honorable Supreme Court of Pakistan stated that 72 acres of land was occupied by the Gun & Country Club since, 2002.

CDA Chairman gave presentation to the PAC on the Gun Club and stated that a land of 145 acres was allotted to Pakistan Sports Board (PSB) in 1977 and the total cost of the land was Rs. 736,600 at the rate of Rs.5,060 per acre. He said in year 2000, the 9th SAF Games were proposed to be held in Islamabad and steering committee was constituted which reserved 44 acres for shooting ranges at the PSB out of allocated 145 acres of land.

Further letter No. GCC/MANCOM/2021 dated 31.08.2021 of the Gun & Country Club addressed to the Financial Advisor / Member, CDA states that the land measuring 33.273 acres is allotted to the Gun and Country Club with retrospective effect.

The Gun & Country Club (GCC), Islamabad occupied 72 acres land of CDA from 2002 to date. Metropolitan Corporation Islamabad/CDA vide No. MCI/DDG/(Rev)/(G&CC)/2021/400 dated 17.06.2021 informed that payment on account Property Tax amounting to Rs.32.00 million has been accumulated against Gun & Country Club from July 2004 to June 2021 and DAC in its meeting directed to recover the outstanding dues from Gun & Country Club, Islamabad on account of Property Tax on or before 30.06.2021 to avoid embarrassment before PAC.

Audit observed that the long outstanding amount of property tax i.e. 2004 to 2021 was required to be paid without any delay but the same amount is still payable even after passing of one year after receiving final notice from Metropolitan Corporation Islamabad/CDA.

Audit is of the view that non-payment of property tax deprived the Government treasury from its due receipts and lapse on the part of club.

The management replied that the matter of land occupied by GCC is sub-judice in the Honorable Supreme Court of Pakistan vide Court Order dated 31.07.2023. The matter of land is under consideration with Ministry of Inter Provincial Coordination (IPC), Islamabad in the light of directions of Honorable Supreme Court of Pakistan. Since the matter is undecided, it is requested that we may wait till the final outcome and settlement by the Honorable Supreme Court of Pakistan and other relevant authorities in the matter.

The management accepted the viewpoint of Audit.

Audit recommends resolving the issue of property tax under intimation to Audit.

19.5.13 Keeping of arms and ammunitions without licenses and without inspection

As per Rule 18 of Chapter-III of Pakistan Arms Rules 2023, institutional arms license may be issued to:

- a) a company registered under the company's law for provision of security services,
- b) a company or legal entity partially or fully owned by the Federal Government, a Provincial Government or Government of Gilgit-Baltistan and Azad Jammu and Kashmir,
- c) institute of Government established by law, and
- d) corporations or companies established under the Companies law which require licenses for security of their premises.

Rule 19(1) of Chapter-III of Pakistan Arms Rules 2023 states that the Minister and the Secretary of the Interior Division or Special Secretary of the Interior Division duly authorized by the Secretary thereof may allow NPB or PB arms licenses as the case may be to an institution as defined in rule 18.

The Gun & Country Club retained 07 Shot Guns, 13 .22 Pistols & Rifles and 14 Pistol for target shooting.

Audit observed that:

- i. The arms were retained without licenses.
- ii. The Technical Committee for arms and ammunitions was not constituted.
- iii. Certificates of originality of arms and ammunition were not available.
- iv. Periodic inspection reports and fitness certificates of arms were not available.
- v. Details of repair and maintenance were not available.
- vi. Details of replacement and disposed of arms and ammunition were also not maintained.

Audit is of the view that retention of arms and ammunition without licenses is a serious lapse on the part of the club.

The management replied that the Licenses of all arms of the club have been processed. Shooting technical committee has been constituted for the said purpose.

The management accepted the viewpoint of Audit.

Audit recommends looking into the matter and get arms & ammunitions licensed from the Ministry of Interior.

19.5.14 Non-Reconciliation/misappropriation of membership fee

Para 23 of GFR states that every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

The Gun and Country Club, Islamabad was required to submit and reconcile its collected membership fee, collect fee in cheques instead of cash, ensure timely submission of membership fee, etc. Some of the instances noted by Audit are as under:

- i. A letter was issued to Mr. Sikandar Khan for submission of membership fee on 01.08.2022 and membership card was issued on 20.06.2023 without any fee submission details in file.
- ii. Mr. Shoaib Qaisrani, Membership No.1346 was asked to submit Rs.1.00 million as membership fee which was received on 17.08.2022, however a letter was issued on same date a letter of Rs. 0.4 million was placed in the file against the membership fee.
- iii. Another member Ms. Rida Noor, Membership No.1312 submitted 0.4 million for membership, but there was 0.1 million outstanding against her.
- iv. Mr. Farhan Qamar, Membership No.1304 submitted 3 cheques amounting to Rs.1.00 million but only an amount of Rs. 0.4 million was deposited while 0.6 million is still outstanding.
- v. Col. Rtd Mr. Nauman Aziz, Membership No.1240 submitted 0.4 million in cash as membership fee to Assistant Manager Admin, while only Rs.0.2 million was deposited.
- vi. Mr. Abdul Waheed, Membership No.1283 submitted cheques for Rs. 1.3 million and the only amount of Rs.0.8 million was deposited.
- vii. The widow of Mr. Sadiq, Membership No. 1095, was asked to submit Rs.0.4 million as membership transfer fee and the same amount was deposited in the Club account against the rules.
- viii. Mr. Haroon K. Hashmi, Membership No.1301 has an outstanding amount of Rs.0.6 million, on demand he stated that the amount was given in cash to Assistant Manager Admin.

Audit is of the view that misappropriation in deposit of membership fee and transfer of membership with unlawful fee is a serious lapse on the part of club.

The management replied that an inquiry has been conducted by MC members has recommended to impose penalty of dismissal from service on Mr. Yasir Javaid (Ex M Admin) and Mr. Muhammad Asghar (Ex-Assistant Manager Admin). Moreover, a process of reconciliation is underway and a report will be sent to law enforcement agencies for recovery of pilfered amounts.

The management accepted the viewpoint of Audit.

Audit recommends inquiry to fix the responsibility besides recovery.

Audit also recommends strengthening of internal financial controls to avoid such instances in future.

19.5.15 Irregular payment to the contractor for repair of building, construction work and upholstery - Rs.8.620 million

Rule 12(1) of Public Procurement Rules, 2004 states procurements over five hundred thousand Pakistani Rupees and up to the limit of three million Pakistani Rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the Authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency.

The Gun and Country club, Islamabad incurred expenditure of Rs.2,465,802 during financial year 2021-22 and Rs.3,886,341 during financial year 2022-23 on repair of building and construction work. Further expenditure on paint work of building and shooting ranges amounting to Rs.1,423,628 and upholstery amounting to Rs.845,200 was also incurred during financial year 2022-23.

Audit observed that the work was awarded without open competition and estimates of the work to be executed.

The management replied that the said repair of building, construction work and upholstery were performed through prequalified vendors in different time frames as per time-to-time requirement generated by the respective departments. The procurement was under Rs.500,000 as per the rules of GCC the amount lower than Rs.500,000 will not be advertised on any platform.

The reply of the management is not acceptable as no details of prequalification of vendors were provided to Audit. Further, no approved procurement rules of the Club were provided to Audit.

Audit recommends stopping the practice besides inquiry to fix the responsibility.

CHAPTER 20

MINISTRY OF INTERIOR

20.1 Introduction

As per Schedule II [Rule 3 (3)] Distribution of Business among the Divisions read with Schedule III [rule 4(4)] Rules of Business 1973 (As amended up to 23rd April, 2019) following main business have been assigned to the Division amongst the other functions.

1. Internal security; matters relating to public security arising out of dealings and agreements with other countries and international organizations.
2. Preventive detention for reasons of State connected with defence, external affairs or the security of Pakistan or any part thereof; and for reasons, connected with the maintenance of public order or the maintenance of supplies and services essential to the community; persons subjected to such detention.
3. Nationality, citizenship and naturalization.
4. Admission of persons into, and expulsion of persons from Pakistan, including:
 - a) policy regarding entry, exit and sojourn of foreigners and aliens; and (b) regulation of movement in Pakistan of persons not domiciled in Pakistan.
5. Admission of persons into, and departure of persons from Pakistan.
6. Policy regarding censorship; prescription of books and publications in consultation with the Education Division, where necessary.
7. National Database and National Data Warehouse for issuance of National Identity Cards, Pakistan Origin Cards and Aliens Registration Cards.
8. Security measures for the Federal Secretariat and Subordinate Offices.
9. Pardons, reprieves, respites, remissions, commutation, etc. (excluding personnel belonging to the Armed Forces), issuance of warrant of execution of death sentence.
10. Police Commission and Police awards.
11. Policy coordination of, and higher training in Civil Defence and A.R.P. matters.
12. Pakistan Flag, Coat of Arms, monograms, seals etc.; Standard Time for Pakistan; public holidays; Gazette of Pakistan.
13. Warrant of Precedence; celebrations and ceremonial parades (other than those of Armed Forces); action to be taken on the death of high officials; civil uniform rules.
14. Coordination of policy matters relating to the Police.
15. Coordination of anti-smuggling measures.
16. Matters relating to Federal Police Forces, their establishment etc.

17. Administrative Control of the Civil Armed Forces (i.e. Frontier Corps including Baluchistan Constabulary and Frontier Constabulary) Rangers and Coast Guards.
18. Arms Act jurisdictions to Federal areas.
19. Border incidents and disputes.
20. Permission to Government servants to visit India.
21. Political asylum, Genocide.
22. Surrender of criminals and accused persons to Government outside Pakistan.
23. Special studies of penal reforms in the context of national mores and requirements; coordination of reforms by the provinces and provisions of facilities for professional and technical training of jail staff, at home and abroad; and dealing with such items pertaining to prisons, etc., as are embodied in the Federal and Provincial Subjects.
24. Protection and maintenance of non-Muslim shrines in Pakistan and pilgrimages from India.
25. Administrative Control of National Police Academy.
26. All Administrative matters relating to the Federal Investigation Agency.
27. Investigation and prosecution of cases falling under the Schedule appended to the Federal Investigation Agency Act, 1974.
28. To act as National Central Bureau to keep liaison with the INTERPOL.
29. Anti-Corruption laws, except the National Accountability Ordinance, 1999 35. Islamabad Capital Territory Administration.
30. Advocate General (ICT), Metropolitan Corporation Islamabad, Capital Development Authority.
31. Management and distribution of zakat and Ushr in Islamabad.

ATTACHED DEPARTMENTS/ AUTONOMOUS BODIES

- i. Directorate General of Immigration and Passports.
- ii. Directorate General of Civil Defence.
- iii. Pakistan Rangers, Lahore.
- iv. Pakistan Coast Guards.
- v. Frontier Corps, Khyber Pakhtunkhwa.
- vi. Frontier Corps, Baluchistan.
- vii. Chief Commissioner, Islamabad Capital Territory.
- viii. Pakistan Rangers Sindh (South), Karachi.
- ix. Federal Investigation Agency.
- x. Frontier Constabulary, Khyber Pakhtunkhwa.

- xi. Gilgit Baltistan Scouts.
- xii. Central Jail Staff Training Institute.
- xiii. National Police Foundation.
- xiv. National Alien Registration Authority
- xv. National Database and Registration Authority
- xvi. National Police Academy
- xvii. National Counter Terrorism Authority
- xviii. Capital Development Authority

(Rupees in Million)

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY-2022-23) Rs. in million	Revenue / Receipt Audited (FY 2022-23) Rs. in million
1	Formations	243	65	175,753.339	20,533.312
2	Assignment Accounts (Excluding FAP)	3	3	352.471	
3	Authorities / Autonomous Bodies etc. under the PAO	2	2	1,682.633	693.129
4	Foreign Aided Project (FAP)				

20.2 Comments on Budget & Accounts (Variance Analysis)

The final budget allocated to the Interior Division for the financial year 2022-23 was Rs. 240,995.26 million, out of which the Division expended an amount of Rs. 233,263.48 million. The Division had five current and one development grant. Grant-wise detail of current and development expenditure is as under:

(Rs. In million)

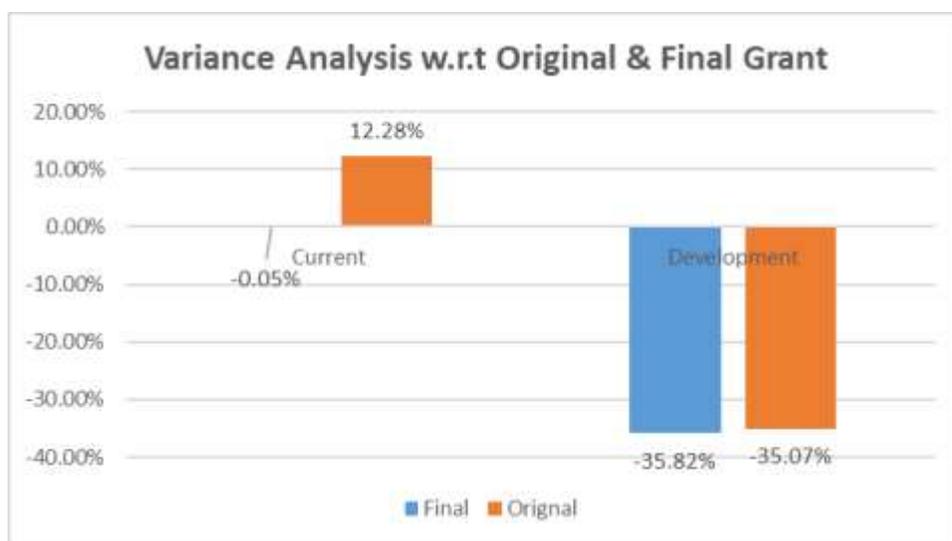
Grant No	Type of Grant	Heads	Original Grant	Suppl Grant	Surr (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
57	Current	Main	12,040.87	6,825.78	-630.17	18,236.48	14,649.43	-3,587.05	-24.49%
58	Current	Misc	6,614.00	2,773.20	.00	9,387.20	9,714.64	327.44	3.37%
59	Current	ICT	13,978.59	1,150.10	-56.87	15,071.82	15,117.02	45.20	0.30%
60	Current	Civil Armed Forces	162,669.54	13,992.76	-10.47	176,651.84	179,763.77	3,111.93	1.73%
61	Current	NCTA	268.89	110.65	-27.18	352.36	351.79	-.58	-0.16%
589	Total		195,571.89	24,852.50	-724.69	219,699.70	219,596.63	-103.06	-0.05%
108	Development	Dev	21,048.72	1,817.18	-1,570.33	21,295.56	13,666.84	-7,628.72	-35.82%
	Total		216,620.60	26,669.67	-2,295.01	240,995.26	233,263.48	-7,731.78	-3.31%

Audit noted that there was an overall saving of Rs.7,731.48 million, which was mainly due to saving in development grants.

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of General Financial Rules (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, bifurcating total allocation into current, development and charge expenditure, it was observed that, in case of development grant, there was 35.07% of saving w.r.t original grant which was finally increased to 35.82% w.r.t final grant and in case of current grant 12.28% excess was finally became 0.05% saving.



20.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs. 31,615.359 million, were raised in this report during the current audit of **Ministry Of Interior**. Summary of the audit observations classified by nature is as under:

(Rupees in million)

S. No	Classification	Amount
1	Non-production of record	
2	Reported cases of fraud, embezzlement and Misappropriation	243.23
3	Irregularities	
A	<i>HR/Employees related Irregularities</i>	15,907.47

B	<i>Procurement related irregularities</i>	12,523.94
C	<i>Management of account with commercial banks</i>	42.00
D	<i>Recovery</i>	363.62
E	<i>Internal Control</i>	1,722.46
4	Value for money and service delivery	
5	Others	812.63

20.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
2010-11	9	9	3	6	33
2011-12	21	0	0	21	-
2012-13	46	13	3	43	23
2013-14	19	19	13	6	68
2014-15	38	0	0	38	-
2015-16	5	1	1	4	100
2016-17	46	46	15	31	33
2017-18	58	58	26	32	45
2018-19	48	22	17	31	77
2019-20	65	40	17	48	43
2020-21	65	0	0	65	-
2021-22	97	10	4	93	40
2022-23	73	0	0	73	-
Total	590	218	99	491	-

20.5 AUDIT PARAS

Interior Division (Main)

20.5.1 Whereabouts not known of 1,985 Arm Licenses – Rs. 10.921 million

General Financial Rule 11 states that each head of a department is responsible for enforcing financial order and strict economy at every step. He is responsible for observance of all relevant financial rules and regulations both by his own office and by subordinate disbursing officers.

The management of Ministry of Interior, Islamabad provided a statement obtained from NADRA which showed that NADRA issued 46,465 Arm Licenses and collected an amount of Rs. 422,374,000 on behalf of the Ministry of Interior during financial year 2022-23.

Nos. of Arm Licenses issued			Receipt (Rs.)
NPB	PB	Total	
30,656	15,809	46,465	422,374,000

However, Ministry of Interior, Islamabad provided detail / information regarding issuance of Arms Licenses during 2022-23. Detail is as under:

Sl. No.	Description	Nos. of Arm Licenses			Amount
		NPB	PB	Total	(Rs.)
1.	Cases of purchased and entry of weapon	7,435	10,312	17,747	280,017,500
2.	Arm License issued to retired Forces personnel	667	321	898	3,912,500
3.	Renewal Cases	23,005	5,327	28,332	141,519,000
4.	Institutional Licenses	1,058	314	1,372	7,261,000
5.	Cases for transfer / restoration / cancellation	44	57	101	584,750
	Total	32,209	16,331	48,450	433,294,750

Audit observed as under:

- i) Aforementioned information shows variation of 1,985 (48,450 – 46,465) Arm Licenses between NADRA and Ministry of Interior.
- ii) Management did not provide record of Arm License fee amounting to Rs. 10,920,750 (Rs. 433,294,750 – Rs. 422,374,000).

Audit is of the view that due to absence of any mechanism of Arm Licenses reconciliation between Ministry and NADRA, variation of 1,985 Arm Licenses (amounting to Rs. 10,920,750) was arising, which leads to non-realization of receipt.

The management did not reply till finalization of report.

PAO was informed on 03.01.2024 but DAC was not convened till finalization of the Report.

Audit recommends fixing of responsibility for non-reconciliation and less deposit of arm license fee into government treasury.

Excise and Taxation Department, ICT, Islamabad

20.5.2 Loss due to Non-collection of GST – Rs. Rs. 43.866 million

Rules 3 of Sales Tax Act, 1990 states that subject to the provisions of this Act, there shall be charged, levied and paid a tax known as sales tax at the rate of 17% of the value of (a) taxable supplies made by a registered person in the course or furtherance of any taxable activity carried on

by him; and (b) goods imported into Pakistan, irrespective of their final destination in territories of Pakistan.

The management of Excise and Taxation Department, Islamabad issued vehicles number plates to the owners at the rate of Rs. 800 per number plate. Details are as under:

S. No	Financial Year	Total No. Plates Issued	Amount without Sales Tax	Rate of Sales Tax	Amount with Tax
1	2018-19	75974	60,779,200	17%	10,332,464
2	2019-20	36318	29,054,400	17%	4,939,248
3	2020-21	63031	50,424,800	17%	8,572,216
4	2021-22	94762	75,809,600	17%	12,887,632
5	2022-23 up to 13.02.2023	36963	29,570,400	17%	5,026,968
6	14.02.2023 to 30.06.2023	14632	11,705,600	18%	2,107,008
Total					43,865,536

Audit observed that the number plates were issued without charging sales tax from the owners of the vehicles in violation of Rule.

Audit is of the view that due to non-collection of GST amounting to Rs. 43.866 million the government was deprived of benefit of its due revenue.

The management did not reply till finalization of the report.

PAO was informed on 05.12.2023 but DAC was not convened till finalization of the Report.

Audit recommends that the amount may be recovered from the owners and deposited into the government treasury.

20.5.3 Loss of revenue due to incomplete record of Hotels' capacity

Section 12(1) of Bed Tax and amendments under Finance Act of 1965 (as amended in Finance Act 2019) states that there shall be levied and collected in prescribed manner from all the Hotels, having at least twenty-five (25) lodging units (means number of Beds), a Bed Tax at the rate of five percent (5%) of invoice or bill excluding Sales Tax and other applicable Taxes.

Further, at the time of registration applicants provide the details of lodging units in the prescribed forms.

The management of excise and Taxation department, Islamabad collected bed tax amounting to Rs. 484,975,847 during 2022-23. Details are as under:

(Amount in Rupees)

Sr. No	Hotels in ICT	Total Bed Tax
1	M/s. Islamabad Hotel	19,037,243
2	M/s. Miraj Hotel, Islamabad.	1,194,765
3	M/s. Hotel Margalla (Pvt) Ltd	29,788,849
4	M/s. Atlas Hotel, Islamabad.	299,588
5	M/s. VIRIDI Hotels, Islamabad.	2,955,622
6	M/s. Islamabad Serena Hotel	254,029,712
7	M/s. Ramada Hotel	34,553,528
8	M/s. Roomy Signature	29,228,014
9	M/s Islamabad Marriot Hotel	113,888,526
	Total	484,975,847

As per registration record of Department of Tourism Services under Ministry of IPC there are 120 hotels operating in ICT. Category-wise detail is as under:

Hotel Level	Number
5 star	2
4 star	2
3 star	8
2 star	10
1 star	98
Total	120

Audit observed that:

- i. Out of 120 hotels, the management only collected tax from nine (09) hotels.
- ii. The management neither had the basic information about the bed capacity and month wise room rent collected by hotels nor the annual financial statement showing the month-wise revenue statements of hotels.

Audit is of view that due to incomplete record of hotels, less bed tax was realized causing loss to the public exchequer.

The management did not reply till finalization of the report.

PAO was informed on 05.12.2023 but DAC was not convened till finalization of the Report.

Audit recommends that details about the tax collected may be provided to audit and tax may be collected from the remaining hotels in the light of their annual financial statement and occupancy record.

20.5.4 Non-deposit of due bed tax – Rs. 6.598 million

Para 26 of GFR Volume-I states that subject to any special arrangement that may be authorized by competent authority with respect to any particular class of receipts, it is the duty of the departmental controlling officers to see that all sums due to Government are regularly and promptly assessed, realized and duly credited in the public account.

Audit observed that as per statement provided by ETO, bed tax collected during year 2022-23 was Rs. 524,587,074 whereas bed tax manual register showed Rs. 517,989,535. There was a difference of Rs 6,597,539.

Audit is of the view that due to the difference in two documents the actual amount of collection could not be ascertained.

The management did not reply till finalization of the report.

PAO was informed on 05.12.2023 but DAC was not convened till finalization of the Report.

Audit recommends that matter may be inquired to fix responsibility.

20.5.5 Less recovery of professional tax from establishments – Rs. 12.430 million

Section 11 of Finance Act, 2019 states that the professional tax is recoverable from Establishment with employees exceeding 25 @ Rs 5,000 annum and Recruiting Agencies -Rs 10,000/- annum.

Section 11 of Finance Act, 2019 states that the professional tax is recoverable from Establishment with capital exceeding PKR 50 million but not exceeding PKR 100 million @ Rs 35,000 annum.

Excise & Taxation Office, Islamabad registered and collected professional tax from following institutions/establishments during 2022-23. Details are as under:-

Establishments	(Amount in Rupees)	
	Nos of establishment Registered for Tax collection	Collected Tax Amount Rs.
Educational Establishment	8	168,000

Recruiting agencies	5	50,000
Food Business	4	9,000
Pharmaceuticals companies and private hospitals	12	378,000
Travel agencies and Tour Guides	7	11,000
Total		616,000

Audit observed that management did not collect professional tax from following un-registered establishments. Details are as under:

Establishments	No' of Establishment Un-registered	(Amount in Rupees)
		Due Tax Amount Rs.
Educational Establishment	752	3,760,000
Recruiting agencies	167	1,630,000
Food Business	292	1,460,000
Pharmaceuticals companies and private hospitals	61	2,170,000
Travel agencies and Tour Guides	682	3,410,000
Total		12,430,000

Audit is of the view that due to incomplete registration exact amount of tax due i.e. the principal professional tax amount with arrears cannot be calculated or recovered.

The management did not reply till finalization of the report.

PAO was informed on 05.12.2023 but DAC was not convened till finalization of the Report.

Audit recommends that proper record of establishments in ICT be maintained to realize the ascertained amount of collection and prevent loss to the exchequer.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide para number 14.5.37 having financial impact of Rs. 3.905 million. Recurrence of same irregularity is a matter of serious concern.

Federal Investigation Agency (HQ), Islamabad

20.5.6 Mis-procurement due to award of contract to 2nd lowest bidder in violation of PPRA Rules- Rs 27.50 million

Rule 36(b) of Public Procurement Rules, 2004 states that (viii) after the evaluation and approval of the technical proposal the procuring agency, shall at a time within the bid validity

period, publicly open the financial proposals of the technically accepted bids only. The financial proposal of bids found technically non-responsive shall be returned un-opened to the respective bidders, (ix) the bid found to be the lowest evaluated bid shall be accepted.

Management of Inter Border Management System (IBMS) Islamabad purchased 200 Lenovo V50t Desktops from M/s Mega Plus amounting to Rs. 30,310,400.

Audit observed that M/s IBL Unisys quoted Rs. 27.539 million without tax and M/s Mega Plus quoted Rs. 30.310 million without tax. While calculating the bid price, the management added GST @ 17% in the bid of M/s Unisys and GST @ 5% in the bid of M/s Mega Plus due to which the bid of M/s Unisys who was the lowest bidder exceeded from bid of M/s Mega Plus.

Audit is of the view that award of work to 2nd lowest bidder was mis-procurement and violation of PPRA Rules.

PAO was informed on 03.01.2024 but neither reply was furnished nor DAC convened till finalization of the Report.

Audit recommends that inquiry may be held to fix the responsibility for mis-procurement and amount may be recovered.

20.5.7 Wasteful expenditure on hiring of staff - Rs 6.00 million

Para-23 of GFR (Vol-I) states that every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

Management of Inter Border Management System (IBMS) Islamabad paid Rs. 6.00 million to Virtual University for conduct of test for recruitment/hiring of staff for the IBMS Phase-II.

Audit observed that expenditure was incurred for conducting test for recruitment, but no recruitment was made till November, 2023 and project is also near to its completion in June, 2024.

Audit is of the view that expenditure without availing its benefits was wasteful and loss to Government. Further, the efficiency and effectiveness of the project without required staff could not be achieved.

PAO was informed on 03.01.2024 but neither reply was furnished nor was DAC convened till finalization of the Report.

Audit recommends that staff should be recruited to achieve the project objectives.

20.5.8 Irregular payment of office building rent - Rs 12.544 million

Para-23 of GFR (Vol-I) states that every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

FIA, Zone Islamabad hired office building at Qaiser Waseem Plaza, Madni Chowk, G13/3 Islamabad 3rd floor covered area 9324Sq.ft for the period 16.01.2021 to 31.12.2022 and 2nd floor covered area 9145Sq.ft for the period 18.6.2021 to 28.02.2022 from M/s Muhammad Gulistan Khan and paid rent amounting to Rs. 12,544,000.

Audit observed that:

- i. Payment was made without agreement.
- ii. Payment was made without the revision of the agreement and without the approval of the competent authority.
- iii. At the time of payment the owner was not alive
- iv. Accommodation of building and payment of rent was made without approval from Ministry of Finance
- v. Payment was made to other than owner.

Audit is of the view that payment without approval and without agreement, to third party, was irregular and unauthorized.

PAO was informed on 03.01.2024 but neither reply was furnished nor was DAC convened till finalization of the Report.

Audit recommends that matter may be inquired and responsibility for the lapse fixed.

Gilgit Baltistan Scouts, Gilgit

20.5.9 Irregular procurement without open competition in DBDP–Rs.22.25 million

As per Note ‘e’ to the MOU signed between WAPDA and Gilgit-Baltistan Scouts, Gilgit all purchases shall be made in accordance with the provision of Public Procurement Rules.

Rule 12(1) of Public Procurement Rules, 2004 states that procurements over five hundred thousand Pakistani Rupees and up to the limit of three million Pakistani Rupees shall be advertised on the Authority’s website in the manner and format specified by regulation by the Authority from time to time. These procurement opportunities may also be advertised in print media.

Gilgit-Baltistan Scouts purchased arm & ammunition amounting to Rs. 37.483 million for Diamer Bhasha Dam Project during 2022-23.

(Amount in Rupees)

Messer	Items Purchased	Amount
Shibli Electronic Pvt Ltd	Night vision sights	22,250,000

Audit observed that the items were purchased without open competition and the amount was given in advance without receipt of items.

Audit is of the view that purchases without open competition deprived the government of the benefit of the competitive rates. Audit is also of the view that advance payment without the approval of the Finance Division was unauthorized.

The management replied that Night Vision Sights have been procured from M/S Shibli Electronic Pvt (Ltd) which is the Original Equipment Manufacturer (OEM) of items in Pakistan.

The reply was not accepted because no documentary evidence was produced in support of the reply.

The DAC in its meeting held on 12.12.2023 directed that documentary evidence of the sole OEM in respect of Shibli Electronics be verified.

Audit recommends that responsibility may be fixed for the irregularity.

20.5.10 Irregular purchase of medical & Lab equipment without specification - Rs. 53.533 million

Rule 38 b (1) of PPRA, 2004 states that the procuring agency shall consider single bid in goods, works and services if it meets the evaluation criteria, ensures compliance of specifications and other terms & conditions expressed in advertisement or bid solicitation documents, is not in conflict with any provision of the Ordinance, and conforms to the technical specifications, has financial conformance in terms of rate reasonability.

GB Scouts, Gilgit procured medical and lab equipment for 116 wings during 2022-23. Details are as under:

(Amount in Rupees)

Messer	Description of items	Quantity	Rates Rs.	Amount
Zeem Enterprises	X-Ray Machine Toshiba	1	10,584,028	10,584,028
	Motorized bed	15	225,000	3,375,000
	Patient bed	15	95,500	1,432,500
	CBC Test Machine	2	953,500	1,907,000
	Suction Machine	5	91,500	457,500
	Surgical Table complete (japan)	1	1,550,000	1,550,000
	ECG Machine (Japan)	2	530,000	1,060,000
	Anesthesia Machine (Germany)	2	3,550,000	7,100,000
	Dental Unit with Hydraulic Chair complete	1	3,560,000	3,560,000
	Ventilator Machine	5	995,000	4,975,000
	Dialysis Machine (Germany)	1	1,283,500	1,283,500
Nadir & Sons Enterprises	VHF Handheld Micro set	40	128,000	5,120,000
	VHF static base with extra cable	2	900,000	1,800,000
	VHF Mobile base with extra cable	2	760,000	1,520,000
	EFT 101	10	55,000	550,000
	Acid for battery	300	450	135,000
	DC wire Coil (90ms/coil)	4	660,000	2,640,000
	Dc Search Lite	20	12,000	240,000
	AC Search Lite	35	14,000	490,000
	HP Laser printer	1	2,258,000	2,258,000
	Elect wire 7/36 (coil)	8	7,500	60,000
	Solar Panel 180 w	20	33,000	660,000
	Bty 120 AH 12 v	20	32,800	656,000
Stabilizer 10000 w	4	30,000	120,000	
Total				53,533,528

Audit observed that technical specifications of all the items were neither mentioned in tender documents nor specified during the award of contract and in the contract agreement.

Audit is of the view that procurement without technical specification was unauthorized and a violation of the rules.

The management of GB Scouts replied that medical & laboratory / Signal Equipment have been purchased for 116 Wing during FY-2022/23. Specifications of the items were issued to participating firms along with Invitation Tender (IT).

The reply was not accepted because specifications of items were neither mentioned in tender nor in bidding documents.

DAC in its meeting held on 12.12.2023 directed that documentary evidence may be verified within two weeks.

Audit recommends that inquiry may be held to fix the responsibility.

20.5.11 Non-Deduction of 5% House Rent Charges

According to Fundamental Rule 45A, all employees shall pay 5% of their running Basic Pay to Government from the date of allotment of Government accommodation / availing hiring facility.

Under rule 26 (1) of Accommodation Allocation Rules 2002, a government servant who is allotted government accommodation shall pay 5% as rental charges. This implies that the employees in possession of official accommodation are not entitled to draw house rent allowance.

The management of Gilgit-Baltistan Scouts maintained official accommodation in its garrison and wings headquarters and houses and flats were allotted to the officers/officials of Gilgit-Baltistan Scouts.

Audit observed that 5% House Rent Charges was not deducted from the salary of the employees who were allotted official accommodation.

Audit is of the view that non-deduction of House Rent Charges was irregular.

The management of GB Scouts replied that maintenance of allotted houses is being done by the concerned officers/officials at their own expenses as budget for Repair & Maintenance work is not being allocated to this organization. Hence, deduction of 5% house rent from the officers/officials is not justified. However, House Rent Allowance is being deducted from the monthly salary of officers/officials directly by AGPR (SO) Gilgit

The reply indicates that the management has accepted the audit observation.

DAC in its meeting held on 12.12.2023 directed that recovery shall be made by the allottees.

Audit recommends that the amount may be calculated, recovery initiated and deposited into the government treasury.

Islamabad Food Authority

20.5.12 Unauthorized constitution of Islamabad Food Authority

Section 3(1) of Islamabad Capital Territory Food Safety Act, 2021 states that the Government shall, by notification in the official Gazette, establish the ICT Food Authority to carry out the purposes of this Act.

The Supreme Court of Pakistan vide its judgment dated 18.08.2016 in Civil Appeals No. 1428 to 1436 of 2016 (Mustafa Impex Case), vide Para 84, inter-alia, decided/concluded as under:

(ii) The Federal Government is the collective entity described as the Cabinet constituting the Prime Minister and Federal Ministers.

(iii) Neither a Secretary, nor a Minister and nor the Prime Minister are the Federal Government and the exercise, or purported exercise, of a statutory power exercisable by the Federal Government by any of them, especially, in relation to fiscal matters, is constitutionally invalid and a nullity in the eyes of the law.

Chief Commissioner, Islamabad vide Notification No. 11(4)/Admin/2022 dated 08.09.2022 constitute Islamabad Food Authority.

Audit observed that the Authority was established by Chief Commissioner, Islamabad without the approval of the Federal Government in violation of the Judgment of the Supreme Court of Pakistan.

Audit is of the view that Chief Commissioner, Islamabad cannot enjoy those authorities which cannot be exercised by Prime Minister of Pakistan.

The management replied that IFA has been constituted with the approval of Chief Commissioner ICT as the President of Pakistan has conferred executive authority of Federation to Administrator for Islamabad Capital Territory vide Order No. 18 of 1980.

The reply was not accepted because approval of Federal Government was required as per judgment of Supreme Court of Pakistan.

DAC in its meeting held on 27.12.2023 directed to submit case for obtaining clarification from Law Division.

Audit recommends that inquiry may be held to fix the responsibility.

20.5.13 Unauthorized appointments without approved service rules & regulation and without approval of the Board

As per Establishment letter No. F.No.6/4/96-R-3 dated 02.11.2021 stated that all autonomous bodies/Corporations/Organizations, etc. need to be submit its draft rules for approval to the competent authority as specified in their respective Act/Ordinance. However, these service rules are required to be submitted to Establishment Division for vetting/concurrence.

The management of Islamabad Food Authority appointed 17 Officers/Officials on Project Pay Scales during 2022-23. Details are as under:

S. No.	Name	Designation	PPS
1	Dr. Tahira Siddiqui	Deputy Director operation	8
2	Muhammad Kashif Hussain	Dairy Specialist	7
3	Imran Khan	Food Safety Officer	7
4	Khurram Kabir	Food Safety Officer	7
5	Nafeesa Kirn	Food Safety Officer	7
6	Mahnoor Syed	Public analyst	7
7	Muhammad Shahbaz Arshad	Veterinary Specialist	7
8	Ibrahim Jamil	Assistant Food Safety Officer	6
9	Nayab Rao	Assistant Food Safety Officer	6
10	Hafiz Muhammad Shahbaz Anwar	Assistant Food Safety Officer	6
11	Junaid Ashraf	Assistant Food Safety Officer	6
12	Muhammad Naeem Zubairi	Inspector	5
13	Azaz Safdar	Inspector	5
14	Zubair Abbas	Inspector	5
15	Muhammad Bilal	Lab Assistant	5
16	Hassan Aziz	Lab Assistant	5

Audit observed as under:

- i. The management appointed the employees without framing Service Rules regarding terms and conditions of the service of its employees.
- ii. As per record, Note 51 of File states that HR Committee prepared results of Interview and Written Test and submitted its recommendations. However, in Note 53 the Chief Commissioner/Chairperson, IFA directed to re-interview without any justification.

- iii. Minutes of the HR Committee which recommends the appointment of the Employees were only signed by two members. The Minutes are still unsigned as on 11.07.2023 by the Chairman of the Committee and four other Members whereas appointment letters were issued in the month of February, 2023.
- iv. The appointments were made without approval of the Board.
- v. Employees were appointed under the Islamabad Food Authority whereas payment of Pay and Allowances were made from AGPR under regular budget from Federal Consolidated Fund.

Audit is of the view that appointments without any Service rules and without approval from the Board were a serious lapse on the part of the management.

The management replied that regulations have been framed and notified. Approval of the HR committee of the Board has been obtained prior to appointment. Re-interview was not conducted rather the results were re-analyzed due to inclusion of Deputy Commissioner in the HR Committee.

DAC in its meeting held on 27.12.2023 directed to get Board approval, Minutes of HR Committee meeting verified from Audit, Service Rules shall be framed as a regulation without rules has no legal standing. DAC further directed departmental fact-finding inquiry to probe the matter of reasons for re-interview and issuance of appointment orders without approval of the HR Committee and submission of report within two weeks.

Audit recommends that inquiry may be held to fix the responsibility.

Pakistan Rangers (Sindh)

20.5.14 Non-deduction of Income tax on IS Duty Allowance – Rs. 133.895 million

Section 12(1) of Income Tax Ordinance, 2001 states that Any salary received by an employee in a tax year, other than salary that is exempt from tax under this Ordinance, shall be chargeable to tax in that year under the head “Salary”. (2) Salary means any amount received by an employee from any employment, whether of a revenue or capital nature, including — (a) any pay, wages or other remuneration provided to an employee, including leave pay, payment in lieu of leave overtime payment, bonus, commission, fees, gratuity or work condition supplements.

Section 149 of Income tax ordinance 2001, states that every person responsible for paying salary (including honorarium/cash reward paid to an employee) shall, at the time of payment, deduct tax from the amount paid at the following rates:

Taxable Income Rs.	Tax Applicable 2022-23
Up to 600,000	0%
600,001-1,200,000	2.5 % of the amount above Rs. 600,000
1,200,001-2,400,000	Rs.15,000 + 12.5 % of the amount above Rs. 1,200,000
2,400,001-3,600,000	Rs 165,000 + 20 % of the amount above Rs 2,400,000
3,600,001-6,000,000	Rs 405,000 + 25 % of the amount above Rs 3,600,000
6,000,001-12,000,000	Rs 1,005,000 + 32.5% of the amount above Rs 6,000,000
Above 12,000,000	Rs. 2,955,000 + 35% of the amount above Rs 12,000,000

Serial No. 39A of Second Schedule of Section 53 of Income Tax Ordinance States that any amount paid as internal security allowance, compensation in lieu of bearer allowance, kit allowance, ration allowance, special messing allowance, SSG allowance, Northern Areas compensatory allowance, special pay for Northern Areas and height allowance to the Armed Forces personnel.

Pakistan Rangers (Sindh) paid an amount of Rs. 2,677.902 million to its officers and official as Internal Security Duty Allowance during 2022-23.

Audit observed that Internal Security Duty Allowance was not exempted from Income Tax for Civil Armed Forces, but the management did not include the amount in the gross annual income of officers and official of Rangers due to which Income Tax amounting to Rs. 133.895 million @ 5% of the total amount was not deducted.

Audit is of the view that non-deduction of income tax on ISD Allowance was irregular and deprived the government from the benefit of its due revenue.

The management replied that Internal Security Duty Allowance is linked with daily allowance, which is paid at the rate of half daily per day in lieu of performing Internal Security Duty. Daily allowance is a nontaxable allowance. Similarly, the income tax on Internal Security Duty Allowance is also exempted.

Further, the exemption of income tax on Internal Security Duty Allowance was allowed after detailed discussion between AG Sindh Karachi & AGPR sub office Karachi vide Accountant General Sindh letter number. CAA-II/P.R-IS Duty /2020 /21 /355 dated 21 May 2023. Moreover, the income tax on Internal Security Duty Allowance has been exempted vide General Headquarters AG branch PPA Dte Rawalpindi letter number. 4636/006/IT Cell-XSP2TSA dated 05 August 2022.

The reply was not accepted because neither Accountant General Sindh nor AGPR is competent to grant exemption on Income Tax.

Audit recommends that amount may be recovered and deposited into Government Treasury.

20.5.15 Unauthorized payment of IS duty allowance to 43 Wing - Rs 64 million

Para 10 (ii) of GFR states that “the expenditure should not be prima facie more than the occasion demands”.

Finance Division O.M. No. F.No.11(5)-R-I/2008-192 dated 22.04.2009 states that Internal Security Allowance is admissible to all those personnel of Civil Armed Forces who are deployed on internal security in the field in the requisition by the Federal/Provincial Governments and the cost would be borne by the requisitioning authority.

Pakistan Rangers (Sindh) paid an amount of Rs. 64 million to the officers / officials of 43 Wing during 2022-23.

Audit observed that 43 Wing was deputed with CPEC and was not deployed on internal security duty requisitioned by Government of Sindh.

Audit is of the view that as internal security allowance authorized for troops deputed on internal security and payment of such allowance to others was irregular and unauthorized.

The management replied that all Pakistan Rangers (Sindh) setups including 43 Wing are performing internal security duties on national / international events, religious procession/ gathering, Sports, IDEAS, Census, Election, Polio Campaign and other Internal Security duties. 43 Wing is also drawing pay and allowances from Pakistan Rangers (Sindh).

During verification of records the management did not provide any record in support of the reply.

Audit recommends that amount may be recovered and deposited into the government treasury.

20.5.16 Doubtful execution of work – Rs. 131.356 million

Rule 23 of Public Procurement Rules, 2004 states that procuring agencies shall formulate precise and unambiguous bidding documents that shall be made available to the bidders immediately after the publication of the invitation to bid.

Para 208 of Central Public Works Account (CPWA) Code states that payments of all work done otherwise than by daily labour and for all supplies are made on the basis of measurements recorded in Measurement Books (MBs) in Form 23 in accordance with rules.

HQ Pakistan Rangers Sindh incurred expenditure on repair and maintenance work on its buildings amounting to Rs.131,356,000 through tenders during 2022-23.

Audit observed as under:

- i. The management just mentioned the name of work to be executed without any quantity to be executed in the bidding documents.
- ii. Bidding documents did not contain any information like detailed estimates to be executed, i.e. distemper, flooring, lighting, plumbing, etc.
- iii. The contractors quoted lump sum rates without mentioning item wise rates and without knowing the quantum of work to be executed.
- iv. Payments were made without any detailed measurement entered in MB.

Audit is of the view that without mentioning the quantities/specification of work executed the authenticity of the expenditure could not be ascertained.

Audit is of the view that the bidding process without precise and unambiguous bidding documents creates doubts about the whole process which needs to be addressed.

The management of Pakistan Rangers Sindh, Karachi replied that all procedural requirements were fulfilled as per PPRA rules such as:

- a. Tender document issued to applied firm and specification of work required to carried out also provided for bids.
- b. Advertisement published in newspapers and uploaded in PPRA website in which it was mentioned that details of works can be obtained from Headquarters Pakistan Rangers (Sindh).
- c. According to specification and quantities given to contractors, they quoted the rates. However, they only mentioned final rates of work without details. The Procedure will be adopted in future as observed by audit.
- d. Pakistan Rangers (Sindh) concluded Lump Sum contracts with different contractors basing on covered areas. Therefore, Measurement books are required to be maintained as one time measure.

The reply indicates that the management has accepted the audit observation regarding execution of work without any detailed estimates and without any measurement.

Audit recommends that responsibility may be fixed for the irregularity.

20.5.17 Non-deduction of Sales Tax on Services from contractor – Rs. 17.076 million

Rule 3 of Sindh Sales Tax on Services Act, 2011 states that, the provisions of this chapter shall apply to a person required to be registered under the Sindh Sales Tax on Services Act, 2011 and “taxable services” means the services listed in the Second schedule to the Sindh Sales Tax on Services Act, 2011.

Services provided or rendered by persons engaged in maintenance and cleaning services at S. No. 9822.2000 or rendered by specified persons or businesses under First Schedule of Sindh Sales Tax on Services Act, 2011 are liable to pay SST @13%.

HQ Pakistan Rangers Sindh incurred expenditure on repair and maintenance work during 2022-23 amounting to Rs.131.356 million.

Audit observed that sales tax on services at rate of 13% was not deducted from contractors amounting to Rs. 17.076 million.

Audit is of the view that non-deduction of sales tax on services deprived the government from the benefit of its due revenue.

The management of Pakistan Rangers Sindh, Karachi replied that this department executed works out of Federal Budget and 7.5% Income tax has been recovered overall from contracts executed with different firms. No services have been taken from the Govt of Sindh, therefore no Sindh Sales tax was included in the contracts.

The reply was not accepted because the non-deduction of Sales Tax on Services was a violation of rules.

Audit recommends that the amount may be recovered and deposited into the government treasury.

20.5.18 Doubtful award of repair and maintenance work of official building and residence – Rs. 7.5 million

Para-23 of GFR Volume-I states that, every government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through

fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

Pakistan Rangers (Sindh), Works Section Thar Rangers awarded a work for repair and maintenance of official and residential building at a cost of Rs. 7,589,730 to M/s AH Engineering & Construction Service, Hyderabad on 10.05.2023 with a completion period up to 15.06.2023.

Audit observed as under:

- i. The contract agreement was signed on 15.06.2023 which was the completion date.
- ii. As shown in the official file, 5% Share will be deducted by M/s Afnan Transport & Co from Total Amount (Rs. 7,589,730 x 5% = Rs. 379,486) who was not a contractor
- iii. Completion certificates were printed on the letter head of the contractor by the management.
- iv.

Audit is of the view that completion of work within one day is not humanly possible and the 5% share given to M/s Afnan Transport & Co creates further doubts about the whole process.

The management replied that the contract was awarded to M/S A.H Construction on 10 May 2023. Payment was made according to the Contract Agreement. Contract Agreement was signed on 10.05.2023 but date was wrongly written as 15.06.2023. The documents having details as 5% share is not a legal document as it is not possible to give amount to any other contractor who is not contracted as evident in contract agreement executed with M/S A.H Construction and cheques were also issued in favor of the firm.

The reply was not accepted because the contract agreement was signed on 15.06.2023 and 5% share to be given to M/s Afnan Transport & Co was written in the official file.

Audit recommends that inquiry may be held to fix the responsibility.

20.5.19 Irregular award of repair & Maintenance work of (SIGN) without open tender – Rs.10.696 million

Rule 12(2) of Public Procurement Rules, 2014 states that all procurement opportunities over two million rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

Pakistan Ranger Sindh, HQ Karachi incurred expenditure on repair and maintenance of machine and equipment (SIGN) from Internal Security Budget amounting to Rs. 10,696,000 during 2022-23.

The audit observed that the work was awarded to M/s Azam Enterprises without open competition.

Audit is of the view that award of work without open tender/bidding was a violation of PPRA rules due to which the government was deprived of from the benefit of competitive rates.

The management replied that it is pertinent to mention that communication equipment is operationally deployed at borders and being used by troops on internal security duties round the clock. Tender for Repair / maintenance cannot be called since time limits laid down for bidding process cannot be met in short time required to keep the equipment functional round the clock. Equipment cannot be kept faulty for a long duration and is repaired in minimum time. This repair work is considered as an operational emergency and covered under relaxation available vide Para 2g Public Procurement Rules 2004 (Emergency)

The reply is not acceptable, as the management accepted in their reply that repair work should be awarded without calling of open tender.

Audit recommends that responsibility may be fixed for the irregularity.

20.5.20 Irregular payment of service charges – Rs. 24.742 million

Para-397 of Federal Treasury Rules states that, as a general rule, and subject to such exceptions as may be authorized by the Government, no payment can be made to a contractor, except for work actually done or supplies actually received.

As per the Technical Proposal submitted by National Radio Telecommunication Corporation, all the base station installations will be made by Sindh Rangers Personnel. NRTC could perform testing of a base station installed by Sindh Rangers.

Pakistan Ranger Sindh, HQ Karachi paid an amount of Rs. 24.742 million to M/s NRTC for Installation and Commissioning during 2022-23.

Audit observes that installation work was performed by Pakistan Rangers Sindh, but the contractor charged an amount of Rs. 24,742,485 as installation and commissioning charges. Details are as under:

Description	Installation Chargers Rs
P-25 LMR Base/Mobile/Handheld Radio sets	19,150,034
P-25 BTS/Repeater/Microwave Radio Link/LMR Base/ Mobile Handheld Radio Sets	5,592,451

Total	24,742,485
-------	------------

Audit is of the view that payment without rendering services was unauthorized which needs to be recovered and deposited into the government treasury.

The management replied that as per technical proposal (Brochure) submitted by M/S NRTC, installation and commission will be carried out by Pakistan Rangers (Sindh) for which payment was also made to M/S NRTC. Said proposal was not final/ signed/ approved and not related to Budget under Head A09601-Plant and Machinery (Signals), nor unit price/ estimate cost of equipment mentioned in Technical Proposal (Brochure).

The reply is not acceptable, as no documentary proof was provided during verification as mentioned in their reply.

Audit recommends that responsibility may be fixed for the irregularity.

20.5.21 Whereabouts of receipts from candidates not known – Rs 8.558 million

Para 26 of GFR Volume-I states that subject to any special arrangement that may be authorized by competent authority with respect to any particular class of receipts, it is the duty of the departmental controlling officers to see that all sums due to Government are regularly and promptly assessed, realized and duly credited in the public account.

Pakistan Rangers Sindh, HQ Karachi conducted recruitment of troops during 2022-23. During the process 17,116 candidates appeared and registered.

During the Audit it was revealed that Rs.500 were collected from each candidate for initial registration by the management amounting to Rs. 8,558,000 (17,116 x 500) but its whereabouts was not produced to Audit. Further as per instructions collected amount should have been deposited in a bank account maintained in Askari Bank of Pakistan.

Audit is of the view that retention of receipts and non-maintenance of complete record was irregular and unauthorized.

The management replied that due to non-availability of budget for recruitment process, the collected fee was utilized for necessary expenditure during process of recruitment all over Pakistan.

The reply is not acceptable, as it is evident from the statement provided by the management that 17,116 candidates reported to the Centre for physical test for which the collected fee comes to Rs.8.558 million (17,116 x 500), whereas management only realized fee of Rs.2.279 million (for

4,465 x 500). Moreover, the same collected amount was utilized in recruitment expenses instead of depositing into the Government treasury.

Audit recommends that amount may be deposited into Government Treasury.

20.5.22 Irregular payment of electricity and gas bill of Sec, HQ, Indus Ranger commander

Para-23 of GFR Volume-I states that, every government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

Audit observed that electricity and gas bills of Indus House allotted to Sector Commander Indus Rangers were paid from government budget.

Audit is of the view that payment of utility charges on behalf of an officer from the government budget was irregular and unauthorized.

The management replied that the premises of Indus House is situated at Staff Colony Shaheed Benazir Abad (Nawab Shah), the same building is being utilized as senior officer mess. Sec Commander IR is residing without family as bachelor, because his family is residing in Karachi and paying their utility bills from own expenses. IS Coy / Administration staff and guards/troops are deployed in an adjacent building where the electricity meter has not been installed and these troops are also using the electricity from the meter of said Indus House (Senior Officer Mess).

The reply was not accepted because Indus Rangers was not deployed on internal security duty, therefore, payment of electricity bills from Internal Security Funds cannot be justified.

Audit recommends that the actual amount may be recovered from the occupant and deposited into the government treasury.

20.5.23 Unauthorized payment of electricity bills of Rangers Residential Accommodations – Rs. 31.795 million

Para 12 of GFR states that a Controlling officer must see not only that the total expenditure is kept within the limits of the authorized appropriation but also that the funds allotted to spending units are expended in the public interest and upon objects for which the money was provided.

Pakistan Rangers (Sindh) incurred an expenditure of Rs. 31.795 million on electricity during April 2023 to June, 2023 on following addresses:

(Amount in Rupees)

S. No.	Consumer No	ADDRESS	Apr,2023	May,2023	Jun,2023	Total
1	LD489664	8- RANGER OFFICER FLATS AT PECHS , BLOCK 6 TIPU SULTAN	27,718	41,502	104,576	173,796
2	LB 442276	RANGERS RESIDENTAIL ACCOMODATION & SHADI HALL SEC 15-A, BUFFER ZONE KARACHI	25,477	24,400	87,103	136,980
3	AP035055	FLAT NO 135 STSTE BANK STAFF QUARTER, BLOCK A, NORTH ANZIMABAD	173,891	174,684	329,859	678,434
4	LB 285463	OFFICER FAMILY FLATS , BLOCK -B NORTH NAZIMABAD	19,770	19,462	29,302	68,534
5	LB 463773	STREET 6 BLOCK 17 DAWOOD ENGINEERING HOSTEL	220,177	266,847	763,574	1,250,598
6	BL 000083	KARACHI OMNI BUS SERVICE	533,484	712,977	1,920,070	3,166,531
7	AL 052107	Flat NO b19, REGAL CHOWK	58,487	119,155	181,868	359,510
8	AL 052089	FLAT NO B17, REGAL CHOWK	21,114	24,297	52,396	97,807
9	AL 052108	FLAT NO 20, REGAL CHOWK	13,049	20,181	43,328	76,558
10	AL 052025	BLOCK 1 B , REGAL CHOWK	43,373	50,092	128,401	221,866
11	BL 002559	DG RANGERS , KDA OFFICER COOPERATIVE SOCIETY	1,093,804	1,560,363	4,024,289	6,678,456
12	LB 299617	RANGER FORCE COMPLEX AND SWIMMING POOL	371,239	439,673	1,099,618	1,910,530
13	BL 007175	SHOOTING CLUB	301,464	312,722	763,453	1,377,639
14	AL 158317	METHARON HOSTEL ZIAY-U- DIN ROAD	391,773	457,847	1,241,072	2,090,692
15	AL 011448	DAWOOD COLLEGE	286,274	347,295	994,174	1,627,743
16	BL 007827	PUBLIC SCHOOL 7 COLLEGE NAZIMABAD	365,799	313,054	787,592	1,466,445
17	BL 004215	PAKISTAN BRODCASTING COOPERATION	362,139	424,967	1,286,380	2,073,486
18	BH 000101	WIRELESS NATIONAL HIGHWAY	1,406,742	1,433,703	3,070,331	5,910,776
19	BL 004192	(CDGK) BANGLOW FOR MT KHAN ROAD	364,639	519,555	1,544,628	2,428,822
		Total	6,080,413	7,262,776	18,452,014	31,795,203

Audit is of the view that payment of electricity for used for residential purposes from the government funding was unauthorized which needs to be recovered.

The management replied that payment was made by Energy Department Government of Sindh to Karachi Electric directly. All connections have been verified by this office and there are no Residential Connections.

The reply is not acceptable, the payment for electricity of residential areas of officers of Pakistan Rangers Sindh from Government budget is unauthorized.

Audit recommends that the amount may be recovered from the occupants and deposited into the government treasury.

20.5.24 Irregular payment of electricity bill of Ranger shooting & saddle club

Para-23 of GFR Volume-I states that, every government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

Finance Division O.M. No. F.No.11(5)-R-I/2008-192 dated 22.04.2009 states that Internal Security Allowance is admissible to all those personnel of Civil Armed Forces who are deployed on internal security in the field in the requisition by the Federal/Provincial Governments and the cost would be borne by the requisitioning authority.

Audit observed that Pakistan Ranger Sindh, paid electricity bills of Ranger Shooting and Saddle Club from internal security (IS) grant/budget.

Audit is of the view that payment of bills of Rangers Shooting and Saddle Club from internal security grant/budget was irregular and unauthorized.

The management replied that it is apprised that firing range / training camp established adjacent to shooting and saddle club Pakistan Rangers Sindh is for conduct of various training courses to refine training skills of troops deployed at mega city Karachi, so as to make them proficient enough to maintain law and order / internal security & to conduct operational duties. Shooting & saddle club also provides training to enhance firing skills and riding of the Pakistan Ranges departmental troops without any charges.

The reply is not acceptable, as there is no proof in support of reply provided to audit.

Audit recommends that the amount may be recovered and deposited into the government treasury.

20.5.25 Whereabouts of receipts of Ranger Shooting and Saddle Club

Para 26 of GFR Volume-I states that subject to any special arrangement that may be authorized by competent authority with respect to any particular class of receipts, it is the duty of the departmental controlling officers to see that all sums due to Government are regularly and promptly assessed, realized and duly credited in the public account.

Pakistan Ranger Sindh is running Rangers Shooting and Saddle Club at Guddaph on commercial basis, but no record related to members and receipts collected and deposited in Government Treasury was provided.

Audit is of the view that retention of receipts and non-maintenance of complete record was irregular.

The management replied that it is apprised that firing range / training camp is established next to the shooting and saddle club for Pakistan Rangers (Sindh) to conduct various training courses to refine skills of troops deployed in Karachi. The aim is to make them proficient in maintaining law and order situation, internal security and performing operational duties. The shooting & saddle club offers free training to enhance firing and riding skills for Pakistan Rangers (Sindh) departmental troops, emphasizing its non-commercial nature.

The reply is not accepted because membership form for public is available on the website of the club which proves that club was running on commercial basis.

Audit recommends that a complete record may be produced.

20.5.26 Unauthorized purchase of Vehicles – Rs. 70.048 million

Finance Division vide O.M. No. F.7(1) Exp.IV/2016-340 dated 07.07.2022 imposed ban on purchase of all type of vehicles from current and development budget except utility vehicles such as ambulances, buses for educational institutions, solid waste vehicles, etc.

Pakistan Rangers Sindh, HQ Karachi incurred expenditure on procurement of UN mission vehicles and other equipment's:

Sr No	Vehicles/other	(Million) Amount Rs
1.	Toyota Hilux DC-Revo	24.848
2.	Fork Lifter	16.2
4.	Truck	29
Total		70.048

The audit observed that vehicles were purchased without the approval of the Cabinet and Finance Division.

Audit is of the view that purchase of vehicles without approval was irregular and unauthorized.

The management replied that the vehicles were purchased for UN Mission after receipt of special funds with approval of Ministry of Interior. Regular intimation on procurement of said vehicles have also been conveyed to Ministry of Interior and Military Operation Directorate (General Headquarters) vide our letter 1831/Wpns/Ord-LIJA2X dated 12 May 2023.

The reply is not acceptable. The vehicles were purchased without obtaining NOC from Finance and Cabinet Division is unauthorized.

Audit recommends that responsibility may be fixed for the irregularity.

20.5.27 Un-authorized purchase of Net mosquito from ineligible bidder - Rs 30.249 million

Clause 6 of Tender Documents dated 05.12.2022 states that tender should be accompanied with Call Deposit or Bank Draft or Pay Order @ 3% of total value of the tender at the rate quoted in the name of Director General Pakistan Rangers (Sindh) as Earnest Money as per following rates, otherwise tender will be ignored/rejected.

Pakistan Rangers (Sindh) awarded the contract for supply of 5,000 net mosquito folding @ Rs. 3,750 each to M/s The Chief Corporation on 22.02.2023. The total amount of the contract was Rs. 18.750 million.

Similarly, Pakistan Rangers (Sindh) awarded the contract for supply of 287,572 meter Tape Nawar @ Rs. 39.99 per meter to M/s The Chief Corporation on 28.03.2023. The total amount of the contract was Rs. 11.499 million.

Audit observed that the contractor deposited only Rs. 5,000 with the bid as earnest money which should have been Rs. 562,500 for net mosquito and deposited Rs. 2,000 only with bid as earnest money for Tape Nawar which should have been 344,970 as provided in the tender documents but instead of rejecting the bid the management awarded the contract to the ineligible bidder.

Audit is of the view that awarding work to an ineligible contractor was unauthorized.

The management replied that procurement of Net Mosquito was carried out through open tender and contract was awarded after comprehensive technical scrutiny by a special board of officers. Moreover, M/S Chief Corporation Lahore, after qualifying all technical requirements of the Force was also the lowest bidder. Thus, procurement was carried out as per Rule 36 b (9) of PPRA 2004 of the lowest quoted rates instead of calculation of Bid Security (Earnest Money).

Earnest money is attached with Financial Bids that are opened on the date of awarding the contract to technically qualified bidder.

The reply was not cogent because the management accepted that earnest money was not considered during award of contract which was a violation of PPRA.

Audit recommends that inquiry may be held to fix the responsibility.

20.5.28 Unauthorized award of work to 2nd lowest bidder – Rs. 46.154 million

Para-23 of GFR Volume-I states that, every government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

Pakistan Rangers Sindh, HQ Karachi procured Bullet Proof Jackets plates from M/s BSF at a cost of Rs. 97,590,500 during 2022-23.

Audit observed that M/s National Radio Transmission Corporation quoted Rs. 60,143,850 for the whole procurement but the management awarded the contract to M/s BSF as per following details:

Size	NRTC Rate Rs.	BSF Rate Rs.	Difference Rs.	Quantity	Amount Rs.
Small	40,365	63,000	22,635	100	2,263,500
Medium	60,548	116,500	55,952	657	36,760,464
Large	76,694	148,000	71,306	100	7,130,600
Total					46,154,564

Audit is of the view that due to award of contract at higher rate the loss of Rs. 46.154 million was incurred which needs to be recovered.

The management replied that procurement of Bullet Proof Jacket Plates was carried out through open tender after fulfillment of all codal formalities. The contract was awarded to M/S BSF Associate, Karachi being lowest in quoted rates. M/S BSF quoted rates of quantity in pairs while M/S NRTC clearly quoted in numbers.

The reply is not acceptable. The management ignored the offer of lowest bidder i.e. M/s.NRTC and awarded the work to 2nd lowest bidder i.e. M/s. BSF Associate, Karachi.

Audit recommends that inquiry may be held to fix the responsibility.

Pakistan Rangers (Punjab)

20.5.29 Unauthorized award of work without obtaining earnest money- Rs. 129.912 million

As per tender notice Clause 2, firms registered with the HQ Pakistan Rangers Punjab will deposit 2% and un-registered firm will deposit 5% as security in favor of Director General Pakistan Rangers (Punjab) by pay order, call deposit or bank draft which is refundable.

Pakistan Rangers Punjab incurred expenditure on procurement of goods and services during 2022-23. Details are as under:-

(Amount in Rupees)

Rv No	Contractor	Item	Tender Quantity	Qty Purchased	Rate	Amount
1	Smart Trading	Fire extinguisher		161	18,500	2,978,500
2	Smart Trading	Tape Niwar	6523	2,438	460	1,121,480
3	Apex Corporation	Parat 32"	78	78	9,500	741,000
4	Apex Corporation	Saddler set for Horses	35	14	58,000	812,000
5	Sadqal Brothers	Ground Sheet	9291	9,291	2,250	20,904,750
10	Sultan Enterprises	bandolier for G3/SMG	5326	5,326	3,200	17,043,200
13	Smart Trading	sandbags	139251	55,550	40	2,222,000
14	Smart Trading	Tape Niwar	6523	1,524	460	701,040
15	Smart Trading	Fire extinguisher 50 kg (DCP)	262	101	18,500	1,868,500
16	Apex Corporation	karahi (large)	121	49	9,500	465,500
17	Apex Corporation	saddlery set	35	9	58,000	522,000
25	Sadqal Brothers	Anti-Riot Kit	700	414	64,000	26,496,000
26	Apex Corporation	Charpoy Iron Single	5366	347	6,800	2,359,600
28	Sultan Enterprises	Shalwar Qameez Gray	4557	1,521	3,600	5,475,600
30	Sultan Enterprises	thermal suit	10756	2,000	2,400	4,800,000
33	Sadqal Brothers	Anti-Riot Kit	700	190	64,000	12,160,000
37	Sultan Enterprises	Blanket GS	21370	16,801	1,600	26,881,600
39	Smart Trading	Tape Niwar		5,128	460	2,358,880
Total						129,911,650

Audit observed that work was awarded to supplier/contractor without obtaining call deposit in shape of pay order or bank draft in violation of the tender documents.

Audit also observed that instead of rejecting the tender, the management accepted the tender and works were awarded to ineligible bidders.

Audit is of the view that award of work without obtaining earnest money was irregular and in violation of rules.

The management replied that earnest money in shape of CDRs was obtained for successful bidders at the time of award of work/supply order. However, during verification no such record was produced.

DAC in its meeting held on 27.12.2023 directed to provide CDRs to Audit for verification.

Audit recommends matter may be inquired to fix responsibility.

20.5.30 Doubtful purchase of POL from M/s Hassan filling station through manual slips and amount paid to PSO against fleet card - Rs.5.591 million

Para-23 of GFR Volume-I states that, every government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

Pakistan Rangers Punjab incurred expenditure on procurement of POL during 2022-23 amounting to Rs. 365,807,195.

Audit observed that that procurement of POL was made from M/s Hassan filling station whereas, the invoices were paid in cash against fleet card account no 12163471 of M/s PSO amounting to Rs 5,591,642.

(Amount in Rupees)

Bill No	Billing Period	Supplier	Name of items	Quantity	Rate	Amount Rs.
63228	1.7.22 -7.7.22	Hassan filling station	Diesel	16,800.25	277.20	4,657,030
63228	1.7.22 -7.7.22	Hassan filling station	Petrol	780.18	249.40	194,577
63233	18.8.22 -19.8.22	Hassan filling station	Diesel	2,655.51	245.17	651,052
63233	18.8.22 -19.8.22	Hassan filling station	Petrol	379.23	234.64	88,983
Total						5,591,642

Audit is of the view that payment of bills other than supplier showed that either no purchases were made, or payment was made to other vendors.

The management replied that POL was procured from M/s Hassan filling station on manual slips and payment was made through crossed cheque in the name of vendor. However, during verification no such record was produced.

DAC in its meeting held on 27.12.2023 directed the management that reconciliation with filling station & PSO shall be carried out and provided to Audit.

Audit recommends that matter may be inquired to fixed responsibility and outcomes may be shared with the Audit.

20.5.31 Irregular expenditure without open Competition - Rs. 5.628 million

Rule 20 of Public Procurement Rules, 2004 states that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

Rule 12 (1) of Public Procurement Rules, 2004 states that all procurement opportunities for over 500,000 should be advertised on the Authority's website in the manners and format specified by regulation. The procurement opportunities may also be advertised in print media, if deemed necessary by a procuring agency. Pakistan Rangers Punjab procured spare parts for FCIs from M/s Hashim Trader Lahore amounting to Rs.5,628,961.

Audit observed that procurement was made without open tender.

Audit is of the view that expenditure without open competition was irregular and deprived Pakistan Ranger Punjab of the advantage of competitive rates.

The management replied that quotations from security cleared firms were obtained for supply of Fire Control Instruments being security item and supply order was issued to lowest bidder after completion of codal formalities.

DAC in its meeting held on 27.12.2023 directed to provide notification for declaration of FCI from Ministry of Interior as security item and other relevant record to Audit for verification within 7 days.

Audit recommends that inquiry should be initiated, and responsibility be fixed for misprocurement.

Pakistan Coast Guards

20.5.32 Irregular advance payment to M/s Paragon- Rs. 86 million

Para 397 of Federal Treasury Rules states that, as a general rule, and subject to such exceptions as may be authorized by the Government, no payment can be made to a contractor, except for work actually done or supplies actually received.

Pakistan Coast Guard incurred expenditure on procurement of 400 SMGs Chinese 7.62x39mm from M/s Paragon amounting to Rs. 86,000,000.

The audit observed that the whole amount of Rs. 86 million was paid as advance to M/s Paragon before actual receipt of weapons.

Audit is of the view that advance payment before rendering services and goods was irregular and a violation of rule.

The management replied that funds were allocated through supplementary grant on 19th June, 2023. Advance payment for supply of 400 SMGs was secured by obtaining cheque of equal amount. Supply has been completed and weapons taken on stock after post supply inspection.

Audit contended that advance payment without the approval of the Finance Division and without obtaining guarantee was not justified.

DAC in its meeting held on 12.12.2023 directed that shipment documents, inspection report, stock register and other relevant record may be verified within one month.

Audit recommends that responsibility may be fixed for the irregularity.

20.5.33 Irregular payment to M/s Abdul Latif - Rs 13.007 million

Rule 19 of Public Procurement Rules, 2004 states that the procuring agencies shall specify a mechanism and manner to permanently or temporarily bar, from participating in their respective procurement proceedings, suppliers and contractors who either consistently fail to provide satisfactory performances or are found to be indulging in corrupt or fraudulent practices. Such barring action shall be duly publicized and communicated to the Authority: Provided that any supplier or contractor who is to be blacklisted shall be accorded an adequate opportunity of being heard.

The management of Pakistan Coast Guard, Karachi paid an amount of Rs. 13.008 million to M/s Abdul Latif contractor during 2022-23.

During the audit year 2021-22 audit had objected that M/s Abdul Latif Contractor NTN Certificate No. 1512809-1 has three businesses on same NTN No. i.e. M/s Abdul Latif Contractor, M/s Shahid Latif Ghouri & Brothers and M/s Bilal Latif Contractor due to which the procurement process was not transparent which may lead to misappropriation of funds.

Audit is of the view that the same contractor, i.e. M/s Abdul Latif was again paid in the current year which the same contractor was paid again in current year which was irregular and unauthorized.

The management replied that all the three firms, i.e. M/s Abdul Latif, M/s Shahid Latif and Bilal Latif have been blacklisted and ceased to participate in the bidding in the future.

The DAC in its meeting held on 12.12.2023 directed that blacklisting orders shall be verified from Audit within two weeks.

Audit recommends that matter may be inquired to fix responsibility.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide para number 14.5.23 having financial impact of Rs. 10.174 million. Recurrence of same irregularity is a matter of serious concern.

20.5.34 Irregular execution of agreements with all distributors – Rs. 57.466 million

Rule 36(b) of Public Procurement Rules, 2004 states that the bid shall comprise a single package containing two separate envelopes. Each envelope shall contain separately the financial proposal and the technical proposal, and the bid found to be the most advantageous bid shall be accepted.

Para 3(a) of tender documents states that tender will be opened as per single stage two envelopes bidding procedure as given in the Para 36(b) of PPRA Rules, 2004.

The management of Pakistan Coast Guard procured Drugs and Medicines from different contractors during 2022-23 amounting to Rs. 57,465,691 million.

The audit also observed that an agreement was signed with all the contractors/distributors through single contract.

Audit is of the view that through single contract procurement from each supplier/distributor could not be bifurcated.

The management replied that the contract for supply of medicines was awarded to lowest bidders in compliance with PPRA Rules. A single contract with all contractors/distributors was signed due to the same terms and conditions and specification of medicines. Contract agreement

for supply of specific items is being executed with individual contractors in compliance with the Audit Observation.

DAC in its meeting held on 12.12.2023 directed that individual agreements may be verified from audit.

Audit recommends that the irregular practice should be stopped besides fixing responsibility.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide para number 14.5.23 having financial impact of Rs. 10.174 million. Recurrence of same irregularity is a matter of serious concern.

Local Government and Rural Development, Islamabad

20.5.35 Irregular retention of Contractor Security - Rs. 8.720 million

Para 399 (iii) of CPWA Code states that unclaimed securities for more than three completed years should be credited to government as lapsed deposit.

The Executive Engineer, Local Government & Rural development is maintaining accounts in Pakistan Post Office having balance of Rs. 350.377 million as on 30.6.2022.

Audit observed that contractors' unclaimed securities amounting to Rs 8.720 million were retained by the department instead of depositing into the treasury. Details are as under:

(Amount in Rupees)

Sr. No.	Scheme	Amount Rs.
1.	Street Pavement @ Ghur Srdar	81,160
2.	Construction of Nullah/pulli Hardogher	102,834
3.	Street /Sewer line @ Sihala Chaudhrian Phase-II	119,988
4.	Street Pavement @ Khadrapur	1,689,149
5.	Water Supply Scheme @ Shahpur	132,808
6.	Water Supply Scheme @ Pundori	422,502
7.	Water Supply Scheme @ Mohra Nugial	642,629
8.	Rehabilitation of Chak Khandan Syeda Road	57,500
9.	Construction of Road Chak Khnadar	40,490
10.	Street pavement @ Ghori Town	59,827
11.	Construction of road @ Talhar	1,643,014
12.	Water Supply Scheme Sihala/ Mohra Naigal	45,201
13.	Street Pavement House Malik Bashir @ Ghora Syedan	2,337
14.	Repair of Road in Area of Pindori	203,044
15.	Water supply scheme @ Kot Hathial Phase-II	42,272
16.	Street Pavement in Mohra Nagial, Humak Shikhpur & Kartana	2,377,777
17.	Construction of 6 KM Rural Roads in UC Koral Phase-II	1,057,533

	Total	8,720,065
--	--------------	------------------

Audit is of the view that retention of lapsed deposit was unauthorized.

The management did not reply.

Audit recommends that contractor's unclaimed security should be deposited into Government Treasury.

20.5.36 Irregular execution of work on road owned by Government of Punjab - Rs. 100 million

Para 12 of GFR states that a controlling officer must see not only that the total expenditure is kept within the limits of the authorized appropriation but also that the funds allotted to spending units are expended in the public interest and upon objects for which the money was provided.

The Executive Engineer awarded a work for rehabilitation up-gradation of Koral Road to M/s Irfan Developer at cost of Rs. 100 million.

Audit observed that the constructed road was under the ownership of Government of Punjab.

Audit is of the view that the fund of LG & Rd Islamabad should not be spent on the property owned by the Government of Punjab C&W department.

The management did not reply.

Audit recommends that inquiry may be held to fix the responsibility.

20.5.37 Excess payment for additional length of bridge - Rs. 5.251 million

Para 2.21 of B&R Code states that in cases where administrative approval for a certain sum has been accorded to a project by Government the Head of the Department concerned, should not, of his own authority and without previous reference to Government direct the Buildings and Roads Department to provide for extensive additions and alternations and thus exceed the estimated cost by, more than 5 per cent, necessitating the submission of an application for revised administrative approval.

The Executive Engineer LG & RD awarded a work for Designed Cum Construction of 85 feet bridge at Bari Imam, Islamabad to M/s Rawal Builders at a cost of Rs. 318,000 per RFT for

non-scheduled items and 3.5 % above on scheduled items. Total contractual cost comes to Rs. 36.359 million and date of completion was 06.06.2022.

Audit observed that as per measurement book No 563-page no. 32 the management paid an amount of Rs. 22.418 million 63.51% of total executed work for 111 RFT bridge length. Whereas, as per technical sanction and tender documents the bridge length was 85 RFT. Hence, a quantity of 26 RFT amounting to Rs. 5.251 million was overpaid to contractor (26 RFT x Rs. 318,000 x 63.51%).

Audit is of the view that enhancement of length without technical sanction was unauthorized.

The management did not reply.

Audit recommends that an inquiry may be held to fix the responsibility besides recovery of overpaid amount from the contractor.

20.5.38 Tempering in quoted rates - Rs. 2.310 million

Rule 31(1) of Public Procurement Rules, 2004 states that no bidder shall be allowed to alter or modify his bid after the bids have been opened. However, the procuring agency may seek and accept clarifications to the bid that do not change the substance of the bid.

The Executive Engineer, LGRD awarded work installation of streetlights in Shamas colony railway roads Phase-II at the rate of Rs.177,600 for 110 streetlights.

Audit observed that the contractor installed 110 streetlights at a cost of Rs. 177,600 each whereas, as per tender document the contractor quoted Rs. 156,600 which was enhanced to 177,600 by altering the quoted rate.

Hence, an amount of Rs.2.310 million was paid in excess of the quoted rate (110x 21,000).

The management did not reply.

Audit recommends an inquiry in the matter and outcome may be shared with Audit.

20.5.39 Loss due to award of work to 2nd lowest bidder - Rs. 3.011 million

Public Procurement Rule 38 states that the bidder with the most advantageous bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract, within the original or extended period of bid validity.

The management of Local Government and Rural Development, Islamabad awarded the following works to contractors amounting to Rs. 40.000 million during financial year 2022-23:

(Amount in Rupees)				
Sl. No.	Name of Work	Awarded to	Awarded on	Contract Amount (Rs.)
1.	Construction of road from dispensary to culvert along with protection wall at Golra Sharif	M/s Ch. Qaiser Hayat	12.12.2022	25,000,000
2.	Rehabilitation of Railway Station Golra Road Phase-II	M/s Islamabad Enterprises	24.11.2022	15,000,000
Total				40,000,000

Audit observed that:

- i) The management awarded the aforementioned works to the second (2nd) lowest instead of first (1st) lowest which is misprocurement.

(Amount in Rupees.)					
Sl. No.	Contractor	Bidder	Estimated Cost	Bid Amount	Quoted Rate
Construction of road from dispensary to culvert along with protection wall at Golra Sharif					
1.	M/s Sidrial Associates	1 st Lowest	25,000,000	14,500,000	42% Below
2.	M/s Ch. Qaiser Hayat	2 nd Lowest	25,000,000	16,500,000	34% Below
Difference (2nd lowest – 1st Lowest) (A)				2,000,000	
Rehabilitation of Railway Station Golra Road Phase-II					
3.	M/s HUE Indoors	1 st Lowest	15,000,000	8,847,105	41.01% below
4.	M/s Islamabad Enterprises	2 nd Lowest	15,000,000	9,858,000	34.28% below
Difference (2nd lowest – 1st Lowest) (B)				1,010,895	
Difference (A + B)				3,010,895	

- ii) Escape / denying to execution work by the First lowest bidder were not on record.
- iii) Work (at Sl. No. 02) was awarded on 24.11.2022, however, the completion period was three (03) months i.e. 23.02.2023 but contract agreement was signed with the contractor on 07.01.2023 after one (01) month and fourteen (14) days.
- iv) The Work Completion Certificate was neither dated nor date of completion of work was mentioned to ascertain whether the work completed as per given time or otherwise.

Audit is of the view that award of contracts to second (2nd) lowest instead of first (1st) lowest caused loss to public exchequer amounting to Rs. 3,010,895.

Neither the management replied nor was the DAC convened till finalization of this report.

Audit recommends probing the matter for fixing of responsibility.

Directorate of Immigration and Passports Southern Zone Karachi

20.5.40 Loss due to delay in deposit of Passport & Visa fees receipts by NBP into SBP - Rs.7.622 million

According to minutes of the meeting held dated 20.03.2019, under the chairmanship of Joint Secretary (Budget Implementation) Finance Division, regarding timely deposit, reporting and reconciliation of Passport fee, the representatives of DG immigration and passport highlighted the problem of non-reporting of passport receipts, less deposit, delayed reporting and incomplete reporting which contributed to delayed issuance of passports. NBP representatives on their part assured to provide better services and to improve the reporting and reconciliation regime, by developing an IT-based solution for the collection of passport fees, deposit and settlement of consolidated receipts by chest branch on a daily basis.

Rule 7 of FTR states that all money received by or tendered to Government officers on account of the revenues of the Federal Government shall without undue delay be paid in full into a treasury or into the Bank.

The management of Directorate of Immigration & Passports (Southern Zone) Karachi provided a few challans regarding consolidated receipts i.e. Passport Fee, Visa Fee amounting to Rs. 783,500,224/- as deposited by NBP into SBP.

Audit observed that NBP had deposited the amount after a lapse of 3 to 102 days instead of daily basis into SBP in violation of the above policy and government rules. As such the Government was deprived of the profit that could have been earned if the funds had been received by Government in time. From the available record, Audit calculated an estimated profit that could have been earned amounting to Rs. 7,622,921/- as per SBP Policy rates for the month of November 2022 to June 2023.

Audit is of the view that delays in the deposit of consolidated receipts amounting to Rs. 783,500,224/- million after a lapse of 3 to 102 days instead of daily basis into SBP deprived the government exchequer of its due share of profit amounting to Rs. 7,622,921/-, which was a lapse on the part of management for not pursuing the matter with NBP.

The management has not submitted a reply within given time frame and till finalization of the report.

Audit recommends that responsibility may be fixed for non-compliance of the decisions taken in the meeting of the Finance Division besides regularization of the matter.

Federal Investigation Agency, Cyber Crime Wing, Lahore Zone

20.5.41 Inordinate delay in finalization of cybercrime inquiries in violation of Standard Order of FIA (HQ)

Federal Investigation Agency (HQ), Islamabad vide letter No. FIA/ P&C/SO/2020/2652-82 dated 04.11.2020 issued Standard Order (SO) No.05/2020 containing directions and guidelines regarding verification, inquiry proceedings, investigation of cases, change/transfer of inquiry/investigation and matters connected therewith. Para 10 of the Standard Order states that (ii) the inquiry officer will restrict the scope of the probe to the extent of the issues/points approved by the 'circle in charge' and finalize the inquiry with 45 days (in case of ATHC/Cyber Crime) and 90 days (in case of inquiries of the other specialized circles).

Para-10(b) (iv) further states that "Delay in inquiry on the ground of non-availability of record by an EO shall be constructed as inefficiency on the part of EO and Supervisory Officer except in enquires where action u/s 194 Cr.P.C followed by Sec.175 PPC has been taken matter reported to Zonal Directorate through supervisory officer".

Para-10(vi) states that in case enquiries are not finalized within 45 days (ATHC/Cyber Crime enquiries) and 90 days (in the enquiries of other circles), due to its complex nature, wider scope or other justifiable reasons. Zonal Director may grant an extension up to 90 days for its completion, on the basis of the sound reasons to be provided by the EO through Circle In charge.

The management of FIA Cyber Crime Wing, Lahore Zone, Lahore started 240 Enquiries of cybercrimes during financial year 2021-22. Out of total 240 Enquiries the Cyber Crime Wing finalized and submitted 36 interim challans to the Courts.

Audit observed as under:

- i. Despite lapse of considerable period of more than two years total two hundred and four (204) Enquires were still pending in the Cyber Crime Wing Lahore Zone, Lahore.
- ii. Due to improper monitoring no action was initiated against the concerned Enquiry Officers responsible for the delay.

Audit is of the view that Standard Order issued by the FIA Headquarters, Islamabad was not complied with. Due to non-finalization of Enquires the efficiency of concerned officers of Cyber Crime Wing is questionable.

The management did not reply.

Audit recommends inquiry to fix the responsibility for the lapse besides finalization of all pending enquiries at the earliest.

Inspector General Frontier Corps (North), Balochistan

20.5.42 Unauthorized / unjustified allocation and utilization of budget on account of Repair of Transport - Rs. 520.000 million

Rule 11 of GFR Vol-I states that each head of a department is responsible for enforcing financial order and strict economy at every step. He is responsible for observance of all relevant financial rules and regulations both by his own office and by subordinate disbursing officers.

Para 12 of GFR states that a controlling officer must see not only that the total expenditure is kept within the limits of the authorized appropriation but also that the fund allotted to spending units are expended in the public interest and upon objects for which the money was provided. In order to maintain proper control, he should arrange to be kept informed, not only of what has actually been spent from an appropriation but also what commitments and liabilities have been and will be incurred against it. He must be in a position to assume before Government and the Public Accounts Committee, if necessary, complete responsibility for departmental expenditure and to explain or justify any instance of excess or financial irregularity that may be brought to notice as a result of audit scrutiny or otherwise”.

The management of Inspector General Frontier Corps (North) Balochistan incurred an expenditure of Rs. 520,354,470 on purchase of spare parts for vehicles during financial year 2022-23.

Audit observed that Ministry of Interior allocated funds amounting to Rs.538,705,885 to the Frontier Corps (North) Balochistan under head of repair of transport. A detailed analysis revealed that Rs.520,354,470 constituting 97% of the total allocation, were allocated and utilized by the HQFC(N) through cost centre QA2018 having only 94 vehicles out of 2,800 vehicles. The remaining Rs.18,351,415, amounting to 3% of the total expenditure, were allocated and utilized by the 11 under command corps/ units having 2,706 vehicles, with a per corps share of only 0.31 % detailed as under:

(Amount in Rupees)

Head of account	Total Allocation to FC (North)	Drawn by HQFC	Drawn by 11 Under command Corps	per Corp share
Repair of transport	538,705,885	520,354,470	18,351,415	1,668,310
	100%	97%	3%	0.31%

Audit is of the view that 97% of the total allocation was drawn and utilized by the HQFC(N), leaving only 3% for the 11 under command corps working on field, with a per corps share of 0.31% which is a substantial imbalance and unjustified distribution of funds and excess budget was allocated to HQFC than budget estimates and less budget was allocated to under command corps.

Neither the management replied nor was the DAC convened till finalization of this report.

Audit recommends proper allocation of resources along with justification of distribution to each unit/cost center on basis of actual requirement besides inquiry to fix responsibility.

20.5.43 Non-payment of insurance claims to Shuhada and injured persons of FC (North) – Rs.100.200 million

According to Clause 3.10 of the Contract Agreement, the J.S Bank will provide all FC employees having an active JS Wallet Account with insurance of PKR 600,000.

GFR-23 states every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

The management of Inspector General Frontier Corps (North) Balochistan awarded a contract to JS bank for disbursement of pay and allowances of employee of FC (North) Balochistan. As per Agreement the J.S Bank was required to provide all FC employees having an active JS Wallet Account with insurance of PKR 600,000.

Audit observed that Rs.100,200,000 was to be paid by J.S Bank to 167 martyrs (Shuhada) but the amount was not paid by JS Bank to families of Shuhada of FC (North) Balochistan during financial year 2022-23.

Audit is of the view that non-payment of insurance by JS Bank is a violation of the agreement and non-imposition of penalty on bank is undue favor by the management.

Neither the management replied nor was the DAC convened till finalization of this report.

Audit recommends that the subject amount may be recovered from the J.S Bank and paid to families of shuhada and injured persons on priority basis.

20.5.44 Irregular hiring of services of JS Bank for disbursement of pay & allowances to 43448 FC personnel

Rule 12(2) of PPRA states that all procurement opportunities over three million Pakistani Rupees should be advertised on the Authority website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

Rule 19(i) of GFR Vol-I states that no contract involving an uncertain or indefinite liability, or any condition of an unusual character should be entered into without the previous consent of the Ministry of Finance. The terms of a contract must be precise and definite and there must be no room for ambiguity or misconstruction therein.

The management of Inspector General Frontier Corps (North) Balochistan hired the services of J. S Bank for disbursement of pay and allowances of 43448 FC personnels. A total of Rs. 19.994 billion was disbursed through JS Bank Mobile Wallet (MW) accounts to the employees of 11 units under command corps during 2022-23.

Audit observed as under:

- i. Headquarters Frontier Corps hired J.S. Bank services for disbursement of pay & allowance to employees without open competition.
- ii. Hiring the services of JS Bank without competition deprived employees of better incentive packages, such as free insurance, loan facilities, complimentary ATM cards and cheque books, and lower annual charges. In contrast, previously HBL offered free ATM cards and cheque books, while J.S. Bank charges Rs.1,380 per year for each employee for ATM.
- iii. Neither a branch of J.S Bank nor ATM facility was available in Sibi city.
- iv. Pay and allowances were disbursed through Mobile Wallet (MW) Accounts of branchless banking instead of proper bank accounts.
- v. Government employees have option to draw their salaries from any scheduled bank authorized by State Bank of Pakistan. Moreover. Government employees can change their

banks for drawing salaries on their own will but have to provide NOC from previous bank branch. Neither option from employee nor NOC from previous bank was provided to audit.

- vi. No details of disbursement from J.S. Bank to the employees' accounts were available on record.

Audit is of the view that hiring services of J.S Bank without open competition with less facilities and more charges without having branches at all stations. Further, management was required to obtain NOC from each employee regarding opening of account.

Neither the management replied nor was the DAC convened till finalization of this report.

Audit recommends hiring services from a well-reputed bank through open competition, offering better incentives and lower costs for employees besides inquiry to fix responsibility.

20.5.45 Unauthenticated expenditure on account of Cost of Other Store & payment through centralized system – Rs. 5,588. 303 million.

Rule 25 of GFR Volume -1 states All Departmental regulations in so far as they embody orders or instructions of a financial character or have important financial bearing should be made by, or with the approval of, the Ministry of Finance and also violation of GFR-12.

The management of Inspector General Frontier Corps (North) Balochistan incurred an expenditure of Rs. 5,588,303,280 incurred on account Cost of the Stores (A03942) during financial year 2022-23.

Audit observed as under:

- i. Daily Parade state duly singed by concerned officer/ commandant of units/ wings
- ii. Daily Messing Register duly singed by concerned commandant of units/ wings
- iii. Feeding registers duly singed by concerned officer/ commandant of unit/ wing
- iv. Ration Goshwaras duly singed by Q branch of concerned unit and wing commandants.
- v. Monthly ration Returns of concerned units
- vi. Line committee report of concern Wing.
- vii. CRO-II for in & out status of FC personals.
- viii. Detail of SOS, OSL and AWOL persons
- ix. List of family man receiving dry ration
Leave Ration

Audit is of the view that due to non-availability of appropriate internal controls and pre-audit system of the records/supporting documents, the risk of misappropriation cannot be overruled, and the subject expenditure cannot be authenticated.

Neither the management replied nor was the DAC convened till finalization of this report.

Audit recommends that the practice of centralized payment for other cost centers may be stopped forthwith, and budget may be allocated/spent under the concern cost centers beside strengthen the centralized internal control for payment through their respective cost center.

20.5.46 Unjustified/rush of expenditure on account of POL to avoid lapse of funds - Rs.1,102.572 million

Para 23 of GFR states that every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

Para 10 of GFR Vol-I states that every officer incurring or authorizing expenditure from public funds should be guided by high standards of financial propriety.

The management of Inspector General Frontier Crops (North) Balochistan incurred expenditure of Rs.1,887,792,681 on account of POL charges during 2022-23. Details are as under:

Sr No	Month	Expenditure
1	July	0
2	August	54,828,778
3	September	53,246,001
4	October	51,209,151
5	November	60,849,774
6	December	96,380,799
7	January	150,764,145
8	February	58,365,471
9	March	258,006,483
10	April	1,570,039
11	May	0
12	June	1,102,572,040
Total Expenditure during year		1,887,792,681
% Expenditure in month of June		58%

Audit observed that the local office has incurred expenditure of Rs.1,102,572,040 on account of POL in month of June which is 58 % of total expenditure.

Audit further observed that the Logbooks, Movement register and issuance record were not available with the management to authenticate the expenditure.

Audit is of the view that the expenditure was made in the month of June just to avoid lapse of funds and non-maintenance of record is a serious lapse on the part of management.

Neither the management replied nor was the DAC convened till finalization of this report.

Audit recommends inquiry to fix responsibility besides provision of record of POL on priority basis.

Inspector General Frontier Corps (South) Balochistan

20.5.47 Unauthenticated expenditure for Cost of Other Store & payment through centralized system – Rs. 5,031.589 million

As per Rule 11 of GFR Volume-I each head of a department is responsible for enforcing financial order and strict economy at every step. He is responsible for observance of all relevant financial rules and regulations both by his own office and by subordinate disbursing officers.

Rule 25 of GFR Volume -1 states all Departmental regulations so far as they embody orders or instructions of a financial character or have important financial bearing should be made by, or with the approval of, the Ministry of Finance.

The management of Inspector General Frontier Corps (South) Balochistan incurred expenditure of Rs. 5,031,589,508 on account of Cost of the Stores (A03942) during financial year 2022-23.

Audit observed that ration bills pertaining to others/Sub-ordinate units were paid from the cost center of Headquarter FC (TB3906) through centralization, without approval of Finance Division.

Audit further observed that the following record / supporting documents of concerned units/ wings were not available in local office to verify and authenticate the subject expenditure:

- i. Daily Parade state duly signed by concerned officer/ commandant of units/ wings
- ii. Daily Messing Register duly signed by concerned commandant of units/ wings
- iii. Feeding registers duly signed by concerned officer/ commandant of unit/ wing
- iv. Ration Goshwaras duly signed by Q branch of concerned unit and wing commandants.
- v. Monthly ration Returns of concerned units
- vi. Line committee report of concern Wing.
- vii. CRO-II for in & out status of FC personals.

- viii. Detail of SOS, OSL and AWOL persons
- ix. List of family man receiving dry ration
- x. Leave Ration

Further, that Subject expenditure incurred on behalf of other Sub-ordinate/cost centers was not reconciled with concerned units.

Audit is of the views that while payment through centralized system the three level of pre-audit and internal controls i.e. at wing commander level, at Q Branch of Sub-ordinate Office/ Units and at Accounts branch / Account Officer and commandant level were not established besides non-maintenance of record is a serious lapse on the part of management.

Neither the management replied nor was DAC convened till finalization of this report.

Audit recommends to review the practice of centralized payment of other cost centers and to allocate/spend the budget under the concerned cost centers besides strengthening the internal control at headquarter and corp level.

20.5.48 Nonpayment of insurance claims by J.S bank to Shuhada and injured persons of FC (South) - Rs. 42.000 million

According to Clause 3.10 of the Contract Agreement, The J.S Bank will be provided all FC employees having an active JS Wallet Account with insurance of PKR 600,000.

As per Para 11 of GFR Vol-I each head of a department is responsible for enforcing financial order and strict economy at every step. He is responsible for observance of all relevant financial rules and regulations both by his own office and by subordinate disbursing officers.

The management of Inspector General Frontier Crops (South) Balochistan awarded a contract to JS bank for disbursement of pay and allowances of employee of FC (North) Balochistan. As per Agreement the J.S Bank was required to provide all FC employees having an active JS Wallet Account with insurance of PKR 600,000.

Audit observed that Rs.42,000,000 was to be paid by J.S Bank to 44 martyrs (Shuhada) and 26 in service death but the amount was not paid by JS Bank to families of FC (South) Balochistan during financial year 2022-23.

Audit is of the view that non-payment of insurance by JS Bank is a violation of the agreement and non-imposition of penalty on bank is undue favor by the management.

Neither the management replied nor was the DAC convened till finalization of this report.

Audit recommend that subject amount may be recovered from the J.S Bank and paid to families of shuhada and in service death persons on priority basis.

20.5.49 Irregular hiring of services of JS Bank for disbursement of pay & allowances to 35000 FC personnel.

Para-7 of GFR Vol-I states, unless otherwise expressly authorized by any law or rule or order having the force of law, money may not be removed from the Public Account for investment or deposit elsewhere without the consent of the Ministry of Finance.

Rule 12(2) of PPRA states that all procurement opportunities over two million Pakistani Rupees should be advertised on the Authority website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

The management of Inspector General Frontier Corps (South) Balochistan hired the services of J.S Bank for disbursement of pay and allowances during financial year 2022-23.

Audit observed as under:

- i. The management of Headquarters Frontier Corps hired J.S. Bank services for disbursement of pay & allowance to employees without open competition.
- ii. Hiring the services of JS Bank without competition deprived employees of better incentive packages, such as free insurance, loan facilities, complimentary ATM cards and cheque books, and lower annual charges. In contrast, previously HBL offered free ATM cards and cheque books, while J.S. Bank charges Rs.1,380 per year for each employee for ATM.
- iii. Government employees have option to draw their salaries from any scheduled bank authorized by State Bank of Pakistan. Moreover. Government employees can change their banks for drawing salaries on their own will but have to provide NOC from previous bank branch. Neither option from employee nor NOC from previous bank was provided to audit.
- iv. Mobile wallet / branchless bank account was opened for disbursement of pay & Allowance of 35000 plus personal features of JS wallet account are not that of a normal bank ID/ account number as there are monthly and annual limits on it and payment of pension, commutation and GP Fund could not be processed being high in amount. Nor there is the cheque leaf drawl facility in this type of accounts.
- v. JS Bank is a small and low-profile bank and pooling of all employees' salary there by compulsion is not in line with Finance Division policy. Besides, if there goes something wrong in one bank, all employees might suffer. Therefore, it is not safe and reliable to bring all employees into the pool of JS Bank, which is a comparatively small bank having limited assets.

- vi. No details of disbursement from J.S. Bank to the employee's accounts were available on record.

Audit is of the view that hiring services of J.S Bank without open competition with less facilities and more charges without having branches at all stations. Further, management was required to obtain NOC from each employee regarding opening of account.

Neither the management replied nor was the DAC convened till finalization of this report.

Audit recommends hiring services from a well-reputed bank through open competition, offering better incentives and lower costs for employees besides inquiry to fix responsibility.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide para number 14.5.64. Recurrence of same irregularity is a matter of serious concern.

20.5.50 Doubtful expenditure on purchase of Drugs & medicines - Rs. 130.000 million

Rule 12 of GFR Vol-I requires that, "A Controlling officer must see not only that the total expenditure is kept within the limits of the authorized appropriation but also that the funds allotted to spending units are expended in the public interest and upon objects for which the money was provided. In order 'to maintain proper control, he should arrange to be kept informed, not only of what has actually been spent from an appropriation but also what commitments and liabilities have been and will be incurred against it.

The management of Inspector General Frontier Corps (South) Balochistan incurred an expenditure of Rs.130.000 million on accounts of purchase of drugs and medicine during financial year 2022-23.

Audit observed that:

- i. Drugs and medicine were purchased for other cost center / sub-ordinate corps and payment was made from the cost center (TB3906).
- ii. Purchased medicine were given to 10 other units/ corps having separate cost center.
- iii. Neither demand nor requisition of the medicines from Under Command Corps/ Units were available on record.
- iv. OPD slip, Doctor's prescription, and medicine issuance slips were not available.
- v. Record of issuance and distribution of medicine were also not available.
- vi. Various items of bulk were purchased in local purchase on higher rates.

- vii. Details of patients to whom these medicines were issued were not available.
- viii. The expenditure/supplied items were not reconciled with Under-Command Corps/ Units.
- ix. Local purchase of medicine of Rs. 29.000 million, for emergency purposes, was made from a medical firm in Peshawar and these medicines were to be supplied to 64 wings in emergency at Balochistan located at distance of hundreds of Kilometers.

Audit is of the view that the expenditure is doubtful, and authenticity cannot be determined in absence of above record.

Neither the management replied nor was the DAC convened till finalization of this report.

Audit recommends inquiry to fix the responsibility besides stopping the centralized purchase of drugs and medicine and proper maintenance of record. Further, Medicine may be purchased by each corps/ unit on required basis.

Inspector General Frontier Corps (North) KP

20.5.51 Loss to government due to award of contract on higher rates Rs. 33.376 million

Para 38 of PPRA, 2004 states that the bidder with the lowest evaluated bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract, within the original or extended period of bid validity.

The Inspector General Frontier Corps (North) floated tender for the purchase of Mini TI Cameras.

Audit observed that 03 Bidders participated in the bid process and offered the following rates. The bidder at serial No-01 offered the lowest rate. However, the contract was awarded to the bidder at S.No-02.

#	Item	<u>Bidder No-1</u> Mars Network	<u>Bidder No-2</u> Super Net	<u>Bidder No-3</u> Crimson International
1	Mini TI Cameras	Rate 444,600	Rate 1,456,001	Rate 1,594,593

Audit is of the view that the management was required to conduct procurement process as per PPRA Rules in a transparent and economical manner.

The procurement of the subject items at higher rates resulted in a loss of Rs.33.376 million. Details are as below.

#	Item	<u>Bidder No-1</u> Mars Network <u>Per unit Rate</u>	<u>Bidder No-2</u> Super Net <u>Per unit Rate</u>	Difference	Quantity	Amount (Rs)
1	Mini TI Cameras	444,600	1,456,001	1,011,401	33	33,376,233
Total						33,376,233

The observation was issued on 14.08.2023 but no reply was received till finalization of the report.

Audit recommends that matter may be inquired for fixing responsibility.

20.5.52 Doubtful supply of Diesel to various subordinate units - Rs. 230.00million

Para 148 of GFR states that all materials received should be examined, counted, measured or weighed as the case may be, when delivery is taken, and they should be taken in charge by a responsible Government officer who should see that the quantities are correct and their quality good, and record a certificate to that effect. The officer receiving the stores should also be required to give a certificate that he has actually received the materials and recorded them in the appropriate stock register.

The IGFC KP North incurred expenditure of Rs.230,000,052 on account of Supply of Diesel under the head A03807-POL Charges and issued to various sub-ordinate Units during the year 2022-23. Details are as under:

S.No	Units	Quantity in Liters	Rate	Supplier	Amount in Rs.
1	Chitral Scouts	96468			27,057,345
2	Dir Scouts	96468			27,057,345
3	Bajaur Scouts	128669			36,089,081
4	Mohmand Rifles	112546		Ihsan Ullah	31,566,902
5	Khyber Rifles	112546	280.48	& Co	31,566,902
6	Bara Rifles	96468			27,057,345
7	Tirah Rifles	96468			27,057,345
8	Orakzai Scouts	80390			22,547,787
	Total	820023			230,000,052

Audit observed that:

1. Demand for additional diesel form the Units was not available on record.
2. Issue and Receipt Vouchers were not available on record.
3. Stock issue/received register was not available.
4. Consumption details of the above quantities of diesel were not provided.

Audit is of the view that the units were provided with sufficient resources to meet their POL requirements under the head A03807-POL. Hence supply of POL to the Subordinate Units by the Headquarter was unjustified.

Due to the above-mentioned irregularities, the audit could not ascertain the justification for issuance of the 820023 Liter Diesel, which indicates the weak financial and internal controls of the Organization.

The observation was issued to the management on 14.08.2023 but no response was received till finalization of the audit report.

Audit recommends that responsibility may be fixed besides provision of justification and documentary evidence.

20.5.53 Irregular draws of Pay & Allowances through DDO - Rs. 250.938 million

Clause 2.3.2.8 of Accounting Policies and Procedure Manual states that ‘the accounting system shall include controls to minimize the risk of fraud and corruption. This objective shall be addressed by issue of payment through direct bank transfer and cheques’.

The management of the following formations under the Headquarter Frontier Corps KP (North) incurred an amount of Rs.250,938,440 on account of salaries during the financial year 2022-23. Details are as under:

Para No of AIR	Name of Office	Description	Controlling Authority	Amount in Rs
10	Orakzai Scouts	Pay & allowances	IGFC (N) KP	76,060,420
09	Bajaur Scouts	Pay & allowances	IGFC (N) KP	61,064,936
11	Khyber Rifles	Pay & allowances	IGFC (N) KP	26,229,523
10	Tirah Rifles	Pay & allowances	IGFC (N) KP	28,993,784
09	Mohmand Rifles	Pay & allowances	IGFC (N) KP	41,683,813
05	Dir Scouts	Pay & Allowances	IGFC (N) KP	16,905,964
Total (Rs.)				250,938,440

Audit observed that salaries of Jawans were drawn through Drawing and disbursing officer (DDO) instead of vendor /individual bank accounts of payees.

Audit is of the view that withdrawal of salaries and operating expenses on DDO was irregular and in violation of the above stated rule.

Audit holds that the management was bound to ensure the payment of salaries through bank accounts.

The irregularity occurred due to weak financial and internal control of the Organization.

The management (s) replied that pay and allowances of recruits were drawn through DDO due to their new appointment. Furthermore, now the bank accounts are opened for all employees and salaries are routed through banks.

The management accepted the Audit observation.

Audit recommends that responsibility may be fixed besides stopping the recurring irregularity under intimation to audit.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide para number 19.5.12 having financial impact of Rs. 1,561.0148 million. Recurrence of same irregularity is a matter of serious concern.

Inspector General Frontier Corps (South) KP

20.5.54 Irregular expenditure for the supply of ration without open tendering- Rs.205.709 million

Para 04 of PPRA Rules-2004 states that, procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

The management(s) of the following formations, under the administrative control of IGFC South KP, extended the Contracts of 2021-22 for the supply of Ration for FY-2022-23, and made a payment of Rs.205,708,844 up to 06.2023. Details are as under:

Para No	Name of Formation	Description	Expenditure (Rs.)
12	Kurram Militia	A03942-Cost of Other Stores,	102,646,492
03	Bhittani Rifles	Purchase of Ration	103,062,352
	Total (Rs.)		205,708,844

Audit observed that the management modified the agreement and revised the rates w.e.f. December-2022.

Audit holds that the contractors were bound to supply the ration as per rates approved/agreed upon in the amended slip. However, the management revised the rates without calling fresh tenders and the contractors were extended undue favor.

Due to this act of the management the payment of Rs. 205,708,844 was held as irregular.

The management replied that the tender process for the supply of ration was conducted by the HQFC. The contracts were revised in light of Clause-17 of the Contract agreement and accordingly ration supply as per approved contracts and rates was ensured.

The reply of the management was not accepted as modification in rates is a violation of the PPRA Rules.

The PAO was requested on 03.01.2024 to convene the DAC but DAC was not convened till finalization of the Report.

Audit recommends that responsibility may be fixed for the pointed-out irregularity besides recovery of the loss sustained by the government.

20.5.55 Irregular draws of Pay & Allowances through DDO - Rs. 211.238 million

Clause 2.3.2.8 of Accounting Policies and Procedure Manual states that ‘the accounting system shall include controls to minimize the risk of fraud and corruption. This objective shall be addressed by issue of payment through direct bank transfer and cheques’.

The management of the following formations under Headquarter Frontier Corps KP (South) and incurred an amount of Rs. 211,237,997 on account of salaries during the financial year 2022-23. Detailed as under:

Para No of AIR	Name of Office	Description	Controlling Authority	Amount in Rs
04	Thall Scouts	Pay & allowances	IGFC (S) KP	10,869,908
11	Bhittani Rifles	Pay & allowances	IGFC (S) KP	57,881,772
11	Shawal Rifles	Pay & allowances	IGFC (S) KP	124,231,423
05	South Waziristan Scouts	Pay & allowances	IGFC (S) KP	18,254,894
Total (Rs.)				211,237,997

Audit observed that salaries of Jawans were drawn through drawing and disbursing officer (DDO) instead of vendor /individual bank accounts of payees.

Audit is of the view that withdrawal of salaries and operating expenses on DDO was irregular and in violation of the above stated rule.

Audit holds that the management was bound to ensure the payment of salaries through bank accounts as required under the above quoted rules.

The management (s) replied that pay and allowances of recruits were drawn through DDO due to their new appointment. Furthermore, now the bank accounts are opened for all employees and salaries are routed through banks.

The management accepted the Audit observation.

The PAO was requested on 03.01.2024 to convene the DAC but DAC was not convened till finalization of the Report.

Audit recommends that responsibility may be fixed besides stoppage of such recurring irregularity under intimation to audit.

Note: The issued was reported earlier also in the Audit Report for Audit Year 2022-23 vide para number 14.5.51 having financial impact of Rs. 5,811.840 million. Recurrence of same irregularity is a matter of serious concern.

20.5.56 Non-transparent procurement of Stationery items in violation of PPRA Rules - Rs. 8.339 million

Para 28 (2) of PPRA 2004 states that all bids shall be opened publicly in the presence of the bidders or their representatives who may choose to be present, at the time and place announced prior to the bidding. The procuring agency shall read aloud the unit price as well as the bid amount and shall record the minutes of the bid opening. All bidders in attendance shall sign an attendance sheet. All bids submitted after the time prescribed shall be rejected and returned without being opened.

Para 38 of PPRA 2004 states that acceptance of bids the bidder with the lowest evaluated bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract, within the original or extended period of bid validity.

The management of Headquarter Frontier Corps (South) floated the tender for Stationery and Printing items on 30.08.2022. The tenders were required to reach the quarter concerned on or before 10.30 am, 12.09.2022. Subsequently different contractors participated in the bidding process and awarded the contract to the lowest bidder i.e. Silk Route Contracting Pvt Ltd.

Audit observed that the management incurred an expenditure of Rs. 8,338,700 on the purchase of stationary items and paid to M/S Silk Route Contracting Pvt Ltd during the financial year 2022-23. Details are given below.

Cheque No.	Date	Amount
8194770	19.10.2022	1,598,000
8703220	05.12.2022	1,654,000
8964526	17.03.2023	147,000
8965116	10.05.2023	2,645,000
8965821	14.06.2023	147,000
8965820	14.06.2023	1,910,000
8966074	27.06.2023	237,700
<i>Total</i>		<i>8,338,700</i>

The following irregularities were noticed.

- Minimum response time of 15 days was not given to the participants.
- Sealed envelopes were not available on record which indicates that the quotations were collected by hand in violation of the PPRA rules.
- Attendance of bidders/participants was not available on record.
- The quotations were unsigned, undated and unstamped.

In light of the above facts the procurement was held as non-transparent and irregular.

Audit holds that the management was required to conduct the procurement process in transparent manner as provided in the PPRA rules.

The management replied that the procurement was made in compliance with PPRA Rules and all other codal formalities were followed. The points raised in the audit para are noted for future compliance.

The management accepted the audit observation.

Audit recommends that responsibility may be fixed for violation of PPRA Rules.

20.5.57 Loss to government due to purchase of Uniform Articles at higher rates-Rs.46.125 million.

Para 38 of PPRA 2004 states that the bidder with the lowest evaluated bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract, within the original or extended period of bid validity.

Para-29 of PPRA Rules-2004 states that procuring agencies shall formulate an appropriate evaluation criterion listing all the relevant information against which a bid is to be evaluated. Such evaluation criteria shall form an integral part of the bidding documents. Failure to provide for an unambiguous evaluation criterion in the bidding documents shall amount to mis-procurement.

Para 2 (h) of PPRA Rules-2004 states that “most advantageous bid” means,- (i) a bid or proposal for goods, works or services that after meeting the eligibility or qualification criteria, is found substantially responsive to the terms and conditions as set out in the bidding or request for proposals document; and (ii) evaluated as the highest ranked bid or proposal on the basis of cost or quality or qualification or any combination thereof, as specified in the bidding documents or request for proposal documents which shall be in conformity with the selection techniques to be issued by the Authority;

The management of Frontier Corps Headquarter (South) KP floated tenders for the purchase of Uniform articles. Subsequently different rates were quoted by the participants.

The audit observed that contracts were awarded to the contractors who offered higher rates.

Audit is of the view that due to purchase of Uniform Articles at higher rates resulted in a loss of Rs.46,124,610, as shown in the statement below:

Para No	Items	Supply rate	Lowest rate	Difference	Quantity	Loss
11	Desert Shoes	5,238	4,419	1089	20,000	21,780,000
14	Jogger Shoes	2,525	1,872	653	10,000	6,530,000
18	Stitched PDC Uniform with Field Cap	3,732	3,350	382	40,000	15,280,000
20	Vest Green half Sleeves	499.99	435	64.99	39,000	2,534,610
Total (Rs.)						46,124,610

Audit holds that the management was required to conduct the procurements in an economical manner as required under the above quoted rules.

The management replied that the purchases were made on the recommendation of the Procurement Board on the basis of superior and good quality.

The reply of the management was not accepted due to the fact that the superiority of the quality of the procured items was not proven through tests/trials or any other measure for assessment of the quality.

Audit recommends that responsibility may be fixed for the pointed-out irregularity.

Works Branch Frontier Corps (North) at KP

20.5.58 Irregular payment on account of WAPDA Charges-Rs.23.920 million

Para-12 of GFR Vol-I states that a controlling officer must see not only that the total expenditure is kept within the limits of the authorized appropriation but also that the fund allotted to spending units are expended in the public interest and upon objects for which the money was provided.

The management of Works Branch Frontier Corps (North) at KP Peshawar paid an amount of Rs.23,920,000 on account of WAPDA Charges in the projects mentioned below, during the financial year 2022-23.

S.No	Name of Work	Contractor	Amount
1	Construction of accommodation for 2x Wing's HQs at Jamal Maya and Ghari Killi Orakzai Tribal District	M/S Atif Khan Khattak	11,960,000
2	Construction of accommodation for 2x Wing's HQs at Barai Pakdara and Mehraban Killi (Tarkho kas), Khyber Tribal District	M/S Zenith Construction & Engineering	11,960,000
	Total (Rs.)		23,920,000

Audit observed that the subject charges were paid to the contractor instead of Service Providers i.e. TESCO/WAPDA. Furthermore, the necessary record in justification of the subject expenditure i.e. Demand Notice/ Bill of WAPDA/TESCO etc. was not available on record.

Audit is of the view that the subject charges were required to be paid to the concerned service provider i.e. WAPDA/TESCO etc. along with the provision of payment record. As the same was not done and the charges were paid to the contractor(s), the expenditure was therefore, held irregular.

Audit holds that the subject payment was unjustified.

The management was requested to furnish preliminary replies to the observation statements vide No.FG(A)/OS/2023-24/12 dated: 25.09.2023. However, no reply was furnished.

The PAO was requested on 03.01.2024 to convene the DAC but DAC was not convened till finalization of the Report.

Audit recommends that the payment of WAPDA charges may be recovered from the contractor.

Commandant Mohmand Rifles

20.5.59 Non-production of anti-smuggling cases record

Section 14(2) of Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 states that the officer in charge of any office or department shall afford all facilities and provide record for audit inspection and comply with requests for information in as complete a form as possible and with all reasonable expedition.

Section 14(3) of Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001 states that 'any person or authority hindering the auditorial functions of the Auditor-General regarding inspection of accounts shall be subject to disciplinary action under relevant Efficiency and Discipline Rules, applicable to such person.

The Commandant Mohmand Rifles was delegated power of customs authority as detailed below. However, no vehicles were reported to Collector Custom House Peshawar during the year 2022-23.

Despite the written request to produce the following record for audit scrutiny, the management did not produce the same.

S.No.	Name of activity
1	Anti-smuggling record
2	List of ceased vehicles and further action
3	List of ceased ammunition and further action
4	Other confiscated items

Audit is of the view that non-production of record created doubts and was violation of above rule.

Audit holds that due to non-provision of the subject record the facts were concealed and functions of the Auditor-General of Pakistan were hindered.

The management replied that no fresh case was reported during the audit period 2022-23 due to closure of border (Gorsal Gate). Secondly, anti-smuggling cell is controlled centrally from HQFC. All the records were available with HQFC.

The reply was not accepted, documentary evidence was not provided to audit.

The PAO was requested on 03.01.2024 to convene the DAC but DAC was not convened till finalization of the Report.

Audit recommends that the record may be produced for audit scrutiny besides fixing responsibility under intimation to audit.

Auqaf Directorate, Islamabad

20.5.60 Irregular expenditure out of Shrine Fund – Rs. 75.125 million

Section 2 (1) of the Islamabad Capital Territory Waqf Properties Act, 2020 states “prescribed” means prescribed by rules made under this Act.

Section 19 (1) of the Islamabad Capital Territory Waqf Properties Act, 2020 states that the Chief Administrator shall maintain a complete record of all properties under his control and management and shall keep accounts of income and expenditure of such properties including expenditure on the chief administrator and his establishment, in such manner as may be prescribed.

The management of Auqaf Directorate, Islamabad incurred expenditure of Rs. 75.125 million out of shrine funds during 2022-23.

Audit observed that expenditure was made on pay, pension, security guards services, religious functions, POL, uniforms, repair of vehicle, honorarium etc. without prescribed rules.

Audit is of the view that utilization of shrine fund without prescribed rule was irregular and unauthorized.

The management did not reply.

The PAO was requested on 03.01.2024 to convene the DAC but DAC was not convened till finalization of the Report.

Audit recommends that rules for utilization of shrine fund may be framed at the earliest.

20.5.61 Irregular appointment of skilled / unskilled workers without open competition and expenditure thereon - Rs. 24.407 million

Establishment Division O.M. No. F.531/1/2008-SP dated 22.10.2014 states that vacancies in each Ministry / Division Department / Autonomous Body / Corporation as per the provincial / regional quota etc. shall be advertised through widely published National / Provincial / Regional newspaper.

Establishment Division O.M. No. F-53 /1/2008-SP dated 22.10.2014 states that Administrative Ministries/ Divisions shall ensure merit and transparency in the recruitment process

at all level and vacancies in posts should be filled only against the approved sanctioned strength of the said category.

Establishment Division vide O.M. No. F.53/1/2008-SP dated 16.01.2015 devised a mechanism to ensure transparency and merit-based recruitment in the Ministries / Division / Attached departments / Autonomous bodies / Semi. Autonomies Bodies / Corporation, Companies and Authorities.

The management of Auqaf Directorate, Islamabad appointed skilled / unskilled worker and paid Rs. 24.407 million on monthly wages basis during the financial year 2022-23.

Audit observed as under:

- i. The above recruitments were made without advertisement and open competitors.
- ii. The details of qualification, skills, age, job description, duty station was not provided to Audit.
- iii. The domicile quota was not observed while recruitment of skilled / unskilled workers.
- iv. The recruitments / appointments were made without sanctioned posts.

Audit is of the view that recruitments of skilled and unskilled workers without advertisement and non-observing the qualification, skills and age was irregular.

The management did not reply.

The PAO was requested on 03.01.2024 to convene the DAC but DAC was not convened till finalization of the Report.

Audit recommends that matter may be inquired at appropriate level for fixing of responsibility.

20.5.62 Non-recovery of rent of shop from the tenant – Rs. 6.480 million

Para 26 of GFR-26 Vol-I states that subject to any special arrangement that may be authorized by competent authority with respect to any particular class of receipts, it is the duty of the departmental Controlling officers to see that all sums due to Government: are regularly and promptly assessed, realized and duly credited in the Public Account.

The management of Auqaf Directorate, Islamabad entered into an agreement on 27.09.2012 with Mr. Iftikhar Ahmed resident of People Colony No.1, House No.B-68, Faisalabad for leased out the shop # 1 (measuring 35x35), Masjid Al Shohada, Aabpara, Islamabad @ Rs.

40,000 per month for a period of three years commencing from 27.09.2012. The lessee deposited the rent of shop for an initial period of seven months only up to 27.04.2013. The detail of total rent of shop which is recoverable from the tenant is as under:

Period	Total Rent (Rs.)	Deposited (Rs)	Outstanding (Rs.)
01.05.2013 to 30.06.2023 (140 months)	4,880,000	400,000	4,480,000
01.10.2008 to 19.01.2011 (28 months)	2,000,064	Nil	2,000,064

Audit observed as under:

- i. The tenant of the shop did not deposit the outstanding rent of Rs. 4.480 million into government treasury since the last ten years
- ii. The agreement signed dated 27.09.2012 indicates that tenant has also not deposited the previous rent shop for the period 01.10.2008 to 19.01.2011 amounting to Rs. 2,000,064.
- iii. The shop was rented out to the tenants without calling open tender and open competition.
- iv. The agreement of shop was not revised after expiry of the earlier period.
- v. The management did not vacate the shop from the tenant since the default of the recovery of the rent.

Audit is of the view that non-recovery of shop rent and non-vacation of the timely occupation from the tenants after default of the rent recovery is a major lapse and negligence on the part of the management which deprived the public exchequer from its due receipt.

The management did not reply.

The PAO was requested on 03.01.2024 to convene the DAC but DAC was not convened till finalization of the Report.

Audit recommends that recovery of rent from the tenant may be made at the earliest.

20.5.63 Non-recovery of rent of leased out properties – Rs. 7.567 million

Para 26 of GFR-26 Vol-I states that subject to any special arrangement that may be authorized by competent authority with respect to any particular class of receipts, it is the duty of the departmental Controlling officers to see that all sums due to Government: are regularly and promptly assessed, realized and duly credited in the Public Account.

The management of Auqaf Directorate, Islamabad awarded the following contracts to different contractors:

S.No.	Contractor's Name	Contractor	Contract Amount (Rs)	%age	Amount (Rs.)
1.	M/s Haji Qamar and Sons, Islamabad	Live Animals	3,350,000	33%	1,105,500
2.	M/s Zain ul Abidin, Islamabad	Chillah Gah, Lohi Dandi	1,200,000	33%	396,000
3.	M/s Haji Qamar and Sons, Islamabad	Shoes Keeping	10,500,000	33%	3,465,000
4.	M/s Arshad Contractors, Islamabad	Darbar Sakhi Darvesh, Badshah Mianan Thub, Sihala	5,200,000	50%	2,600,000
Total					7,566,500

Audit observed as under:

- i. The contractors neither deposited the above amounts of contracts on successful award of contracts nor the remaining recoveries of contracts up to October, 2023 as no record of recoveries was provided to audit.
- ii. The contract agreements were also not provided to audit.
- iii. The proof of deposit of income tax was also not provided to audit
- iv. The terms and conditions in shoe keeping contracts clearly state that the contractor will receive five rupees of pair from visitors whereas during the visit of audit team observed that contractor was receiving twenty rupees of pair from the visitors.

Audit is of the view that non-recovery of rents put loss to public exchequer.

The management did not reply.

The PAO was requested on 03.01.2024 to convene the DAC but DAC was not convened till finalization of the Report.

Audit recommends that recovery of contract amounts may be made from the contractors and deposited into government treasury at the earliest.

Islamabad Traffic Police

20.5.64 Unnecessary delay in depositing revenue of the Government in Federal Consolidated Fund – Rs.271.116 million

Rule 32 of GFR Volume I states that it is the duty of every court or authority having the power to fine to see that the money realized reaches the treasury and that adequate precautions are taken against double refunds of fines or refunds of fines not actually paid into the treasury.

A meeting in the office of the collector FTO, Islamabad was held on 05.01.2016 regarding paper less system in Digital Driving License being issued by ITP and Electronic Challan system being introduced by the ITP in collaboration with National Bank of Pakistan and Ufone for transfer of amount to NBP through Mobi Cash and Ufone etc.

After detailed discussion on both the issues it was unanimously decided by the all participants of meeting that:-

A system/interface will be installed in the office of the FTO for reconciliation of fine money collected/ deposited on a/c of challans and it will be connected with NBP and Electronic Control Room established in ITP/HQ.

The amount being deposited on a/c of challans by violators will be transmitted quickly on same day to Govt, i.e. NBP. National Bank of Pakistan will continue to report to the FTO the receipt collected on behalf of ITP in TR-6 as per previous practice.

The management of Islamabad Traffic Police (ITP), Islamabad imposed fine on traffic violators and an amount of Rs. 271,151,715 was collected and deposited by NBP and deposited under the Head C-02638 during financial year 2022-23.

Audit observed that NBP collects fine amount on daily basis and the same was required to be deposited in Govt. Treasury immediately whereas NBP retains the fine amount for the whole month and remits the fine amount to the Govt. Treasury in last three days of month without any legitimate reasons.

Audit also observed that the management of ITP was required to report this deviation immediately as they have real time access and focal person as indicated in Article 12 of agreement, but the management of ITP was unaware about the issue for long time.

Audit is of the view that delay in depositing government revenue in Federal Consolidated Fund was irregular and against the instructions of Government/agreement.

The management replied that the zonal Chief Manager, NBP was approached regarding such delays vide ITP letter No. 1615/Admin/Traffic, dated 14-09-2020, letter No. 3955/Admin/Traffic, dated 3-11-2021 and No. 2868/Admin/Traffic, dated 01-09-2022 with the request to take the matter with Director Banking Inspection, State Bank of Pakistan & Addl. Secretary Budget, Finance Division to deposit challan amount with the treasury as per financial rules. Later on, a letter from FTO Islamabad was generated on ITP request regarding undue retention of government revenue in the Bank along with NBP's challan forms appraising the concerned to strictly advised the bank for payment of Government Receipt to Treasury.

The management accepted audit observations.

The PAO was requested on 10.01.2024 to convene the DAC but DAC was not convened till finalization of the Report.

Audit recommends that corrective measures may be taken to ensure timely deposit of the fine into government account timely instead of keeping by the bank to raise their liquidity.

Safe City, ICT Police, Islamabad

20.5.65 Non deposit of Government receipts - Rs. 23.833 million

Rule-7(1) of Federal Treasury Rules (Vol-I) states that, all money received by or tendered to Government officers on account of the revenues of the Federal Government shall without undue delay be paid in full into a treasury or into the Bank. Moneys received as aforesaid shall not be appropriated to meet departmental expenditure, nor otherwise kept apart from the Federal Consolidated Fund of the Federal Government. No department of the Government may require that any money received by it on account of the revenues of the Federal Government be kept out of the Federal Consolidated Fund of the Federal Government.

The management of Safe City, Islamabad received an amount of Rs. 23,832,685 on account of payment of damages of Optic fiber from CDA, Islamabad during Financial year 2022-23. The detail is as under:

Sr. No.	Head of Account	Particular	Cheque No.	Amount(Rs.)
1.			00118435	3,612,583
2.	A03919-Payments to other	Payment of damages of Optic	1005432835	2,226,400
3.	for Service rendered IB	Fiber	271053678	9,321,629
4.	5124		1005515566	8,672,073
		Total		23,832,685

Audit observed that amounts received from CDA were deposited in bank account named Safe City, Islamabad (IB-5124) under head "Payment to others for service rendered" instead of Federal Consolidated Fund of the Federal Government and were utilized for departmental expenditure which was irregular and unauthorized.

Audit is of the view that non- deposit of Govt. receipt and its utilization was unauthorized.

The management replied that there is no loss in government exchequer. The rule stated in the para is applicable where revenue expected. All payments received from civic agency used in restoration of optical fibre/cameras which were damaged by civic agency. Safe City already paid ROW (Right of Way) to CDA during execution an amount Rs. 74,546,417/- (approx. 74.5 million) vide cheque NO. 7398930 dated: 15.04.2015. vide letter No. CDA/DG (A)-1 (11)/2014/1951 dated: 29.09.2014.

The reply was not satisfactory as recovery/penalty of damages are received against the payment of ROW to CDA by the government and receipt against this right is government receipt.

The PAO was requested on 03.01.2024 to convene the DAC but DAC was not convened till finalization of the Report.

Audit recommends that the irregular practice may be stopped forthwith and amount may be deposited into the treasury.

20.5.66 Non-collection of fines through e-challan -Rs. 33.577 million

Rule 26 of GFR Vol-1 states that it is the duty of the departmental Controlling officers to see that all sums due to Government: are regularly and promptly assessed, realized, and duly credited in the Public Account. They should accordingly arrange to obtain from their subordinates monthly accounts and returns in suitable form claiming credit for so much paid into the treasury or otherwise accounted for and compare them with the statements of treasury credits furnished by the Accountant General, to see that the amounts reported as collected have been duly credited in the Public Account.

The management of Safe city, Islamabad issued E-challan tickets to offenders during 01.07.2022 to 30.06.2023. Detail is as under:

Description	Quantity	Amount (Rs)
E-Challan Tickets issued	204,611	43,194,200
E-Challan Ticket Paid (Fine Received)	45,612	9,616,600
E-Challan Ticket recoverable	158,999	33,577,600

Audit observed as under:

- i. There is no mechanism of early collection of fine money against E-challan tickets, hence, there are 158,999 E-challan Tickets amounting to Rs. 33,577,600 recoverable. The time value of money is a core principle of finance.
- ii. Safe City, Islamabad has not integrated with data of provincial Excise and Taxation Offices (Except Islamabad and Punjab), AJK and Gilgit, hence there is no possibility to recover E-challan even at the time of renewal of registration of vehicles falling under these jurisdictions.
- iii. There is no reconciliation with ETOs for ensuring that all fines issued through electronic challan are deposited in Government treasury at the time of transfer or token fee deposit of the vehicle.
- iv. Copy of relevant authority to impose fine through E-Challan based on camera evidence, is not provided.

Audit is of the view that non- collection of Govt. receipt is serious lapse on the part of management.

The management replied that there is no loss in government exchequer in this para. Following special initiatives have been taken to speed up the recovery of E-Challan: an amount of Rs.11,195,400/- was collected on account of E-Challan for F.Y 2022-23.

The reply was not acceptable because the management has agreed that a huge amount is outstanding which deprives the government from its due revenue.

The PAO was requested on 03.01.2024 to convene the DAC but DAC was not convened till finalization of the Report.

Audit recommends that the amount may be recovered and deposited into treasury.

Fisheries Department ICT

20.5.67 Non-recovery of License Fee of the Fishing Rights of Rawal Dam, Islamabad – Rs. 11.000 million

Clause I of the agreement signed by the Fisheries Department ICT and Contractor on 06.01.2017 states that the contract period for license of the fishing rights in Rawal Dam, Islamabad will be for two years, and it will start w.e.f. 06.01.2017.

Clause II of the agreement signed by the Fisheries Department ICT and Contractor on 06.01.2017 states that successful bidder M/s Younas Enterprises, Rawalpindi has deposited the 1st

installment of Rs. 11.000 million of the total approved auction of Rs. 22.000 million into the government treasury.

Clause III of the agreement signed by the Fisheries Department ICT and Contractor on 06.01.2017 states that contractor will be bound to deposit the remaining payable amount of Rs. 33.000 million into government treasury as per schedule and there will be no change in the schedule. The contractor has also undertaken that he will not claim any damage in case of natural disaster or any other way in the payment schedule. In addition to the license fee, the contractor will also be bound to deposit the amount of income tax as per existing tax rates.

The management of Fisheries Department ICT, Islamabad awarded contract for license of the fishing rights in Rawal Dam, Islamabad to M/s Younas Enterprises, Rawalpindi @ Rs.22.000 million per annum for a period of two years w.e.f. 06.01.2017. The contractor had deposited the 1st installment of Rs. 11.000 million on 26.12.2016 and remaining schedule of installments was as under:

Due date of License Fee to be Deposited in the Federal Treasury	Actual date of License Fee Deposited in the Federal Treasury	Amount (Rs.)
26.06.2017	25.07.2017	11,000,000
26.12.2017	21.02.2018	11,000,000
26.06.2018	Still Outstanding	Nil

Audit observed as under:

- i. The contractor has not deposited the last installment amounting to Rs. 11.000 million as per agreement in the Government treasury despite the lapse of five years.
- ii. The contractor has also not deposited the income tax amounting to Rs. 1,100,000 against the last installment in the government treasury.
- iii. Proof for forfeiting the security was also not available in the record.

Audit is of the view that not only the public exchequer was deprived of recovery, but the contractor has violated the contract agreement by not depositing the due amount in the federal treasury.

The management replied that the contractor has not deposited the last installment as the matter is sub-jaudice in the court.

The reply is not satisfactory because the matter was not taken seriously for recovery of the licensee.

The DAC in its meeting held on 12.12.2023 pended the para till decision by the Court.

Audit recommends that matter may be pursued vigorously at court of law and amount recovered from the contractor may be deposited in the federal treasury.

20.5.68 Financial loss due to non-leasing of Fisheries Rights of Rawal Dam, Islamabad

The main objective and function of the Fisheries Department ICT is also to auction fishing rights of public water (commercial fishing).

Para 23 of GFR Volume-I states that every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

The management of Fisheries Department ICT, Islamabad auctioned / sold through open competition the Fisheries Rights of Rawal Dam, Islamabad for the period as under:

Tenure of Agreement	Period	Rate (Per Annum) (Rs)
06.01.2017 to 05.01.2019	24 Months	22,000,000
06.01.2019 to 09.01.2022	36 Months	Nil
10.01.2022 to 09.01.2025	36 Months	53,500,000

The audit observed that period of three years from 06.01.2019 to 09.01.2022 was deprived of leasing of Fisheries Rights of Rawal Dam which resulted in financial loss to the public exchequer.

Audit is of the view that due to non-leasing of Fisheries Rights of Rawal Dam the public exchequer has suffered a financial loss.

The management replied that the Department had advertised for the Fisheries Rights of Rawal Dam, Islamabad during January, 2020, however, during the said implementation of auction and specifically on the date of auction, status quo order (Stay order) was received from the honorable District Court.

The reply is not satisfactory because neither effort was made for evacuation of stay order nor attempt was made for leasing of fisheries right of Rawal dam through open auction.

DAC in its meeting held on 12.12.2023 directed that fact finding inquiry by Ministry may be initiated and report be submitted within one month.

Audit recommends to finalize the inquiry at the earliest.

Circle Registrar Cooperative Societies Department, ICT

20.5.69 Non-availability of record of fee received from contesting candidates – Rs 4.350 million

Rule 12 of Islamabad Cooperative Societies Election Rules, 2019 states that the election Commission shall fix the fee for processing of nomination papers and to meet other expenses for holding of elections of the Society which shall not be less than Rs.10,000 for all posts.

As per list provided by Circle Registrar Cooperative Societies Department ICT, Islamabad 435 candidates contested in elections of 2017 to 2023 and collected Rs 4,350,000 on account of contest fee.

Audit observed that record of election fee collected from the contesting candidates and its expenditure was not maintained by the management.

Audit was of the view that non-maintenance of election fee record was a serious lapse on the part of management.

Management did not reply.

The PAO was requested on 03.01.2024 but DAC was not convened till finalization of the Report.

Audit recommends that matter may be inquired for fixing responsibility for non-maintenance of fee record.

Directorate General Immigration & Passport, Islamabad

20.5.70 Procurement of Air Conditioners without Need Assessment - Rs 33.442 Million

Para145 of GFR states that purchases must be made in the most economical manner in accordance with the definite requirements of the public service. Procurement should not be made much in advance of actual requirements.

Rule 04 of Public Procurement Rules, 2004 states that procurement should be made in the most economical and transparent manner.

The management of IMPASS Headquarters incurred an expenditure of Rs 119,574,000 on procurement of 600 Air Conditioners (400 Air conditioners of 1.5 tons @ Rs. 161,460 and 200 Air Conditioners of 2 Tons @ of Rs 274,950) from M/s Unique Electronics & Services Islamabad vide their Invoice No. 32 dated 10.06.2022 during the financial year 2021-22 out of development project “Up gradation of 163 RPOs & MRP facility at 49 Pakistan Missions abroad.

Audit observed the following serious irregularities.

- i. As per dead stock register and physical verification report by the management, 77 Air Conditioners of 2 tons and 76 Air Conditioners of 1.5 tons were lying packed in the open premises of Regional Passport Office Rawalpindi as on 24.07.2023 without any safety measures.

Description	Stock Register	Unit Price (Rs)	Total Shortage Rs
1.5 Tons	76	161,460	12,270,960
2 Tons	77	274,950	21,171,150
		Total	33,442,110

- ii. 153 ACs of 1.5 & 2 tons amounting to Rs 33,442,110 were still lying in the premises unutilized as on 24.07.2023 which indicates that procurement was made much in advance of actual requirements.

Audit is of the view that procurement of air conditioners much in advance without assessing the actual need is a serious lapse on the part of local management which resulted in wasteful and unjustified expenditure of Rs. 33.442 Million.

The management did not reply till finalization of the Audit & Inspection Report.

The PAO was requested on 03.01.2024 to convene DAC but DAC was not convened till finalization of the Report.

Audit recommends fixing responsibility for procurement of Air conditioners without need assessment.

20.5.71 Non-recovery of the amount of indemnity bond from the absconders- Rs 22.5 million

Para (xi) of the Establishment Division’s OM No. 04.03.2016-T.IV dated 16.02.2016 states that the tenure fixed for each foreign posting shall be strictly adhered to and will not be extendable.

Para 5 of the policy of posting of IMPASS staff at Pakistan missions abroad states that posting shall be actualized after all codal formalities i.e. IB clearance, visa issuance, and issuance of no objection Certificate (NOC). All staff selected will be posted for a period of 24 months (non-extendible), which will be deemed started at the day of assumption of charge at the respective

Mission. The posting shall cease at the end of 24th month automatically and pay shall stopped forthwith. An employee may be repatriated even before expiry of posting abroad with the prior approval of Director General, IMPASS.

Para 6 of the policy of posting of IMPASS staff at Pakistan Mission abroad states that all staff selected will have to submit undertaking stating that they will serve IMPASS for the minimum period of two years after their repatriation and if they fail to do so, they will have to deposit amount mentioned in the bond to IMPASS. All regular officers/officials will have to fill the indemnity bond of Rs 2,500,000 and in case of contractual employment an indemnity bond of Rs 800,000.

The management of DG IMPASS provided a list of 9 officers and officials who were posted in foreign missions during different tenures up to 30.06.2022.

Audit observed that the above said employees have not returned to Pakistan after completion of their tenure of foreign posting rather they have absconded. The audit further observed that no action has been taken against sureties or guarantors, nor the amount of indemnity bond recovered from them which comes to Rs 22.5 million.

Audit is of the view that non recovery of the of the amount of indemnity bond worth Rs 22.5 million from the absconders or no action against sureties or guarantors was lapse on the part of local management.

The management did not reply till finalization of the Audit & Inspection Report.

The PAO was requested on 03.01.2024 to convene DAC but DAC was not convened till finalization of the Report.

Audit recommends recovery of the amount of indemnity bond from the absconder or sureties or guarantors may be pursued vigorously.

20.5.72 Non-utilization of development fund of the project titled up-gradation of biometric identification - Rs 450.00 million

Para 12 of the GFR stats that a Controlling officer must see not only that the total expenditure is kept within the limits of the authorized appropriation but also that the fund allotted to spending units are expended in the public interest and upon objects for which the money was provided.

The management of IMPASS Headquarter was allocated development fund amounting to Rs. 450,000,000 for the development project titled Up-gradation of Biometric Identification for the financial year 2022-23.

Audit observed that the entire budget was either re-appropriated to some other heads of accounts or was surrendered as no expenditure was made against the budget grant for which Rs. 450.00 million was provided.

Audit is of the view that non-utilization of development fund for the purpose for which it was allocated for was lapse on the part of local management.

The management did not reply till finalization of the Audit & Inspection Report.

The PAO was requested on 03.01.2024 to convene DAC but DAC was not convened till finalization of the Report.

Audit recommends that responsibility may be fixed for non-utilization of development fund.

Land Revenue Department ICT, Islamabad

20.5.73 Non-collection of Capital Gain Tax and Advance Tax on Registration - Rs. 6.330 million

Section 236 (C)-1 of the Income Tax Ordinance, 2001 states that any person responsible for registering or attesting transfer of any immovable property shall at the time of registering or attesting the transfer shall collect from the purchaser or transferee Gain tax at the rate specified in Division XVIII of Part IV of the First Schedule.

Section-236 (K) -1 of the Income Tax Ordinance, 2001 states that any person responsible for registering or attesting transfer of any immovable property shall at the time of registering or attesting the transfer shall collect from the purchaser or transferee advance tax at the rate specified in Division XVIII of Part IV of the First Schedule.

Federal Board of Revenue vide letter No.2 (2) SA to D.G. (WHT)/2021/157424-R dated 25th July, 2022, has changed the rates of tax collection under section 236 C and 236 K of income tax ordinance 2001 through Finance Act, 2022, which states that the advance tax for filer is 2% and non-filer is 7% with effect from 01.07.2022.

The management of ADC (R), ICT Islamabad mutated land in favor of various purchasers during the financial years 2022-23.

Audit observed that, the advance tax of Rs.3,449,320 and gain Tax of Rs.2,880,720 were outstanding/pending and not collected from the concerned parties as their mutation has been issued and registry of the same has been prepared.

S.No	Financial year	Jurisdiction of Revenue office	Amount of Deed	Advance Tax (Rs)	Gain Tax in Rs.	Total in Rs.
1	2022-23	Sub-registrar Rural	37,470,000	1,525,400	956,800	2,482,200
2	2022-23	Joint Sub-registrar Urban	96,196,000	1,923,920	1,923,920	3,847,840
		Total	133,666,000	3,449,320	2,880,720	6,330,040

Audit is of the view that non-recovery of advance tax and capital gain tax was a serious lapse on the part of management which deprived the Government of its due revenue.

The management did not reply till finalization of report.

The PAO was requested on 03.01.2024 to convene DAC but DAC was not convened till finalization of the Report.

Audit recommends that due taxes may be recovered under intimation to audit.

20.5.74 Non-collection of Mutation Fee, Gain tax and Advance tax on Oral Mutation - Rs. 56.452 million

Board of Revenue, Punjab Notification No 1587-2010/1597-LR (1) dated 30.06.2010 states that the Board of Revenue, Punjab is pleased to fix mutation fee as 5 % of the value of land according to the Valuation Table notified by District Collector in respect of the land situated in the locality under the Stamp Act, 1899 w.e.f 01.07.2010 which shall be payable by the purchaser.

Section 236 (C)-1 of the Income Tax Ordinance, 2001 states that any person responsible for registering or attesting transfer of any immovable property shall at the time of registering or attesting the transfer shall collect from the purchaser or transferee Gain tax at the rate specified in Division XVIII of Part IV of the First Schedule.

Section-236 (K) -1 of the Income Tax Ordinance, 2001 states that any person responsible for registering or attesting transfer of any immovable property shall at the time of registering or attesting the transfer shall collect from the purchaser or transferee advance tax at the rate specified in Division XVIII of Part IV of the First Schedule.

Federal Board of Revenue vide letter No.2 (2) SA to D.G. (WHT)/2021/157424-R dated 25th July, 2022, has changed the rates of tax collection under section 236 C and 236 K of income tax ordinance 2001 through Finance Act, 2022, which states that the advance tax for filer is 2% and non-filer is 7% with effect from 01.07.2022.

The management of ADC (R), ICT Islamabad entered mutation of land in favor of various purchasers during the financial years 2022-23.

Audit observed that the Mutation fee, Gain tax and advance tax of Rs.56,542,071/- were pending and not collected for mutation recorded in the mutation register detail as under.

S. No	Financial year	Tehsildar/R.O	Mutation Fee Rs.	Advance Tax Rs	Gain Tax Rs	Total Amount Rs.
1	2022-23	Muzajat (Rural)	18,857,577	12,577,706	10,385,297	41,820,580
2	2022-23	Muzajat (Urban)	7,380,531	3,855,580	3,485,380	14,721,491
Total			26,238,108	16,433,286	13,870,677	56,542,071

Audit is of the view that, non-collection of due revenue on mutation is lapse on the part of local management which deprived the Government of its due receipts.

The management did not reply till finalization of report.

The PAO was requested on 03.01.2024 to convene DAC but DAC was not convened till finalization of the Report.

Audit recommends that, the Mutation fee, gain tax and advance tax, may be recovered under intimation to audit.

12 Union Councils, Islamabad

20.5.75 Non-recovery from contractors in 12 union councils - Rs.46.973 million

Para 5 (e) of Finance Division OM No.F.3(2)/Exp/2006 dated 13.09.2006 states that in the matter of receipts pertaining to the ministry/division, attached departments and subordinate offices, the Principal Accounting Officer (PAO) is expected to ensure that adequate machinery exists for due collection and bringing any kind connected with the functions of the ministry/division(s)/ departments and subordinate offices under his control

The management of 12 Union Councils issued work orders for 18 Revenue Contract Agreements to successful bidders in 12 Union Councils of Rural Areas of Islamabad Capital Territory for the Financial Year 2021-2022.

Audit observed that an amount of Rs. 46.974 million is still outstanding. Details are as under:

No. Ucs	Name of Union Councils	Name of Contract	Contract Amount Rs.	Received Amount Rs.	Amount Receivable Rs.
1	Union Council No.3 Malpur, Union Council No.4 Bhara Kahu (N), Union Council No.5 Bhara Kahu (S)	Cattle Mandi Bhara Kahu	6,100,000	2,500,000	3,600,000
2	Union Council No.4 Kot Hathial Bhara Kahu (N)	Sanitation in jurisdiction of the Union Council	700,000	400,000	300,000
3	Union Council No.5 Bhara Kahu (S)	Sanitation in jurisdiction of the Union Council	1,000,000	700,000	300,000
		Weekly Bazar(Budh Bazar)	5,200,000	4,650,000	550,000
4	Union Council No.9 Chirah	Toll Tax Chirah Road	470,000	401,400	68,600
5	Union Council No.10 Kirpa	Surcharge Royalty Fee, Gayra, Matti, Bricks	1,900,000	710,000	1,190,000
		Toll Tax Kirpa Road (old) Jhang Syedan	550,000	200,000	350,000
		Toll Tax Ladhiot Road Chakkiyan to Channi	650,000	0	650,000
6	Union Council No.12 Rawat	Professional Tax	15,500,000	500,000	15,000,000
		Toll Tax Sheikh Pur Nazir Abad Road Rawat (Two Way)	16,000,000	0	16,000,000
7	Union Council No.13 Humak	Professional Tax	10,000,000	4,786,520	5,213,480
8	Union Council No.15 Lohi Bhar	Professional Tax	10,000,000	8,760,000	1,240,000
9	Union Council No.16 Pahg Panwal	Toll tax Pahg Panwal Road	450,000	350,000	100,000
10	Union Council No.17 Korai	Professional Tax	3,000,000	1,613,333	1,386,667
11	Union Council No.18 Khanna Dak	Professional Tax	2,500,000	2,150,000	350,000
		Parking Fee Khanna	1,100,000	725,000	375,000

		Professional Tax	550,000	530,000	20,000
12	Union Council No.23 Kuri	Professional Tax	600,000	320,000	280,000
Total			76,270,000	29,296,253	46,973,747

Audit is of the view that non collection of due receipt from successful bidders of Rs.46.973 million is a serious lapse on the part of management and caused a huge loss to Local Fund of Union Councils.

The management did not reply till finalization of the report.

The PAO was requested on 03.01.2024 but DAC was not convened till finalization of the Report.

Audit recommends that inquiry may be held to fix responsibility besides recovery of balance amount lying with contractors/bidders with intimation to audit.

20.5.76 Non-recovery of withholding tax @10% on bid amount - Rs.7.653 million

The management of Metropolitan Corporation Islamabad published an advertisement for open auction of annual contracts for union councils of rural areas of Islamabad on 14.08.2022 for the Financial Year 2021-2022.

Clause 4 of the advertisement dated 14.08.2022 for open auction states that the Possession of Site of each contract over to the successful bidder subject to submission of the payment as under:-

- 1) Will deposit 25% of the bid value amount in advance.
- 2) Will deposit 10% of the bid value security in advance.
- 3) Will deposit 10% withholding tax of bid value of each site in advance.

The management of 17 Union Councils completed the bidding process and awarded contract to successful bidders for the collection of Revenue Receipts for the Financial Year 2021-2022 on each site in the month of September 2021.

Detail of successful bidders and highest bid amount for the F. Y. 2021-2022 is as under:-

Sr.No. Ucs	Name of Union Councils	S.No of each U.C Contracts	Name of Contract	Contract Amount Rs.	10% Withholding tax Rs.
1	Union Council No.3 Malpur, Union Council No.4 Bhara Kahu (N) ,Union Council No.5 Bhara Kahu (S)	1	Cattle Mandi Bhara Kahu	6,100,000	610,000
2	Union Council No.4 Kot Hathial Bhara Kahu (N)	1	Professional Tax	950,000	95,000
		2	Sanitation in jurisdiction of the Union Council	700,000	70,000

3	Union Council No.5 Bhara Kahu (S)	1	Professional Tax	1,200,000	120,000
		2	Sanitation in jurisdiction of the Union Council	1,000,000	100,000
		3	Weekly Bazar(Budh Bazar)	5,200,000	520,000
4	Union Council No.6 Phulgran	1	Professional Tax	700,000	70,000
5	Union Council No.9 Chirah	1	Toll Tax Chirah Road	470,000	47,000
6	Union Council No.10 Kirpa	1	Surcharge Royalty Fee, Gayra, Matti, Bricks	1,900,000	190,000
		2	Toll Tax Kirpa Road (New) 17 Meel	650,000	65,000
		3	Toll Tax Kirpa Road (old) Jhang Syedan	550,000	55,000
		4	Toll Tax Ladhlot Road Chakkiyan to Channi	650,000	65,000
7	Union Council No.11 Mughal	1	Toll Tax Miana Thub Road UC Mughal	570,000	57,000
8	Union Council No.12 Rawat	1	Professional Tax	15,500,000	1,550,000
9	Union Council No.13 Humak	1	Professional Tax	10,000,000	1,000,000
10	Union Council No.14 Sihala	1	Sihala Kak Pul Lari Ada Parking Fee (Two way)	5,100,000	510,000
		2	Toll Tax Japan Road Sihala (Two way)	3,100,000	310,000
		3	Professional Tax	2,315,000	231,500
		4	Toilet Fee Sihala Kakpul	240,000	24,000
		5	Surcharge Royalty Fee, Gaira, Matti, Bricks	460,000	46,000
11	Union Council No.15 Lohi Bhar	1	Professional Tax	10,000,000	1,000,000
12	Union Council No.16 Pahg Panwal	1	Toll tax Pahg Panwal Road	450,000	45,000
13	Union Council No.17 Korai	1	Professional Tax	3,000,000	300,000
14	Union Council No.18 Khanna Dak	1	Professional Tax	2,500,000	250,000
		2	Parking Fee Khanna	1,100,000	110,000
15	Union Council No.19 Tarlai	1	Professional Tax	400,000	40,000
16	Union Council No.20 Alipur	1	Parking Fee Lari Ada Satra meel (Two way)	1,000,000	100,000
		2	Professional Tax	550,000	55,000
		3	Cattle Mandi Jhang Syedian (Weekly)	50,000	5,000
17	Union Council No.22 Chak Shahzad	1	Professional Tax	125,000	12,500
Total		31		76,530,000	7,653,000

Audit observed that 17 Union Councils did not collect the amount of Rs.7.653 million of withholding tax from the successful bidders neither before signing of contract and issuance of work orders nor in the later period till to date.

Audit is of the view that non-collection of withholding tax of Rs.7.653 million from successful bidders is a serious lapse on the part of management and caused huge loss to the public fund.

The management did not reply till finalization of the report.

The PAO was requested on 03.01.2024 but DAC was not convened till finalization of the Report.

Audit recommends that inquiry may be held to fix responsibility besides recovery of withholding tax from successful bidders and same be deposited into public fund with intimation to audit.

20.5.77 Illegal appointment of 166 daily wages employees in 27 union councils - Rs. 41.955 million

Para (vii) of the Establishment Division O.M. No. F.53/I/2008-SP dated 22.10.2014 states that the vacancies in each Ministry/Division /Department/Autonomous body/Corporation as per provincial/Regional quota etc. shall be advertised through widely published national /provincial / regional newspapers.

Para 27 of Financial Management and Powers of Principal Accounting Officers Regulations, 2021 states that the Finance Division shall approve appointment of contingent paid staff within the budgetary provisions and as per the instructions issued from time to time.

The management of 27 Union Councils appointed 166 daily wages staff, just on written request by the applicant without observing legal formalities on the posts of Computer Operators, Naib Qasid, sweepers etc. and made payment of Rs. 41,955,000 during 2021-2022.

Audit observed that 27 Union Councils appointed 166 daily wages employees without sanctioned posts, open competition, skill test and without observing merit policy for the Financial Year 2021-2022.

Audit further observed that receiving of pay of 27 employees were not available in pay vouchers and all payments were drawn by the respective Secretaries of the Union Councils in cash instead of direct credit facility to their respective employees' bank account, this method attracts payment to ghost employees.

Audit is of the view that appointment of 166 daily wages employees without observing legal process of appointment is irregular and unauthorized. Further Payment of salary in cash is also violation of Finance Division's instructions.

The management did not reply till finalization of the report.

The PAO was requested on 03.01.2024 to convene DAC but DAC was not convened till finalization of the Report.

Audit recommends that inquiry may be held to fix responsibility besides recovery of amount spent on irregular appointments.

20.5.78 Non-recovery of tax receipts from contractors - Rs.126.142 million

Para 5 (e) of Finance Division OM No.F.3 (2)/Exp/2006 dated 13.09.2006 states that in the matter of receipts pertaining to the ministry/division, attached departments and subordinate offices,

the Principal Accounting Officer (PAO) is expected to ensure that adequate machinery exists for due collection and bringing any kind connected with the functions of the ministry/division(s)/ departments and subordinate offices under his control.

Sub Clause (1) of Clause 90 of Local Government Act 2015 states that a tax or fee levied under this Act shall be collected in the prescribed manner.

The management of 08 Union Councils awarded Tax Collection Revenue Contracts to different successful bidders in 08 Union Councils of Rural Areas of Islamabad Capital Territory during the Financial Year 2017-2022.

Audit observed that the management of Union Councils failed to recover due receipt of contract amount from successful bidders/contractors during the Financial Years 2016-2017 to 2020-2021.

Audit is of the view that non collection of due receipt amounting to Rs.126.142 million from successful bidders is loss to Public Fund of Union Councils and undue favor extended to the bidders.

The management did not reply till finalization of the report.

The PAO was requested on 03.01.2024 to convene DAC but DAC was not convened till finalization of the Report.

Audit recommends that inquiry may be held to fix responsibility besides recovery of balance amount lying with contractors/bidders.

20.5.79 Un-authentic receipt from Rawat Lorry Ada parking fee Rs.39.915 million with a loss of Rs. 9.685 million

Sub Clause (1) of Clause 90 of Local Government Act 2015 states that a tax or fee levied under this Act shall be collected in the prescribed manner,

Sub Clause (2) of Clause 90 of Local Government Act 2015 states that The Government may prescribe the mode of collection of a tax, or a fee levied under this Act.

The management of Metropolitan Corporation Islamabad advertised a tender for open auction of Annual Contracts for Rawat Lari Ada Parking Fee (two way) on 14.08.2021. The process of open competition was suspended without assigning any reason. The Secretary Union Council Rawat shows an amount of Rs.39.915 million as receipt from Lari ADA Parking Fee through self-collection for the Financial Year 2021-2022.

Audit observed that the Secretary Union Council Rawat shows an amount of Rs.39.915 million as receipt from Lari ADA Parking Fee through self-collection for the Financial Year 2021-2022, without any prescribed mode of collection and did not award annual contract through open competition for the financial year 2021-2022. The previous bid for Lari ADA Parking Fee was Rs.49.600 million for the financial year 2020-2021.

Audit is of the view that Collection of Parking Fee without prescribed mode of collection of Lari ADA Parking Fee is illegal and unauthorized, which caused a loss of Rs.9.685 million to Public Fund of UC Rawat as compared to previous year contract for the Financial Year 2020-2021.

The management did not reply till finalization of the report.

The PAO was requested on 03.01.2024 to convene DAC but DAC was not convened till finalization of the Report.

Audit recommends that matter may be investigated, and responsibility be fixed for avoiding open completion.

20.5.80 Non-Recovery of Toll Tax Java Bypass Road Rawat (Two Way) Rs.16.65 million

Sub Clause (1&2)of Clause 90 of Local Government Act 2015 states that a tax or fee levied under this Act shall be collected in the prescribed manner,

(2) The Government may prescribe the mode of collection of a tax, or a fee levied under this Act.

The management of Union Council Rawat awarded the contract of Toll Tax Java Bypass Road Rawat to Mr. Rehman Ullah S/o Syed Rasool through open competition against Rs.14.00 million for the financial year 2020-2021. Further Secretary Union council Rawat re-awarded contract against Rs.15.40 million to the same contractor with 10% increase without open competition for the Financial Year 2021-2022.

Audit observed as under:-

- i. The management recovered an amount of Rs.12.75 million from the contractor out of 14.00 million during the financial year 2020-2021. The management failed to recover Rs.1.250 million from contractor for the financial year 2020-2021.
- ii. Audit further observed that the management of Union Council Rawat did not recover Rs.15.40 million from the same contractor for the financial year 2021-2022.

Audit is of the view that non recovery of Rs.16.65 million from contractor is a loss to the Public Fund due to un-due favor extended to the contractor during re-award of contract and open completion was intentionally avoided.

The management did not reply till finalization of the report.

The PAO was requested on 03.01.2024 but DAC was not convened till finalization of the Report.

Audit recommends that matter may be investigated, and responsibility be fixed for avoiding open completion beside recovery of subject amount.

Deputy Commissioner's Office

20.5.81 Irregular and Uneconomical hiring of Vehicles for Escort duties -Rs. 18.104 million.

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

The Management of DC Office ICT, Islamabad paid an amount of Rs. 18,104,850 to M/s Abdul Wahid Tours, Islamabad on account of hiring of transport for escort duties of Judges, VVIP's, Ministers, and for other events.

Audit observed that the vehicles were hired without competition and no Logbooks and movement registers of these rented vehicles were maintained as no such record was provided. Detail of POL being provided to these vehicles was also not produced to Audit. Audit further observed that hiring of vehicles @ Rs. 9,000 per vehicle per day seems uneconomical and unjustified.

Audit is of the view that hiring vehicles without competition and in uneconomical manner was irregular.

The management did not reply.

The PAO was requested on 10.01.2024 but DAC was not convened till finalization of the Report.

Audit recommends fixing of responsibility for this lapse and following of due procurement process in future.

CHAPTER 21

MINISTRY OF MARITIME AFFAIRS

21.1 Introduction

As per Schedule II [Rule 3(3)] Distribution of Business among the Divisions read with Schedule III [rule-4(4)] Rules of Business 1973 (As amended up to 23rd April, 2019) following main business have been assigned to the Division amongst the other functions.

1. National Planning, research and international aspects of:
 - i) Inland water transport; and
 - ii) Coastal shipping within the same Province.
2. Diverted cargo belonging to the Federal Government.
3. Navigation and shipping, including coastal shipping but not including shipping confined to one Province; safety of ports and regulation of matters relating to dangerous cargo.
4. Light-houses, including lightships, beacons and other provisions for safety of shipping.
5. Admiralty jurisdiction; offenses committed on the high seas.
6. Declaration and delimitation of major ports and the constitution and power of authorities in such ports.
7. Mercantile marine; planning for development and rehabilitation of Pakistan merchant navy; international shipping and maritime conferences and ratification of their conventions; training of seamen; pool for national shipping.
8. Korangi Fisheries Harbor Authority, Karachi.
9. Office for promotion of Deep-Sea Fisheries Resources in Exclusive Economic Zone.
10. Fishing and Fisheries beyond territorial waters.
11. Quality Control Laboratory Karachi.
12. Marine Fisheries Research Laboratory Karachi.
13. Fisheries Training Centre/Deep Sea Fishing Vessel.
14. Oceanography and Hydrological Research.
15. Marine Biological Research Laboratory, Karachi.
16. Welfare of Seamen; seamen Hostel Karachi.

ATTACHED DEPARTMENTS/AUTONOMOUS BODIES

- i. Directorate of Maritime Fisheries, Karachi.
- ii. Directorate of Dockworkers Safety, Karachi.
- iii. Karachi Port Trust
- iv. Karachi Dockyard Labour Board
- v. Pakistan Maritime Academy Karachi
- vi. Shipping Master Karachi
- vii. DG Ports & Shipping Karachi.

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY-2022-23) Rs. in million	Revenue / Receipt Audited (FY 2022-23) Rs. in million
1	Formations	10	5	30,686.963	31,923.891
2	Assignment Accounts (Excluding FAP)	-	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	2	2	28,379.836	-
4	Foreign Aided Project (FAP)	-	-	-	-

21.2 Comments on Budget & Accounts (Variance Analysis)

The final budget allocated to the Maritime Affairs for the financial year 2022-23 was Rs. 4,119.59 million, out of which the Division expended an amount of Rs. 4,044.01 million. Grant-wise detail of current and development expenditure is as under:

(Rs. In million)

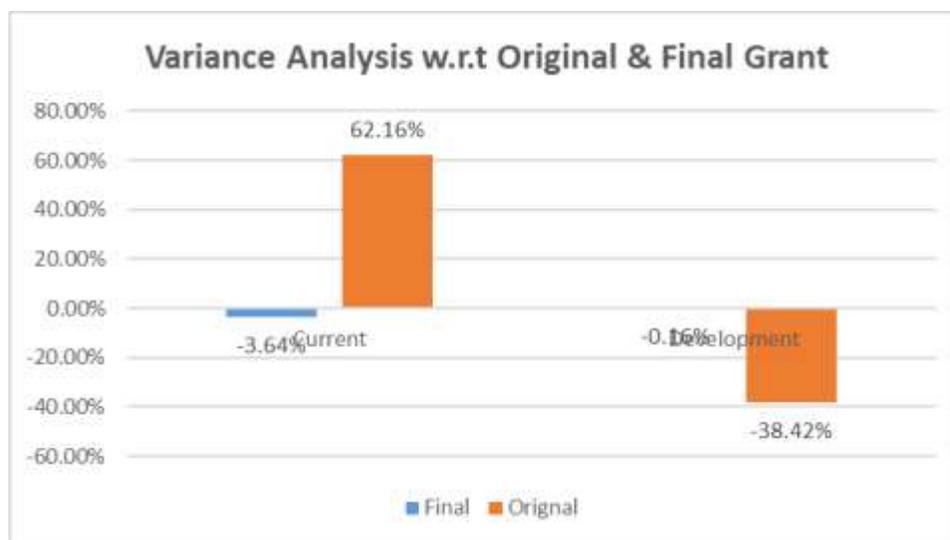
Grant No	Type of Grant	Original Grant	Suppl Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
70	Current	1,177.78	822.75	-18.43	1,982.10	1,909.88	-72.22	-3.64%
130	Development	3,465.38	.00	-1,327.88	2,137.50	2,134.13	-3.36	-0.16%
	Total	4,643.15	822.75	-1,346.31	4,119.59	4,044.01	-75.58	-1.83%

Audit noted that there was an overall saving of Rs.75.58 million, which was mainly due to saving in current expenditure.

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of General Financial Rules (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, bifurcating total allocation into current, development and charge expenditure, it was observed that, in case of development grant, there was 38.42% of saving w.r.t original grant which was finally reduced to 0.16% w.r.t final grant and in case of current grant 62.16% excess was finally become 3.64% saving.



21.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs. 81,987.556 million, were raised in this report during the current audit of **Ministry Of Maritime Affairs**. Summary of the audit observations classified by nature is as under:

(Rupees in million)

S. No	Classification	Amount
1	Non-production of record	
2	Reported cases of fraud, embezzlement and Misappropriation	
3	Irregularities	
A	<i>HR/Employees related Irregularities</i>	1,863.89
B	<i>Procurement related irregularities</i>	697.11
C	<i>Management of account with commercial banks</i>	
D	<i>Recovery</i>	20,171.99
E	<i>Internal Control</i>	58,331.85
4	Value for money and service delivery	

5	Others	922.725
---	--------	---------

21.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
2010-11	4	0	0	4	-
2011-12	8	0	0	8	-
2012-13	2	0	0	2	-
2013-14	1	0	0	1	-
2015-16	20	20	6	14	30
2016-17	2	0	0	2	-
2017-18	5	0	0	5	-
2018-19	92	0	0	92	-
2019-20	75	9	3	72	33
2020-21	47	0	0	47	-
2021-22	78	17	0	78	-
2022-23	18	0	0	18	-
Total	352	46	9	343	-

21.5 AUDIT PARAS

Karachi Port Trust, Karachi

21.5.1 Non-recovery of outstanding receipt on account of Cargo Storage from TOCs – Rs. 2,040.217 million

General Financial Rule 26 states that it is the duty of the departmental controlling officers to see that all sums due to the Government are regularly and promptly assessed, realized and duly credited.

Section 84 of the Karachi Port Trust Act, 1886 states that all fees and sum due on account of property for the time being vested in the Board, and all areas of tolls, charges, rates and dues imposed under this act may be recovered, in addition to the other modes herein before provided, upon a summary proceeding before a magistrate in the manner provided in the code of Criminal Procedure, 1882 for the recovery of fines.

The management of KPT informed us about the detail of recoverable Storage Charges against unclaimed, confiscated and disputed containers. The details are as under:

Sl. No.	Name of TOCs	Outstanding Dues	(Amount in Rs.)	
			Retained in KPT D&R A/c	Recoverable
1.	KICT	1,605,004,580	18,086,100	1,586,918,480

2.	PICT	435,212,840	4,563,920	430,648,920
	Total	2,040,217,420	22,650,020	2,017,567,400

Audit observed that:

An amount of Rs 2,040,217,420 is outstanding against TOCs on account of temporary Storage Charges of their containers outside their allocated area. Moreover, the TOCs are utilizing KPT's storage area for storage of destruction and auctionable containers without any agreement.

As per procedure in vogue, receipt of part payment from parties credited into their Deposit and Refund (D&R) Account. Till clearance of outstanding dues, amount received is kept in D&R account.

Audit is of the view that:

- i. Utilization of KPT's area by the TOCs without any formal agreement was irregular & unauthorized.
- ii. KPT is suffering recurring loss due to long outstanding dues from TOCs.
- iii. Amount / dues received stuck in D&R Account which cannot be utilized, showing weakness of internal controls, due to which KPT is deprived of valuable revenue.
- iv. Retention of outstanding dues from TOCs in D&R Account was not justified by the management.

The management replied that utilization of D&R Account is purely the domain of Accounts department, therefore the Accounts department is in better position to reply to this Audit observation. However, for the recovery of Temporary storage bills, KICT and PICT are provided facilities for accommodating the overflow volume at KPT area on temporary basis to ease out congestion at terminal for smooth operational activities of TOCs.

KPT raises bills to the PICT and KICT against temporary storage. The TOCs pay the charges regularly, however, TOCs have contended that these are auction able and destruction containers hence the temporary charges will be paid once auction process is completed by the Customs Authorities.

In order to resolve this issue KPT and TOCs have agreed to prepare the SOP for payment of temporary storage charges for Auctioned Labeled Containers which is under process.

Reply indicates that management accepted the Audit Observation.

Audit recommends recovering Storage Charges from TOCs besides expediting finalization of SOPs with TOCs for payment of temporary storage charges for auctioned labeled containers.

Note: This issue was reported earlier also in Audit Report for the Audit Year 2021-22 vide paras No. 20.5.21 and 20.5.22 having financial impact of Rs. 658.670 million. Recurrence of the same irregularity is a matter of serious concern.

21.5.2 Non-receipt of KPT share in sale proceed of disposed-off / auctioned cargo – Rs. 666.712 million

Section 201(d) of Customs Act 1969 states that balance of sale proceeds after deducting charges mention in sub-section (a), (b), (c) (i.e. expenses of sale, freight duty and taxes, and custom duty) shall be paid to custodian of goods.

General Financial Rule 26 states that it is the duty of the departmental controlling officers to see that all sums due to the Government are regularly and promptly assessed, realized and duly credited.

Section 84 of the Karachi Port Trust Act, 1886 states that all fees and sum due on account of property for the time being vested in the Board, and all areas of 406 tolls, charges, rates and dues imposed under this act may be recovered, in addition to the other modes herein before provided, upon a summary proceeding before a magistrate in the manner provided in the code of Criminal Procedure, 1882 for the recovery of fines.

The management informed that an amount of Rs.666.712 million on account of KPT Share was collected by Pakistan Customs for disbursement to KPT. Detail is as under:

Sl. No.	Collectorates	Claims Period	(Amount in Rs.)
			Outstanding Dues
1.	West Wharf	From 1987 till Mar-2023	608,466,902.33
2.	East Wharf	From July-2013 till Dec-2021	58,245,589.23
Total			666,712,491.56

Audit observed that share of KPT collected by customs on behalf of KPT from auctioned cargo have not been recovered from Pakistan Customs.

Audit is of the view that non-collection of share of KPT collected by Pakistan Customs was a lapse on the part of management.

The management replied that as per established practice, procedures and in accordance with Customs and KPT Act, the imported goods landed at KPT and not cleared by the respective consignee within specified period are liable to present / put under auction by Customs under Section 82 of Customs Act, 1969 and Section 50 and 50-A of KPT Act, 1886. Moreover, no lot /

package within the bonded premises of port can be disposed of through public auction except by the Customs under the relevant provision of Customs Act. KPT has lodged its updated claim for KPT share against sale proceeds outstanding amount from Pakistan Customs. Furthermore, KPT has served 231 reminders dated 14.10.2023 and several meetings held with Customs Authorities at various levels to accelerate the process of Sale Proceeds amount collected by them on behalf of KPT.

The management accepted the Audit Observation.

Audit recommends recovery of outstanding dues from Pakistan Customs.

21.5.3 Non-recovery of outstanding Temporary Storage Charges from TOCs – Rs. 279.843 million

Section 84 of KPT Act, 1886 states that all fees and sums due on account of property for the time being vested in the Board and all arrears of tolls, charges, rates and dues imposed under this Act, may be recovered, in addition to the other modes hereinbefore provided, upon a summary proceeding before a magistrate in the manner provided in the Code of Criminal Procedure, 1882, for the recovery of fines.

The management of KPT allotted Temporary Storage facilities to TOCs for container storage during the financial year 2022-23.

The audit observed that an amount of Rs. 279,842,600 is outstanding against TOCs for the period from 01.07.2022 to 30.06.2023:

Sl. No.	Name of TOCs	(Amount in Rs.)
		Amount outstanding on A/c of Storage Charges uptill 30.06.2023
1.	M/s Pakistan International Container Terminal (PICT)	76,405,600
2.	M/s Karachi International Container Terminal (KICT)	203,437,000
	Total	279,842,600

Audit is of the view that non-recovery of outstanding dues / Temporary Storage Charges is lapse on the part of management which deprived KPT of its due receipts on due time. Furthermore, KPT also suffering recurring loss due to long outstanding receipts from TOCs.

The management replied that TOCs is providing facilities for accommodating the overflow volume at KPT area on temporary basis to ease out congestion at terminal for smooth operational activities of TOCs. KPT raises bills to the TOCs against temporary storage facility. TOCs pay the charges regularly, however, in terms of these outstanding temporary storage charges, the TOCs

have contended that these are auctionable and destruction containers hence the temporary charges will be paid once auction process is completed by the Customs Authorities. In order to resolve this issue KPT and TOCs have agreed to prepare the SOPs for payment of temporary storage charges for Auctioned Labeled Containers which is under process.

The management accepted the audit observation.

Audit recommends recovering outstanding dues under intimation to Audit.

Note: This issue was reported earlier also in Audit Report for the Audit Year 2022-23 vide para No. 16.5.10 having financial impact of Rs. 1,913.434 million. Recurrence of the same irregularity is a matter of serious concern.

21.5.4 Non-recovery of HMS Charges – Rs. 3,524.510 million

Section 84 of KPT Act, 1886 states that all fees and sums due on account of property for the time being vested in the Board and all arrears of tolls, charges, rates and dues imposed under this Act, may be recovered, in addition to the other modes hereinbefore provided, upon a summary proceeding before a magistrate in the manner provided in the Code of Criminal Procedure, 1882, for the recovery of fines.

General Financial Rule 26 states that it is the duty of the departmental controlling officers to see that all sums due to the Government are regularly and promptly assessed, realized and duly credited.

The management of KPT provided detail of outstanding Handling Marshalling and Storage (HMS) Charges against TOCs / localities of KPT (i.e. Esat Wharf, West Wharf and Old TPX Areas) amounting to Rs. 3,524,510,021 since 2004. Details are as under:

Sl. No.	TOCs / Locality	(Amount in Rs.) Outstanding HMS Upto 30.06.2023
1.	M/s Pakistan International Container Terminal (PICT)	1,520,696,049
2.	M/s Karachi International Container Terminal (KICT)	1,785,117,209
	Sub-Total (A)	3,305,813,258
3.	East Wharf	80,528,859
4.	KGCC	202,849
5.	Keemari	5,763,999
6.	Old TPX Area	92,959,052

7. West Wharf	39,242,004
Sub-Total (B)	218,696,763
Grand Total (A + B)	3,524,510,021

Audit observed that the outstanding dues have not been recovered from defaulters up to 30.06.2023.

Audit is of the view that non-recovery of outstanding HMS Charges from defaulters was a lapse on the part of management of KPT.

The management replied that in pursuant to the Implementation Agreement, it was agreed that TOCs shall pay KPT Handling, Marshalling and Storage (HMS) Charges each year. Article 18 of the IA further binds the TOCs for payment of taxes levied by Federal, Provincial, Municipal or other lawful income and other taxes, duties levies or other imposition whatsoever.

The Excise and Taxation Department assessed the Leased Area, Karachi and demanded Property Tax from M/s. PICT vide 'Form PT-10' served in the year 2005 / 2006. On receipt of the same M/s PICT filed a Suit (No. 827/2007) before the Honorable Sindh High Court against the Excise and Taxation Department and others. As per the short order of the Court in 2015, the HMS Charges are being deposited to the Nazir of the Honorable Sindh High Court. KPT is fighting the legal battle in order to recover the HMS amount deposited with the Nazir.

M/s KICT held a portion of amount out of total HMS / rent on account of property tax which they deposit to Excise and Taxation department, Government of Sindh and provide the paid challan to KPT. The deduction of property tax from KPT legitimate charges is unjustified and is a violation of Implementation Agreement. KPT went into litigation and filed a suit (No. 1355/2003) in Honorable Sindh High Court for the recovery of such dues.

Reply of the management is not tenable as KPT was pursuing the recovery of HMS Charges from TOCs since 2007, but has not been able to recover any single penny.

Audit recommends recovering outstanding dues under intimation to Audit.

Note: This issue was reported earlier also in Audit Report for the Audit Year 2019-20 vide paras No. 25.5.28 and 25.5.29 having financial impact of Rs. 2,033.227 million. Recurrence of the same irregularity is a matter of serious concern.

21.5.5 Non-recovery of lease and license fees – Rs. 5,739.902 million

Section 84 of KPT Act, 1886 states that all fees and sums due on account of property for the time being vested in the Board and all arrears of tolls, charges, rates and dues imposed under this Act, may be recovered, in addition to the other modes hereinbefore provided, upon a summary proceeding before a magistrate in the manner provided in the Code of Criminal Procedure, 1882, for the recovery of fines.

The management of KPT provided a statement of outstanding dues amounting to Rs. 5,739.902 million on account of lease and license fee from various parties upto 30.06.2023

Audit observed that receipts of part payment from parties credited into their Deposit and Refund (D&R) account. Till the time, full payment is received, the amount received is kept in D&R account.

Audit is of the view that receipts are stuck in D&R account which cannot be utilized showing weakness of internal controls due to which KPT is deprived of valuable revenue. Moreover, the collection of dues in D&R account is also not justified.

The management replied that actual outstanding dues on account of lease and license receivable is as follows:

Description	(Amount in million Rs.)
	Amount
Lease receivable from tenants	5,291.906
License Receivable from tenants	447.996
Total receivable	5,739.902
Payment kept in D&R account till 30.06.2023	3,459.967
Net Balance receivable from tenants	2,279.935

Net receivable on account of lease from tenants is Rs. 2,279.935 million instead of Rs. 2,986.845 million. As per procedure in vogue in KPT receipt of part payments from parties credited into their D&R Account until full payment is received. Similarly, Pay Orders and cheques are deposited / kept in D&R Account and defaulters are reminded to pay full amount. Until full payments were received, or disputes are settled, the amounts are kept in D&R Account.

The management accepted the Audit Observation.

Audit recommends recovering the outstanding dues from the defaulters. Further balance kept in D&R account may be utilized / invested instead of just keeping it in account.

Note: This issue was reported earlier also in Audit Report for the Audit Year 2022-23 vide paras No. 16.5.9 and 16.5.11 having financial impact of Rs. 5,347.428 million. Recurrence of the same irregularity is a matter of serious concern.

21.5.6 Non-recovery of outstanding dues from oil companies – Rs. 4,078.650 million

Section 84 of Karachi Port Trust Act, 1987 states that all fees and sums due on account of property for the time being vested in the Board and all arrears of tolls, charges, rates and dues imposed under this Act, may be recovered, in addition to the other modes hereinbefore provided, upon a summary proceedings before a magistrate in the manner provided in the Code of Criminal Procedure, 1882, for the recovery of fines.

The management of Karachi Port Trust (KPT), Karachi (in compliance of Board B.R. No.778 (Item No.VI) dated 30.12.2006) renewed the lease period for another twenty-five (25) years (till 30.06.2030) of various plots under occupation of allotted to Oil Companies Advisory Council (OCAC) Members at Oil Installation Area, Kemari within port with revised rates of Rs. 110 per Sq. Mt. per annum with five (5) percent compound escalation in each financial year excluding all city government and other taxes w.e.f. 01.10.2005.

The audit observed that an amount of Rs. 4,078.650 million was outstanding against following oil companies utilizing port area till June 2023 as detailed below:

Sl. No.	Oil Company	Area occupied (in Sq. Mt)	Outstanding due till 30.06.2023 (In Rs.)
1.	M/s Pakistan Refinery Limited	98,953	476,104,703
2.	M/s Caltex Oil (Pakistan) Limited	53,229	263,694,315
3.	M/s Pak Grease Manufacturing Company Limited	3,813	2,110,771
4.	M/s Shell Pakistan Limited	218,452	1,077,936,788
5.	M/s Pak Arab Refinery Limited	27,821	135,235,840
6.	M/s National Refinery Limited	122,160	625,609,581

7.	M/s Pakistan State Oil Company Limited	307,031	1,497,957,975
	Total	831,459	4,078,649,973

Audit is of the view that the Trust is facing loss due to non-receiving of actual revenue and interest thereon.

The management replied that outstanding dues are piled up due to Municipal Tax which cause dispute between Oil Companies Advisory Council (OCAC) Companies and KPT.

Name of Company	Outstanding / billed till 30.06.2024	Paid	(Amount in Rs.)
			Actual Outstanding
Caltex Oil	263,694,315	182,736,477	80,957,838
Pakistan Refinery Limited	476,104,703	362,567,240	113,537,463
Pak Grease Company	2,110,771	2,110,771	NIL
Shell Pakistan	1,077,936,788	761,089,794	316,846,994
Pak Arab Refinery	135,235,840	102,494,170	32,741,670
National Refinery	625,609,581	465,087,791	160,521,790
PSO	1,497,957,975	1,125,638,294	372,319,681
Total	4,078,649,973	3,001,724,537	1,076,925,436

Oil Companies Advisory Council (OCAC) Companies was not agreed to pay Municipal Tax @ 37.5% and pay Municipal Tax @ 7.5%. The Accounts Department raised bills rent plus Municipal Tax. Due to non-payment of Municipal Tax amount the total rent amount was lying in D&R Account, therefore, bills were not adjusted, which shows huge outstanding amount.

The management accepted the Audit Observation.

Audit recommends recovering the outstanding dues from Oil Companies and record of recovered amount be provided to Audit for verification. Further, balance kept in D&R account may be utilized / invested instead of just keeping it in account.

Note: This issue was reported earlier also in Audit Report for the Audit Year 2021-22 vide para No. 20.5.47 having financial impact of Rs. 3,197.463 million. Recurrence of the same irregularity is a matter of serious concern.

21.5.7 Non-recovery of outstanding dues from M/s K-Electric – Rs. 36.916 million

Section 84 of Karachi Port Trust Act, 1987 states that all fees and sums due on account of property for the time being vested in the Board and all arrears of tolls, charges, rates and dues imposed under this Act, may be recovered, in addition to the other modes hereinbefore provided, upon a summary proceedings before a magistrate in the manner provided in the Code of Criminal Procedure, 1882, for the recovery of fines.

The management of Karachi Port Trust (KPT), Karachi allotted the following plots in Industrial and Commercial Area of KPT land to M/s K-Electric. Detail is as under:

Sl. No.	Plot No.	Rate	Area occupied (In Sq.Mt)	Outstanding due till 30.06.2023 (In Rs.)
1.	Plot No.15-E Mauripur Road Area West Wharf	75.00	6822.00	18,477,085
2.	Plot No.52-B Industrial Area West Wharf	54.73	10081.97	9,049,500
3.	Plot No.8 Miscellaneous Area M. T. Khan Road / Mai Kolachi Road	150.00	8739.39	6,007,876
4.	Plot No.14 Miscellaneous Area West Wharf	16.32	2858.00	1,523,132
5.	Plot No.12-B Miscellaneous Area M. T. Khan Road / Mai Kolachi Road	300.00	1240.00	1,288,656
6.	Plot No.2-A Industrial Area West Wharf	32.90	279.00	208,268
7.	Plot No.13-A Oil Installation Area Keamari	187.22	32.00	197,451
8.	Plot No.33 Township Area Keamari	12.20	293.00	73,431
9.	Plot No.24 Miscellaneous Area M. T. Khan Road / Mai Kolachi Road	26.55	48.00	51,796
10.	Plot No.40 Miscellaneous Area West Wharf	26.00	56.00	36,869
11.	Plot No.41 Miscellaneous Area West Wharf	26.00	24.00	1,654
	Total		30,473.36	36,915,718

The audit observed that an amount of Rs. 36,915,718 was outstanding against rent of utilizing port area till June 2023.

Audit is of the view that the Trust is facing loss due to non-receiving of actual revenue and interest thereon.

The management replied that the allottee of Plot No. 15-E, Maripur Road has defaulted in payment amounting to Rs. 18,477,085. In this connection, KPT already filed a case under Section 84 against the party which is still sub-judice. Moreover, M/s K-Electric is also in dispute with KPT w.r.t. title of Plot (K-Electric obtain the Lease from KMC which is illegal and has no legal value as KPT is the owner of the land) which is also sub-judice in the court of Law. With regards to other plots mentioned in the list, it is submitted that most of the payment of plots are already received by KPT.

The management accepted the Audit Observation.

Audit recommends recovering the outstanding dues from M/s K-Electric and record of recovered amount be provided to Audit for verification.

21.5.8 Encroachment on KPT land 1,068.47 Acres - Rs. 58,175.042 million

Section 25 of Karachi Port Trust Act, 1886 states that the Board shall, for the purposes of this Act, have power to acquire and hold movable and immovable property within or without the limits of the port or city.

Para 108 of the Manual of the Estate Department of KPT states that it shall be the duty of the outdoor officials of the Estate department, or any other officials deputed under the directives of competent authority to keep vigilance over the Board Estates to prevent trespass or encroachment.

According to S.R.O No/307(KE) 91 dated 05.10.1991 Karachi Port Trust hold 140,265 Acres land within KPT limit as per following details:

Sl. No.	Area	Sq. Kilometers	Acres
1.	Land Area	34.98	8,644
2.	Back Water Sea	41.65	10,292
3.	Water Towards Sea	491	121,329
	Total	567.63	140,265

Audit observed that 1,068.47 acres was unauthorized occupied / encroached by various housing colonies / department as detail given below:

Sl. No.	Location	Encroachment (In Acres)	Market Value (Rs. Per Sq.Yd.)	Amount (In Rs.)
1.	Younusabad	156.00		8,494,200,000
2.	Grax Village	31.00		1,687,950,000
3.	Muhammadi Colony / Machar Colony	406.00		22,106,250,000
4.	Intelligence School / NTR Colony	41.27	11,250	2,247,151,500
5.	Hijrat Colony	19.20		1,045,440,000
6.	Gulshan Colony / Sikandarabad	386.00		21,015,000,000
7.	Majeed Colony	10.50		571,725,000
8.	Docks Colony	18.50		1,007,325,000
	Total	1,068.47		58,175,041,500

Audit also observed that following were further / additional encroachments on KPT land:

- i) On KPT land Clifton Beach, the Sind Government allotted plots, a prime land.
- ii) KPT owns a land of about 100 acres adjacent to NLC HQ along Mai Kolachi Bypass which is being claimed by Sindh Government.
- iii) Land adjacent National Sailing Centre at Boat Basin Clifton.20 acres adjacent to the National Sailing Center at Boating Basin, Clifton is encroached by illegal parking of trailers.
- iv) Land adjacent Yacht Club Manora. About 80 acres of land is occupied by Navy.
- v) Eastern Backwaters. Substantial encroachment on the area.
- vi) Western Backwaters.

Audit is of the view that encroachment over the costly land resulted in extensive loss amounting to Rs. 58,175,041,500 to Trust. Further, encroachment on Trust land and subsequent construction was not possible without the involvement of the KPT employees.

The management replied that port limits were notified in 1940 and 1991 and published in the Gazette of Pakistan. Due to dispute with various Government Agencies on the point of KPT limits the encroachers took advantages and occupied various back water / low lying areas by dumping garbage and other debris and created Katchi Abadies. The Katchi Abadies have surfaced on KPT lands since 1947 partition. Initially, the pace of expansion was slow, the expansion increased manifold in 1973 and gained further impetus in 1985. The main cause of the establishment of these Katchi Abadies is the provision of utility by K-Electric and SSGC which

encourages encroachers and non-resolution of long outstanding issues by the Government agencies. KPT has continuously pressed the Government of Sindh not to declare the encroachers as Katchi Abadies and help KPT in the removal of these encroachments. In 2001, the then Chief Executive of Pakistan directed the organization that Katchi Abadies dwellers who have no alternate should not be summarily evicted and re-settlement plans must be developed to relocate these dwellers. Several meetings have also been held on the issue of Katchi Abadies after orders of President of Pakistan. KPT requested Government of Sindh to provide alternative land for shifting of these Abadies in compliance of orders of President of Pakistan which has not been reciprocated. It may be mentioned that none of the Katchi Abadies mentioned by audit has legal documents issued by KPT.

These are very old encroachments (pre-1970) linked to political / social / economical and cultural issues. Anti-Encroachment Department, KPT conducted several operations from January, 2019 to November, 2021 for removal of encroachment from different sites. The details of Anti Encroachment drives are as under:

Year	Total land recovered (In Sq. Yd.)	Total persons apprehended	Total vehicles apprehended	FIR Lodged
2019	106,660	38	08	23
2020	37,802	72	19	60
2021	58,320	147	52	95

In compliance of High Court Orders in C.P.No. D-1740/2011, Estate Department requested all the Utility Service Providers such as K-Electric, SSGC, KWSB to disconnect all the connections in all Katchi Abadies and no new connections shall be given to any Katchi Abadies but no compliance has been made by any Utility Agency. In this connection, KPT filed Contempt Proceedings against all Utility Service Providers for non-compliance with High Court Decision. KPT also filed C.P.No.47/2011 in the Supreme Court of Pakistan and Suit No.322/2012 High Court of Sindh at Karachi against the Government of Sindh, Board of Revenue and Others entire encroached / unauthorized allotment of KPT land as per Port Limit the Honorable High Court of Sindh granted stay order against Katchi Abadies (Board of Revenue / Government of Sindh).

Reply indicates that management has accepted Audit Observation. However, despite having order / worthy directions from the President of Islamic Republic of Pakistan, management failed to find out any way to evacuate the encroached land despite lapse of more than two (02) decades.

Audit recommends:

- i) To take concrete efforts / actions to comply with worthy directions of the President of Islamic Republic of Pakistan and honorable Sindh High Court's Order (in C.P. No. D-1740/2011), without further waste of time.
- ii) That PAO may inquire the matter to get the illegally occupied property vacated.

Note: This issue was reported earlier also in Audit Report for the Audit Year 2021-22 vide para No. 20.5.49. Recurrence of the same irregularity is a matter of serious concern.

21.5.9 Non-recovery of outstanding rent from Warehouses at KPT property / land – Rs. 124.872 million

Section 84 of Karachi Port Trust Act, 1987 states that all fees and sums due on account of property for the time being vested in the Board and all arrears of tolls, charges, rates and dues imposed under this Act, may be recovered, in addition to the other modes hereinbefore provided, upon a summary proceedings before a magistrate in the manner provided in the Code of Criminal Procedure, 1882, for the recovery of fines.

The management of Karachi Port Trust (KPT), Karachi allotted various warehouses up to 30.06.2023.

Audit observed that rent amounting to Rs 124,871,758 against different warehouse was outstanding till June, 2023.

Audit is of the view that due to non-recovery of outstanding rent, Trust was deprived of its due receipts.

The management replied that most of the payment of plots are already received by KPT. As per procedure, KPT filed Section-84 for recovery of dues against defaulters. Some parties went to Courts against KPT for different disputes. KPT cannot take action till the final decision of Court. Moreover, KPT filed Section 84 against the parties who defaulted in payment of KPT dues which is still sub-judice in the Court of Law.

The management accepted the Audit Observation.

Audit recommends recovering the outstanding dues and a record of recovered amount be provided to Audit for verification besides sharing detail of sub-judice cases.

21.5.10 Non-recovery of outstanding rent from KPT land – Rs. 714.073 million

Section 84 of Karachi Port Trust Act, 1987 states that all fees and sums due on account of property for the time being vested in the Board and all arrears of tolls, charges, rates and dues imposed under this Act, may be recovered, in addition to the other modes hereinbefore provided, upon a summary proceedings before a magistrate in the manner provided in the Code of Criminal Procedure, 1882, for the recovery of fines.

The management of Karachi Port Trust (KPT), Karachi allotted following plots / land situated at different areas on KPT land against which Rs 714,073,122 remained outstanding till 30.06.2023.

Sl. No.	Area / location	(Amount in Rs.) Outstanding dues
Residential		
1.	Mauripur Road Area West Wharf	16,372,147
2.	Township Area Kemari	14,067,829
3.	M.T. Khan Road / Mai Kolachi	2,768,591
Commercial		
1.	Kemari	30,183,835
2.	M.T. Khan Road / Mai Kolachi	159,305,820
3.	Boat Building Yard West Wharf	127,923,905
4.	Mauripur Road West Wharf	251,607,404
5.	Plots allotted on welfare basis	4,867,175
6.	Industrial Area Building Yard, Karachi	106,976,416
Total		714,073,122

Audit observed that rent amounting to Rs 714,073,122 was outstanding till June, 2023.

Audit is of the view that due to non-recovery of outstanding rent, Trust was deprived of its due revenue.

The management replied that most of the payment of plots is already received by KPT. As per procedure, KPT filed Section-84 for recovery of dues against defaulters. Some parties went to Courts against KPT for different disputes. KPT cannot take action till the final decision of Court. Moreover, KPT filed Section 84 against the parties who defaulted in payment of KPT dues which is still sub-judice in the Court of Law.

The management accepted the Audit Observation.

Audit recommends recovering the outstanding dues and a record of recovered amount be provided to Audit for verification besides sharing detail of sub-judice cases.

21.5.11 Non-recovery of outstanding rent from recreational huts at Sandspit Area Manora – Rs. 113.406 million

Section 84 of Karachi Port Trust Act, 1987 states that all fees and sums due on account of property for the time being vested in the Board and all arrears of tolls, charges, rates and dues imposed under this Act, may be recovered, in addition to the other modes hereinbefore provided, upon a summary proceedings before a magistrate in the manner provided in the Code of Criminal Procedure, 1882, for the recovery of fines.

The management of Karachi Port Trust (KPT), Karachi allotted recreational land at Sandspit Area Manora against which Rs 113,406,406 remained outstanding till 30.06.2023.

Audit observed that rent amounting to Rs 113,406,406 was outstanding till June, 2023.

Audit is of the view that due to non-recovery of outstanding rent, Trust was deprived of its due revenue.

The management replied that most of the payment of plots is already received by KPT. As per procedure, KPT filed Section-84 for recovery of dues against defaulters. Some parties went to Courts against KPT for different disputes. KPT cannot take action till the final decision of Court. Moreover, KPT filed Section 84 against the parties who defaulted in payment of KPT dues which is still sub-judice in the Court of Law.

The management accepted the Audit Observation.

Audit recommends recovering the outstanding dues and a record of recovered amount be provided to Audit for verification besides sharing detail of sub-judice cases.

21.5.12 Unauthorized payment of Monetization Allowance to KPT Officers – Rs. 46.896 million

Cabinet Division (vide letter No.6/7/2011-CPC dated 12.12.2011) issued Compulsory Monetization of Transport Facility Policy for Civil Servants in BS-20 to BS-22 with the following rates, to be implemented from 01.01.2012.

BS-22	BS-21	BS-20
-------	-------	-------

Rs. 95,910	Rs. 77,430	Rs. 65,960
------------	------------	------------

Para xix of Monetization of Transport Facility issued by Cabinet Division vide No.6/7/2011-CPC dated 12.12.2011, states that no officer of BS-20 to BS-22 will be entitled and authorized to use Departmental Operational / General Duty vehicles for any kind of duty.

The management of Karachi Port Trust paid an amount of Rs. 46,896,934 to the B-19 to B-20 Officers of KPT on account of Transport Monetization Allowance during the year 2022-23.

Grade	Rate (per month)	Nos. of Officers
BS-20	Rs. 98,194	06
BS-19	Rs. 87,579	55

Audit observed that:

- i) The Transport Monetization Allowance was paid over and above the rates admissible by the Cabinet Division.
- ii) BS-20 Officers are using official vehicles exclusively and drawing Monetization Allowance at the same time.

Audit is of the view that payment of Transport Monetization Allowance over and above admissible rates is unauthorized.

The management replied that KPT is in the process of framing its own financial rules / pay scales. The same has been approved by the Board, and the approval of Federal Government is awaited.

The management accepted the Audit Observation.

Audit recommends stopping the payment of Transport Monetization Allowance forthwith till approval of Financial Rules / Pay Scales from Federal Government besides recovery of already paid.

21.5.13 Irregular payment of Allowances to KPT Officers – Rs. 1,816.995 million

General Financial Rule 25 states that all departmental regulations in so far as they embody orders or instructions of a financial character or have important financial bearing should be made by, or with the approval of, the Ministry of Finance.

Section 79(B) of Karachi Port Trust Act, 1886 states that notwithstanding anything hereinbefore contained or any law for the time being in force or in the terms and conditions of service, where in any case or matter not specifically provided in this Act, the provisions of the

Civil Servants Act, 1973 or the rules made there under shall, as far as may be, apply to the Officers of the Port.

The management of KPT paid an amount of Rs. 1,816,994,583 in shape of following allowances to the KPT Officers during the financial year 2022-23.

S. No.	Name of Allowances	Amount (Rs.)
1.	Compensatory Allowance	104,672,605
2.	Utility Allowance	552,579,089
3.	Port Allowance	804,038,595
4.	Harbor Allowance	295,809,424
5.	Education Allowance	52,252,128
6.	HOD's Allowance	7,642,742
	Total	1,816,994,583

Audit observed that the aforementioned Allowances were paid to the KPT Officers over and above the allowances admissible to Federal Government employees.

Audit is of the view that the payment of aforementioned Allowances over and above the allowances admissible to Federal Government employees was irregular.

The management replied that the KPT is in process of framing its own Financial Rules / Pay Scales. The same has been approved by the Board, and the approval of Federal Government is awaited.

The management accepted the Audit Observation.

Audit recommends stopping the payment of Allowances forthwith till approval of Financial Rules / Pay Scales from Federal Government besides recovery of already paid.

21.5.14 Irregular expenditure on procurement of lubricants, greases and oil on RRC basis – Rs. 97.420 million

Rule 12(2) of Public Procurement Rules, 2004 states that all procurement opportunities over three million Pakistani Rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation.

Rule 42 (c)(i) of Public Procurement Rules, 2004 the procuring agency shall only engage in direct contracting if the procurement concerns the acquisition of spare parts or supplementary

services from original manufacturer or supplier provided that the same are not available from alternative sources.

The management of KPT awarded a contract to M/s Shell Pakistan Limited for purchased of lubricants, greases and oil amounting to Rs. 97,420,779 on Running Rate Contract (RRC) basis during the year 2022-23.

Audit observed that procurement was made without calling tender through press and PPRA's website.

Audit is of the view that the Trust was deprived of the benefits of competitive rates, which is violation of PPRA Rules, 2004.

The management replied that KPT is procuring lubricants from M/s Shell Pakistan Limited being recommended by the OEM under PPRA Rule 42(c) (Alternate Methods of Procurement) KPT Flotilla is consuming M/s Shell Pakistan Limited products satisfactorily and cannot shift to any other brand as the oils of different manufacturer to avoid the mixing with other, as various OEMs are using various additives in manufacturing of their products. Mixing of Oils may result abnormal change in viscosity level of oil which require continuous monitoring and laboratory tests which is not feasible. Integrity pact was signed with M/s Shell Pakistan Limited. Procurement was processed in the year 2020 and Contract Agreement was signed for a period of three years. Security Deposit amounting to Rs. 2,670,852 was submitted in the first year which was retained till the end of contract in 2023. The same was returned after successful completion of a three-year period.

The reply is not cogent as the management accepted that the contract was awarded without open competition.

Audit recommends that responsibility may be fixed for repeated irregularities.

Note: This issue was reported earlier also in Audit Report for the Audit Year 2022-23 vide para-No. 16.5.18. Recurrence of the same irregularity is a matter of serious concern.

21.5.15 Non-submission of audited Financial Statements since 2009-10

Section 68 of the Karachi Port Trust Act, 1886 states the accounts of the receipts and expenditure of the Board shall, twice in every year, be laid before Government, and shall be audited and examined in such manner and by such auditor or auditors as shall, from time to time, be appointed by Government.

The Financial Statements of Karachi Port Trust Karachi was last audited by Chartered Accountants firm in 2008-09.

Audit observed that:

- i) Management did not get audited / certified Financial Statements for the years 2009-10 to 2022-23 from the Chartered Accountants despite government instructions contained in KPT Act, 1886.
- ii) Accounts Department of KPT was not maintaining department-wise General Ledgers, Financial Statements including month-wise expenditure statement for the last five (05) years which indicates that the management is neither maintaining accounts nor laying down these accounts to the Government twice in a year which is clear deviation of Section 68 of the KPT Act, 1886.

Audit is of the view that:

- i) Non-performance of the core functions by the Accounts Section is negligence on the part of the management.
- ii) Audit opinion cannot be given in absence of audited Financial Statements.

The management replied that Audit for financial year 2009-10 has just been completed, and subsequent Audits for financial year 2010-11 and onwards are in process. As soon as Audits are completed, the copies will be provided to Audit, in due course.

The management accepted the Audit Observation.

Audit recommends expediting the Audits and Audit Reports be provided to Audit.

Note: This issue was reported earlier also in Audit Reports for the Audit Year 2015-16, 2020-21 and 2021-22 vide paras No. 25.4.12, 20.5.2 and 20.5.26 respectively. Recurrence of the same irregularity is a matter of serious concern.

21.5.16 Irregular hiring and payment to non-panel advocates – Rs. 23.418 million

Public Procurement Rule 20 states that the procuring agency shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

The KPT Board Resolution No. 52 dated 20.08.2003 authorized the Manager Legal Affairs (MLA) to sign complaints, written statements, Vakalatnamas i.r.o. suits filed by or against KPT in the Courts.

The management of KPT made an expenditure amounting to Rs. 23,418,750 on account of hiring of non-panel advocates during financial year 2022-23.

Audit observed that:

- i) Payments were made in advance to the non-panel advocates.
- ii) All these activities were performed through MLA.
- iii) Non-adherence to PPRA Rules, 2004 resulted in irregular hiring of services of non-panel advocates and payment of legal fees amounting to Rs. 265.30 million up to the financial year 2022-2023.

Audit is of the view that in spite of authorizing only MLA for all affairs of hiring non-panel advocate, matter should be dealt through a committee. Further, cases have been pending in different courts for more than three decades which mostly includes cases relating to Estate Department and KPT incurred expenditure on legal charges paid to lawyers to defend the cases.

The management replied that after the 18th Amendment in the Constitution of Islamic Republic of Pakistan, the subject of services has become provincial subject and as such laws enacted by the provincial legislature are required to be followed. The lawyers claimed that they represent their clients before the court of law to get them justice, which is a noble cause, and as such their assistance is rendered to the court and therefore not a service. The law provides special protection to client and lawyer relationship and communication or consultation between them are 'confidential' and 'privileged communications'. No authority or court is empowered to seek information from an Advocate about the arrangements with his clients.

Reply of the management is irrelevant as the objection was raised regarding hiring the services of non-penal of advocates instead of client and lawyer relationship.

Audit recommends inquiring the matter for hiring the services of non-penal of advocates.

Note: This issue was reported earlier also in Audit Report for the Audit Year 2021-22 vide para No. 20.5.66 having financial impact of Rs. 58.563 million. Recurrence of the same irregularity is a matter of serious concern.

21.5.17 Non-deduction of 1/5th General Sales Tax – Rs. 13.047 million

Rule 2(2) of Sales Tax Special Procedure (Withholding) Rules, 2007 states that a withholding agent shall deduct an amount equal to one fifth (1/5th) of the total Sales Tax shown in the sales tax invoice issued by a registered person and make payment of the balance amount to him.

Rule 2(5) of Sales Tax Special Procedure (Withholding) Rules, 2007 states that the sales tax deducted at source shall be deposited by the withholding agent in the designated branch of National Bank of Pakistan under relevant head of account on sales tax return-cum-payment challan, by 15th of the month following the month during which payment has been made to the supplier.

The management of the Karachi Port Trust, Karachi (Chief Mechanical and Electrical Engineer-II) made payments to following Contractors / Suppliers on procurement of different items amounting to Rs. 1,528,947,039 during financial year 2022-23. Contractors / suppliers charged 17% GST amounting to Rs. 65,234,872 in their invoices.

Audit observed that management neither withhold 1/5th of the Sales Tax amounting to Rs. 13,046,974 (Rs. 65,234,872 ÷ 5) nor deposited into designated branch of National Bank of Pakistan / government treasury.

Audit is of the view that non-deduction of 1/5th GST deprived the government of its due receipt / revenue.

The management replied that as per withholding sales tax rules under Sales Tax Act 1990, there are exceptions to withholding sales tax i.e. sales tax is not required to be withhold, under following circumstances:

(a) Supplies made by an active taxpayer as defined in the sales tax act, 1990 to another registered person.

The parties mentioned in Audit Observations are active taxpayers. Accordingly, no withholding sales tax was deducted from the payment.

Reply of the management is not tenable as documentary evidence in support of reply was not provided to Audit.

Audit recommends that documentary evidence in support of reply be provided to Audit.

Note: This issue was reported earlier also in Audit Report for the Audit Year 2022-23 vide para No. 16.5.14 having financial impact of Rs. 16.994 million. Recurrence of the same irregularity is a matter of serious concern.

Karachi Dock Labour Board, Karachi

21.5.18 Non-recovery of Cess from beneficiaries -Rs.1,950.039 million

GFR 28 states that “No amount due to Government should be left outstanding without sufficient reason, and where any dues appear to be irrecoverable the orders of competent authority for their adjustment must be sought.”

As per Board resolution No.78 dated.05.06.1979, the KDLB levies and collects the amount of cess from different beneficiaries in the following ratio:

Agent	52%
KPT	30%
Stevedores	18%

As per Board resolution No.12 dated.08.02.2022, the KDLB management was directed to provide breakup of 1 billion payable to KDLB as reflected in accounts receivable of KDLB.

The management provided a statement showing outstanding amount of cess against different beneficiaries under the following categories during financial year 2022-23.

Category of Beneficiaries	Amount (Rs)
Agent	52,679,568
Stevedores	19,462,651
KPT	1,877,896,877
Total	1,950,039,096

Audit observed that the above amount receivable from different beneficiaries was not realized till the close of audit. Furthermore, a huge amount was receivable from KPT including long outstanding dues of Rs. 1 billion on account of Cess.

Audit is of the view that non-recovery of dues from the beneficiaries was a serious lapse on the part of management.

The management was requested on 28.09.2023 but no reply was received till finalization of the report.

Audit recommends that responsibility may be fixed for non-recovery of outstanding amount besides the amount may be recovered and deposited into KDLB account under intimation to audit.

21.5.19 Recurring financial Loss due to excess expenditure beyond income-Rs. 914.301 million

Para 23 of GFR Vol-I states that every Government officer should realize fully and that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

The management of KDLB Karachi provided provisional income and expenditure statement for the financial year 2022-23 with comparative figures for 2021-22.

Audit observed that department reported a financial loss of Rs.914,301,140 in its income and expenditure account for the financial year 2022-23. The practice of incurring financial loss was continued from prior periods as reflected in the comparative figures for the financial year 2021-22 reported in the said statement. The management used to carry forward losses and adjust it against invested funds of KDLB. Resultantly, the funds lying in bank accounts were being depleted.

During further analysis it was observed that cost of wages and other benefits was on the higher side which contributed to recurring loss as it was more than the income realized from all sources.

Audit is of the view recurring financial loss is very alarming to cause default in payment of future liabilities by KDLB.

The management was requested on 28.09.2023 but no reply was received till finalization of the report.

Audit recommends that recurring loss may be justified to audit.

21.5.20 Irregular selection and payment to panel hospitals & Laboratories - Rs. 452.908 million

Rules 20 of Public Procurement Rules, 2004 states that save as otherwise provided hereinafter, the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

The management of KDLB hired outdoor and indoor services of five (5) private hospitals and three (3) laboratories and a dental clinic on its panel and incurred an expenditure of Rs.452,908,013 during 2021-22. The detail is given below:

S#.	Name of Hospital and Laboratory	Amount (Rs)
	Hospitals	
1.	Liaquat National Hospital	216,301,276
2.	Ziauddin Hospital	148,534,674
3.	Altamash Hospital	76,284,692
4.	Hashmanis Hospital	1,667,340
5.	N.I.C.V. D	2,438,549
	Laboratories	
6.	Karachi X-Ray Lab	370,760
7.	Karachi Lab Diagnostic Centre	2,435,622
8.	Seher Medical Centre	806,400
	Consultation	
9.	Dr. Inayatullah (dental Clinic)	4,068,700
	Total	452,908,013

Audit observed that:

- i. Services of panel hospitals and laboratories/clinics were hired without open competition.
- ii. Medical attendance rules of KDLB were not framed and got approved by the Board and Ministry in consultation with Ministry of National Health Services Regulation and Coordination Division.
- iii. Neither patients record i.e. admission, discharge, doctor prescription, laboratory test etc. was found attached with bills nor medical bills were scrutinized and verified with the complete record of a patient as maintained by hospitals in accordance with laid down rule/procedures.
- iv. Physical verification of patients from hospitals was not conducted by KDLB regarding authenticity of claims.

Audit is of the view that payment made to hospitals and Laboratories/clinics in purview of above observations was irregular.

The management was requested on 28.09.2023 but no reply was received till finalization of the report.

Audit recommends that responsibility may be fixed for non-observance of PPRA rules 2004 and relevant procedure for verification of medical claims.

21.5.21 Non-deposit of withheld amount of income tax into FBR -Rs. 121.410 million

Section 149(1) of the Income Tax Ordinance, 2001 states that every employer paying salary to an employee shall, at the time of payment, deduct tax from the amount paid at the employee's average rate of tax computed at the rates specified in Division I of Part I of the First Schedule on the estimated income of the employee chargeable under the head "Salary" for the tax year in which the payment is made.

Section 153 of Income Tax Ordinance, 2001 states that every prescribed person making a payment in full or part including a payment by way of advance to a resident person or (a) for the sale of goods; (b) for the rendering of or providing of services; (c) on the execution of a contract, including contract signed by a sports person but not including a contract for the sale of goods or the rendering of or providing services, shall, at the time of making the payment, deduct tax from the gross amount payable (including sales tax, if any) at the rate specified in Division III of Part III of the First Schedule. The same was required to be deposited into Government treasury by next day.

The management of KDLB, Karachi provided a statement showing the amount of income tax deducted from Dock Workers and staff and Suppliers/vendors for deposit into FBR during financial year 2022-23. The detail is as under:

Withheld from	Amount (Rs)
KDLB Dock Workers and Staff from January till June 2023	115,541,563
Suppliers/vendors	5,869,263
Total Rs.	121,410,826

Audit observed that the above withheld amount of income tax was lying with KDLB which was not deposited into FBR till the close of audit.

Audit is of the view that non-deposit of amount deducted on account of income tax into FBR was a serious negligence on the part of management and caused loss to public exchequer.

The management was requested on 28.09.2023 but no reply was received till finalization of the report.

Audit recommends that withheld amount of income tax may be deposited into FBR besides fixing responsibility on the person(s) at fault.

21.5.22 Estimated average Loss due to excess employment of workers beyond required strength of workers -Rs.856.401 million

As per clause (a) of Board resolution no.36 dated.18.11.2006, the required level of registered dock workers to remain on KDLB roster shall be 1700 workers.

The management of KDLB registered an average of 2861 Nos. of workers during a month during financial year 2022-23.

Audit observed that 981 workers were registered in excess of required level of workers on an average during a month, audit worked out that excess amount of average guaranteed wage of Rs.856.401 million was incurred by KDLB during financial year 2022-23 if the excess workers remained idle/unemployed by KDLB. The detail working is as under:

Particulars	Working
Average workers registered per month during 2022-23	2861 Nos.
Average unemployed workers per month during 2022-23	1630 Nos.
Average Guaranteed wage rate per month (Day Shift Rate+ Night Shift Rate)/2	(68349+77149)/2 =72749
Required Strength as per BR 36/2006	1700 Nos.
Excess Workers beyond required strength per month	981 Nos. (2861-1700)
Average Loss of Guaranteed wage paid to excess workers if remain unemployed/idle	981x72749x12= 856,401,228 (856.401 million)

Audit is of the view that excess number of workers beyond required level incurred average loss of guaranteed wages of Rs.856.401 million to KDLB.

The management was requested on 28.09.2023 but no reply was received till finalization of the report.

Audit recommends that excess Dock Workers may be reduced to required level as per Board resolution 2006 and in accordance with demand of stevedores for engagement of labour in loading/unloading operations.

21.5.23 Irregular local purchase of medicine– Rs 123.359 million

Rules 20 of Public Procurement Rules, 2004 states that save as otherwise provided hereinafter, the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

The management of KDLB incurred an expenditure of Rs 107,255,865 on account of local purchase of medicines from four panel medical stores during FY 2022-23. The details are as under:

S.No	Particulars	Amount (Rs)
1.	Platinum Medical Store	58,062,535
2.	Danish Medical Store	5,489,447
3.	AA Medicos	30,509
4.	M/s Haider Medicos	59,777,411
	Total	123,359,902

Audit observed that:

1. The services of the above medical stores were hired without open competition.
2. The medical attendance rules and SOPs were not framed and approved regarding procedure of medical facility availed by patients from medical store.
3. Doctors' prescription for medicine and disease against which medicines purchased were not found attached with bills.
4. Mechanism to monitor the purchase of medicines by the patients from these stores was not observed as per record. Therefore, non-existence of control mechanism provides huge opportunity of misappropriation.

Audit is of the view due to weak internal control, the authenticity of payment for medicines against actually prescribed and required could not be ascertained. Furthermore, hiring of services of medical stores without competition in violation of PPRA rules was irregular.

The management was requested on 28.09.2023 but no reply was received till finalization of the report.

Audit recommends that responsibility may be fixed besides control mechanism may devised and implemented to stop un-authenticated payments for purchase of medicine.

21.5.24 Non-recovery of outstanding dues from tenants - Rs.37.247 million

GFR 28 states that "No amount due to Government should be left outstanding without sufficient reason, and where any dues appear to be irrecoverable the orders of competent authority for their adjustment must be sought."

The management of KDLB, Karachi provided a list of outstanding dues against their tenant in respect of properties rented/leased out to different tenants up to financial 2022-23. The summary of dues is as under:

Name of Building	No of Tenants	Amount (Rs)
KDLB building	28	23,746,847
Ziauddin Hospital	1	13,500,604
Total Rs.		37,247,451

The audit observed that KDLB have not recovered outstanding dues from tenants to date.

Audit is of the view that non-realization of rent in time is a serious negligence on the part of management.

The management was requested on 28.09.2023 but no reply was received till finalization of the report.

Audit recommends that outstanding amounts may be recovered from tenants and deposited into KDLB account under intimation to audit.

This issue was reported earlier also in Audit Report for the Audit Year 2022-23 vide para No. 16.5.8 having financial impact of Rs. 31.299 million. Recurrence of the same irregularity is a matter of serious concern.

21.5.25 Irregular renting out of 04 KDLB properties without competition and rent received thereof -Rs.4.119 million

Clause 4(2) of the Schemes states that Board shall be a body corporate by the name aforesaid, having perpetual succession and common seal, with power to acquire, hold and dispose of property, both movable and immovable, and to contract, and shall by the said name sue and be sued.

Rules 20 of Public Procurement Rules, 2004 states that save as otherwise provided hereinafter, the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

The management of KDLB rented out its space in KDLB building to following four tenants during the financial year 2022-23.

S.No	Tenant Name	Area	Rent rate	Date of Agreement	Rent received during F.Y 2022-23
1.	M/s Metal Fold Fastender	3480 sq.ft	Rs. 45.00 per sq.ft per month	20.10.2022	3,105,787

2.	M/s Singularity Traders (Pvt) Ltd	550 sq.ft	Rs. 45.00 per sq.ft per month	20.09.2022	297,000
3.	M/s Wasiq & Qadeer Associates	50 sq.ft	Rs. 45.00 per sq.ft per month	20.09.2022	297,000
4.	M/s Selina Container & Logistics (Pvt) Ltd	1050 sq.ft	Rs. 40.00 per sq.ft per month	01.10.2022	420,000
				Total	4,119,787

Audit observed that KLDB premises were allotted to different organizations without open competition and advertisement in print media regarding space available on rent in a violation of PPRA Rules.

Audit is of the view that the allotment of office accommodation without competition was irregular and unauthorized and deprived the Board of the benefit of competitive rates.

The management was requested on 28.09.2023 but no reply was received till finalization of the report.

Audit recommends that responsibility for non-compliance of PPRA rules may be fixed on the person(s) at fault.

Pakistan Marine Academy, Karachi

21.5.26 Non-deduction of GST from M/s City Cook - Rs.6.068 million

Rules 3 of Sales Tax Act, 1990 states that subject to the provisions of this Act, there shall be charged, levied and paid a tax known as sales tax at the rate of 17% of the value of (a) taxable supplies made by a registered person in the course or furtherance of any taxable activity carried on by him; and (b) goods imported into Pakistan, irrespective of their final destination in territories of Pakistan.

The management of Pakistan Marine Academy, Karachi paid an amount of Rs.41.901 million including taxes to M/s City Cook on the purchase of food and groceries items during the year 2022-2023.

Audit observed that the sales tax at the rate of 17% tax amounting to Rs.6.068 million was not deducted from the payment of M/s City Cook. Besides, Sales Tax invoices were not obtained from the supplier.

Audit is of the view that the non-deduction of sales tax is loss to public exchequer.

The management was requested on 16.08.2023 but no reply was received till finalization of the report.

Audit recommends that the amount of Sales tax may be recovered and deposited into government treasury.

21.5.27 Non-recovery of scholarship from KPT & Port Qasim Authority – Rs. 5.081 million

With reference to the Ministry of Maritime Affairs (Ports and Shipping) Letter No.5-6(10)76-PC-A/ 2019-pt dated 17.04.2023 and PMA Letter No. PMA/ CEO/ MoMA/ 2022-01 dated 31.05.2023 regarding award of need based scholarship to 10 PMA Cadets (60th Batch) to be financed from Karachi Port Trust and Port Qasim Authority. The eligibility for the grant of scholarship is essential linked to financial background and applicant's overall merits in selection for Pakistan Marine Academy (PMA). Award of scholarship would be approved by the Secretary of Ministry of Maritime Affairs (MoMA) on recommendation of scholarship Award Committee (SAC). Each year PNSC, KPT and PQA would sponsor 11 cadets, each.

The management of Pakistan Marine Academy awarded scholarship to 10 cadets of 60th batch to be financed by KPT, and Port Qasim Authority during 2022-2023.

Audit observed that the management of Pakistan Marine Academy, Karachi did not recover the scholarship amount from Karachi Port Trust and Port Qasim Authority amounting to Rs. 5.081 million.

Audit is of the view that non-payment of scholarship deprived the students of the benefit of quality education.

The management was requested on 16.08.2023 but no reply was received till finalization of the report.

Audit recommends that the outstanding amount may be recovered from the Port Qasim and KPT.

Marine Fisheries Department, Karachi

21.5.28 Wastage of public money of Rs.8.424 million

As per GFR 10(i) every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

During review of Stock Register of Marine Fisheries Department an Atomic Absorption Spectrophotometer was purchased of amounting to Rs.8,424,000/- from M/s Rizvi and Company on 25.05.2018 for the Development project titled Upgradation and Accreditation of Quality Control Lab (UAQCL).

Audit observed that the Atomic Absorption Spectrophotometer Machine was not installed even after the lapse of five years. It was also observed that the Chemical Laboratory of the Marine Fisheries is non-functional since two years.

Audit is of the view that the management shown negligence due to non-installation of chemical labs which is held irregular.

The management was requested on 09.06.2023 but no reply was received till finalization of the report.

Audit recommends that the inquiry may be conducted, and responsibility may be fixed on the persons found at fault.

21.5.29 Loss due to non-revision of tests rate-Rs. 16.280 million.

GFR 23 states that “Every Government officer should realize fully and clearly that the will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that contributed to the loss by his own action or negligence”.

The management of Marine Fisheries Department, Karachi carried out 2793 Microbiological tests on the request of the fish exporters during the period 2021-2022.

Audit observed that Marine Fisheries Department was charging Rs. 1000 per test for microbiological tests fixed in 1998 while on the other hand PCSIR, a council under the Ministry of Science and Technology, was charging Rs. 7000 per test. The management did

not enhance the rate and sustained a loss of Rs.16.280 million(2793x6000) to the public exchequer during the year 2021-2022.

Audit is of the view that non-enhancement of test rate sustained loss to the public exchequer may be justified to audit.

The management was requested on 09.06.2023 but no reply was received till finalization of the report.

Audit recommends revising the rate as per the prevailing rates and implementing the same on the exporters fee.

CHAPTER 22

NATIONAL ACCOUNTABILITY BUREAU

22.1 Introduction

The National Accountability Bureau (NAB) was established vide Ordinance No. XVIII of 1999 dated 16.11.1999 (NAB Ordinance, 1999) to eradicate corruption and hold accountable all those persons accused of such practices. NAB was also required to provide effective measures for the detection, investigation, prosecution and speedy disposal of cases involving corruption, corrupt practices, misuse/abuse of power, misappropriation of property, kickbacks, commissions, etc. with a view to a fair and just system for all.

NAB Headquarters is situated in the federal capital with five regional offices in the four provinces. The Headquarters exclusively performs policy and monitoring functions while the investigation is carried out in the Regional Offices. The Headquarters, however, retain a very limited investigation capability for very high-profile corruption cases as determined by the Chairman, NAB.

Following its mandate, NAB formulated a National Anti-Corruption Strategy (NACS) with input from international experts (supported by the DFID, UK) in 2002. The strategy contains sections on the assessment of the weaknesses of relevant institutions and the system as a whole, proposes the strategic reform agenda and the implementation plan.

The main tasks of NAB have been organized along functional lines and by arranging them into four main divisions, i.e. Operations, Prosecution, Awareness & Prevention and Human Resource & Finance Divisions.

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY-2022-23) Rs. in million	Revenue / Receipt Audited (FY-2022-23) Rs. in million
1	Formations	6	6	12,910.749	-
2	Assignment Accounts (Excluding FAP)	1	1	29,729.000	-
3	Authorities / Autonomous Bodies etc. under the PAO	-	-	-	-
4	Foreign Aided Project (FAP)	-	-	-	-

22.2 Comments on Budget & Accounts (Variance Analysis)

The final budget allocated to the National Accountability Bureau for the financial year 2022-23 was Rs. 5,118.54 million, out of which the Bureau expended an amount of Rs. 5,117.85 million. Grant-wise detail of current expenditure is as under:

(Rs. in million)

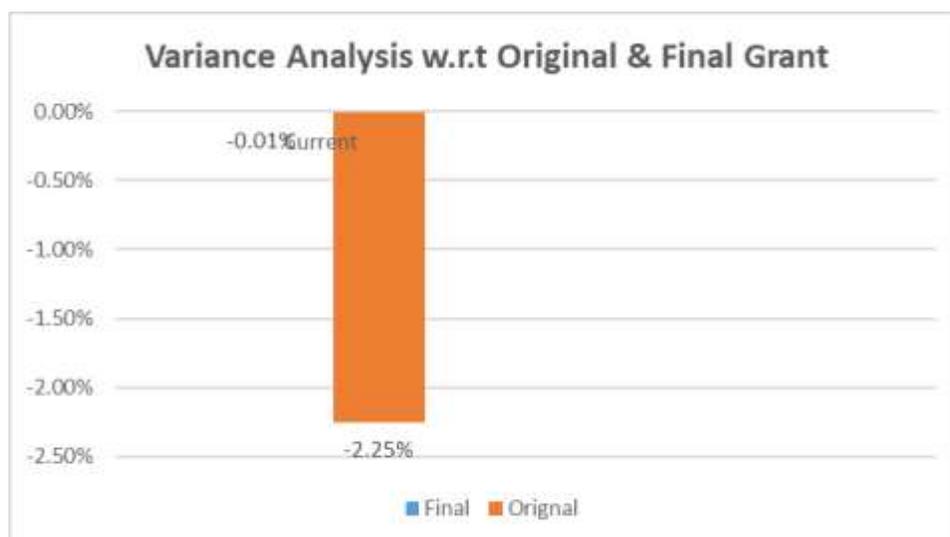
Grant No	Type of Grant	Original Grant	Suppl Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
68	Current	5,233.00	.00	-114.46	5,118.54	5,117.85	-.69	-0.01%

Audit noted that there was an overall saving of Rs.0.69 million in the current grant.

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of General Financial Rules (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, it was observed that in case of current grant, there was 2.25% of saving w.r.t original grant which was reduced to 0.01% w.r.t final grant.



22.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs. 33.09 million, were raised in this report during the current audit of **National Accountability Buearu**. Summary of the audit observations classified by nature is as under:

(Rupees in million)

S. No	Classification	Amount
1	Non-production of record	
2	Reported cases of fraud, embezzlement and Misappropriation	
3	Irregularities	
A	<i>HR/Employees related Irregularities</i>	5.674
B	<i>Procurement related irregularities</i>	
C	<i>Management of account with commercial banks</i>	
D	<i>Recovery</i>	
E	<i>Internal Control</i>	27.412
4	Value for money and service delivery	
5	Others	

22.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
2011-12	3	0	0	3	-
2013-14	1	0	0	1	-
2015-16	2	0	0	2	-

2018-19	2	0	0	2	-
2021-22	15	0	0	15	-
Total	23	0	0	23	-

22.5 AUDIT PARAS

National Accountability Bureau (NAB) Karachi

22.5.1 Irregular expenditure on law charges and awarding of extension to the law personnel – Rs.27.412 million

Para 6(b) of Part I – General of Standard Operating Procedure (SOP) for Induction Procedure and Pay Scale Structure of Advisors / Consultants / Experts and Law Officers of NAB dated 02.07.2015 states that after grant of two extensions, service provider will have to take minimum six (06) months break or go through the fresh process of hiring for further services in NAB as per this SOP.

Para-9 (a) of Part II - General of Standard Operating Procedure (SOP) hiring/ procurement of services of firms/organization “advertisement in two leading daily newspapers and on the website of NAB or writing direct letters to minimum three firms/consultants.

Sub Rule (3) (a) of Rule 4 of NAB’s Recovery and Rewards Rules, 2002 provides that the Chairman NAB may approve expenditure out of the NAB’s Recovery and Rewards fund for hiring of legal experts, chartered accountants, investigators or interrogators, anti-corruption strategy experts, media consultants or any other person for an assignment relating to NAB’s functions as per rules framed in consultation with the government.

As per rule-14(1)(g) of Rules of Business, 1973, the Law and Justice Division shall be consulted before the appointment of a legal adviser in any Division or any office or corporation under its administrative control and the Law and Justice Division will make its recommendations after consultation with the Attorney General.

The management of National Accountability Bureau (NAB), Karachi appointed Legal Consultants / Prosecutors through NAB HQ, Islamabad on monthly fee basis and salaries were paid from the head of account A03917-Law charges and incurred expenditure of Rs. 27.412 million during the year 2022-23.

Audit observed that NAB, Karachi hired the services of Lawyers for working as Legal Consultants / Prosecutors but no record of hiring process as per rules was available on record. The appointees have been working for the last few years and their contracts were continuously revising (more than two extension) in-violation of SOP.

The audit further observed that the head of account A03917-Law charges is not meant for making payments to the lawyers appointed on regular basis without any sanctioned posts and without following recruitment rules/procedures. Moreover, the management utilized a regular budget instead of meeting this expenditure from the R&R Fund after framing the rules in consultation with the Government.

In view of the above the entire expenditure incurred on law charges is treated as irregular.

The management has not submitted a reply within given time frame and till finalization of the report.

Audit recommends that irregularity may be got regularized from the Law Division.

22.5.2 Irregular appointment of experts without open competition, awarding extensions in contract - Rs. 5.674 million

The standard terms and conditions of contract employment issued by Establishment Division vide O.M No.10/52/95-R.2 dated 18.07.1996 as amended from time to time provide that the period of contract should not exceed two years and the post should be advertised.

Para 6(b) of Part I – General of Standard Operating Procedure (SOP) for Induction Procedure and Pay Scale Structure of Advisors / Consultants / Experts and Law Officers of NAB dated 02.07.2015 states that after grant of two extensions, service provider will have to take minimum six (06) months break or go through the fresh process of hiring for further services in NAB as per this SOP.

Sub Rule (3) (a) of Rule 4 of NAB’s Recovery and Rewards Rules, 2002 provides that the Chairman NAB may approve expenditure out of the NAB’s Recovery and Rewards fund for hiring of legal experts, chartered accountants, investigators or interrogators, anti-corruption strategy experts, media consultants or any other person for an assignment relating to NAB’s functions as per rules framed in consultation with the government.

The management of National Accountability Bureau, Karachi appointed ~~Exps~~ / Junior Experts against different monthly remuneration/fee through NAB (HQ), Islamabad. An expenditure of Rs. 5,674,000/- was incurred out of the head “payment to other for services rendered” during the period 2022-23. Details are as under:

S.No.	Name & Designation	Date of Appointment	(Rupees)
			Total Amount Paid

1	Mr. Ramesh Kumar, Expert Revenue BPS-20	12.02.2014	2,554,000
2	Mr. Zaheer Ahmed Junior Expert-2 BPS-18	14.04.2020	1,560,000
3	Mr. Junaid Iqbal Junior Expert-2 BPS-18	23.12.2021	1,560,000

Audit observed that NAB, Karachi hired the services of Experts / Junior Experts but record of open competition selection process was not available on record.

Audit further observed that Mr. Ramesh Kumar, Expert BPS-20 was appointed on 12.02.2014 and their contract was continuously revised (more than two extension) in-violation of SOP. Moreover, the management utilized a regular budget instead of meeting this expenditure from the R&R Fund after framing the rules in consultation with the Government. Audit further observed that the salary was increased up to 57% of above experts without approval of Finance Division any justification.

Audit is of the view that appointment of experts without advertisement and making payment from the head of account 'A03919-Payment others for services rendered' is irregular.

The management has not submitted a reply within given time frame and till finalization of the report.

Audit recommends that expenditure may be regularized from the Finance Division.

CHAPTER 23

MINISTRY OF NATIONAL FOOD SECURITY AND RESEARCH

23.1 Introduction

As per Schedule II [Rule 3 (3)] Distribution of Business among the Divisions read with Schedule III [rule-4(4)] Rules of Business 1973 (As amended up to 23rd April, 2019) following main business have been assigned to the Division amongst the other functions.

1. Economic coordination and planning in respect of food, economic planning and policy making in respect of agriculture.
2. Imports and exports control on food grains and foodstuffs, inspection, grading analysis of food grains and foodstuffs, maintenance of standards of quality for import and export and inspection, handling, storage and shipment of rice exports.
3. Collection of statistics regarding production, consumption, prices, imports and exports of food grains.
4. Coordination with aid and assistance agencies in respect of the food sector.
5. Pakistan Agricultural Research Council and other Federal agriculture research organizations.
6. Food and Agriculture Organization (FAO) of United Nations in respect of food.
7. Plant protection, pesticide import and standardization, aerial spray, plant quarantine and locust control in its international aspect and maintenance of locusts warning organizations.
8. Federal seed certification and registration.
9. Standardization and import of fertilizer.
10. Procurement of food grains, including sugar- (a) from abroad; (b) for Federal requirement; (c) for inter-Provincial supplies; and (d) for export and storage at ports.
11. Grading of agricultural commodities, other than food grains, for exports.
12. Administrative control of PASSCO.
13. Preparation of basic plan for bulk allocation of food grains and foodstuffs.
14. Price stabilization by fixing procurement and issue prices including keeping a watch over the price of food grains and foodstuffs imported from abroad or required for export and those required for inter-provincial supplies.
15. Agricultural Policy Institute.
16. (i)Animal quarantine departments, stations and facilities located anywhere in Pakistan.
(ii)National Veterinary Laboratory, Islamabad.(iii) Laboratory for Detection of Drugs Residues in Animal Products at Karachi.
17. Veterinary drugs, vaccines and animal feed additives'- (i) import and export; and (ii) procurement from abroad for Federal requirements and for interprovincial supplies.

18. Livestock, poultry and livestock products'- (i) import and export; and (ii) laying down national grades.
19. Pakistan Dairy Development Company.
20. Livestock and Dairy Development Board (LDDDB).
21. Fisheries Development Board (FDB).
22. Pakistan Oil-Seed Development Board (for Federal areas only).
23. International cooperation matters relating to agriculture and livestock.
24. Administrative control of the Agricultural Counselor's Office at Rome, Italy.
25. National Fertilizer Development Centre.
26. Administrative control of Pakistan Central Cotton Committee.

ATTACHED DEPARTMENTS / AUTONOMOUS BODIES

- i. Animal Quarantine Department.
- ii. Department of Plant Protection.
- iii. Agricultural Policy Institute, Islamabad.
- iv. Federal Seed Certification and Registration, Islamabad.
- v. Plant Breeders' Rights Registry.
- vi. Pakistan Agriculture Research Council.
- vii. National Veterinary Laboratory
- viii. Pakistan Dairy Development Company
- ix. Livestock and Dairy Development Board
- x. Fisheries Development Board

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY-2022-23) Rs. in million	Revenue / Receipt Audited (FY-2022-23) Rs. in million
1	Formations	43	10	6923.052	412.808
2	Assignment Accounts (Excluding FAP)	19	1	3,001.541	-
3	Authorities / Autonomous Bodies etc. under the PAO	-	-	-	-
4	Foreign Aided Project (FAP)	1	1	-	-

23.2 Comments on Budget & Accounts (Variance Analysis)

The final budget allocated to the National Food Security And Research Division for the financial year 2022-23 was Rs.17,678.66 million, out of which the Division expended an amount of Rs.17,504.98 million. Grant-wise detail of current and development expenditure is as under:

(Rs. In million)

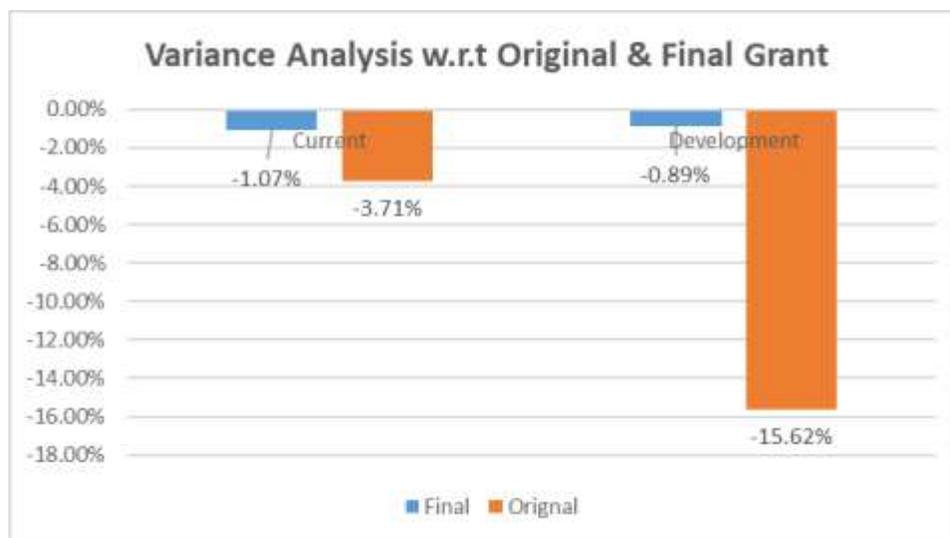
Grant No	Type of Grant	Original Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
74	Current	9,303.01	-248.60	9,054.41	8,957.56	-96.86	-1.07%
116	Development	10,129.13	-1,504.89	8,624.24	8,547.42	-76.82	-0.89%
	Total	19,432.14	-1,753.49	17,678.66	17,504.98	-173.68	-0.98%

Audit noted that there was an overall savings of Rs.173.68 million, which was mainly due to saving in development grant.

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of General Financial Rules (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, bifurcating total allocation into current, development and charge expenditure, it was observed that, in case of development grant, there was 15.62% of saving w.r.t original grant which was finally reduced to 0.89% w.r.t final grant and in case of current grant 3.71% saving was finally reduced to 1.07%.



23.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs.7,452.68 million, were raised in this report during the current audit of **Ministry Of National Food Security and Research**. Summary of the audit observations classified by nature is as under:

(Rupees in million)

S. No	Classification	Amount
1	Non-production of record	
2	Reported cases of fraud, embezzlement and Misappropriation	
3	Irregularities	
A	<i>HR/Employees related Irregularities</i>	122.943
B	<i>Procurement related irregularities</i>	3,592.17
C	<i>Management of account with commercial banks</i>	90.861
D	<i>Recovery</i>	3,629.67
E	<i>Internal Control</i>	8.39
4	Value for money and service delivery	
5	Others	8.649

23.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
2010-11	2	2	0	2	-

2016-17	2	0	0	2	-
2020-21	4	0	0	4	-
Total	8	2	0	8	-

23.5 AUDIT PARAS

National Food Security and Research, Islamabad

23.5.1 Unauthorized and non-transparent recruitment of officers on contract basis - Rs. 90.705 million

Rule-IV(c) of Endowment Fund Rules states that the selection of the project proposals (other than PECAP project) for funding within the scope of the Endowment fund will be carried through the Selection Committee as per agreement between the two governments.

Rule-IV (d) of the Endowment Fund Rule states that “a Fund Recruitment Committee (FRC) will be set up to hire staff of the fund on a competitive basis. All the recruitment/hiring of the staff will be done on competitive basis and through sufficient advertisement. A clear criterion for required qualification and experience will be established for each post in consultation with stakeholder’s organizations /departments. All recruitment will be made exclusively on contract basis with no right for regularization.”

The management of Endowment Fund of Ministry of National Food Security and Research, Islamabad recruited twenty-five (25) officers on contract basis and incurred an expenditure of Rs. 90,705,356 on payment of salaries during financial year 2022-23.

The Food Security Portal Dashboard (FSPD) was established in the M/o NFS&R under the Prime Minister’s Initiative. As per provision of Endowment Fund Rules, the Project was to be funded out of Endowment Fund after recommendation of the Fund Selection Committee with the prior consultation of USDA Agriculture Attache in Pakistan and approval of the BoG.

Audit observed that:

- i. Neither the Fund Selection Committee recommended the project for its funding out of Endowment Fund nor submitted to the Board for approval with prior concurrence of USDA Agriculture Attache in Pakistan. The incurring of expenditure without completion of formalities was unauthorized.
- ii. The recruitment of officers on a contract basis was made without advertisement in newspaper, recommendation of the Fund Recruitment Committee, and approval of the Board. Thus, the recruitment was done in a non-transparent manner.

Audit is of the view that the recruitment of officers on a contract basis made in a non-transparent manner and without approval of the Board is unauthorized.

The management replied that as per direction of PM a project “Essential Agricultural Food Commodities (EAFC)” Monitoring Cell and Food Security Portal (FSP) were launched funded from EF, after fulfilling all codal formalities. BoG the supreme body of EF, granted approvals. EAFC Monitoring Cell was a substitute of PECAP and as per rule and regulations of EF approval form selection committee was not mandatory. However, Secretary M/o NFS&R being Chairman BoG and Federal Minister for NFS&R granted approval after consulting US Embassy in Islamabad. The Fund Recruitment Committee of EF as per R&R headed by the Additional Secretary (IC/P) completed this task in a fair and transparent manner.

The reply is not cogent. Neither recommendations of the Fund Selection Committee nor approval of Board was obtained for selection of the project titled “Food Security Portal Dashboard (FSPD)”. The recruitment of officers was made without advertisement in newspaper, recommendation of the Fund Recruitment Committee, and approval of the Board.

Audit recommends holding of inquiry to fix responsibility on the persons at fault besides getting ex-post facto approval of the expenditure from the Board.

23.5.2 Unauthorized expenditure incurred on renovation of a room for establishment of Food Security Portal Dashboard - Rs 8.649 million

Rule 12(1) Public Procurement Rules, 2004 states that procurements over five hundred thousand Pakistani Rupees and up to the limit of three million Pakistani Rupees shall be advertised on the Authority’s website in the manner and format specified by regulation by the Authority from time to time.

Rule IV(c) of Endowment Fund Rules states that the selection of the project proposals (other than PECAP project) for funding within the scope of the Endowment fund will be carried through the Selection Committee as per agreement between the two governments.

Rule-IV (b) (i & ii) of Endowment Fund Rules and Regulations states that “the management of the Fund will be carried out through a Fund Management Committee (FMC). Functions and powers of FMC will be to supervise management of the Endowment Fund, income drawn from it and the expenditure in accordance with the rules and regulations approved by the Board of Governors.”

The management of Endowment Fund of Ministry of National Food Security and Research, Islamabad incurred an expenditure of Rs. 7.899 million on renovation of Room No. 421 4th floor M/o NFS& R, B-block Pak. Secretariate, Islamabad.

Similarly, an expenditure of Rs. 750,000 was also incurred on purchase of wall paneling, tiling, electric wiring and furniture items for repair/maintenance of room No. 419 & 337 of Ministry of NFS&R. The payment was made to the M/s Bisma Enterprises vide Invoice No. 583 dated 12.06.2023 and Cheque No. 273704297 dated 16.06.2023 out of Endowment Fund.

The Food Security Portal Dashboard (FSPD) was established in the M/o NFS&R under the Prime Minister's Initiative. As per provision of Endowment Fund Rules, the Project was to be funded out of Endowment Fund after recommendation of the Fund Selection Committee to the Board with the prior concurrence of USDA Agriculture Attache in Pakistan.

A case for getting ex-post facto approval of total expenditure of Rs. 7.899 million was placed before BoG in its 8th meeting held on 05.08.2022.

Audit observed as under:

- i. Neither the Fund Selection Committee recommended the project nor submitted to the Board for approval with prior concurrence of the USDA Agriculture Attache in Pakistan.
- ii. The expenditure of Rs.8.649 million (Rs.7.899+ Rs.0.750) was incurred without calling open tender as required under PPRA Rules, 2004.
- iii. The BoG in its 8th meeting held on 05.08.2022 did not grant the ex-post facto approval of the expenditure of Rs. 7.899 million.

Audit is of the view that the expenditure of Rs.8.649 million incurred on renovation of room for Food Security Portal Dashboard without approval of the BoG and calling open tender is unauthorized.

The management replied that National Food Security Dashboard was established in the Ministry of National Food Security and Research on the direction of Prime Minister of Pakistan to monitor Food, Prices, Food Production, Supplies and Demands for Food for the instant policy response. As the erstwhile the Government was witnessing serious issues of prices hikes and shortages of food items. So, it pressed hard to MNFSR to establish the dashboard immediately. PM presided meetings almost twice a week in this context. A room was allotted to dashboard where a cafeteria was being run at that time. The cafeteria was shifted in 24 hours and deadline for renovation of the room was given as 24 hours by the secretary MNFSR on the direction of PM office. Accordingly, the instant expenditure of 7.899 million was done to renovate the room

including furniture (Chairs, Workstations, Electrification, Flooring and Paper Walling). The room is still under control of dashboard team and can be seen physically.

The repair/maintenance of Room No. 419 and 337 of EAFC Cell and Dashboard was done step by step. In the 1st instance Room No. 419 was repaired at the cost of Rs. 400,000/- and in 2nd step, Room No. 337 was renovated at the cost of 350,000/-. As the expenditures estimates of both rooms were less than 0.5 million Therefore, as per rules, 3-quotations were invited from various companies. And the lowest bids offering company was awarded work order. Furthermore, the expenditure of both rooms was approved by the 10th BoG.

The reply is not correct. Nothing was explained about the selection of the project without recommendations of the Fund Selection Committee, non-obtaining approval of the above expenditure from the Board and incurring the expenditure without calling open tender. The entire expenditure was incurred through a single invoice without calling open tender.

Audit recommends holding of inquiry to fix responsibility on the persons at fault besides obtaining ex-post approval of expenditure from the Board and avoiding such practice in future.

Federal Project Management Unit

23.5.3 Unauthorized engagement of Supervisory Consultant as Third-Party Validation Consultant – Rs. 2,682.200 million

Regulation 4 of Consultancy Services Regulations, 2010 states that the procuring agency shall not hire a consultant for an assignment in which there is a possibility of conflict of interest. If a consultant has been engaged by the procuring agency to provide goods or works for a project, it shall be disqualified from providing consulting services for the same project. Similarly, a consultant shall not be hired for any assignment which by its nature, may be in conflict with another assignment of that consultant.

Federal Project Management Unit, Islamabad entered into an agreement for Implementation Assistance, Execution, Supervision and Thirty Party Validation with National Engineering Services Pakistan (NESPAK) Private Limited JV Associated Consulting Engineer (ACE) Limited JV Rehman Habib Consultants Private Limited in association with Kasib Associates at a total cost of Rs. 2,682.1200 million on 21.09.2020. Detail of cost break up is as under:

S. No.	Description	(Rupees) Cost
1.	Remuneration	1,468,028,554

2.	Service Charge on Reimbursable	28,390,611
3.	Sub Total Remuneration and Service Charges (1+2)	1,496,419,165
4.	Reimbursable	946,353,710
Total Cost of the Financial Proposal		2,442,772,875
Sales Tax @ 16% (Services Tax on Remuneration and Service Charge)		239,427,066
Total including Taxes		2,682,199,941

Audit observed that consultant validates those schemes which were supervised by the same consultant which constitute conflict of interest.

Audit is of the view that authenticity of third-party validation could not be ascertained if the supervisory consultant and third-party validation consultant is same.

The management replied that the engagement was purely made on the basis of PC-I approved from different forums. The implementation of project execution is being administered strictly in accordance with the provision of approved PC-I.

The reply was not accepted due to conflict of interest of consultant engaged in third party validation.

Audit recommends that amount paid to consultant for third party validation may be recovered besides fixing responsibility.

23.5.4 Overpayment due to extra charging against less number of field engineers - Rs. 182.45 million

Federal Project Management Unit, Islamabad entered into an agreement for Implementation Assistance, Execution, Supervision and Thirty Party Validation with National Engineering Services Pakistan (NESPAK) Private Limited JV Associated Consulting Engineer (ACE) Limited JV Rehman Habib Consultants Private Limited in association with Kasib Associates at a total cost of Rs. 2,682.1200 million on 21.09.2020. Detail of cost break up is as under:

Audit observed that the consultant only engaged 54 field engineers up to June, 2022 instead of 115 as provided in the contract agreement. Audit also observed that in the contract agreement the consultant charged monthly POL for 115 field engineers amounting to Rs. 343.962 million

whereas POL cost of 54 field engineers came to Rs. 161.513 million due to which an amount of Rs. 182.450 million was extra charged in the contract agreement as per following details:

Description	Numbers	Months	Total Months	Average Per month Rate for rental & POL	Amount Rs.
Provision as per contract	115	48	5,520	62,312	343,962,240
Actual Field Engineers	54	48	2,592	62,312	161,512,704
Difference	61	48	2,928	62,312	182,449,536

Audit is of the view that due to wrong estimation of human resources an amount of Rs. 182,449,536 was extra charged in the contract agreement.

Audit is also of the view that due to non-engagement of field staff the purpose of the Consultancy could not be achieved.

The management replied that as the project is a national level project locations are scattered around the country except Sindh and there are few cases, as consequence of replacement of staff with slight fluctuation. This is a continuous activity during the project execution.

The reply was not accepted being irrelevant.

Audit recommends inquiry may be held to fix responsibility and outcome may be shared with the Audit.

23.5.5 Excess charges of Sales tax on services - Rs.212.246 million

Federal Project Management Unit, Islamabad entered into an agreement for Implementation Assistance, Execution, Supervision and Thirty Party Validation with National Engineering Services Pakistan (NESPAK) Private Limited JV Associated Consulting Engineer (ACE) Limited JV Rehman Habib Consultants Private Limited in association with Kasib Associates at a total cost of Rs. 2,682.1200 million on 21.09.2020. Detail of cost break up is as under:

S. No.	Description	(Rupees) Cost
1.	Remuneration	1,468,028,554
2.	Service Charge on Reimbursable	28,390,611
3.	Sub Total Remuneration and Service Charges (1+2)	1,496,419,165

4. Reimbursable	946,353,710
Total Cost of the Financial Proposal	2,442,772,875
Sales Tax @ 16% (Services Tax on Remuneration and Service Charge	239,427,066
Total including Taxes	2,682,199,941

Break-up of remuneration cost as per agreement is as under:

S. No.	Description	Cost
1.	Remuneration	645,299,519
2.	Social Charges	137,993,187
3.	Overheads	542,723,928
4.	Fee	141,490,437

Audit observed that consultant charged 16% Sales Tax on remuneration and services charges amounting to Rs. 239,427,066. Whereas as per the agreement, total service charges on Reimbursable and Fee on Remuneration comes to Rs. 169,881,048 (Consultant Fee on remuneration Rs. 141,490,437 + Service Charges on Reimbursable Rs. 28,390,611) for which only Rs. 27.181 million Sales Tax @ 16% was applicable. Due to this calculation the Consultant charged additional Sales Tax amounting to Rs. 212.246 million.

Audit is of the view that charging excess sales tax was undue favor to the Consultant which may be rectified and already paid excess amount may be recovered from the Consultant.

The management replied that sales tax deduction is at bifurcated rates for each province/zone as provision of sales tax, 1990.

The reply was not accepted because the consultant charged sales tax on remuneration which was not justified.

Audit recommends amount may be recovered and deposited into Government Treasury.

23.5.6 Irregular addition of social charges and overheads in the contract - Rs. 680.717 million

Pakistan Engineering Council (Conduct and Practice of Consulting Engineers) Bye-laws, 1986 clarified that Salary Costs are defined as the costs of salaries of the partners and associates,

principals, engineers, technicians, draftsmen, stenographers, survey men, clerks, etc. for the time directly chargeable to the project.

These “Salary Costs” shall include the following pays, allowances, benefits and facilities by whatever name called, paid or payable to the employee or on his behalf, in accordance with the service rules of the consulting engineer for the employees.

Federal Project Management Unit, Islamabad entered into an agreement for Implementation Assistance, Execution, Supervision and Thirty Party Validation with National Engineering Services Pakistan (NESPAK) Private Limited JV Associated Consulting Engineer (ACE) Limited JV Rehman Habib Consultants Private Limited in association with Kasib Associates at a total cost of Rs. 2,682.1200 million on 21.09.2020. Detail of cost break up is as under:

S. No.	Description	(Rupees) Cost
1.	Remuneration	1,468,028,554
2.	Service Charge on Reimbursable	28,390,611
3.	Sub Total Remuneration and Service Charges (1+2)	1,496,419,165
4.	Reimbursable	946,353,710
Total Cost of the Financial Proposal		2,442,772,875
Sales Tax @ 16% (Services Tax on Remuneration and Service Charge)		239,427,066
Total including Taxes		2,682,199,941

Break-up of remuneration cost as per agreement is as under:

S. No.	Description	Cost
1.	Remuneration	645,299,519
2.	Social Charges	137,993,187
3.	Overheads	542,723,928
4.	Fee	141,490,437
Total Cost of the Financial Proposal		1,467,507,071

Audit observed that consultant charged Social Charges amounting to Rs. 137.993 million in costing which were already included in the Salary Cost as provided in the Pakistan Engineering Council (Conduct and Practice of Consulting Engineers) Bye-laws, 1986.

The audit also observed that the consultant charged overhead amounting to Rs. 542.724 million in the Salary Cost of Rs. 1,467.507 million whereas the same items were charged as reimbursable amounting to Rs. 946,354 million.

Audit is of the view that due to charging of social charges and overheads separately in reimbursable extra financial burden amounting to Rs. 680.717 million was put on the government money which needs to be rectified.

The management replied that remuneration cost shall cover salary and allowances as the consultants shall have agree to pay to the personal as well as the factor of social charges and overheads based on the consultant average cost as represented by the financial statements of consultants latest three fiscal years and fee of the consultant.

The reply was not tenable as it is evident from the reply that remuneration rate already included social charges and overhead and a separate provision for these resulted in loss to the government.

Audit recommends that the contract agreement may be revises as per instructions of the Pakistan Engineering Council and already paid amount may be recovered and deposited into the government treasury.

23.5.7 Unauthorized inclusion of Salaries of Head/Members- Rs. 10.604 million

Pakistan Engineering Council (Conduct and Practice of Consulting Engineers) Byelaws, 1986 clarified that Consulting Engineer's overhead costs include the following indirect costs, which are not directly applicable to specific engagements and projects:-

- i. Salaries or imputed salaries of partners and principals, to the extent that they perform general executive and administrative services as distinguished from technical or advisory services directly applicable to particular projects. These services and expenses, essential to the conduct of the business, include preliminary arrangements for new projects or assignments.

Federal Project Management Unit, Islamabad entered into an agreement for Implementation Assistance, Execution, Supervision and Thirty Party Validation with National Engineering Services Pakistan (NESPAK) Private Limited JV Associated Consulting Engineer (ACE) Limited JV Rehman Habib Consultants Private Limited in association with Kasib Associates at a total cost of Rs. 2,682.1200 million on 21.09.2020. Detail of cost break up is as under:

S. No.	Description	(Rupees) Cost
1.	Remuneration	1,468,028,554
2.	Service Charge on Reimbursable	28,390,611
3.	Sub Total Remuneration and Service Charges (1+2)	1,496,419,165
4.	Reimbursable	946,353,710
Total Cost of the Financial Proposal		2,442,772,875
Sales Tax @ 16% (Services Tax on Remuneration and Service Charge)		239,427,066
Total including Taxes		2,682,199,941

Detail of remuneration cost is as under:

S. No.	Description	Cost
1.	Remuneration	645,299,519
2.	Social Charges	137,993,187
3.	Overheads	542,723,928
4.	Fee	141,490,437
Total Cost of the Financial Proposal		1,467,507,071

Audit observed that consultant charged salaries, social charges, overheads and fees for the Members/Principals amounting to Rs. 10.604 million under the head remuneration in violation of the Pakistan Engineering Council (Conduct and Practice of Consulting Engineers) Bye-laws, 1986. Details are as under:

S. No.	Designation	Firm	Basic Remuneration	Social Charges	Overheads	Fee	Months	Total
1.	Head	NESPAK	557,630	151,879	929,760	133,927	3	4,419,577
2.	Regional Head	ACE	416,648	117,542	432,961	96,715	3	3,191,598
3	Director	RHC	363,600	102,535	440,917	9,0705	3	2,993,271
Total								10,604,446

Audit is of the view that due to charging of salaries or imputed salaries of partners and principals the contract cost enhanced by Rs. 10.604 million.

The management replied that it is general rule in government of Pakistan that the member attending board of director meeting or board of governor meeting also pay remuneration cost of visit case to case basis. On the same analogy PBOM members are entitled to avail perks and benefit

as per contract on agreed rates. Before entering into contract agreement some un-allocated man months are kept reserve so that emergent needs services required for the performance of project objective could be met. Accordingly, few man months have been allocated for PBOM members while attending regular meetings of project.

The reply was not accepted because charging of salaries or imputed salaries of partners and principals was violation of Pakistan Engineering Council (Conduct and Practice of Consulting Engineers) Bye-laws, 1986.

Audit recommends that the contract agreement may be revised as per instructions of the Pakistan Engineering Council and already paid amount may be recovered and deposited into the government treasury.

23.5.8 Unauthorized payment of rent of official Building – Rs. 8.390 million

Para 23 of GFR states that Every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

The management of Federal Project Management Unit entered into an agreement for rent of official accommodation on 11.11.2020 for 15982 square feet @ Rs. 75 per square feet (Rs. 1,198,650 per month) as per following details:

S. No.	Project	Agreement Date	Cover Area	Rate	Total
<i>1.</i>	National Program for Improvement of Water Courses in Pakistan Phase-II	11.11.2020	10,482	75	786,150
<i>2.</i>	Water Conversation in Barani Areas of KP	11.11.2020	5,500	75	412,500
Total					1,198,650

Audit observed that Finance Division gave approval on 10.11.2020 for execution of agreement @ Rs. 75 per square feet but the management paid one-year advance rent amounting to Rs. 14.384 million w.e.f. 01.04.2020 before the approval was granted. Hence rent amounting to

Rs. 8.390 million of seven months was overpaid to the owner of the building in violation of the approval of the Finance Division.

Audit is of the view that owner of the building was given undue favor by paying him 7 months' rent which was not due.

The management replied that NPC, FPMU issued a letter to owner on 08.06.2020 in which stated that the Secretary, NFS&R was pleased to approve hiring of the building w.e.f. 01.04.2020 and case was forwarded to Finance Division for relaxation of rent and approval. Therefore, the owner was requested to hold the building till the decision of the Finance Committee on following conditions: (i) The agreement will be executed at the rent over and above the prescribed rent approved by the committee from the date of approval of the Secretary, NFS&R (ii) In case the committee does not approve the rent over and above the prescribed ceiling then this office may consider paying rent @ Rs. 60 per sq. ft. for holding the building for the period since 01.04.2020.

The reply was not accepted because payment of rent for the period which was not approved by the Finance Division was unauthorized. Further, the management paid rent for seven months of an empty building.

Audit recommends that inquiry may be held to fix the responsibility.

Fisheries Development Board

23.5.9 Award of contract for hiring of services and supply of miscellaneous items without observing evaluation criteria - Rs. 9.874 million

Rule 30(1) of Public Procurement Rules, 2004 states that all bids shall be evaluated in accordance with the evaluation criteria and other terms and conditions set forth in the prescribed bidding documents.

Rule 38-B of Public Procurement Rules, 2004 states that the procuring agency shall consider a single bid in goods, work and services if it-(D) has financial conformance in terms of rate of reasonability.

As per Annexure-G of tender document No.F.01-MPF-Tech (CCDP)/2022 for supply of miscellaneous items and hiring of services of a firm for Re-location of Marine Cage Farm. The evaluation criteria were as under:

S. No	Category	Points	
		Maximum	Minimum
1	Experience		

1.1	Length of total experience	30	18
1.2	Project related experience	20	12
1.3	Registration with PEC/FBR	Mandatory	
1.4	NOC about Litigation	Yes/No	
1.5	Sub Total	50	30
2.	Personnel		
2.1	Qualification of Staff	20	12
2.2	Experience of Hydrographic	20	12
2.3	Experience of Chief Diver	05	03
2.4	Experience of Hydrographic Surveyor	05	03
2.5	Sub Total	50	30

The management of the Fisheries Development Board floated a tender for supply of miscellaneous items and hiring of services of a firm for Re-location of Marine Cage Farm. Two bids were received. The Technical Committee in its meeting held on 14.11.2022 rejected one bidder namely M/s Mew Pvt Ltd on technical basis and only one vendor M/s Bahira Foundation has qualified for financial bid. The financial bid was opened on 16.11.2022.

Audit observed as under:

1. Work was awarded without observing evaluation criteria as determined by the management.
2. The Evaluation Report contained only a summary of the evaluation criteria. The committee did not consider evaluation as per tender documents of each bidder. Technical Committee rejected the technical bid of M/s Mew Pvt Ltd without cogent reasons and mentioned only 'M/s Mew Pvt Ltd has not cleared the technical evaluation and therefore found not responsive bid.'
3. The management approved a single bid at the time of evaluation and made purchases at single quoted prices without financial conformance in terms of rate reasonability.
4. Management did not establish fair competition for procurement and deprived the government of the benefits of fair competition.

Audit is of the view that award of contract without fair evaluation of technical bid as per tender document and purchases made at single quoted prices without financial conformance in terms of rate reasonability are violations of rules.

The management replied that the Technical Evaluation Committee scrutinized the proposed bids and decided to award the contract to M/s Bahria Foundation on the basis of the vast marine experience of the organization. The committee evaluated the technical bid properly based on the experience of personnel and their qualifications. Detail mark sheets were prepared but in the minutes of the committee, a summary of the findings of the committee was included. The bid of the firm M/s Mew (Pvt) Ltd. lacks the required experience of the personnel and got zero marks in that category. As S.No.2 of the given table the minimum number was 3 to 12 for various personnel including Hydrographic, Chief Diver & Hydrographic Surveyor. However, the Bid of

M/s Mew (Pvt) Ltd had no such personnel including the Hydrographic, Chief Diver, or Hydrographic Surveyor on their strength rather the C.Vs of sea dredging personnel were included. Which were irrelevant to the assignment at hand, therefore the bid was rejected based on the quality of human resources to carry out the assignment at hand. The zero number was given in the personnel category which was below the specified minimum point. Hence the Bid was rejected by the Technical Committee.

The reply is not accepted as the evaluation committee did not evaluate the bid according to tender documents in detail to determine the technical weights of bidders.

Audit recommends that matter be investigated to fix responsibility on persons at fault.

23.5.10 Unauthorized expenditure on rent of office building without completion of codal formalities - Rs. 7.133 million

As per Finance Division's OM No.F.8(69)R.14/83/2001-452 dated 18.10.2001 "in future cases of initial hiring as well as subsequent increase in rent beyond the prescribed limit should be forwarded to Finance Division (Regulation Wing) with the approval of Secretary Incharge of the Ministry/Division concerned through respective F.A Organization supported by the following documents:-

- i. Consent of the owner.
- ii. Statement of space entitlement along with details of sanctioned strength of officers/officials duly approved by Works Division as per letter No.10(11)/71-WIII dated 17.08.1971.
- iii. Hiring particulars on the standard format duly signed by Grade-20 officer or equivalent with complete entries.
- iv. Assessment Certificate issued by Pak.PWD in accordance with specifications of the premises.
- v. Authentic copy of map of the premises in question.

The management of Fisheries Development Board, Islamabad incurred an expenditure of Rs. 7.133 million on payment of rent of office buildings during financial years 2018-23 as under:

S. No.	Office	Location	Payment during 2020-21 (Rs.)
1	Pilot Shrimp Farming Cluster Development Project	Plot No.12, Orchard Scheme Murree Road Islamabad	3,274,869
2	Pilot Shrimp Farming Cluster Development Project,	House No.B-11, Block No.13-D/2, Scheme No.24 Gulshan-e-Iqbal, Karachi.	2,539,680
3	Promotion of Trout Farming in Northern Areas of Pakistan.	Plot No.12, Orchard Scheme Murree Road Islamabad	1,318,544

Total Rs.	7,133,093
------------------	------------------

Audit observed that the expenditure was incurred on payment of rent of office buildings without obtaining Rent Assessment Certificate from Pak. PWD, authentic copies of map, statements of space entitlement along with details of sanctioned strength of officers/officials.

Audit is of the view that the expenditure incurred on rent of office buildings without completion of codal formalities is unauthorized.

The management replied that as per PC-I the PMU of project is housed at FDB which was working in a small, rented building. A committee of FDB evaluated the building available in vicinity of the FDB office and decided to hire it. The building space and project requirement was assessed and found as per notification of Ministry of Housing and works, Federal Government for hiring of office building. For Cage Culture, the existing Sub-Office of FDB was transferred to Cage Culture Project. As the building was already in FDB use, therefore no fresh committee was established to review the suitability.

The reply was not accepted as instructions of the Finance Division were violated.

Audit recommends that the matter may be taken up with the Finance Division for regularization of the expenditure.

Pakistan Central Cotton Committee, Multan

23.5.11 Non-recovery of outstanding Cotton Cess from mills - Rs. 3,447.221 million

Section-3 of the Pakistan Cess Act, 1923 states that there shall be levied and collected on all cotton either exported from the Province of Pakistan to any place outside Pakistan or consumed in any mill in the Province of Pakistan a cess at such rate as the Central Government may fix by notification in the official gazette cotton Cess rates levied by the Federal Government were enhanced from Rs.20 to Rs.50 per bale of cotton weighting 170 kg w.e.f. 01.07.2012.

Section-9 (1 & 3) of the Pakistan Cess Act, 1923 further states that an assessment made in accordance with the provisions of Section-7 or Section 8 shall not be questioned in any court. Any sum recoverable under Section-7 may be recovered as an arrear of land revenue.

The management of Pakistan Central Cotton Committee, Multan was required to recover outstanding Cotton Cess amounting to Rs. 3,447.221 million from 195 mills as detailed below:

S. No.	Province	Period of outstanding cotton cess	Total No. of defaulter mills	Total outstanding amount (Rs.)
1	Punjab	Prior to July,2012	31	566,261,271
		July,2012 to July,2023	115	2,269,748,875
2	KPK	Prior to July,2012	4	18,277,870
		July,2012 to July,2023	8	180,657,011
3	Sind/Baluchistan	Prior to July,2012	4	103675521
		July,2012 to July,2023	33	308,600,664
Total			195	3,447,221,212

Audit observed as under:

- i. The management did not recover the long outstanding Cotton Cess amounting to Rs. 3,447.221 million from 195 mills up to August, 2023.
- ii. No effort was made to recover the outstanding amount of Cotton Cess as arrears of land revenue under Section-9(3) of the Cotton Cess Act,1923.

Audit is of the view that non-recovery of Cotton Cess from the defaulter mills is a loss to the Committee besides violation of the provision of the Cotton Cess Act, 1923.

The management did not reply.

Audit recommends recovery of outstanding Cotton Cess at the earliest.

23.5.12 Non-investment of surplus funds - Rs. 90.861 million

Section-14 (2) of the Pakistan Cotton Cess Rules, 1950 states that any funds not required for current expenditure may be placed in fixed deposit with any bank approved in this behalf by the Central Government or invested in the name of the Committee in any security in which trust property may lawfully be invested under the Indian Trust Act, 1882.

The management of Pakistan Central Cotton Committee, Multan invested total amount of Rs. 82,946,691 in Pakistan Investment Bond (with NBP Head Office, Karachi) for 10 years from 22.08.2007 to 22.08.2017 as detailed below:

Amount invested out of Bank Account No.	Amount (Rs.)
Main Account No.1524-8 maintained with National Bank of Pakistan PIDC House Branch, Karachi	49,978,208
GFP Account No.2702 maintained with National Bank of Pakistan PIDC House Branch, Karachi	32,968,483
Total	82,946,691

On maturity of the bonds after ten years, the bank refunded total amount of Rs. 90,861,484 on 22.08.2017 in PCCC Main Account No.1524-8. Out of the total disinvested amount of Rs. 90,861,484, an amount of Rs 34,059,957 was transferred to GPF current bank account No. 2977-

0 (maintained with NBP, Timber Market, Multan) on 11.10.2019. The Vice President while according approval for transfer of amount directed to invest the said amount again.

Audit observed as under:

- i. The management did not reinvest the surplus funds amounting to Rs. 90.861 million in violation of the provision of Pakistan Cotton Cess Rules, 1950. The directions of the Vice President were not complied with as well.
- ii. Due to non-investment of surplus funds, the Committee suffered interest loss of Rs. 52.335 million (approximately) during the last six years from August, 2017 to August, 2023.

Audit is of the view that due to non-investment of surplus funds of Rs. 90.861 million the Committee suffered interest loss on this account.

The management did not reply.

Audit recommends holding of inquiry to fix the responsibility on the persons at fault besides investment of surplus funds forthwith.

23.5.13 Unauthorized appointments of Contingent Paid Staff without the approval of Finance Division - Rs.21.634 million

According to Finance Division's O.M.No.F.3(2) Exp.III/2006 dated 13th September, 2006 (System of Financial Control and Budgeting) "The Financial Adviser shall submit proposals for appointment of contingent paid staff to AFS(E) for approval."

Para 27 of Financial Management and Powers of Principal Accounting Officers Regulations 2021 states that "The Finance Division shall approve appointment of contingent paid staff within the budgetary provisions and as per the instructions issued from time to time."

The management of Pakistan Central Cotton Committee, Multan appointed 155 Contingent Paid Staff/Daily Paid Laborers from the year 2011 to 2022. Out of total 155 CPS/DPL, eleven (11) employees were appointed as CPS/DPL after completion of 2 years contract period under Family Assistance Package.

On 08.05.2023 the management struck off 121 Contingent Paid Staff out of total 155. Year-wise detail of expenditure of Rs. 21,634,109 incurred on payment of remuneration /salary to the Contingent Paid Staff during the financial year 2017-18 to 2022-23 was as under:

Financial Year	Expenditure
2017-18	1,910,798

2018-19	3,248,252
2019-20	3,266,887
2020-21	4,278,479
2021-22	4,276,214
2022-23	4,653,479
Total	21,634,109

Audit observed as under:

- i. The appointments of a total of 155 Contingent Paid Staff/Daily Paid Laborers and incurring of expenditure of Rs. 21.634 million without the approval of the Finance Division.
- ii. Appointment of eleven (11) contract employees as CPS/DPL after completion of their two (2) years of contract service under the Family Assistance Package were not covered under the rules.

Audit is of the view that appointments of Contingent Paid Staff without the approval of the Finance Division and incurring of expenditure is unauthorized.

The management did not reply.

Audit recommends holding of inquiry to fix responsibility the persons at fault besides regularization of expenditure from the Finance Division.

CHAPTER 24

MINISTRY OF NATIONAL HEALTH, SERVICES, REGULATIONS AND COORDINATION

24.1 Introduction

As per Schedule II [Rule 3 (3)] Distribution of Business among the Divisions read with Schedule III [rule-4(4)] Rules of Business 1973 (As amended up to 23rd April, 2019) following main business have been assigned to the Division amongst the other functions.

1. Oversight for regulatory bodies for health services
2. National and international coordination in the field of public health
3. Population welfare program and coordination
4. Training services in all health-related fields.
5. Coordination of Vertical Health Programs including interaction with GAVI, EPI and the Global Fund for AIDS, TB, Hepatitis and Malaria.
6. Medical and health services for Federal Government employees.
7. Dealing and agreements with other countries and international organizations in the field of health, drugs and medical facilities abroad.
8. Scholarships / fellowships, training courses in health from International Agencies such as WHO. and UNICEF.

ATTACHED DEPARTMENTS / AUTONOMOUS BODIES

- i. Directorate of Central Health Establishment.
- ii. Federal Government Services Hospital, Islamabad.
- iii. Pakistan Institute of Medical Sciences.
- iv. Pakistan Medical and Dental Council.
- v. Pakistan Council for Nursing.
- vi. College of Physicians and Surgeons.
- vii. National Councils for Tibb and Homeopathy.
- viii. Pharmacy Council of Pakistan.
- ix. Directorate of Central Health Establishment.

- x. Drug Regulatory Authority of Pakistan.
- xi. National Institute of Health.
- xii. National Health Emergency Preparedness and Response Network.
- xiii. Pakistan Medical Research Council.
- xiv. Health Services Academy, Islamabad.
- xv. Directorate of Central Warehouse and Supplies, Karachi.
- xvi. Human Organ Transplant Authority.
- xvii. Shaheed Zulfiqar Ali Bhutto Medical University, Islamabad.
- xviii. Federal Medical and Dental College, Islamabad.
- xix. Federal General Hospital, Islamabad.
- xx. National Institute of Rehabilitative Medicine.
- xxi. District Population Welfare Office.
- xxii. Federal Government Tuberculosis Centre, Rawalpindi.

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY-2022-23) Rs. in million	Revenue / Receipt Audited (FY 2022-23) Rs. in million
1	Formations	70	17	33,584.097	5.483
2	Assignment Accounts (Excluding FAP)	11	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	8	8	3,846.423	-
4	Foreign Aided Project (FAP)	-	-	-	-

24.2 Comments on Budget & Accounts (Variance Analysis)

The final budget allocated to the National Health Services, Regulations and Coordination Division for the financial year 2022-23 was Rs. 36,081.01 million, out of which the Division expended an

amount of Rs. 35,679.19 million. Grant-wise detail of current and development expenditure is as under:

(Rs. In million)

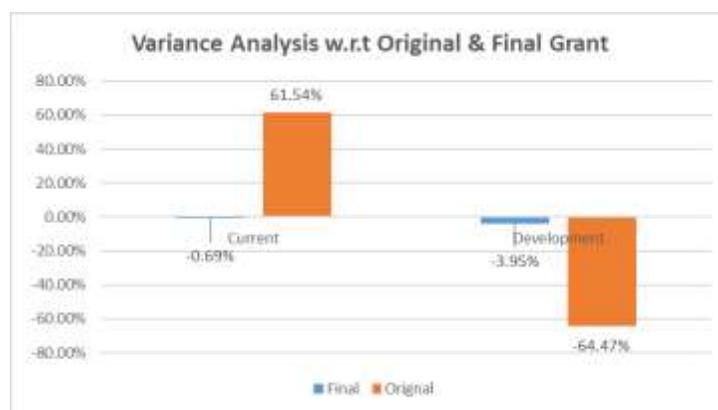
Grant No	Type of Grant	Original Grant	Suppl Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
76	Current	19,304.02	16,482.33	-4,385.06	31,401.28	31,184.35	-216.93	-0.69%
117	Development	12,651.00	0.00	-7,971.27	4,679.73	4,494.84	-184.89	-3.95%
	Total	31,955.02	16,482.33	-12,356.33	36,081.01	35,679.19	-401.82	-1.11%

Audit noted that there was an overall Saving of Rs. 401.82 million, which was due to less expenditure on grants.

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of General Financial Rules (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, bifurcating total allocation into current, development and charge expenditure, it was observed that, in case of development grant, there was 64.47% of saving w.r.t original grant which was finally reduced to 3.95% w.r.t final grant and in case of current grant 61.54% excess was finally became 0.69% saving.



24.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs. 10,553.887 million, were raised in this report during the current audit of **Ministry Of National Health, Services, Regulations And Coordination**. Summary of the audit observations classified by nature is as under:

(Rupees in million)

S. No	Classification	Amount
1	Non-production of record	
2	Reported cases of fraud, embezzlement and Misappropriation	
3	Irregularities	
A	<i>HR/Employees related Irregularities</i>	160.60
B	<i>Procurement related irregularities</i>	2,277.82
C	<i>Management of account with commercial banks</i>	
D	<i>Recovery</i>	278.752
E	<i>Internal Control</i>	1,418.13
4	Value for money and service delivery	
5	Others	6,398.59

24.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
2010-11	5	3	0	5	-
2011-12	19	0	0	19	-
2012-13	30	0	0	30	-
2013-14	27	27	8	19	30
2014-15	17	0	0	17	-
2015-16	3	3	2	1	67
2016-17	30	10	5	25	50
2017-18	18	18	9	9	50
2018-19	30	30	2	28	7
2019-20	44	8	4	40	50
2020-21	21	0	0	21	-
2021-22	31	0	0	31	-
2022-23	16	0	0	16	-
Total	291	99	30	261	-

24.5 AUDIT PARAS

Federal Medical College (FMC)

24.5.1 Non-deposit of College and Hostel fee into Government treasury - Rs. 86.197 million

Rule- 5 of Federal Treasury Rules (FTR) states that all money received on behalf of Government on account of revenues shall without delay be paid in full into Government Treasury and Government receipts should not be utilized towards expenditure.

Para 7(1) of FTR (Vol-I) states that, all moneys received by or tendered to Government officers on account of the revenues of the Federal Government shall without undue delay be paid in full into a treasury or into the Bank. Moneys received as aforesaid shall not be appropriated to meet departmental expenditure, nor otherwise kept apart from the Federal Consolidated Fund of the Federal Government. No department of the Government may require that any moneys received

by it on account of the revenues of the Federal Government be kept out of the Federal Consolidated Fund of the Federal Government.

The management of Federal Medical College (FMC), Islamabad received fees amounting to Rs. 86,196,974/- from students during the period 2020-21 and 2022-23. Detail of summary of fees collected before ordinance and after the repeal of Act is as under:

Summary of FMC Receipt A/c 809-4 (NBP)			
	Description	Amount (Rs)	Amount (Rs)
FY 2020-21			
	Bank Balance as on 16-11-2020 (Before Ordinance)		68,113,232
Less	Security College (Rs 12,000@499)	5,988,000	
	Security Hostel (Rs 20,000@95)	1,900,000	7,888,000
			60,225,232
Less	Fees Deposited in Government Treasury by FMC related to students of FY 2019-20 on 23-06-2021		37,250,600
A	Lesser Fees to be deposited in Government Treasury by FMC as on 11-06-2020 (Before enactment of Ordinance)		22,974,632
FY 2022-23			
	Bank Balance as on 11-01-2023 (After Repeal of Ordinance)		34,939,182
Add	Receipts after repeal of Ordinance (12-01-2023 to 27-06-2023)		36,172,160
	Total Receipts during FY 2022-23		71,111,342
Less	Security College (Rs 12,000@499)	5,988,000	
	Security Hostel (Rs 20,000@95)	1,900,000	7,888,000
B	Amount to be deposited by FMC After Repeal of Ordinance		63,223,342
(A+B)	Total Amount to be deposited by FMC (Students of FYs 2022-23)		86,196,974

Audit observed that the fee received from students was retained by the management instead of depositing the same into Government treasury.

Audit is of the view that non-deposit of fee in treasury resulted in loss to Government exchequer.

The management replied that an amount of Rs 31.700 million was required to be deposited into the Government Treasury instead of Rs.86.197 million as calculated by audit. Therefore, the same may be rectified after that fee is deposited in the Federal Treasury.

The reply indicates that the management has accepted the audit observation. Further, there is no documentary evidence regarding deposit of Rs. 31.700 million in treasury was produced.

Audit recommends that fees may be deposited into Government treasury immediately.

24.5.2 Un-authorized payment of Health Allowance-Rs. 36.021 million

Finance Division No. F.2 (13) R-2/2011-1006 dated 27-10-2014 states with reference to Finance Division's U.O. No. F.2(13) R- 2/2012-172 dated 27-03-2012, health allowance is admissible to the health personnel serving in Federal Government hospitals and clinics.

Finance Division No. F. No. 2(13) R-2/2011-Pt dated 15-01-2014 allowed the following special allowance for Teaching Staff of Federal Medical and Dental College, Chak Shahzad, Islamabad with immediate effect:

S. No	Designation	BPS	Teaching Allowance/month
1	Professor	20	80,000
2	Associate professor	19	65,000
3	Assistant Professor	18	55,000
4	Demonstrator	17	20,000

The management of Federal Medical College (FMC), Islamabad made payment of Health Allowance to its employees amounting to Rs 36,021,128 during financial year 2020-21 to 2022-23. Details are as under:

F.Y	Health Allowance (Rs)	Special Allowance (Rs)
2020-21	12,379,975	11,902,414
2021-22	12,127,955	10,691,612
2022-23	11,513,198	10,110,092
Total	36,021,128	32,704,118

Audit observed that Health Allowance was paid in violation of rules as FMC is neither a hospital nor a clinic.

Audit is of the view that payment of Health Allowance without the approval of Finance Division was unauthorized.

The management replied that they are eligible to get Health Allowance in the light of Finance Division (Regulation wing) letter dated 27-03-2012 & take up the case for the merger of Special allowance for FMC faculty & non-teaching staff.

The reply is not satisfactory as Finance Division clarified that Allowance is admissible to the health personnel serving in Federal Government hospitals and clinics vide its letter dated 27-10-2014.

Audit recommends probing the matter besides recovery.

24.5.3 Irregular appointments without approved Recruitment Rules and payments made thereof - Rs. 80.350 million

Section 6 (1) (c & d) of Federal Medical Teaching Institutes Act, 2021 states that the board shall be responsible to prescribe procedures for appointment, terms and conditions of service, disciplinary matters and other service matters for the employees and creation, re-designation, up-gradation, down-gradation or abolition of posts pursuant to prior consultation with the Establishment Division where such posts may be occupied by persons in government service. Section 2 (n) of said Act states that prescribed mean prescribed by rules and regulations made under this Act. Section 25 (1) of said Act states that the government may by notification in the official gazette, make rules for giving effect to the provisions of this Act.

Ministry of National Health Services, Regulations and Coordination issued SRO on 07-02-2020 amended the recruitment rules in respect of FMDC faculty with the concurrence of Establishment Division vide OM No. 455/14-R-5 dated 08-12-2014 and FPSC vide its letters No. F.12-46/2014-RR dated 25-08-2016 respectively. These rules explained the eligibility criteria and age limit required for each position.

Federal Medical Teaching Institutes (FMTI) appointed the following twenty-six officers including faculty members such as Professors, Associate Professors, Assistant Professors, and Demonstrators w.e.f. 24-05-2021 and onwards against the sanctioned posts of Federal Medical College (FMC), Islamabad and paid an amount of Rs 80,350,530/- to these employees from college receipt account during FY 2021-23. List of officers appointed and posted against BPS Scales are as under:

S. #	Designation	No of persons appointed	FMTI Grades	BPS Scales
1	Professor	03	Grade-13/1	20
2	Associate Professor	02	Grade-12/1	19
3	Assistant Professor	03	Grade-11/1	18
4	Demonstrator	15	Grade-09/1	17
5	Research officer	01	Grade-09/1	17
6	Asstt. Warden	01	Grade-08/1	16
7	Director Establishment	01		19

Audit observed as under:

- i. The appointments of Professors, Associate Professors, Assistant Professors, Demonstrators, Asstt. Warden, etc., were made in the absence of recruitment rules.

- ii. The faculty members were appointed in special grade scale (Grade-09/1 to Grade-13/1) instead the posts of the faculty members are in BPS Scales.
- iii. The eligibility criteria and age limit for each position defined in the advertisement is in contrary to the eligibility criteria defined in PMDC regulations 2018 and M/o Health SRO issued on 07-02-2020.
- iv. Moreover, the record revealed that most of the officers did not meet eligibility criteria required for that specific post (age limit, number of publications, qualification & experience) at time of appointment as envisaged in PMDC Regulations 2018.

Audit is of the view that the appointments made without approved recruitment rules and without prior consultation with the Establishment Division, are held as irregular.

Management replied that draft recruitment rules were in the phase of approval from the Establishment & Finance Division, meanwhile, the FMTI Act was repealed on 11-01-2023.

Reply is not satisfactory as the appointments were made in the absence of recruitment rules/regulations. Moreover, the officers did not meet the eligibility criteria defined by PMDC regulations.

Audit recommends that responsibility be fixed for appointment in violation of Government rules and procedures.

Drug Regulatory Authority of Pakistan

24.5.4 Illegal appointment of Directors of the Authority in violation of DRAP Act

Section 4(1) of the DRAP Act, 2012 states that the Authority shall consist of a full time Chief Executive Officer (CEO) and thirteen Directors who shall be appointed by the Federal Government on the recommendation of Board, whose qualifications, terms and conditions shall be such as may be prescribed.

Honorable Supreme Court of Pakistan in its order date 09.04.2015 states that section 4 of the DRAP Act 2012 provides for composition of the authority comprising of the CEO and thirteen Directors to be appointed by the Federal Government. Upon our query as to whether the directors have also been appointed, notification dated 04.01.2013 and 21.01.2014 were produced before us where a number of officers were given additional charge as director and some were appointed on deputation. The said provision envisages permanent appointment of the Directors. The Federal Government shall within a fortnight appoint all the thirteen (13) directors on a permanent basis in accordance with section 4 of the DRAP Act 2012 and intimate to the registrar of this court.

The management of DRAP was requested to provide details of directors appointed by the Federal Government in light of Section 4(1) of the DRAP Act, 2012. In response, DRAP provided the detail of serving directors as per following:

Sr	Post of Director	Name of Officer	Notification Date
1	Pharmaceutical Evaluation & Registration	Dr. Muhammad Fakhruddin Aamir	06.02.2023 (03 months basis) (to date)
2	Quality Assurance & Lab Testing	Mr. Ajmal Sohail Asif, Addl Director	06.02.2023 (03 months basis) (to date)
3	Admin, HR & Log	Dr. Noor Muhammad Shah, Drug Controller	06.02.2023 (03 months basis) (to date)
4	Controlled Drugs	Mr. Atta ur Rehman, Addl Director	29.11.2023 (03 months basis)
5	Management Information System	Dr. Obaid Ullah, Addl Director	06.02.2023 (03 months basis) (to date)
6	Pharmacy Services	Dr. Aisha Irfan, Addl Director	06.02.2023 (03 months basis) (to date)
7	Medical Devices & Medicated Cosmetics	Mr. Manzoor Ali Bozdar, Addl Director	06.01.2023 (03 months basis) (to date)
8	Health & OTC	Mr. Muhammad Akhtar Abbas Khan, Addl Director	06.01.2023 (03 months basis) (to date)
9	Licensing Division		18.01.2023
10	Pharmacy Services	Mr. Ahmad Din Ansari, Addl Director	18.05.2023 (02 months) 08.12.2023 (03 months basis)
11	Biological Evaluation & Research	Mr. Aman Ullah, Cost Accountant	12.07.2013 (to date)
12	Costing & Pricing		01.06.2019 date)
13	Budget & Accounts		

Audit observed that directors were not appointed by the Federal Government, however, affairs of the DRAP are being managed through appointment of Directors on current charge by the CEO.

Audit is of the view that appointment of Directors without approval of Federal Cabinet was illegal.

Audit recommends that responsibility may be fixed for the irregularity.

24.5.5 Appointment of auditors without approval of the Auditor-General of Pakistan

Finance Division O.M. No. F. 3(1)-Inv III/80-406 dated 25.03.1981 states that in the case of autonomous bodies/corporations, where under the statutory provisions appointments are to be made by the Federal Government it has been decided:

- (a) Before, submitting the name of the auditor(s) for approval to the Board of Directors, the Institution should get the approval of the Auditor-General of Pakistan.
- (b) The request for approval to the Auditor-General of Pakistan should be routed through the Institution's administrative Ministry/Division.
- (c) Auditor-General of Pakistan may ensure that all auditors are changed after five years.
- (d) The Finance Division may be approached for relaxation of these orders only in cases of extreme nature.

The management of Drug Regulatory Authority of Pakistan, Islamabad appointed Baket Telly Mahmood Idrees Qamar Chartered Accountant of the DRAP.

Audit observed that the auditors were appointed without approval of the Auditor-General Pakistan as no such record was provided by the management of DRAP.

Audit is of the view that the appointment of auditors without approval of the Auditor-General Pakistan was irregular and unauthorized.

Audit recommends that responsibility may be fixed for irregularity.

24.5.6 Non utilization of Central Research Fund – Rs. 5,936.845 million

Section 20(2) of Drug Regulatory Authority of Pakistan Act, 2012 states that the Central Research Fund fee shall be deposited in the non-lapsable sub-account of the Authority to be utilized as per existing rules.

Rule 19(14) of Drugs (Licensing, Registering and Advertising) Rules, 1976 states that the Licensee shall, by the 30th June and the 31st December each year, whichever is immediately after

the annual financial closing of the company contribute one per cent of his gross profit before deduction of income-tax towards the Central Research Fund to be maintained by the Federal Government and utilized by it in accordance with the Drugs (Research) Rules, 1978.

Rule 3 of the Drugs (Research) Rules, 1978 states that the Federal Government may utilize the Fund for conducting research, development or evaluation of a drug either itself or through a research institution working under its control or disburse it among investigators or institutions for such purposes subject to such conditions as may be specified and for that matter. It may also utilize the fund to upgrade and establish Drugs Research and testing laboratories and a unit in the Drugs Control Section, Ministry of Health for evaluation and monitoring of the research proposals and projects and management of the fund.

The Drug Regulatory Authority of Pakistan, Islamabad maintained Central Research Fund A/c No. 0010008463700024 in ABL, Civic Centre Melody Branch, Islamabad with balance of Rs 5,936.845 million was reflected in the accounts for the financial year 2022-23.

Audit observed:

- i. The management did not utilize CRF for conducting research, development or evaluation of drugs.
- ii. As per financial statement advance tax amounting to Rs 56,662,874 was deducted, however, the matter is still in the court for its reversal.

Audit is of the view that non-utilization of CRF for the intended purposes defeated the objective/utility of creation of the Fund.

The management did not reply till finalization of the report.

Audit recommends that responsibility may be fixed for the irregularly.

24.5.7 Non-existence of pricing policy/ mechanism for registered/enlisted medical devices, medicated cosmetics and biological drugs for animals

Section 4(1) of the DRAP Act, 2012 states that the Authority shall consist of a full time Chief Executive Officer (CEO) and thirteen Directors who shall be appointed by the Federal Government on the recommendation of Board, whose qualifications, terms and conditions shall be such as may be prescribed.

Section 4(1)(i) of the DRAP Act, 2012 states that there shall be a Director Costing and Pricing and he shall be incharge of the Division of Costing and Pricing which shall be responsible

for the costing and pricing of therapeutic goods and to perform other functions connected therewith.

Section 7(u) of DRAP Act, 2012 states that the powers and functions of the Authority shall be to perform licensing, registration, pricing and appellate function thereof.

During the audit of DRAP for the financial year 2022-23, pricing mechanism for registered medical devices, medicated cosmetics and biological drugs for animals was requested. However, no pricing policy/ methodology was in existence relating to pricing of above-mentioned categories of drugs and devices.

Audit is of the view that non-existence of pricing policy mythology for registered medical devices, medicated cosmetics and biological drugs for animals is violation of DRAP Act, 2012. Furthermore, in the absence of price fixation by the Regulator, there is no mechanism to control the prices in the market.

The management did not reply till finalization of the report.

Audit recommends that responsibility may be fixed for the irregularity.

24.5.8 Irregular payment on account of rent of office building without lease agreement – Rs.461.744 million

Clause 1 of the lease agreement for office building between Drug Regulatory Authority of Pakistan and M/s T.F Foundation, Islamabad states that effectiveness and payment date of rent shall commence from the date of handing over/ taking over of rented premises i.e. 20.08.2014 and agreement's three years period shall commence from that date.

Clause 2 of the aforementioned agreement states that the monthly rent of the rented premises shall be Rs.4,653,255 @ Rs.155 per Sq. Ft.

The management of DRAP, Islamabad paid an amount of Rs. 461,744,147 to M/s T.F Foundation on account of rent of office building since 20.08.2018. Detail is as under:

Sr. No	Period	Rate of rent per month	Amount paid (Rs.)
1.	20.08.2018 to 19.08.2019	206.30/ sq.ft	74,321,789
2.	20.08.2019 to 19.08.2020	226.93/ sq.ft	81,751,986
3.	20.08.2020 to 19.08.2021	249.62/ sq. ft	89,927,184

4.	20.08.2021 to 19.08.2022	274.58/ sq. ft	98,918,714
5.	19.08.2022 to 30.06.2023	302.05/ sq. ft	116,824,474
Total			461,744,147

Audit observed as under:

- i. As per minutes of Policy Board meeting the DRAP entered into an agreement with M/s T.F Foundation, Islamabad on 25.07.2014 for acquiring 30,021 Sq. Ft area of the TF Complex building @ Rs. 155 per Sq. Ft, which was further extended for one year till 20.08.2018. However, no further agreement was made with M/s TF Foundation.
 - ii. The amount of Rs 461.744 million was paid after 20.08.2018 without any lease agreement.
- Audit is of the view that payment on account of office rent without entering into a lease agreement was irregular and un-authorized.

The management did not reply till finalization of the report.

Audit recommends that responsibility may be fixed for the irregularity.

Special Audit of Pakistan Medical and Dental Council

24.5.9 Awarding of marks to 668 candidates of MDCAT-2020 who were initially shown as absent

Section 18 (1) of the Pakistan Medical Commission Act, 2020 states that the Authority shall conduct annually on a date approved by the Council and as per standards approved by the Board a single admissions test which shall be a mandatory requirement for all students seeking admission to medical or dental under-graduate programs anywhere in Pakistan.

The management of Pakistan Medical Commission conducted MDCAT 2020 through National University of Medical Sciences (NUMS) on 15.11.2020 total 125,885 candidates applied for the test out of which 121,181 appeared in test and 67,611 were declared pass during 2020.

Audit observed as under:

1. When the first result was received from NUMS on 15.12.2020, it reflected 4704 candidates as absent.
2. However, 668 candidates of MDCAT-2020 out of 4704 candidates who were shown absent on 15.12.2020 were passed and marks were awarded to them on 17.12.2020.

The management did not reply to the observation.

Audit is of the view that variation of candidates' results at such huge level without source document challenges the whole structure of MDCAT-2020.

Audit recommends that fact finding inquiry be made, reasons for converting absent with marks be traced and responsibility be fixed.

24.5.10 Changing of MDCAT-2020 results of 125 candidates without source record

Section 18 (1) of the Pakistan Medical Commission Act, 2020 states that the Authority shall conduct annually on a date approved by the Council and as per standards approved by the Board a single admissions test which shall be a mandatory requirement for all students seeking admission to medical or dental undergraduate programs anywhere in Pakistan.

The management of Pakistan Medical Commission conducted MDCAT 2020 through National University of Medical Sciences (NUMS) on 15.11.2020 total 125,885 candidates applied for the test out of which 121,181 appeared in test and 67,611 were declared pass during 2020.

Audit observed as under:

1. MDCAT-2020 results of 125 candidates were increased / decreased from -112 marks to 132 marks without source record.
2. One mark is equivalent to 1 question and from increased/decreased data of marks raised the question mark on the accuracy and transparency of Questionnaire data bank and whole MDCAT system.
3. The variation at this large scale also creates doubts about involvement of person in financial corruption or misuse of authority/power.

The management did not reply to the observation.

Audit is of the view that variation of candidates result at such huge level without source document challenges the whole structure of MDCAT-2020.

Audit recommends that fact finding inquiry be conducted, reasons for changing in marks be traced and responsibility be fixed.

24.5.11 Enhancing marks of MDCAT-2020 results of 31 candidates from 5 marks to 132 marks

Section 18 (1) of the Pakistan Medical Commission Act, 2020 states that the Authority shall conduct annually on a date approved by the Council and as per standards approved by the Board a single admissions test which shall be a mandatory requirement for all students seeking admission to medical or dental undergraduate programs anywhere in Pakistan.

The management of Pakistan Medical Commission conducted MDCAT 2020 through National University of Medical Sciences (NUMS) on 15.11.2020 total 125,885 candidates applied for the test out of which 121,181 appeared in test and 67,611 were declared pass during 2020.

Audit observed as under:

1. Additional marks from 5 to 132 were given to 31 candidates on re-totaling during 2020-21.
2. Source data was requested on the basis of which such changes were incorporated but the same was not provided.
1. Variation in marks raised the question mark on the accuracy and transparency of Questionnaire data bank and whole MDCAT system.
2. Due to variation at this large scale, apprehension on financial corruption or misuse of authority/power in the matter cannot be overruled.

The management did not reply to the observation.

Audit is of the view that variation of candidates result at such huge level without source document challenges the whole structure of MDCAT-2020.

Audit recommends that fact finding inquiry be made, reasons for changing in marks be traced and responsibility be fixed.

24.5.12 Change of result of 51 candidates from fail to pass in MDCAT-2021

Section 18 (1) of the Pakistan Medical Commission Act, 2020 states that the Authority shall conduct annually on a date approved by the Council and as per standards approved by the Board a single admissions test which shall be a mandatory requirement for all students seeking admission to medical or dental undergraduate programs anywhere in Pakistan.

The management of Pakistan Medical Commission conducted computer based MCQ exam of MDCAT 2021 through SOAR Testing and Evaluation Platform (SMC-Private) Limited (“TEPS”) on 30.08.2021 to 02.10.2021 total 194,309 candidates applied for the test and 68,723 were declared pass in MDCAT-2021.

Audit observed as under:

- 1) Fifty-one (51) candidates obtained 136 marks in MDCAT-2021 and were declared to fail but in review they were allowed 1 to 2 marks in which their failure status was changed to pass.
- 2) The said exam was conducted in computer based environment and errors changes would be minimum but the same was not true in this case and 51 candidates were awarded additional marks in review.
- 3) Review marking was requested from the management but the same was not provided till close of audit even after repeated reminders.

The management did not reply to the observation.

Audit is of the view that variation of candidates result without source document challenges the whole structure of MDCAT-2021.

Audit recommends that fact finding inquiry be made, reasons for changing in marks be traced and responsibility be fixed.

24.5.13 Irregular functioning of 19 Medical/Dental Colleges without recognition

Section 8 (2) (g) of Pakistan Medical Commission Act, 2020 states that the Council shall have functions and powers to grant recognition to medical and dental institutions in Pakistan which train or grant or both train and grant medical and dental post graduate qualifications and to the qualifications granted by these institutions leading to registration of the graduates of those programs to practice medicine in Pakistan as specialists.

Initial recognition framework criteria, 2019 states that recognition evaluation is performed by inspectors appointed b), PMDC to verify that a college meets the infrastructure, equipment, faculty, staff and teaching hospital requirements. In order for a college to qualify for recognition, the college must meet all of the standards as per the following: 1. the college meets its all the legal requirements 2. The College meets all the infrastructure requirements 3. The college meets at least 90%o of equipment requirements 4. The college meets at least 90% of the faculty requirements 5. The college meets at least 90ok of the teaching hospital requirements after satisfying all the above requirements, the college is recommended for a performance evaluation, after which the college will be recognized by PMDC for admitting students to the program.

The management of Pakistan Medical Council (PMC), Islamabad is regulatory body the objective of which is to provide for the regulation and control of the medical profession and to establish a uniform minimum standard of basic and higher medical education and training and recognition of qualifications in medicine and dentistry. There were 19 medical / dental colleges which were running without recognition during 2020-21 and 2021-22.

Audit observed as under:

1. These 19 Colleges were running without fulfilling the mandatory requirement of criteria set by the PMC.
2. Provisional functioning was allowed with the condition that these colleges will be re-inspected within 12 months but after August, 2019 no inspection was made, and the colleges were functioning without recognition by the PMC.
3. Various discrepancies were noted by the audit, where provisional functioning was given without fulfilling the basic requirement.

Audit is of the view that functioning of 19 colleges without recognition of PMC was irregular and unauthorized.

Audit recommends that matter may be inquired, and responsibility be fixed.

24.5.14 Irregular issuance/renewal of 421 practitioners' licenses for preceding 20 to 53 years

Section 29 (7) of the Pakistan Medical Commission Act, 2020 states that every licensed practitioner shall be responsible to maintain his license as valid and in good order. A practitioner shall not be permitted to practice in the absence of a valid license issued by the Authority.

Section 29 (9) of the Pakistan Medical Commission Act, 2020 states that every licensed medical or dental practitioner shall be required to revalidate his license every five years in the manner and on terms determined by regulations prescribed by the Council.

The management of PMC issued/renewed total 59,468 licenses to practitioners from April, 2021 onwards out of which 421 licenses were renewed for past/prior period of 20 years and more without any criteria, continues engagement certificate/undertaking, i.e., Continued Medical Education credit hours. Detail is as under:

While review the database of Practitioners audit observed as under:

1. There were 421 number of doctors whose licenses were revalidated for the past period of 20 years to 53 years (Rs. 2,000 per annum for revalidation of license).
2. Neither any proof of continued medical practice was obtained from these practitioners nor reasons for revalidation after 20 years was obtained.
3. If these practitioners were working in medical/dental side, then how they continued their practice without valid license.
4. On sample basis record of 4 practitioners who renewed licenses during 2021-22 were requested (Registration # 1091-S, 1485-S, 216-D and 701-D) who renewed their licenses after 40 years and above period. Record of only Registration # 1091-S and 1485-S were retrieved which reflected that these practitioners have never obtained full licenses instead temporary licenses for 3 months were issued and from then till now using the same, if practicing anywhere.

The management did not reply to the observation.

Audit is of the view that issuance/revalidation of above licenses after long span of 20 years and more without any verification of continued medical education hours/practice was a license to kill and irregular and against professional ethics.

Audit recommends that fact finding inquiry be made, these practitioners be monitored on sample basis to assess the risk to lives of people and responsibility be fixed.

24.5.15 Changing name of 237 candidates in MDCAT-2021

Section 18 (1) of the Pakistan Medical Commission Act, 2020 states that the Authority shall conduct annually on a date approved by the Council and as per standards approved by the Board a single admissions test which shall be a mandatory requirement for all students seeking admission to medical or dental undergraduate programs anywhere in Pakistan.

The management of Pakistan Medical Commission conducted computer based MCQ exam of MDCAT 2021 through SOAR Testing and Evaluation Platform (SMC-Private) Limited (“TEPS”) on 30.08.2021 to 02.10.2021 total 194,309 candidates applied for the test and 68,723 were declared pass in MDCAT-2021.

Audit observed as under:

- 1) After declaration of result 237 candidates name were changed.
- 2) However, the online application form was filled by the candidate her/himself but changing the name of 237 candidates creates doubts.
- 3) There were 7 candidates whose name were totally changed like LIABA BATOOL to MOEZZA SAMEEN; RUTAAB ZAHRA to JAVERIA ALI BAIG, AMJAD HUSSAIN to MARYAM AMJAD, etc., etc.
- 4) Examination admission slip, CNIC, CCTV, request form, reviewers’ correction evidence were requested but the same were not received till close of audit besides issuance of numerous reminders.

The management did not reply to the observation.

Audit is of the view that variation in candidates’ name without source document challenging the whole structure of MDCAT-2021.

Audit recommends that fact finding inquiry be made, reasons for change be traced with evidence and responsibility be fixed.

24.5.16 Wastage of fund on purchase of IT and network equipment – Rs. 850.747 million

The Pakistan Medical Commission (PMC) Council in its 10th meeting held on 15.02.2022 decided that considering the urgency of the matter and to ensure timely conduct of the scheduled exam, the Council directed the Authority to adopt “Emergency procedures” as per PPRA rules 42 (c) (ii) and (iii) to complete the necessary procurement of equipment and all services required for the upcoming exams.

The Council further decided that the NLE, NEB and MDCAT examinations should be conducted by the Authority through a system to be developed by the Authority in-house. Authority was further directed to do all necessary preparations as needed to conduct the exam from March onwards as per schedule and the smooth flow of operations.

The management of PMC procured various IT equipment, tablets, printers, servers, networking equipment, charging machines etc., in the lights of Council decision from various vendors at cost of Rs. 850.747 million.

Audit observed as under:

1. The old management of PMC vide its 10th meeting held on 15.02.2022 decided for conducting of all examinations through in-house system and committed expenditure of Rs. 850.747 million out of which Rs. 382.703 million was paid and Rs. 468.00 million has yet to be paid.
2. Most of the equipment was received and dumped in PMC office.
3. The new management of PMC decided that the examinations were carried out through outsourcing/respective provinces.
4. The new PMC Councils reversed old council's decisions and decided not to conduct the examinations in-house.
5. Due to the said decisions the public fund amounting to Rs. 850.747 were wasted.

The management did not reply to the observation.

Audit is of the view that expenditure on equipment without any requirement/usage was irregular and against the principle of economy and efficiency.

Audit recommends that fact finding inquiry be made, wastage of public funds be made good from person (s) responsible, and responsibility be fixed.

24.5.17 Irregular engagement/hiring of SOAR TEPS – Rs. 761.666 million

Rule 16 of PPRA Rules, 2004 states that the procuring agency engaging in pre-qualification shall announce, in the pre-qualification documents, all information required for pre-qualification including instructions for preparation and submission of the pre-qualification documents, evaluation criteria, list of documentary evidence required by suppliers or contractors to demonstrate their respective qualifications and any other information that the procuring agency deems necessary for pre-qualification. The procuring agency shall provide a set of pre-qualification documents to any supplier or contractor, on request and subject to payment of price, if any. Explanation. The procuring agency shall promptly notify each supplier or contractor submitting an application to pre-qualify whether or not it has been pre-qualified and shall make available to any person directly involved in the pre-qualification process, upon request, the names of all suppliers or contractors who have been pre-qualified.

The Pakistan Medical Commission (PMC) advertised in Tribune dated 04.05.2021 Request for Proposal (RFP) for Examinations System – providing services to hold a Computer Based MCQ exam for approximately 175,000 students in August, 2021 and on annual basis. Out of 12 firms 11 firms submitted their RFP and TEPS were selected being sole qualifying firm and Agreement between PMC and TEPS was made on 02.06.2021 for 10 years and an amount of Rs. 761,665,540/- was paid to TEPS during 2021-22.

Audit observed as under:

1. There were no bidding/prequalification documents prepared by the PMC for Request for Proposal in violation of PPRA.
2. In the absence of prequalification documents, the evaluation criteria were also not prepared.
3. No documentation requirement was given by the PMC
4. TEPS was neither a registered firm in SECP nor in FBR when applied.

The management did not reply to the observation.

Audit is of the view that engagement/hiring of unregistered firm without any evaluation criteria, and bidding documents was irregular.

Audit recommends that fact finding inquiry be made and responsibility be fixed for the irregularity.

24.5.18 Irregular procurement of equipment from M/s VIPER without competitive rates – Rs. 68.309 million

Section 18 of the Pakistan Medical Commission Act, 2020 states that the Authority shall conduct annually on a date approved by the Council and as per standards approved by the Board a single admissions test which shall be a mandatory requirement for all students seeking admission to medical or dental undergraduate programs anywhere in Pakistan.

Section 20 of the Pakistan Medical Commission Act, 2020 states that the Authority shall at least twice a year as per schedule approved by the Council conduct the NLE. Passing the NLE shall be mandatory for obtaining a full license. The NLE shall be substantially based on objective computer based multiple choice questions and a practical component if determined by the Council

The management of Pakistan Medical Council (PMC), Islamabad conducted National Licensing Examination (NLE-1) in March, 2022 and various firms were engaged through by using “emergency” Rule 42 of PPRA, 2004 by the Council in its meeting held on 15.02.2022. The amount of Rs. 69.309 million was paid to M/s VIPER as per following details:

S #	Description	Quantity	Unit price	Amount
1	Viper Z10 tablet PC Quad Core processor (MTK 8168)	1,200	54,405	65,286,000
2	Charging Carts	27	105,300	2,843,100
3	Transportation charges (8” tablet)	900		180,000
			Total	68,309,100

Audit observed as under:

1. NLE examination was pre-determined examination as per Section 20 of the Act, 2020 which shall be conducted twice in a year, but the Council used Emergency Rule of PPRA for the said examination which was not warranted.
2. Invoice No. PI/0155 dated 09.03.2022 reflected that 1200 tablets VIPER 10” were being provided by the VIPER but transportation reflected that only 900 tablets 8” were used in examination.
3. Delivery challans reflecting that 1200 tablets 10” were received in piece meal from 12.04.2022 to 15.05.2022.
4. Delivery challans also reflected that only 22 charging carts were received in May, 2022.
5. An amount of Rs. 68.309 million was paid to M/s VIPER without competitive process.
6. The examination was held from March 26th to March 31st of 2022, and 1200 tablets VIPER 10" were shown provided on 09.03.2022 but VIPER Goods Declaration reflected that this equipment was imported on 27.04.2022.

The management did not reply to the observation.

Audit is of the view that using of emergency rule of PPRA for pre-determined activity and procurement of above items from M/s VIPER without competitive process was irregular.

Audit recommends that fact finding inquiry be made and responsibility be fixed.

24.5.19 Irregular procurement and rented equipment from M/s Ahamson without competitive rates – Rs. 15.081 million

Section 18 of the Pakistan Medical Commission Act, 2020 states that the Authority shall conduct annually on a date approved by the Council and as per standards approved by the Board a single admissions test which shall be a mandatory requirement for all students seeking admission to medical or dental undergraduate programs anywhere in Pakistan.

Section 20 of the Pakistan Medical Commission Act, 2020 states that the Authority shall at least twice a year as per schedule approved by the Council conduct the NLE. Passing the NLE shall be mandatory for obtaining a full license. The NLE shall be substantially based on objective computer based multiple choice questions and a practical component if determined by the Council.

Section 21 of the Pakistan Medical Commission Act, 2020 states that the Authority shall at least twice a year as per schedule approved by the Council conduct the NEB to assess and oversee the assessment of the knowledge, clinical skills and professional attributes of students who have partially completed a medical and dental program in a foreign institution and are seeking transfer to and admission in a medical or dental college in Pakistan. The NEB shall be substantially based on objective computer-based multiple-choice questions.

The management of Pakistan Medical Council (PMC), Islamabad conducted National Licensing Examination (NLE-1) in March, 2022 and various firms were engaged through by using “emergency” Rule 42 of PPRA, 2004 by the Council in its meeting held on 15.02.2022. An amount of Rs. 15.081 million was paid to M/s Ahamson rented equipment and procurements of items, as per following details:

S #	Description	Quantity	Amount
1	Rental Service (Networking equipment)	102	8,943,630
2	Equipment (Cameras, UPS, Batteries, etc.)	110	6,137,108
		Total	15,080,738

Audit observed as under:

1. NLE examination was pre-determined examination as per Section 20 of the Act, 2020 which shall be conducted twice in a year, but the Council used Emergency Rule of PPRA for the said examination which was not warranted.
2. An amount of Rs. 15.081 million was paid to M/s Ahamson without competitive process. The management did not reply to the observation.

Audit is of the view that using of emergency rule of PPRA for pre-determined activity and procurement of above items from M/s Ahamson without competitive process was irregular.

Audit recommends that fact finding inquiry be made and responsibility be fixed.

24.5.20 Irregular advance payment and engagement for venue and invigilation facilitation without competitive rates – Rs. 122.798 million

Rule 42 (f) of Public Procurement Rules, 2004 states that a procuring agency may engage in direct contracting with state owned entities such as professional, autonomous or semi-autonomous organizations or bodies of the Federal or Provincial Governments for the procurement of such works and services, including consultancy services, which are time sensitive and in the public interest, subject to the following conditions, namely:- (i) the organization or the body to be engaged in direct contracting shall be eligible to perform the works or render the services; (ii) the organization or the body shall accomplish the work or the services including consultancy services, exclusively through its own resources without involving private sector as a partner or in the form of a joint venture or as a sub-contractor. (iii) in case there are more than one organizations or bodies eligible to perform the works or render the services, the procuring agency shall hold competition amongst them through limited tendering (notifications) without any advertisements, however, giving reasonable time for submission of their applications or proposals; (iv) the procuring agency shall devise a mechanism for determining price reasonability to ensure that the prices offered by the state owned entities are reasonable for award of the contract.

The management of Pakistan Medical Council (PMC), Islamabad engaged Inter University Consortium for Promotion of Social Sciences (IUCPSS) through direct contracting in June, 2022 for provision of venue and invigilation services for conducting of MDCAT, NEB, NRE and NLE examinations against consideration of Rs. 2,100/ per student per exam. An amount of Rs. 122,797,710/- was paid as 30% advance for proposed examination of MDCAT-2022 to be held in October/November, 2022. Total amount to be paid was Rs. 409,325,700/- for 194,917 students.

Audit observed as under:

1. The engagement of IUCPSS was made without competitive process.
2. Advance payment Rs. 122,797,710/- was made in August, 2022 but the said examination was outsourced to Universities by the new management instead of IUCPSS.
3. The said amount is still pending with IUCPSS and not returned till close of Audit i.e., November 30, 2022.

The management did not reply to the observation.

Audit is of the view that services contract with single organization without competitive process was violation of PPRA.

Audit recommends that fact finding inquiry be made, advance immediately be recovered from IUCPSS and responsibility be fixed for irregular engagement of firm.

24.5.21 Favoursing NTS by allowing MDCAT registration and logistics without competitive process – Rs. 94.379 million

Rule 12(2) of PPRA, 2004 states that all procurement opportunities over three million rupees should be advertised on the Authority’s website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

Rule 20 of the Public Procurement Rules, 2004, states that save as otherwise provided hereinafter, the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

The management of Pakistan Medical Commission made an agreement with National Testing Service (NTS) to conduct MDCAT examination 2020, on 22.10.2020. NTS shall register candidates online through online registration from its website NTS shall charge Rs. 750/- per candidate, as a test fee against all services provided by it. Detail of payment made to NTS was as under:

Description	Total Candidate Registered	Rate Per Candidate	Total Amount in Rupee
MDCAT, 2020	125,373	Rs. 750/-	94,029,750
Special MDCAT, 2020	233	Rs. 1,500/-	349,500
		Total	94,379,250

Audit observed as under:

1. NTS was hired without competitive process, as required in PPRA.
2. Favour was granted to NTS by allowing it business of Rs. 94.379 million at a much higher rate of Rs. 750/- per candidate.

The management did not reply to the observation.

Audit is of the view that hiring and favouring of one firm without competitive process was irregular and against PPRA Rules, 2004.

Audit recommends that fact finding inquiry be made for irregular allowing of business to single firm without competitive process and responsibility be fixed.

24.5.22 Irregular engagement of IUCPSS for provision of examination venue and invigilation facilitation without competitive rates – Rs. 17.920 million

Section 18 of the Pakistan Medical Commission Act, 2020 states that the Authority shall conduct annually on a date approved by the Council and as per standards approved by the Board a single admissions test which shall be a mandatory requirement for all students seeking admission to medical or dental undergraduate programs anywhere in Pakistan.

Section 20 of the Pakistan Medical Commission Act, 2020 states that the Authority shall at least twice a year as per schedule approved by the Council conduct the NLE. Passing the NLE shall be mandatory for obtaining a full license. The NLE shall be substantially based on objective computer based multiple choice questions and a practical component if determined by the Council.

Section 21 of the Pakistan Medical Commission Act, 2020 states that the Authority shall at least twice a year as per schedule approved by the Council conduct the NEB to assess and oversee the assessment of the knowledge, clinical skills and professional attributes of students who have partially completed a medical and dental program in a foreign institution and are seeking transfer to and admission in a medical or dental college in Pakistan. The NEB shall be substantially based on objective computer-based multiple-choice questions.

The management of Pakistan Medical Council (PMC), Islamabad conducted National Licensing Examination (NLE-1) in March, 2022 and various firms were engaged through by using “emergency” Rule 42 of PPRA, 2004 by the Council in its meeting held on 15.02.2022. An amount of Rs. 17.920 million was paid to Inter University Consortium for Promotion of Social Sciences (IUCPSS) for venue arrangements and invigilation facilitation, as per following details:

S #	City	Venue	Base Cost	OTC 20%	Total
1	Islamabad	QAU	4,173,624	713,440	4,887,064
2	Karachi	Dawood UET	3,270,238	559,015	3,829,253
3	Lahore	DUET	5,605,938	958,280	6,564,218
4	Multan	BZU	2,254,005	385,300	2,639,305
		Total	15,303,805	2,616,035	17,919,840

Audit observed as under:

1. NLE examination was pre-determined examination as per Section 20 of the Act, 2020 which shall be conducted twice in a year but the Council used Emergency Rule of PPRA for the said examination which was not warranted.
2. An amount of Rs. 17.920 million was paid to IUCPSS without competitive process. The management did not reply to the observation.

Audit is of the view that using of emergency rule of PPRA for pre-determined activity and rented of venue & invigilation from IUCPSS without competitive process was irregular.

Audit recommends that fact finding inquiry be made and responsibility be fixed.

Pakistan Institute of Medical Sciences

24.5.23 Non-recovery of liquidated damages from M/s Siemens Healthcare (Pvt) Ltd – Rs.48.664 million.

Para 8 of responsibilities under Terms and Conditions of the Supply order dated 30.04.2021 states that the firm will be bound to deliver and install the equipment complete in all respects within 120 days after the establishment of LC.

Para 2 of Penalties under Terms and Conditions of the Supply order dated 30.04.2021 states that if the supplier fails to give supply and install within the stipulated period, penalty will be imposed @ 0.1% of the total value of the equipment per day subject to maximum of 10% of the value of the ordered equipment.

The management of PIMS awarded the contract to M/s Siemens Healthcare (Pvt) Ltd (Contractor) for the purchase of 1.5 Tesla Supercons Wide Bore MRI with Workstations for Radiology Department PIMS at a cost of \$1.738 million. The supply order was issued on 30.04.2021 on the recommendations of Purchase Committee with the delivery time up to 04.10.2021. The management extended the delivery / commissioning of the equipment in all respects upto 16.11.2021 on the recommendations of Force Majeure Committee. The LCs were opened on 04.06.2021. Details are as under:

S.No	Purchase Item	Name of LC	Date of Establishment & confirmation of LC	Contract Value (US\$)
1	Magnetom Sola	2221-040-1696-21	04.06.2021 & 12.12.2022	1,604,000
2	Copper RF Cage	2221-040-1692-21	04.06.2021	29,785
3	Diesel Generator	2221-040-1693-21 & 4222123ILS06008P	04.06.2021 & 22.05.2023	25,400
4	Anesthesia Machine	2221-040-1694-21	04.06.2021	40,780
5	Water Chiller	2221-040-1695-21 & 4222123ILS06008P	04.06.2021 & 22.05.2023	38,035
				1,738,000

Audit observed that despite the extension of delivery period, the Contractor failed to deliver and install & commission the MRI machine on time, but the management did not impose the liquidated damages @ of 10% of the value of the ordered equipment amounting to Rs.48,664,000 (\$173,800@Rs.280).

Audit is of the view that non-recovery of liquidated damages was undue favor to the Contractor and the delay in delivery of the said equipment deprived the general public of their basic healthcare facility.

The management did not reply.

Audit recommends imposition of liquidated damages and depositing the same into government treasury under intimation to Audit.

24.5.24 Non-recovery of liquidated damages from M/s Medeuips (Pvt) Ltd – Rs. 21.476 million (US\$ 76,700).

Para 8 of Responsibilities under Terms and Conditions of the Supply order dated 30.04.2021 states that the firm will be bound to deliver and install the equipment complete in all respects within 120 days after the establishment of LC.

Para 2 of Penalties under Terms and Conditions of the Supply order dated 30.04.2021 states that if the supplier fails to give supply and install within the stipulated period, penalty will be imposed @ 0.1% of the total value of the equipment per day subject to maximum of 10% of the value of the ordered equipment.

The management of PIMS awarded the contract to M/s Medeuips (Pvt) Ltd S.M.C (Contractor) for the purchase of 128 Slice CT Scan Latest Technology True 64 detectors Based System with Workstation at PIMS at a cost of \$767,000. The supply order was issued on 30.04.2021 on the recommendations of Purchase Committee with delivery within 120 days after the establishment of LC.

The Letter of Credit No.2221-040-1587-21 was issued on 21.05.2021 but the equipment was installed and handed over to the management of PIMS on 14.03.2022.

Audit observed that the Contractor failed to deliver the said equipment on time and the management of PIMS did not impose liquidated damages @ 10% of the value of the ordered equipment amounting to Rs.21,476,000 (\$76,700@Rs.280) (i.e. 10% of the Contract Value).

Audit is of the view that non-recovery of liquidated damages was undue favor to the Contractor and the delay in delivery of the said equipment deprived the general public of basic healthcare facility.

The management did not reply.

Audit recommends imposition of liquidated damages and deposition the same into government treasury under intimation to Audit.

24.5.25 Non-conducting of trainings by M/s Medeuips (Pvt) Ltd for CT scan – Rs. 25.200 million (US\$ 90,000)

Para 9 of Responsibilities under Terms and Conditions of the Supply order dated 30.04.2021 states that the firm will conduct;

- a) Technical training to 01 Electro-medical engineer, 01 Technologist and 03 End users will be provided from the firm internationally.
- b) Technical training to 02 Electro-medical engineers, 06 Technologists and 06 End users will be provided by the firm nationally (at PIMS).
- c) Clinical applications training will be provided to 01 Technologist and 03 End users internationally by a clinical specialist.
- d) Clinical application training will be provided to the 06 Technologists and 06 End users nationally (at PIMS) by a factory trained clinical specialist for a period of 15-days.

The management of PIMS awarded the contract to M/s Medeuips (Pvt) Ltd S.M.C (Contractor) for the purchase of 128 Slice CT scan Latest Technology True 64 detectors Based System with Workstation at PIMS at a cost of US\$767,000. The financial bid contained a component for Foreign Technical and Clinical Trainings per person US\$ 10,000 for each training. The CT Scan Machine was installed on 14.03.2022 and the first test was conducted on 17.03.2022.

Audit observed that the contractor failed to conduct Foreign Technical Trainings of 05 officials and Foreign Clinical Trainings of 04 officials of PIMS. The firm did not provide the training to the PIMS staff amounting to Rs. 25,200,000 (US\$ 90,000 x Rs. 280)

Audit is of the view that non-conducting of training was violation of contract agreement.

The management did not reply.

Audit recommends that training cost be recovered from the contractor and deposited into government treasury under intimation to Audit.

24.5.26 Non-recovery of rent – Rs. 72.468 million

Para-28 of GFR (Vol-I) states that no amount due to Government should be left outstanding without sufficient reasons, and where any dues appear to be irrecoverable the orders of competent authority for their adjustment must be sought.

The management of PIMS, Islamabad rented out two pharmacy shops, Doctors & staff cafeteria, parking area and space for mobile tower as per detail given below:

Sr. No	Name of firm	Description	Amount
1	M/s Imran Pharmacy	Pharmacy shops	52,466,667
2	M/s Aadil Waheed & Brothers	Staff Welfare Canteen and Doctor's Cafeteria	14,126,000
3	M/s Achtung Security pvt. Ltd	Parking	3,211,666
4	M/s China Mobile	Mobile Tower	2,664,000

TOTAL 72,468,333

Audit observed that the rent amounting to Rs.72, 468,333 was outstanding against the firms. It was further observed that no penalty was imposed on the Vendor for the late payment.

Audit is of the view that non-recovery of rent was a loss to public exchequer.

The management did not reply.

Audit recommends that outstanding rent plus penalty for late payment be recovered and deposited into government treasury under intimation of Audit.

24.5.27 Unauthorized expenditure on repair and maintenance of building - Rs. 17.100 million

Para 192 of GFR states that When works allotted to a civil department other than the Public Works Department are executed departmentally, whether direct or through contractors, the form and procedure relating to expenditure on such works should be prescribed by departmental regulations framed in consultation with the Accountant General generally on the principles underlying the financial and accounting rules prescribed for similar works carried out by the Public Works Department. The guiding principles laid down by the Accountant General, Pakistan Revenues are reproduced in Annexure A to this chapter.

Para 184 of GFR states that Pak PWD is the only authority to execute the civil works and infrastructure of the Government organizations.

Paragraph 56 of the CPWD code states that a properly detailed estimate must be prepared for the sanction of competent authority. This sanction is known as the technical sanction and as its name indicates, it amounts to no more than a guarantee that the proposals are structurally sound and that estimates are accurately calculated and based on adequate data.

The management of Pakistan Institute of Medical Sciences (PIMS) Islamabad incurred an expenditure of Rs. 17,100,983 on account of Repair and Maintenance of building structure (residential and nonresidential) during the financial year 2022-23.

Audit observed as under:

- i. The repair and maintenance of houses allotted by the Estate office was the responsibility of Pak PWD.
- ii. The expenditure was incurred without departmental regulations.

iii. The work was done without obtaining technical sanction.

Audit is of the view that execution of repair and maintenance without departmental regulations and without technical sanctions was irregular.

The management did not reply.

Audit recommends that responsibility may be fixed on person(s) concerned for the irregularity.

24.5.28 Non-transparent hiring of services for Local Purchase of medicines - Rs. 18.091 million

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

Instruction contained in Technical Evaluation Performa of Bidding document of PIMS states that the firm / bidder will not be eligible to participate if any mandatory document is missing/not available with the firm.

The management of PIMS invited tenders for the local purchase of Drug / Medicines, Surgical disposable items & implant for PIMS on annual contract basis for the financial year 2020-21 and 2021-22 vide advertisement dated 12.03.2021. Five firms were technically evaluated out of which only M/s Al-Salaeha pharmacy was technically qualified whereas two firms i.e. M/s M.M Pharmacy Rawalpindi and Pakistan Pharmacy were conditionally qualified and two firms i.e. M/s Zaniab pharmacy and M/s Al-Habib pharmacy were technically disqualified. M/s M.M Pharmacy was awarded the contract vide PIMS letter No1-45/2020-21/L.P PIMS/Purchases/PIMS dated 20.11.2021. The contract was extended twice till the finalization of the new tender. Detail of purchase of medicines from M/s M.M Pharmacy is as under:

Sr. No.	Financial Year	Amount in Rs.
1	2021-22	2,376,464
2	2022-23	15,715,141
	TOTAL	18,091,605

Audit observed as under:

- i. The firm M/s M.M Pharmacy, Rawalpindi did not provide mandatory document i.e. valid retail drug sale license, required for technical qualification of the firm.

Furthermore, the firm also failed to provide the qualification of technical qualified staff as per requirement of general instruction of bidding document.

- ii. The contract was extended twice but there was no extension clause in bidding documents.

Audit is of the view that award of contract to a technically disqualified firm was a violation of terms and conditions of bidding document and Public Procurement Rules, 2004.

The management did not reply.

Audit recommends that the matter be investigated besides fixing responsibility.

24.5.29 Unauthorized payment of share to doctors and staff out of Sehat Sahulat Program–Rs. 44.226 million

Para 10 (2) of Supplementary Rules states that in cases where the fee received by Medical Officer is divisible between himself and Government, the total amount should first be paid into the Government treasury, the share of the Medical Officer being thereafter drawn on a refund bill in Form T.R.-41. In such cases a complete record of the work done and of the fees received should be kept by the Medical Officer.

Para 10 (3) of Supplementary Rules states that for Private bacteriological, Pathological and Analytical work carried out in Government laboratories and in the Chemical Examiner's Department, 40 percent of the fees should be credited to Government, the remainder (60 percent) being allowed to the Director of the Laboratory or the Chemical Examiner, as the case may be, who may divide it with his assistants and subordinates in such manner as he considers equitable.

The management of PIMS paid Rs.44,226,317 on account of share to the doctors and staff out of the Sehat Sahulat Program (SSP) during financial year 2022-23. Details are as under:

Sr.No.	Component	Amount of share paid
1	Cath Lab	25,833,197
2	Electro Physics	348,000
3	Cardiac Surgery	18,045,120
	TOTAL	44,226,317

Audit observed as under:

- i. The payment of share was made to the doctors and staff of Cardiac department which was against the spirit of SR 10 (i) & (ii).

- ii. The Sehat Sahulat Program was a re-imbursement policy of government wherein the patients were not required to pay any charges for treatment, hence, the amount of share paid to doctors and staff was violation of SR 10 (i) & (ii)
- iii. The payment was made without the approval of the Finance Division.
- iv. The Ministry of National Health Services Regulation & Coordination vide letter 2-32/Budget/PIMS/2018-19 dated 05.08.2019 also requested that management of PIMS may ensure compliance to the conditions of Finance Division and submit requisite accounting procedure.

Audit is of the view that unauthorized payment of share without the approval of Finance Division and to the irrelevant persons was unauthorized.

The management did not reply.

Audit recommends that practice be stopped besides fixing responsibility.

24.5.30 Non-deposit of receipt into government treasury - Rs. 49.947million

FTR 7(1) states that all moneys received by or tendered to Government Officers on account of the revenues of the Federal Government shall without undue delay be paid in full into a treasury and shall be included in the Federal Consolidated fund of the Federal Government.

The management of PIMS realized receipts of Rs. 49,947,440 on account of application fee, bank profit and other incomes in the securities account No.1780-30010766690 maintained at NBP PIMS branch, Islamabad during financial year 2022-23.

Sr. No	Description	Amount
1	Application fee	1,776,000
2	Bank Profit	44,215,607
3	Other receipts	3,955,833
	TOTAL	49,947,440

Audit observed that the management deposited the receipt into PIMS security account instead of government treasury in violation of rules.

Audit is of the view that retention of departmental receipts after closure of financial year was irregular.

Audit recommends that government receipts be deposited into government.

24.5.31 Cash withdrawal & Deposit in Security Account without supporting documents – Rs. 1,418.130 million

Rule 668 of FTR Vol-I states that advances granted under special orders of competent authority to Government officers for departmental or allied purposes may be drawn on the responsibility and receipt of the officers for whom they are sanctioned, subject to adjustment by submission of detailed accounts supported by vouchers or by refund, as may be necessary.

Rule 96 of General Financial Rules (GFR) states that it is contrary to the interest of the State that money should be spent hastily or in an ill-considered manner merely because it is available or that the lapse of a grant could be avoided. In the public interest, grants that cannot be profitably utilized should be surrendered. The existence of likely savings should not be seized as an opportunity for introducing fresh items expenditure, which might wait till next year. A rush of expenditure particularly in the closing months of the financial year will ordinarily be regarded as a breach of financial regularity.

The management of PIMS maintained a security account No.1780-30010766690 at NBP PIMS branch, Islamabad during year 2018-22.

Audit observed as under:

- i. The cash of Rs. 87,554,118 was withdrawn out of security accounts but the supporting record was not available.
- ii. An amount of Rs. 1,330,575,806 was deposited in the security account but the record of sources of receipt was not made known.
- iii. Moreover, the management to avoid the lapse of release of government funds deposited Rs. 1,200,000,000 into security account on 29.06.2022.

Audit is of the view that in the absence of supporting record the authenticity of cash withdrawal and receipts deposited could not be ascertained. Moreover, the deposit of government fund to avoid lapse is negligence on the part of management.

Audit recommends that responsibility be fixed besides provision of record to Audit for scrutiny.

CHAPTER 25

NARCOTICS CONTROL DIVISION

25.1 Introduction

As per Schedule II [Rule 3 (3)] Distribution of Business among the Divisions read with Schedule III [rule-4(4)] Rules of Business 1973 (As amended up to 23rd April, 2019) following main business have been assigned to the Division amongst the other functions.

1. Policy on all aspects of narcotics and dangerous drugs, such as production, processing, marketing, import, export and transshipment, trafficking etc., in conformity with national objectives, laws and international conventions and agreements.
2. Legislation covering all aspects of narcotics and psychotropic substances, and matters ancillary thereto, in consultation with the Ministries/Divisions, etc., concerned.
3. Bilateral and multilateral cooperation with foreign countries against narcotics trafficking and all other international aspects of narcotics including negotiations for bilateral and multilateral agreements for mutual assistance and cooperation in the field of enforcement of narcotics laws.
4. Coordination of aid/assistance from foreign countries and of narcotics control interdiction for poppy crop substitution.
5. Policy on drug education, treatment and rehabilitation of narcotics/drugs addicts and grants-in-aid to Non-Governmental Organizations (NGOs) engaged in these fields.
6. Inter-Provincial coordination on all aspects of narcotics and dangerous drugs.
7. Monitoring of the implementation of policies on all aspects of narcotics and dangerous drugs.
8. Regulation of administrative, budgetary and other matters of Pakistan Narcotics Control Board.

The Anti-Narcotics Force is an attached department of the Division.

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY-2022-23) Rs. in million	Revenue / Receipt Audited (FY-2022-23) Rs. in million
1	Formations	23	5	5602.235	-
2	Assignment Accounts (Excluding FAP)	1	1	29,729.000	-

3	Authorities / Autonomous Bodies etc. under the PAO	-	-	-	-
4	Foreign Aided Project (FAP)	-	-	-	-

25.2 Comments on Budget & Accounts (Variance Analysis)

The final budget allocated to the Narcotics Control Division for the financial year 2022-23 was Rs.3,831.42 million, out of which the Division expended an amount of Rs.3,862.42 million. Grant-wise detail of current and development expenditure is as under:

(Rs. In million)

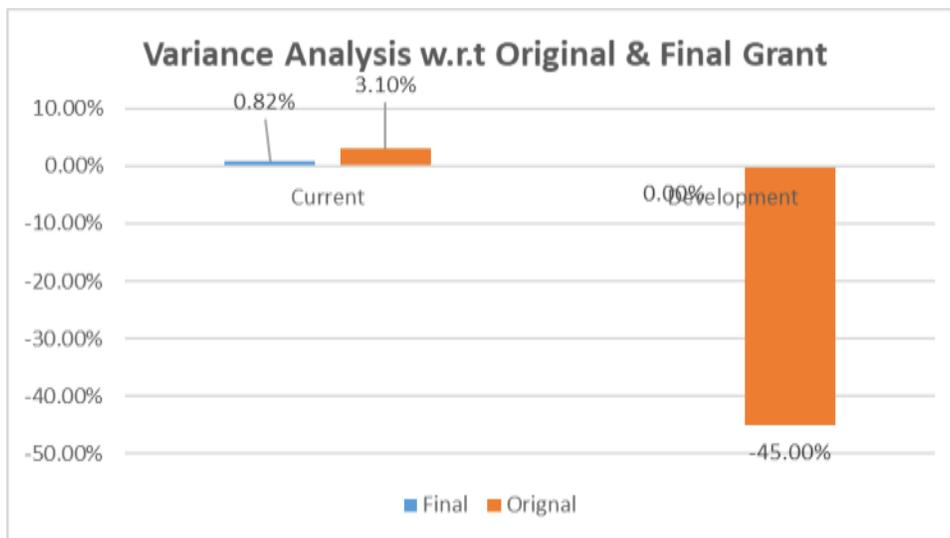
Grant No	Type of Grant	Original Grant	Suppl Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
71	Current	3,635.17	138.07	-56.17	3,717.06	3,747.70	30.64	0.82%
115	Development	207.92	.00	-93.56	114.35	114.35	0.00	0.00%
	Total	3,843.08	138.07	-149.74	3,831.42	3,862.05	30.63	0.80%

The audit noted that there was an overall excess of Rs.30.63 million, which was mainly due to excess in current grants.

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of General Financial Rules (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, bifurcating total allocation into current and development expenditure, it was observed that, in case of development grant, there was 45.00% of saving w.r.t original grant which was finally became zero w.r.t final grant and in case of current grant 3.10 % excess which decreased to 0.82%.



25.3 Classified Summary of Audit Observations

Audit observations were raised in this report during the current audit of **Narcotics Control Division**. Summary of the audit observations classified by nature is as under:

(Rupees in million)

S. No	Classification	Amount
1	Non-production of record	
2	Reported cases of fraud, embezzlement and Misappropriation	
3	Irregularities	
A	<i>HR/Employees related Irregularities</i>	
B	<i>Procurement related irregularities</i>	
C	<i>Management of account with commercial banks</i>	
D	<i>Recovery</i>	
E	<i>Internal Control</i>	
4	Value for money and service delivery	
5	Others	

25.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
2011-12	5	5	5	0	100
2012-13	2	2	2	0	100
2013-14	6	6	5	1	83

2019-20	5	1	0	5	-
2020-21	9	0	0	9	-
2021-22	21	0	0	21	-
2022-23	3	0	0	3	-
Total	51	14	12	39	-

25.5 AUDIT PARAS

Anti-Narcotics Force (HQ), Rawalpindi

25.5.1 Non-establishment of Federal Narcotics Testing Laboratory

Section 34 of Control of Narcotic Substances Act, 1997 states that the Federal Government may, as soon as may be after the commencement of this Act, set-up a Federal Narcotic Testing Laboratory and such other institutes and narcotics testing research laboratories or notify any other laboratory or institute to be a Federal Narcotics Testing Laboratory for carrying out the purposes of this Act.

The management of ANF, HQ was requested to intimate about establishment of Federal Narcotics Testing Laboratory and appointment of government analysts. It was verbally informed that no such lab was established, and no appointments were made despite a lapse of twenty-five years.

Audit observed that non-establishment of testing laboratory is the violation of the Act.

Audit is of the view that non-establishment of the said laboratory is a failure of management.

Management did not reply.

Audit recommends that responsibility may be fixed for not establishing Federal Narcotics Testing Laboratory.

Regional Directorate of Anti-Narcotics Force Sindh Karachi

25.5.2 579 Seized/Confiscated vehicles held by Department and non-auction of 12 Seized/Confiscated vehicles.

Rule 3(1) of the Disposal of Vehicles and other articles (involved in the Narcotics cases) rules, 2013 provided that the concerned Regional Directorates, Anti-Narcotics Force or other Law Enforcement Agencies shall, after submission of challan, forward list of seized, frozen and

confiscated case property or vehicles required to be auctioned to the Director General or Head of other Law Enforcement Agency for approval.

Rule 3(2) of the Disposal of Vehicles and other articles (involved in the Narcotics cases) rules, 2013 provided that the Director General Anti-Narcotics Force or Head of other Law Enforcement Agency shall, on receipt of above information or on his own motion, pass orders directing the sale of seized, frozen or confiscated vehicles and shall approve or cause the reserved price determined for each vehicle separately.

The management of Regional Directorate, Anti-Narcotics Force Sindh, Karachi provided a list of 579 vehicles of different Make and Model which have been seized/confiscated from 1994 to August 2023 and are under custody of RD ANF Karachi. The Detail position is as under:

S#.	Category of Seized/Confiscated vehicles	Nos.
Decided By Court		
1	Ready For Auction	12
2	Decided by Court and pending for clearance from different Govt Depts i.e. Anti-Car lifting cell, Pakistan Motor Registration Authority	27
3	Returning Order vehicles	30
Pending in Court		
3	Under Appeal in High Courts & Supreme Court Cases	96
4	Dormant Judgment Silent Cases	108
5	Under Trial	306
Total		579

Audit observed that:

- i. Out of such large number of seized/confiscated vehicles held by department since long, 12 Nos. of vehicles have been decided by court and finally cleared from different Govt department, but the same have not been auctioned till date.
- ii. 30 Vehicles were decided by Court for returning to owners but the same have not been returned to them till date.
- iii. The fate of other large number of seized/confiscated vehicles have not been decided till date which have been pending either in court or with other Government departments for clearance.

- iv. During Physical verification of Vehicles, it was observed that costly latest models' vehicles were also held by departments whose condition was deteriorating with passage of time as they were parked in open area.

Audit is of the view that due to non-auction of 12 vehicles and non-clearance of vehicles from Court and Different Government Departments, their value has been declining with passage of time, which deprived the Government of its due share of receipt.

The management stated that applications have been filed in different courts, out of 4 cases the Honorable court dismissed RD ANF Sindh applications and ordered that fate of vehicle cannot be decided till the arrest of absconding accused person. While other applications are still pending in different courts. However, the court has also issued notices to the party/owner of vehicles as the fate cannot be decided were also published in newspapers but their decision is still pending in courts.

The reply did not justify the audit point of view as to why the vehicles, which are ready for auction after clearance from court and other departments, have not been auctioned. And those, which are ordered by court for either returning to owners or need clearance from other departments, have not been returned or got cleared. Furthermore, a large number of cases are still pending.

Audit recommends that vehicles decided from court may be cleared from concerned departments and those ready for auction may be auctioned. Besides, the cases of vehicles pending in court of law may be pursued rigorously to avoid further loss to the Government or the owner.

25.5.3 Non-auction and unauthorized retention/use of 04 commercial/residential forfeited properties

Rule 20 of Frozen or Forfeited Drug Assets (Administration, Management, Maintenance and Disposal) Rules, 2010 states that “ Subject to the relevant provisions of any law relating to the acquisition or disposal of immovable property and also subject to the sale proceeds being credited to the Fund under section 54 of the Act, the property shall be disposed of by public auction by the committee to be nominated by the Director-General in consultation with the Administrator”.

Rule 10(3) of Frozen or Forfeited Drug Assets (Administration, Management, Maintenance and Disposal) Rules, 2010, “Where any property is forfeited under the Act and possession of such property is taken by the Administrator or any member or staff or other persons authorized by the Administrator, provided to him by the Federal Government under rule 3, the Administrator may, with the approval of the Federal Government through the Director-General rent out or give on lease or on contract or for Government official use on rent to other Government Departments or handover to Ministry of Narcotics Control or the Anti-Narcotics Force without rent such property

for agricultural or residential or commercial or any other appropriate purposes according to the nature of such property and in accordance with such terms and conditions to be reduced into writing subject to the approval by the Federal Government through the Director-General, till disposal of such property under the rules”.

The management of Regional Directorate of Anti-Narcotics Force (ANF), Karachi provided list of confiscated properties, accordingly, following 04 residential/ commercial properties were forfeited and held by ANF Karachi.

Audit observed that the following forfeited properties are still in possession of the ANF and have not been auctioned by the management.

S.No	Detail of Asset/Property	Current Status
1.	Plot No. A-161, Block-C, Gulshan-e-Jamal Rashid Minhas Road, Karachi (240 Sq.yd)	Forfeited /in possession of ANF
2.	Shop No.2, Block-B, Gulshan-e-Jamal at FL-37 Karachi (21.97 sq.yd)	
3.	Plot No.132, Sector 35/A, Korangi Township, Karachi (512 sq.yd)	
4.	Plot No.C-145/A, Sector 35/A, Korangi Township Karachi (512 Sq.yd)	

Audit observed that:

- i. The management have been utilizing the properties listed at Sr. No. 1, 3 & 4 above for their own use of Regional Directorate ANF Karachi but the approval of Administrator and Ministry Concerned through Director General was not obtained in violation of above rule.
- ii. Shop mentioned at Sr. no 2 above was recommended for auction but the same have not been completed till date.

Audit is of the view that non-auction of the forfeited properties including shops and unauthorized use thereof was lapse on the part of management which deprived the Government of its due share of receipts.

The management stated that the case for utilization of Properties for official purpose as listed at Sr. No. 1,3 &4 and for auction of shop as listed at Sr. No. 2 have been sent to MNC Islamabad through ANF HQ Islamabad.

The management accepted the irregularity that the above properties are being utilized without approval of Administrator and Ministry concerned and the matter for auction of shop is still held up.

Audit recommends that the necessary approval for auction/utilization of forfeited properties may be obtained and the same may be auctioned by depositing sale proceed into Government account.

CHAPTER 26

NATIONAL HERITAGE AND CULTURAL DIVISION

26.1 Introduction

As per Schedule II [Rule 3 (3)] Distribution of Business among the Divisions read with Schedule III [rule-4(4)] Rules of Business 1973 (As amended up to 23rd April, 2019) following main business have been assigned to the Division amongst the other functions.

1. International agreements and assistance in the field of archaeology, national museums, and historical monuments were declared to be of national importance.
2. National and other languages used for official purposes.
3. Naming of institutions in the name of Quaid-e-Azam and other high and distinguished personages.

ATTACHED DEPARTMENTS /AUTONOMOUS BODIES

- i. Quaid-e-Azam Papers Wing.
- ii. Pakistan Academy of Letters.
- iii. Pakistan National Council of Arts.
- iv. National Language Authority, Urdu Dictionary Board and Urdu Science Board.
- v. Quaid-e-Azam Academy.
- vi. Aiwan-i-Iqbal and Iqbal Academy Pakistan.
- vii. Quaid-e-Azam Mazar Management Board (QMMB).
- viii. Quaid-e-Azam Memorial Fund.
- ix. National Book Foundation.
- x. Department of Libraries.
- xi. Department of Archaeology and Museums.

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY-2022-23) Rs. in million	Revenue / Receipt Audited (FY-2022-23) Rs. in million
1	Formations	5	4	791.821	-

2	Assignment Accounts (Excluding FAP)	-	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	-	-	-	-
4	Foreign Aided Project (FAP)	-	-	-	-

26.2 Comments on Budget & Accounts (Variance Analysis)

The final budget allocated to the Division for the financial year 2022-23 was Rs. 1,951.89 million, out of which the Division expended an amount of Rs. 1,921.27 million. Grant-wise detail of current and development expenditure is as under:

(Rs. in million)

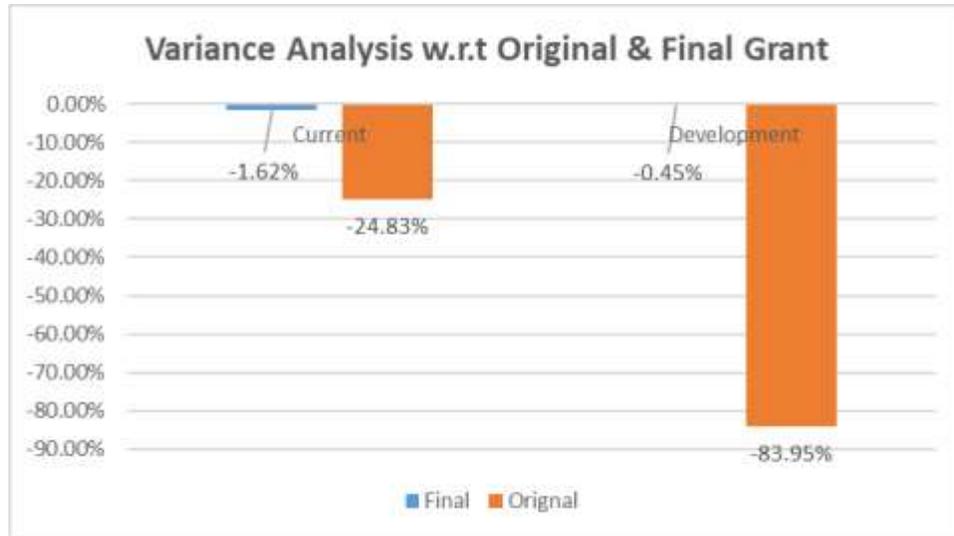
Grant No	Type of Grant	Original Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
40	Current	2,438.35	-575.12	1,863.23	1,833.01	-30.23	-1.62%
105	Development	550.00	-461.34	88.66	88.26	-40	-0.45%
	Total	2,988.35	-1,036.46	1,951.89	1,921.27	-30.62	-1.57%

Audit noted that there was an overall savings of Rs. 30.62 million, which was mainly due to savings in current grant.

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of General Financial Rules (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, bifurcating total allocation into current and development expenditure, it was observed that, in case of development grant, there was 83.95% of saving w.r.t original grant which was finally reduced to 0.45% w.r.t final grant and in case of current grant 24.83% saving was finally reduced to 1.62%.



26.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs.98.097 million, were raised in this report during the current audit of **National History And Literary Heritage Division**. Summary of the audit observations classified by nature is as under:

(Rupees in million)

S. No	Classification	Amount
1	Non-production of record	
2	Reported cases of fraud, embezzlement and Misappropriation	
3	Irregularities	
A	<i>HR/Employees related Irregularities</i>	
B	<i>Procurement related irregularities</i>	5.21
C	<i>Management of account with commercial banks</i>	
D	<i>Recovery</i>	92.887
E	<i>Internal Control</i>	
4	Value for money and service delivery	
5	Others	

26.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
2010-11	8	7	0	8	-
2011-12	5	0	0	5	-
2013-14	3	3	2	1	67
2014-15	1	0	0	1	-
2015-16	1	0	0	1	-
2016-17	6	2	1	5	50
2017-18	2	2	0	2	-
2019-20	27	0	0	27	-
2020-21	13	0	0	13	-
2021-22	10	10	3	7	30
2022-23	8	0	0	8	-
Total	84	24	6	78	-

26.5 AUDIT PARAS

Pakistan National Council of Arts (PNCA)

26.5.1 Irregular retention of government money - Rs. 92.887 million

Rules 7(1) of FTR Volume-1 states that all money received by or tendered to government officers on account of revenues of the Federal Government shall without undue delay be paid in full a treasury and shall be included in the Federal Consolidated Fund of the Federal Government. Moneys received as aforesaid shall not be appropriated to meet departmental expenditure, nor otherwise kept apart from the Federal Consolidated Fund of the Federal Government. No department of the Government may require that any moneys received by it on account of the revenues of the Federal Government be kept out of the Federal Consolidated Fund of the Federal Government.

The management of Pakistan National Council of the Arts (PNCA), Islamabad received an amount of Rs. 92.887 million on account of rent of auditorium and open space, art gallery cultural programs, etc. up to 30.06.2023. The receipts were deposited into Bank Account No.3177102789 maintained with National Bank of Pakistan, Melody Main Branch, Islamabad.

Audit observed that receipts were not deposited into the Government Treasury.

Audit is of the view that non-deposit of receipts into government treasury deprived the government from its due receipts.

The management did not reply till the finalization of the report.

Audit recommends fixing of responsibility on the persons at fault besides deposit of receipts into Federal Consolidated Fund.

26.5.2 Unauthorized expenditure on Civil Works - Rs. 5.210 million

Para 192 of GFR (Volume-I) states that when works allotted to a civil department other than the Public Works Department are executed departmentally, whether direct or through contractors, the form and procedure relating to expenditure on such works should be prescribed by departmental regulations framed in consultation with the Accountant-General generally on the principles underlying the financial and accounting rules prescribed for similar works carried out by the Public Works Department.

Para 193(4)(ii) of GFR (Volume-I) states that all estimates for such works and repairs to be carried out locally should be submitted for prior scrutiny to the Chief Engineer, Pak PWD.

The management of Pakistan National Council of Arts (PNCA), Islamabad incurred an expenditure of Rs. 5.2 million on civil works during the financial year 2022-23.

Audit observed that:

- i. The expenditure was incurred on civil works/repair of buildings which was neither carried out through Pak. PWD nor was incurred departmentally by making departmental regulations as required under GFRs.
- ii. The expenditure was incurred without obtaining Technical Sanctions from an authorized / competent engineer of Pak. PWD.

Audit is of the view that in the absence of approved procedure for executing civil works the expenditure incurred on civil works is unauthorized. Furthermore, due to non-maintenance of Measurement Books the actual value of work done, and the payment made for the civil works is doubtful.

The management did not reply till the finalization of the report.

Audit recommends holding of inquiry to fix responsibility besides regularization of the expenditure from the Finance Division.

26.5.3 Irregular appointments without observing PNCA Employees Service Rules, 1994

As per Clause 27 of the PNCA Employees Service Rules, 1994, appointment against various vacancies shall be made in the light of Government's instructions in respect of the maintenance of regional provincial quota and in general consideration of merit and experience.

PNCA's advertisement as approved by the Secretary, National Heritage & Culture Division the eligibility criteria for appointment of Caretaker is: "Retd. JCO/Intermediate with ten years' experience", for appointment of steno typist is: "Intermediate with minimum speed of 80/40 w.p.m. in shorthand/typing respectively. Must be computer literate", for appointment of Urdu typist is: "Matric with minimum speed of 30 w.p.m. in Urdu typing", for appointment of Driver/Dispatch Rider is: "Primary pass having valid license with 5 years of experience of driving light and heavy vehicle", and for appointment of Drivers, Dispatch Riders, Mali & Sweeper having domicile local (Islamabad). Furthermore, PNCA advertised eligibility criteria approved by the Secretary, National Heritage & Culture Division for appointment of Director, Deputy Director, Accountant, Designer and Librarian.

The management of Pakistan National Council of Arts (PNCA), Islamabad appointed twenty-one (21) officers/officials during 2022-23.

Audit observed that PNCA did not observe the rules and regulations for appointments as mentioned in advertisement duly approved by the Secretary, National Heritage & Culture Division.

Audit is of the view that the appointments made in violation of PNCA Employees Service Rules, 1994 were irregular and unauthorized.

The management did not reply till the finalization of the report.

Audit recommends holding of inquiry to fix responsibility on persons at fault.

CHAPTER 27

NATIONAL VOCATIONAL AND TECHNICAL TRAINING CENTRE

27.1 Introduction

National Vocational & Technical Training Commission (NAVTTTC) was established in December 2005 as an apex body for Technical & Vocational Training and is attached with the Prime Minister's Secretariat (Public). Being a federal agency for TVET, NAVTTTC facilitates, regulates, and provides policy direction for skill development in Pakistan. Under the National Vocational & Technical Training Commission (NAVTTTC) Act, 2011 NAVTTTC is responsible for setting-up of national occupational skills standards, development of curriculum, national qualification framework, labour market information analysis, training of trainers, public private partnership and setting-up of institutional standards for TVET providers amongst the other functions:

1. National Policies, Strategies and Regulations
2. National Qualification Framework (NQF)
3. Accreditation, Certification, Skill Standards & Curricula
4. Performance Evaluation System
5. TVET Development through Public-Private Partnership
6. Labor Market Information System

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY-2022-23) Rs. in million	Revenue / Receipt Audited (FY-2022-23) Rs. in million
1	Formations	10	4	1,365.661	-
2	Assignment Accounts (Excluding FAP)	-	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	-	-	-	-
4	Foreign Aided Project (FAP)	-	-	-	-

27.2 Comments on Budget & Accounts (Variance Analysis)

The final budget allocated to the NAVTTTC for the financial year 2022-23 was Rs.4,188.13 million, out of which the Division expended an amount of Rs.3,186.69 million. Grant-wise detail of current and development expenditure is as under:

(Rs. In million)

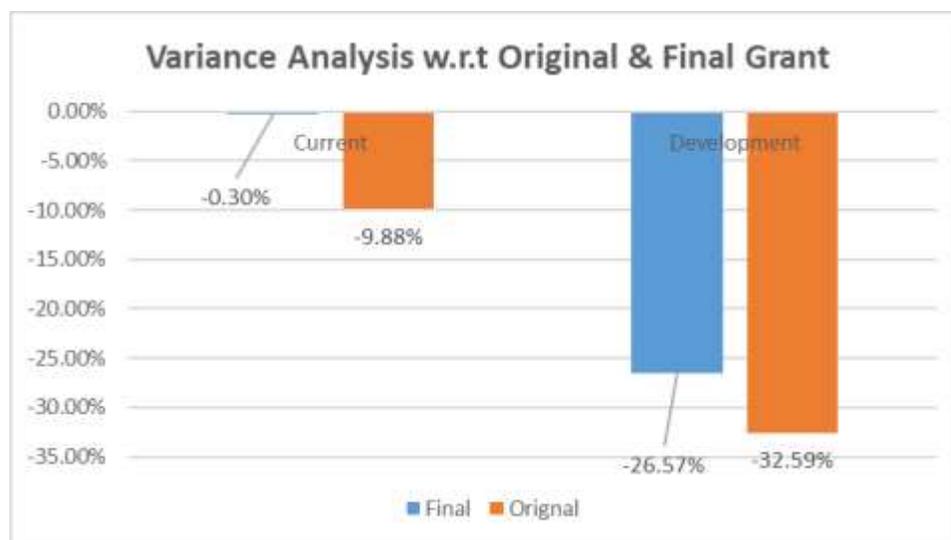
Grant No	Type of Grant	Original Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
39	Current	469.20	-45.06	424.13	422.84	-1.29	-0.30%
104	Development	4,100.00	-336.00	3,764.00	2,763.84	-1,000.16	-26.57%
	Total	4,569.20	-381.06	4,188.13	3,186.69	-1,001.45	-23.91%

Audit noted that there was an overall savings of Rs.1,001.45 million, which was due to less expenditure in current grants.

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of GFR (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, bifurcating total allocation into current and development expenditure, it was observed that, in case of development grant, there was 32.59% of saving w.r.t original grant which was finally reduced to 26.57% w.r.t final grant and in case of current grant 9.88% saving was reduced to 0.30%.



27.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs.16.13 million, were raised in this report during the current audit of **National Vocational And Technical Training Centre**. Summary of the audit observations classified by nature is as under:

(Rupees in million)

S. No	Classification	Amount
1	Non-production of record	
2	Reported cases of fraud, embezzlement and Misappropriation	
3	Irregularities	
A	<i>HR/Employees related Irregularities</i>	
B	<i>Procurement related irregularities</i>	
C	<i>Management of account with commercial banks</i>	
D	<i>Recovery</i>	
E	<i>Internal Control</i>	
4	Value for money and service delivery	16.13
5	Others	

27.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
2011-12	1	0	0	1	-
2013-14	1	1	0	1	-
2014-15	5	0	0	5	-
2018-19	3	0	0	3	-
2019-20	3	0	0	3	-
2020-21	3	0	0	3	-
Total	16	1	0	16	-

27.5 AUDIT PARAS

National Vocational and Technical Training Commission Karachi

27.5.1 Non-receipt of NAVTTC share from Takamol fund - Rs. 16.130 million

Article 3 of Appendix 2 of Service Level Agreement signed between Takamol for Business Service Company on and NAVTTC on 27.01.2023 states that Takamol fee will be US\$ 33 and NAVTTC fee will be US\$ 17 per test.

The management of NAVTTC provided a statement of funds receipt and transfer between Takamol and NAVTTC as on 30.06.2023 as per following detail:

Pak Rs. @ 287 to be sent to Takamol	Pak Rs. @ 287 to be received from Takamol	Payment due from Takamol to NAVTTC
2,012,500	18,142,400	16,129,900

The audit observed that an amount of Rs. 16,129,900 is receivable from Takamol on account of certification test services provided by the NAVTTC under the agreement with Takamol.

Audit is of the view that non- receipt of due share from Takamol is putting NAVTTC into loss.

The management did not reply till finalization of the report.

Audit recommends that matter regarding receipt of due share be expedited with Takamol management.

CHAPTER 28

PAKISTAN ATOMIC ENERGY COMMISSION (PAEC)

28.1 Introduction

The history of Pakistan Atomic Energy Commission (PAEC) goes back to 1956, when the Atomic Energy Research Council was established. In 1964, 1965 and 1973 reorganization took place, and the Atomic Energy Commission was incorporated as a statutory body under an Act, with considerable autonomy. In 1972, the Commission was transferred from the Science and Technology Research Division to the President's Secretariat.

PAEC is now the largest science & technology organization of the country, both in terms of scientific/technical manpower and the scope of its activities. Starting with a nuclear power reactor at Karachi (KANUPP) and an experimental research reactor at Nilore, Islamabad (PARR-I) the emphasis in the early years remained focused on the peaceful uses of nuclear energy. Consequently, research centers in agriculture, medicine, biotechnology and other scientific disciplines were set up all over the country. As the emphasis shifted towards concerns for national security, important projects were also initiated in this area.

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY-2022-23) Rs. in million	Revenue / Receipt Audited (FY 2022-23) Rs. in million
1	Formations	27	6	5,347.726	100,485.889
2	Assignment Accounts (Excluding FAP)	2	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	-	-	-	-
4	Foreign Aided Project (FAP)	-	-	-	-

28.2 Comments on Budget & Accounts (Variance Analysis)

The final budget allocated to the Atomic Energy Commission for the financial year 2022-23 was Rs.41,140 million, out of which the Commission expended an amount of Rs. 41,140 million. Grant-wise detail of current and development expenditure is as under:

(Rupees in million)

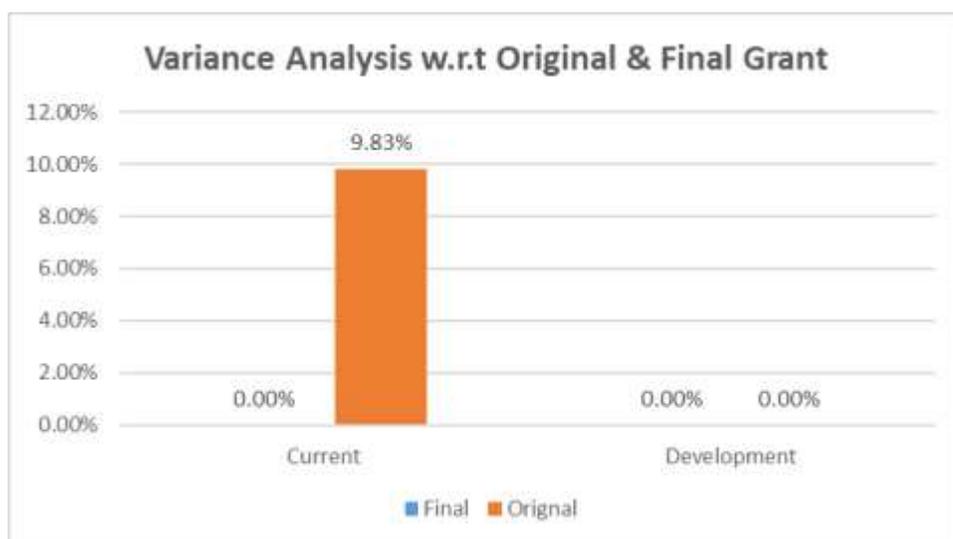
Grant No	Type of Grant	Original Grant	Suppl Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
7	Current	13,794.00	1,422.39	-67.00	15,149.39	15,149.39	.00	0.00%
122	Development	25,990.60	.00	.00	25,990.60	25,990.60	.00	0.00%
	Total	39,784.60	1,422.39	-67.00	41,140.00	41,140.00	.00	0.00%

Audit noted that there was an overall saving of Rs.8,100 million, which was mainly due to saving in development grant.

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of General Financial Rules (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, bifurcating total allocation into current and development expenditure, it was observed that, in case of current grant, there was 0% of excess w.r.t original grant which was increased to 9.83%.



28.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs. 77,135.663 million, were raised in this report during the current audit of **Pakistan Atomic Energy Commission (PAEC)**. Summary of the audit observations classified by nature is as under:

(Rupees in million)		
S. No	Classification	Amount
1	Non-production of record	
2	Reported cases of fraud, embezzlement and Misappropriation	
3	Irregularities	
A	<i>HR/Employees related Irregularities</i>	
B	<i>Procurement related irregularities</i>	70.674

<i>C</i>	<i>Management of account with commercial banks</i>	
<i>D</i>	<i>Recovery</i>	77,058.66
<i>E</i>	<i>Internal Control</i>	6.325
4	Value for money and service delivery	
5	Others	

28.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
2011-12	11	0	0	11	-
2012-13	7	7	5	2	71
2013-14	3	3	3	0	100
2016-17	6	0	0	6	-
2017-18	3	3	3	0	100
2019-20	2	0	0	2	-
2020-21	9	0	0	9	-
2022-23	14	0	0	14	-
Total	55	13	11	44	-

28.5 AUDIT PARAS

KANUPP Decommissioning Project, Karachi

28.5.1 Non-adjustment of temporary advances issued to employees for different spot procurement - Rs. 23.608 million

According to Accounting Rules & Procedure 2003 of PAEC, the advances paid for spot purchases will be regularly examined and proper accounts obtained, in case the official fails to render the accounts within the fortnight from the date of receipts of advance, written reminder should be issued to the official concerned with a copy to the Department Head. If the official still fails to render the account or does not explain its non-submission, the advance may be recovered in full from his salary.

The management of KDP, Karachi incurred expenditure of Rs.23.608 million on account of purchase of different store items during the period 2020- 2022. Details are as under:

Period	Particulars	Amount
2020-2021	Payment of temporary advances to various employees for purchase of different items	11,946,015
2021-2022		11,662,344
	Total	23, 608, 359

Audit observed as under:

1. A large number of advances were paid to the employees of different sections for purchase of different items.
2. Advance payments to suppliers were not covered within any rule.
3. Adjustments were not made even after a lapse of considerable period in violation of PAEC Accounting Rules & Procedures 2003.
4. The purchases were made without calling tenders / quotations and advertisement on PPRA's website in violation of PPRA Rules, 2004.

Audit is of the view that expenditure was made in violation of PPRA rules and advances were granted for purchase of routine items which were neither sensitive nor technical in nature.

The management replied that all temporary advances were processed according to NCA delegation of power with proper financial concurrence of competent authority and no advance payments were made to suppliers in temporary advance cases. They further stated KANUPP was working with 50% manpower during 2020-21 due to COVID-19 pandemic and transfer of employees including Accounts staff, therefore process of adjustment was delayed and the items purchased were emergent and contingent nature that was procured to keep plant operational and in the course of open tender/limited tender was adopted for these purchases, with their inherent time taking procedures, plant outages would certainly be prolonged and therefore procurement through temporary advances.

The reply of the management is not acceptable as the requirement of tender in case of the above purchases is mandatory. Moreover, the adjustment of advances has not been shown to audit.

Audit recommends that the advances may be recovered/ adjusted, and responsibility be fixed for not inviting tender.

28.5.2 Non-deposit of proceeds of auction into Govt. treasury – Rs.28.434 million

Rule 8 of GFR states that it is the duty of the Department concerned to see that the dues of the Government are correctly and promptly assessed, collected and paid into the treasury.

The management of KDP, KANUPP, Karachi collected proceeds of Rs. 28.434 million on account of auction of Scrap Aluminum, Karachi during 2020-2022.

Audit observed that the management deposited the auction amount in NIDA KANUPP Account No.3097245303 dated 15.04.2021 NBP, KANUPP branch, Karachi instead of Government treasury.

Audit is of the view that the entire auction money was required to be deposited into Government account.

The management replied that that collected proceeds of Rs. 28.434 million on account of auction of scrap aluminum deposited to KANUPP account and further remitted to PAEC Headquarter, Islamabad after paying applicable tax. The reply of the management is not acceptable as the auction amount was required to be deposited into government treasury which is held unauthorized.

Audit recommends that the auctioned amount of scrap material may be deposited into government treasury.

Karachi Nuclear Power Generating Station

28.5.3 Non- Recovery of Sale proceeds of Electricity- Rs 14,717.747 million

Rule 26 of GFR Vol.1 states that it is the responsibility of every controlling officer to see that all sums due to the government are regularly and promptly assessed and realized.

The management of KNPGS, Karachi exported the electricity to M/s Central Power Purchasing Agency (Guarantee) Limited amounting to Rs 217,301,970,798 during the financial year 2022-23. Details are as under:

(Rs. in million)

S. No.	Division	Electricity Exported	Verified Amount	Recovered Amount	Outstanding Amount
1	K-2	117,577.932	98,823.480	88,674.369	4,568.637
2	K-3	99,724.039	78,655.771	73,655.771	10,149.111
				162,330.140	14,717.747

Audit observed the management recovered only Rs 162,330 million but amount of Rs.14,717 million is still outstanding at the end of financial year 2022-23.

Audit is of the view that non recovery of outstanding amount is loss to public exchequer.

The management was informed on 17.10.2023 but no reply was received till finalization of the report.

Audit recommends that the amount of electricity may be recovered from the M/s CPPA at the earliest.

28.5.4 Non-recovery of disallowed amount - Rs. 62,083.615 million

Rule 26 of GFR Vol.1 states that it is the responsibility of every controlling officer to see that all sums due to the government are regularly and promptly assessed and realized.

The management of KNPGS, Karachi exported the electricity to M/s Central Power Purchasing Agency (Guarantee) Limited amounting to Rs 217,301,970,798 during the financial year 2022-23.

Audit observed that CPPA disallowed an amount of Rs. 62,083.615 million which is still not recovered. Details are as under;

(Rupees)			
	Period	Amount Claimed	Amount disallowed
K-2	March 2021 to June 2022	107,913,169,188	18,413,689,976
	July 2022 to June 2023	117,577,931,777	18,754,451,915
K-3	April 2022 to June 2022	20,528,562,004	3,415,841,944
	July 2022 to June 2023	99,724,039,021	21,499,631,375
Total		345,743,701,990	62,083,615,210

Audit is of the view that non recovery of disallowed amount is unjustified causing loss to public exchequer.

The management was informed on 18.10.2023 but no reply was received till finalization of the report.

Audit recommends that disallowed amount may be recovered from M/s CPPA.

28.5.5 Non-deposit of proceeds of auction into Government Treasury - Rs. 6.325 million

Rule 8 of GFR states that it is the duty of the Department concerned to see that the dues of government are correctly and promptly assessed, collected and paid into treasury.

The management of KNPGS, Karachi auctioned nine vehicles amounting to Rs. 6,325,605 during the audit period 2022-23.

Audit observed that the sales proceeds of auction have not been deposited into government treasury.

Audit is of the view that non-deposit of auction amount into government treasury is loss to public exchequer.

The irregularity was reported to the management vide audit memo No.14 dated 19.10.2023 for clarification but no reply was received till the close of audit.

Audit recommends that sale proceeds may be deposited into government treasury.

28.5.6 Non-execution of contract agreement resulted in loss of Stamp Duty from the Contractors - Rs. 11.158 million

According to Sub: 22-A of Stamp Act, it is the duty of the Competent Authority to recover the Stamp Duty and affix the same, while execution of agreement @ 0.35 paisa per hundred rupees of the value of the agreement or against tender cost.

The management of KNPGS, Karachi purchased different machinery equipment and spare parts from various suppliers/firms amounting to Rs. 3,188.267 million through work/supply orders during the financial year 2022-2023.

Audit observed that the management did not execute contract agreements of purchases and services with the suppliers/contractors which resulted in a loss of stamp duty of Rs.11,158,932 @0.35 of the contracts amount.

Audit is of the view that non-execution of contract agreement resulted in loss of stamp duty.

The management was informed on 19.10.2023 but no reply was received till finalization of the report.

Audit recommends that the amount of stamp duty may be recovered from the suppliers and deposited into government treasury.

28.5.7 Irregular spot procurement – Rs.1.153 billion

Rule-12 of PPRA rules 2004 states that, procurements over one hundred thousand rupees and up to the limit of two million rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the Authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency.

Sr.No.21(d), Annex-III of PAEC Delegation of Financial Powers-2010 regarding spot purchases states that, when the items are of a sensitive nature or urgently required, purchase through a purchase committee may be resorted to with financial concurrence. Necessary funds for this purpose will be drawn up by the committee in advance.

The management of KNPGS, Karachi made procurement of Rs. 1,153,417,323 of store items & accessories related to electrical, mechanical, hardware, civil works furniture and fixture, paints, diesel generator and Air-conditioners etc. during the period 2022-2023.

Audit observed the following irregularities.

- i. The procured items were neither identifiable as sensitive nor of peculiar technical nature based on information shared with audit.
- ii. Procurement of heavy amounts was made without open competition.
- iii. In most of the cases minimum three to four months period was taken for any spot purchase which indicates that the same were not required immediately and could have been procured through competitive process.
- iv. Furniture and fixtures were also procured on a spot basis which is not an urgent requirement.
- v. Stationery items were also purchased through spot purchase instead of annual tender.
- vi. Furniture and fixtures were purchased through spot purchase under propriety items even though furniture and fixture is not proprietary item.

Audit is of the view that spot procurement were made for routine works in violation of PAEC delegation of financial powers and PPRA Rules and therefore held irregular.

The management was informed on 19.10.2023 but no reply was received till finalization of the report.

Audit recommends that the expenditure may be regularized besides responsibility may be fixed on a person at fault.

28.5.8 Non- delivery of spare parts of Rs 34.755 million

Supply order dated 03.04.2023 issued by KNPGS in favor of M/s Noor Start states that delivery time of spare parts amounting to Rs 34.755 million was 08 weeks.

Audit observed that

- i. Despite a lapse of more than 05 months the contractor did not supply the 51 spare parts of pressure gauge.
- ii. The management did not approach the contractor for supply. Even the validity of quotation has expired.
- iii. No Contract agreement was executed, nor security deposit was received from contractor.

Audit is of the view that non-supply of spare parts within due time is irregular.

The management was informed on 20.10.2023 but no reply was received till finalization of the report.

Audit recommends that the matter may be investigated to identify reason of lapse and fix responsibility.

Gilgit Institute of Nuclear Oncology & Radiotherapy (GINOR)

28.5.9 Non-deposit of unclaimed amount of un-presented / outstanding cheques into Treasury - Rs. 206.567 million

Item IV of the General Policy of Revised Procedure for Operation of Assignment Account of Federal Government issued by the CGA vide letter No.C-II/I-39/08-Vol-V/632 dated 24.09.2008 states that the funds in Assignment Accounts will be part of Consolidated Fund. Amounts remaining unspent at the close of the financial year will appear as saving under the respective budget grant unless surrendered in time. Unspent amounts cannot be carried forward to next financial year.

The management of Pakistan Atomic Energy Commission (PAEC), Islamabad maintained bank account No. 4018982842 at NBP Margalla Branch, Islamabad having balances along with un-presented/outstanding cheques amounting to Rs. 206,567,268 for the financial year 2017-18 to 2021-22. Details are as under:

(Rupees)

S. No.	Financial Year	Bank Balances	Unpresented / Outstanding Cheques
1.	2017-18	28,713,235	15,698,082
2.	2018-19	33,219,677	32,651,334
3.	2019-20	3,197,000	79,567,417
4.	2020-21	49,318,964	49,793,395
5.	2021-22	28,892,239	28,857,040
Total Rs.		143,341,115	206,567,268

Audit observed that the amount of un-presented, unclaimed and outstanding cheques was not deposited into Government Treasury.

Audit is of the view that non-depositing of amount into Government Treasury is a serious lapse on the part of management.

The management replied that Bank Account No. 4018982842 at NBP Margallah Branch is not an “Assignment Account”, it is declared as sub-assignment account and the balance in cash book/bank book at the close of each financial year i.e. 30.06.2018 to 30.06.2022 was” NIL”. Whereas the balance as per bank statement i.e. Rs. 206.567 million detailed below was due to outstanding cheques which were not presented by the claimants. These cheques were cleared in ensuing months:

(Rupees)

Sr. No	Financial Year	Unpresented/ Outstanding cheques
1	2017-18	15,698,082
2	2018-19	32,651,334
3	2019-20	79,567,417
4	2020-21	49,793,395
5	2021-22	28,857,040
Total		206,567,268

The management reply is not agreed to by Audit as the amount was transferred from Assignment Account No. 501-0 PAEC (Budget) to other account without any provision in the rules. Also the balances includes unpresented/uncleared cheques after closure of financial year which was required to be cleared during the financial year, and the remaining amount was to be deposited in Government Treasury without delay.

Audit recommends probing the matter to fix responsibility and put in place controls to avoid the occurrence in the future

NORI, Islamabad

28.5.10 Non-recovery of receipts from different departments - Rs. 22.301 million

Clause 3 (3.2) of tri-party agreement made between Ministry of National Health Services, Regulations & Coordination (NHSR&C), Pakistan Atomic Energy Commission (PAEC) and State Life Insurance Corporation of Pakistan (SLIC) states that PAEC will be reimbursed for expenses of services rendered on preauthorized patients on actual of treatment. A hospital is to submit expected expense/rates for the referred cases for approval before patient admission. The payment will be made to PAEC within a period of 30 days after the claim is submitted by the PAEC.

The management of NORI hospital Islamabad provided treatment to patients along with other Hospitals/Departments’ patients during 2021-22.

The audit observed that an amount of Rs. 22.301 million was not recovered from various SLIC and other departments up to financial year 2021-22.

Audit is of the view that non-recovery of expenditure deprived the management of its due receipts.

The management replied that some of payments on a/c of Sehat Salulat Card have been received and a reminder of remaining amount has been issued to State Life Insurance Corporation of Pakistan. On the other hand, maximum payments have already been received and other departments on account of tests services provided on credit basis. Only a few departments' payments are pending. Reminders to pay outstanding amounts have been issued to various departments. Detail is tabulated below:

S. No.	Descriptions	Total Amount (Rs.)	Amount Received (Rs.)	Amount Outstanding (Rs.)
1	Sehat Sahulat Card	395,647,975	392,153,412	3,494,397
2	Others	18,477,250	16,234,004	2,243,246
	Total	414,125,225	408,387,416	5,737,643

The reply was not accepted as the management did not provide documentary evidence in support of recovery made. Furthermore, a handsome amount is still recoverable.

Audit recommends recovery of the balance amount at the earliest besides provision of record relating to recovery made.

CHAPTER 29

PLANNING AND DEVELOPMENT DIVISION

29.1 Introduction

As per Schedule II [Rule 3 (3)] Distribution of Business among the Divisions read with Schedule III [rule-4(4)] Rules of Business 1973 (As amended up to 23rd April, 2019) following main business have been assigned to the Division amongst the other functions.

1. (i) Preparation of comprehensive National Plan for the economic and social development of the country; (ii) Formulation, within the framework of the National Plan, of an annual plan and an annual development program; and (iii) Recommendations concerning orderly adjustments therein in the light of new needs, better information and changing conditions.
2. Monitoring the implementation of all major development projects and programs; identification of bottlenecks and initiation of time remedial action.
3. Evaluation of on-going and completed projects.
4. Review and evaluation of the progress achieved in the implementation of the National Plan.
5. Identification of regions, sectors and sub-sectors lacking adequate portfolio of projects and taking steps to stimulate preparation of sound projects in those areas.
6. Continuous evaluation of the economic situation and coordination of economic policies.
7. Organization of research in various sectors of the economy to improve the database and information as well as to provide analytical studies which will help economic decision making.
8. Association with the Economic Affairs Division in matters pertaining to external assistance in individual projects, from the stage prior to preliminary discussion up to the stage of final signing of documents with aid-giving agencies.
9. Development of appropriate cost and physical standards for effective technical and economic appraisal of projects.
10. Coordination of Social Action Program with World Bank and other donor Agencies.
11. National Logistics Cell.
12. Administrative control of:

- (i) Economists and Planners Group; (ii) Pakistan Institute of Development Economics; and (iii) Overseas Construction Board. (iv) Omitted vide SRO 428(1)/2018 dated 04-04-2018. (v) Pakistan Planning and Management Institute (PPMI). (vi) Jawaid Azfar Computer Center (JACC).
13. The Planning, Development and Reform Division shall act as the Secretariat of the Planning Commission which is the apex planning and coordination body under the Chairmanship of the Prime Minister. The relationship between the Planning and the Planning, Development and Reform Division will be as defined in Cabinet Division's Resolution No.4-6/2006-Min.I, dated 30th October, 2013.
 14. Pakistan Environmental Planning and Architectural Consultants Limited.
 15. Preparation of annual programs in accordance with agreed priorities and to assign responsibilities for the execution of their component items.
 16. Examination and clearance of budgetary proposals for annual statistical improvements and developments.
 17. Formulation of policy regarding general statistics for Pakistan and thereof by suitably adapting the statistical system of Pakistan to conform with the policy.
 18. Coordination with the Provincial and Federal Governments, Semi-autonomous bodies and international organizations on statistical bearing directly or indirectly on such subjects as trade, industry, prices expenditure, input-output accounts, flow of funds, balance of payments, etc.
 19. Evaluation and introduction of standard concepts, definition classification pertaining to national statistics series.
 20. Preparation and implementation of in-service and foreign programs in the fields of statistics.
 21. Evaluation of efficiency computerized methods for statistical estimation.
 22. Clearance of statistical projects undertaken by different organizations on a contract basis.
 23. Preparation, printing and release of publications on national statistics.
 24. Undertaking of national census and surveys.
 25. Administration of:
 - i.** The Industrial Statistics Act, 1942.
 - ii.** General Statistics (Reorganization) Act, 2011.
 26. Agricultural Census, Population Census, National Quinquennial Livestock Census.

27. Collection, maintenance and analyses of demographic, population and vital health statistics.
28. Compilation of labour, manpower and employment statistics for national and international consumption.
29. Periodic assessment, review and analysis of manpower resources and requirements with reference to the employment situation in the country.

ATTACHED DEPARTMENT / AUTONOMOUS BODIES

- i. Pakistan Bureau of Statistics
- ii. Pakistan Planning and Management Institute.
- iii. Pakistan institute of development economics
- iv. Overseas construction board
- v. National fertilizer development center

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY-2022-23) Rs. in million	Revenue / Receipt Audited (FY 2022-23) Rs. in million
1	Formations	64	2	22,912.337	-
2	Assignment Accounts (Excluding FAP)	1	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	-	-	-	-
4	Foreign Aided Project (FAP)	-	-	-	-

29.2 Comments on Budget & Accounts (Variance Analysis)

Final budget allocated to the Planning, Development & Reform Division for the financial year 2022-23 was Rs. 32,128.29 million, out of which the Division expended an amount of Rs. 71,026.64 million. Grant-wise detail of current and development expenditure is as under:

(Rs. In million)

Grant No	Type of Grant	Original Grant	Suppl Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
-----------------	----------------------	-----------------------	--------------------	----------------------	--------------------	---------------------------	-------------------------	-------------------------------

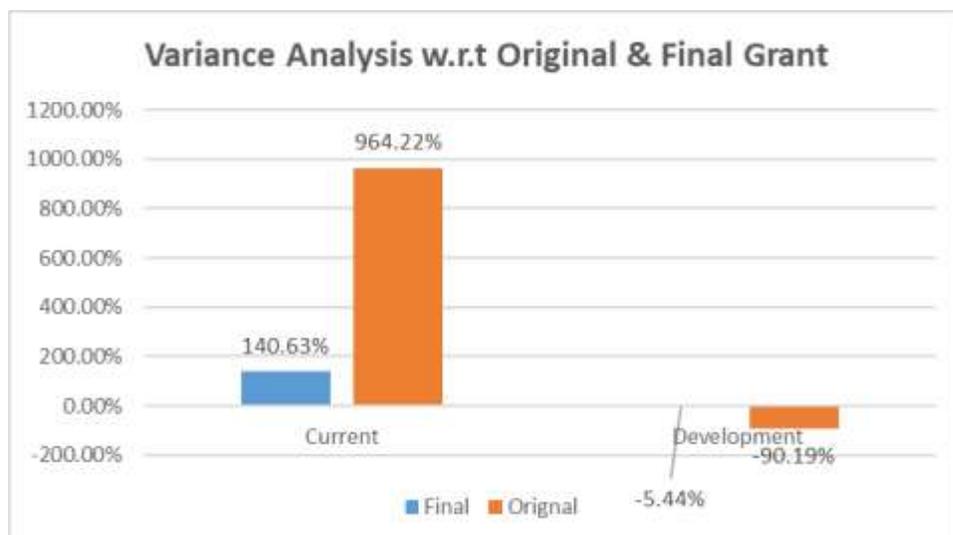
79	Current Main	6,158.76	23,000.00	-1,346.43	27,812.33	66,933.16	39,120.83	140.66%
80	Current (CPEC)	131.15	.00	-125.47	5.68	5.50	-.17	-3.06%
	Current Total	6,289.91	23,000.00	-1,471.90	27,818.00	66,938.66	39,120.66	140.63%
118	Development	41,676.54	.00	-37,366.25	4,310.29	4,087.97	-222.32	-5.44%
	Total	47,966.44	23,000.00	-38,838.15	32,128.29	71,026.64	38,898.34	121.07%

Audit noted that there was an overall excess of Rs. 38,898.34 million, which was mainly due to saving in development and current grants.

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of General Financial Rules (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, bifurcating total allocation into current and development expenditure, it was observed that, in case of development grant, there was 90.19% saving w.r.t original grant which was finally reduced to 5.44% w.r.t final grant and in case of current grant 964.22% excess was finally reduced to 140.63%.



29.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs. 8,747.63 million, were raised in this report during the current audit of **Planning And Development Division**. Summary of the audit observations classified by nature is as under:

(Rupees in million)

S. No	Classification	Amount
1	Non-production of record	
2	Reported cases of fraud, embezzlement and Misappropriation	21.794
3	Irregularities	
A	<i>HR/Employees related Irregularities</i>	14.4
B	<i>Procurement related irregularities</i>	-
C	<i>Management of account with commercial banks</i>	
D	<i>Recovery</i>	5.45
E	<i>Internal Control</i>	8,695.775
4	Value for money and service delivery	
5	Others	10.215

29.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
------------	--------------------	---------------------------------	------------	------------------------	-----------------

2012-13	12	0	0	12	-
2013-14	4	0	0	4	-
2014-15	1	1	0	1	-
2015-16	5	0	0	5	-
2016-17	8	0	0	8	-
2019-20	5	0	0	5	-
2021-22	13	0	0	13	-
Total	48	1	0	48	-

29.5 AUDIT PARAS

PAKISTAN BUREAU OF STATISTICS ISLAMABAD

29.5.1 Non-obtaining of adjustment accounts from districts administration - Rs. 8,695.775 million

Rule 668 of FTR Volume-I states that advances granted under special orders of competent authority to government officers for departmental or allied purposes may be drawn on the responsibility and receipt of the officers for whom they are sanctioned, subject to adjustment by submission of detailed accounts supported by vouchers or by refund, as may be necessary.

As per Para-207(3) of GFR Volume-I, the recipient organization is required to submit vouched accounts or audited statement of the accounts to the sanctioning authority, in order to ensure that the grant was utilized / spent for the purpose for which it was provided.

The management of Pakistan Bureau of Statistics, Islamabad paid an amount of Rs. 8,695.775 million to 157 district administrations as advance against the estimated expenditures on stationery, cost of other stores, hiring of vehicles & training/remuneration to field staff for 7th Population and Housing Census during the financial year 2022-23.

(Amount in rupees)

Sr. No.	Name of Province	Number of Districts	A03904- Hiring of vehicles	A03915- Payments to Government Departments for	Total Amount
1.	AJ&K	10	149,100,000	101,324,000	250,424,000
2.	Balochistan	34	430,500,000	352,608,000	783,108,000
3.	GB	10	51,240,000	33,690,000	84,930,000
4.	Islamabad	01	32,095,000	40,820,000	72,915,000
5.	KPK	35	642,460,000	716,639,000	1,359,099,0
6.	Punjab	37	1,882,475,000	2,257,824,000	4,140,299,0
7.	Sindh	30	928,900,000	1,076,100,000	2,005,000,0
TOTAL		157	4,116,770,000	4,579,005,000	8,695,775,0

Audit observed that neither detailed adjustment accounts were obtained from the concerned district administrations, nor the unspent amount (if any) was returned by them.

Audit is of the view that non-obtaining of detailed adjustment account(s) and non-retrieval of unspent amount (if any) from districts administrations is a violation of the treasury rules.

The management replied that Census Operation of Digital Census was conducted during March-May 2023 and process of payment to field staff was in progress till 30-06-2023 as the funds were provided to DCs on 18th March 2023 across the country. DCs were requested that the payment of field staff may be made after completion of field operation. It is further mention that 44% Remuneration charges of field staff are still pending with PBS which will be paid as and when Finance Division release funds. In this regard, District Administrations were busy in completion of other activities of this national task however, PBS has already asked to District Administration for provision of Adjustment of bills and unspent amount (if any).

The reply is not agreed to as the field operation has been completed but the adjustment accounts have not so far been received.

Audit recommends obtaining detailed adjustment accounts and retrieval of unspent amounts (if any) at the earliest.

29.5.2 Loss to public exchequer due to misplacement of 219 semi-rugged tablet devices - Rs. 21.794 million

Para-23 of GFR states that every government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

The management of Pakistan Bureau of Statistics, Islamabad procured 126,000 Semi-Rugged Tablet Devices and Data Sims (10GB Data) from NADRA to Conduct 7th Population & Housing Digital Census during the financial year 2022-23. These devices were distributed countrywide at 495 CSCs for the National Rollout of Digital Census. Consequent upon completion of National Rollout and PES a countrywide tablet retrieval activity was initiated wherein the retrieved tablet devices were handed over to PBS from 17th August to 12th October 2023 as per detail given below:

Description	Quantity
-------------	----------

Retrieved Tablets from CSCs	125,250
Lost Tablets	219
Tablets held by PBS Staff	33
Tablets held at PBS (2 nd Floor Store)	369
Tablets not collected from CSCs (5X CSCs)	96
Issued to NADRA Development Team	15
Issued to ECP	10
Engineering Section	8
Total	126,000

Audit observed as under:

- i. As per handing over/taking over report, a total of 219 semi-rugged tablet devices and Data Sims (10GB Data) amounting to Rs. 21,794,798 were reported as lost and remain unrecovered.
- ii. The Pakistan Bureau of Statistics (PBS) management did not take any substantial steps to locate and retrieve these missing tablet devices.

Audit is of the view that due to misplacement/loss of these devices the public exchequer was put to loss of Rs. 21.794 million.

The management replied that Tablets were provided across the country to approximately 126,000 field staff. Tablets are being retrieved and to date 40 Tablets instead of 219 Tablet devices, have been reported snatched, stolen against which FIRs have already been registered. Furthermore, verification process for missing Tablet Devices is under process.

The reply of the management is not acceptable as per handing over/taking over report, total 219 devices and data sims have been reported as lost.

Audit recommends inquiry to fix the responsibility besides retrieval of all missing devices.

Public Private Partnership Authority

29.5.3 Irregular Payment of Rent of Office Building Without Assessment from Pak.PWD – Rs, 10.215 million

Finance Division O.M. No. F.8(69)R.14/83/2001-452 dated 18.10.2001 states that hiring of private properties for office accommodation by the Federal Government must be supported by the following documents:

- i. Statement of space entitlement along with details of sanctioned strength of officers/officials duly approved by Works Division as per their letter No. 10(11)/71-WIII dated 17.08.1971.
- ii. Assessment Certificate issued by Pak PWD in accordance with specifications of premises.

Para 3 of Ministry of Housing and Works O.M. No. F.2(1)/2004/Policy dated 17.09.2004 states that after the decentralization of hiring of office accommodation, Ministry/Division/Department is competent to hire the private buildings for office accommodation as per prescribed scale, entitlement and the instructions issued by Ministry of Housing and Works. The Ministry/Division/Department will obtain the rent reasonability certificate from the Pak PWD in each and every case. The Pak.PWD shall ensure that the requirement of space is calculated by the Ministry/Division/Department in accordance with the prescribed scale laid down for various categories of officers/staff, etc.

The Public Private Partnership Authority, Islamabad established under Act No..III of 2017. Section 4 of PPPA, Act 2017 states that all contract entered into or rights acquired, and all matters and things engaged, to be done by with or for the Company, before the commencement of this Act shall be deemed to have been incurred, entered into, acquired or engaged to be done by, with or for the Authority, as the case may be.

The management of Public Private Partnership Authority, Islamabad took over the occupation of the building at House # 611, Street # 37, Sector E-11/3, National Police Foundation Housing Scheme, Islamabad after promulgation of PPPA Act, 2017 which was enforced on 27.03.2017. The detail of the payments made on account of rent of office building for the period 2018-21 is as under:\

Period	Amount (Rs.)
2018-19	3,506,580
2019-20	5,031,180
2020-21	1,677,151
Total	10,214,911

Audit observed that:

- i. The payment of rent of office building was made without assessment from Pak.PWD
- ii. The building was hired without observing the scales of office accommodation fixed by Ministry of Housing of Works.

Audit is of the view that hiring of building without observing the laid down instructions and assessment from Pak.PWD was irregular and unauthorized.

The management replied that an amount of Rs.5,031,180 was paid on account of rent of P3A building during 2019-20, which was situated in sector E-11, Islamabad. Further, Section 4 (b) of P3A Act 2017 as amended states that “all contracts entered into or rights acquired and all matters and things engaged to be done by, with or for the Company before the commencement of this Act shall be deemed to have been incurred, entered into, acquired or engaged to be done by, with or for the Authority as the case may be”. It is to mention that P3A was transformed from IPDF, a company under Section 42 of Companies Ordinance 1984. IPDF had entered into a contract with the owner of house for hiring of office building in E-11/3. The contract period was for the period from 2nd May 2018 to 1st May 2020. There was no need for rent assessment as building was hired prior to the establishment of P3A. The contracts signed during the IPDF regime were required to be fulfilled by the P3A under the P3A Act as stated above.

The amount of rent for the period 2019-20 has been updated as Rs. 5,031,180 instead of Rs. 10,062,360. Further, reply was not satisfactory because after promulgation of PPPA Act, 2017 which was enforced on 27.03.2017, the P3A should immediately have assessed the rent of the office building and rent of building should have been paid as per assessment report.

Audit recommends that the matter may be investigated at an appropriate level besides fixing of responsibility.

29.5.4 Dual payment for Same Period on Account of Rent of Office Building – Rs. 5.450 million

Para 23 of GFR states that every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

The management of Public Private Partnership Authority, Islamabad after establishment from Infrastructure Project Development Facility (IPDF) to Authority continued to occupy the

building and made payment on account of rent of office building of House # 611, Street # 37, Sector E-11/3, National Police Foundation Housing Scheme, Islamabad upto 30.09.2020. Later on, the said house was vacated as per documents and a new building was hired for office accommodation at Evacuee Trust Complex, 5th Floor, F-5/1, Islamabad w.e.f. 01.10.2020 and the agreement was signed with Complex management. Detail of payment of rent is as under:

Address	Period of Payment	Amount (Rs.)	Address	Period of Payment	Amount (Rs.)
House # 611, Street # 37, Sector E-11/3, Islamabad	01.10.2020 to 30.10.2021 (13 Months)	5,450,445	Evacuee Trust Complex, 5 th Floor, Sector F-5/1, Islamabad	01.10.2020 to 30.10.2021 (13 Months)	8,769,600

The audit observed that the payment of rent of office building was made against both buildings for same period constitutes financial loss to the organization.

Audit is of the view that payment of rent of both the vacated and newly hired office building for same period not only shows negligence of management but also incurs financial loss to the public exchequer.

The management replied that the payment of rent of both the vacated and newly hired office building for same period was being done because the ETPB had allocated the space to P3A, as bare grey structure, which was non-habitable, and its renovation was required to be carried out by the P3A through Pak PWD. The building structure handed over to P3A was a simple hall without flooring, ceiling, separation of rooms, electric equipment, I.T infrastructure, and basic necessities for running the office. Pak PWD required time for tender process and completion of work. P3A continued its operations from E-11 office till the completion of office at Evacuee Trust Building for continuity of official work. Stopping rent payments to either of the offices shall have entailed breach of contract and would have entailed loss to the government exchequer.

The management has accepted the audit observation.

Audit recommends that the matter may be investigated at an appropriate level besides fixing of responsibility.

29.5.5 Irregular payment of Board Meeting Attendance Fee - Rs 14.400 million

Section 25 of the Public Private Partnership Authority, Act 2017 states that the Federal Government may, by notification in official gazette and with the approval of the Board, make rules for carrying out the purposes of this Act.

Para 10(i) of GFR (Volume-I) states that every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

Section 6(1) of the Public Private Partnership Authority, Act 2017 states that there shall be a Board of Directors of the Authority comprising the following members, namely:-

- (a) Minister of Planning, Development and Reform
Chairperson
- (b) Secretary, Finance Division
Vice Chairperson
- (c) Secretary, Planning and Development and Reform Division
Member
- (d) Secretary, Board of Investment
Member
- (e) Two members from private sector nominated by the Federal Government
- (f) Chief Executive Officer
Member
- (g) Secretary Concerned Division
Co-opted Member

Section 6(2) of the Public Private Partnership Authority, Act 2017 states that the Chief Executive Officer shall also act as Secretary of the Board

Section 6(3) of the Public Private Partnership Authority, Act 2017 states that the members from the private sector shall be appointed by the Federal Government for a period of three years and shall be entitled to such terms and conditions as the Federal Government may prescribe.

A meeting of Board of Directors of Public Private Partnership Authority constituted under Section 6 of PPPA Act, 2017 was held on 25.10.2019 and under agenda No.6, the Board of Directors approved the Board Attendance Fee of Rs. 75,000 for the Board Members including Chairperson, Vice-Chairperson and Chief Executive Officer attending the Board Meetings and a fee of Rs. 50,000 for attending the Board Committee meetings, out of the PPPA Fund. This approval was applicable from the 1st BoD meeting held on 24.05.2019.

The management of Public Private Partnership Authority, Islamabad made payment of Rs.14.400 million on account of fee to Board of Directors and Board of Committee members. Details are as under:

Year	Amount (Rs.)
2018-19	225,000

2019-20	2,100,000
2020-21	5,625,000
2021-22	6,450,000
Total	14,400,000

Audit observed as under:

- i. The Board Meeting Attendance Fee was paid without approval from the Federal Government.
- ii. The Public Private Partnership Authority has not framed any rules, regulations for carrying out the purpose of PPPA Act, 2017 since its inception.
- iii. Board of Directors was not authorized to determine fee @ Rs.75,000 and Rs. 50,000 for Board meetings
- iv. Payment of Rs. 9,975,000 was made from recurring budget instead of PPPA fund.
- v. All the Board of Members were locally posted except private members

Audit is of the view that payment of fee of Board Meeting without rules and powers was irregular and unauthorized.

The management replied that sub-Section 8(1) read with sub-Section 4(g) authorizes the approval of members fee by P3A and the Board alike, therefore neither any irregularity was committed, nor any unauthorized payments have been made.

Reply was not satisfactory because Section 4(g) of the Public Private Partnership Authority, Act 2017 pertains to prescription of fee pertaining to PPPA's projects and not for board members' fee.

Audit recommends that past payment may be regularized from the Finance Division besides, discontinuation of practice till the approval of rules of Board Meeting Fees from the competent forum.

CHAPTER 30

PRIME MINISTER'S SECRETARIAT (Internal)

30.1 Introduction

The office of Prime Minister was created immediately after the establishment and the creation of Pakistan in 1947. Liaquat Ali Khan was the first Prime Minister appointed in 1947 .

The Constitution of 1973 provided the parliamentary system to Pakistan with Prime Minister as the head of government.

The Prime Minister is responsible for appointing a cabinet as well as running the government operations, taking and authorizing the executive decisions and appointments recommendations also need the executive confirmation of the Prime Minister.

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY-2022-23) Rs. in million	Revenue / Receipt Audited (FY 2022-23) Rs. in million
1	Formations	1	1	2,374.382	-
2	Assignment Accounts (Excluding FAP)	1	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	-	-	-	-
4	Foreign Aided Project (FAP)	-	-	-	-

30.2 Comments on Budget & Accounts (Variance Analysis)

The final budget allocated to the Prime Minister's Office (Internal) for the financial year 2022-23 was Rs.477.38 million, out of which the PM Office expended an amount of Rs.477.38 million. Grant-wise detail is as under:

(Rupees in million)

Grant No	Type of Grant	Original Grant	Suppl Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
10	Current	465.00	18.50	-5.67	477.84	477.38	-0.45	-0.09%

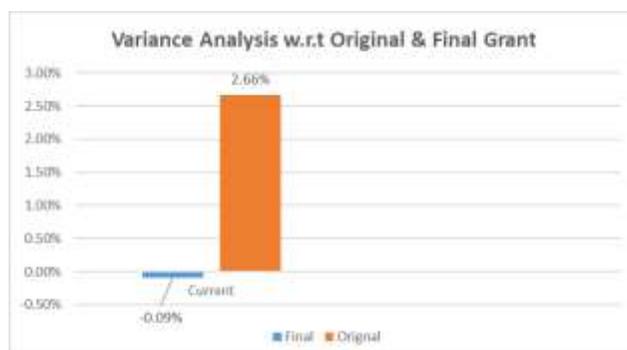
The audit noted that there was an overall saving of Rs.0.45 million in current expenditure.

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of General Financial Rules (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that

budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, it was observed that in the current grant there was 2.66% of excess w.r.t original grant which was become 0.09% saving w.r.t final grant.



30.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs. 141.52 million, were raised in this report during the current audit of **Prime Minister's Secretariat (Internal)**. Summary of the audit observations classified by nature is as under:

(Rupees in million)

S. No	Classification	Amount
1	Non-production of record	
2	Reported cases of fraud, embezzlement and Misappropriation	
3	Irregularities	
A	<i>HR/Employees related Irregularities</i>	83.705
B	<i>Procurement related irregularities</i>	7.896
C	<i>Management of account with commercial banks</i>	
D	<i>Recovery</i>	
E	<i>Internal Control</i>	49.92
4	Value for money and service delivery	
5	Others	

30.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
2018-19	1	0	0	1	-
Total	1	0	0	1	-

30.5 AUDIT PARAS

30.5.1 Irregular payment of Honorarium over and above the limits - Rs. 83.705 million

Finance Division letter No.F.1(1) Exp-II/2022-22 dated 27.01.2022 states that Prime Minister directed that no forum (Finance Division/Chairman, (ECC) will approve grant of honorarium to Federal Government employees beyond a single basic pay during one fiscal year till such time that a policy in the matter is approved by the Federal Cabinet.

The management of the Prime Minister Office (Internal), Islamabad incurred expenditure of Rs. 108,904,510 on account of payment of Honorarium to its officials/officers during 2021-23 as per following details:

Financial Year	Official/ Officers BPS-1 to 18	Officers BPS-19-20	Total Expenditure (Rs)	No. of Honoraria per year	Over and above Amount (Rs)
2021-22	40,150,280	1,646,050	41,796,330	5	33,437,064
2022-23	64,481,430	2,626,750	67,108,180	5	53,686,544
Total	104,631,710	4,272,800	108,904,510		83,705,368

Audit observed officials/officers of PMO received more than one Honorarium per year.

Audit is of the view that payment of more than one honorarium per year to the officers/officials was violation of powers delegated to Principal Accounting Officer (PAO).

The management did not reply.

Audit recommends regularization of payment of more than one Honorarium per year to the officers/officials from the Finance Division or recovery of the payment made over and above the limit prescribed by rules.

30.5.2 Irregular expenditure on official Hospitality without open competition and cash payments through DDO - Rs. 28.797 million and non-deduction of GST and Income Tax - Rs. 2.275 million

Rule 12(1) of Public Procurement Rules, 2004 states that procurements over five hundred thousand Pakistani Rupees and up to the limit of three million Pakistani Rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the Authority from

time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency.

Rule 157 of Federal Treasury Rules (FTR) states that cheques drawn in favour of Government officers and departments in settlement of Government dues shall always be crossed “A/C Payee only - Not Negotiable”.

Section 161(1)(a) of Income Tax Ordinance, 2001 states that where a person fails to collect tax or deduct tax from a payment the person shall be personally liable to pay the amount of tax to the Commissioner who may pass an order to that effect and proceed to recover the same.

The management of the Prime Minister Office (Internal), Islamabad incurred expenditure of Rs. 28,796,518 under the Head A-03996 (Official Hospitality) during 2022-23.

Audit observed that:

- i. The procurement was made without open competition.
- ii. The amount was drawn (in cash) instead of making payment(s) through cross cheques.
- iii. Invoices were not attached with the claims.
- iv. List of participants is not found on record.
- v. The income tax amounting to Rs. 1,295,843 and 1/5th GST amounting to Rs. 979,082 were not withheld. Hence, an overpayment of Rs. 2,274,925 was made to the Supplier. Detail is as under: -

S.	Cost Center	Gross Amount (Rs.)	1/5 th GST (Rs)	4.5% Income Tax (Rs.)	Net Amount (Rs.)
1	IB-0907	25,133,283	854,532	1,130,998	1,985,529
2	IB-0906	863,455	29,357	38,855	68,213
3	IB-0904	2,799,780	95,193	125,990	221,183
Total		28,796,518	979,082	1,295,843	2,274,925

Audit is of the view that procurement without open competition was irregular.

Audit is also of the view that withdrawal of amount in cash instead of crossed cheques and non-deduction of Income Tax and GST was also irregular.

The management did not reply.

Audit recommends stoppage of the irregularity, and regularization of the expenditure from the Finance Division.

30.5.3 Non-enforcement of Austerity Measures @ 15% Cut - Rs. 21.123 million

Para (iii) of Finance Division vide letter dated 27.02.2023 states that single dish in case of meals and tea & biscuits on other occasions shall be served in government events/meetings.

Para (iv) of Finance Division vide letter dated 27.02.2023 states that 15% Cut (on annualized basis) shall be applied in current expenditure (Non-ERE) of all ministries/Division/attached departments/Sub-ordinate Offices/Autonomous bodies etc.

The management of the Prime Minister Office (Internal), Islamabad incurred expenditure on specific Head of Accounts.

Audit observed that the management did not follow austerity measures regarding operational expenditure.

The management did not reply.

Audit recommends regularization of excess expenditure from the Finance Division.

30.5.4 Irregular expenditure on procurements of Drugs and Medicine without open competition Rs. 7.896 million

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

Rule 12(1) of Public Procurement Rules, 2004 states that procurements over five hundred thousand Pakistani Rupees and up to the limit of three million Pakistani Rupees shall be advertised on the Authority's website in the manner and format specified by regulation. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency.

The management of Prime Minister's Office (Internal), Islamabad (Dispensary IB-0912) incurred expenditure Rs. 7,895,680 under the Head A-03927 (Purchase of Drug and Medicine) during 2020-23.

Financial Year	Allocation (Rs)	Expenditure (Rs)	Surrender (Rs)	Savings (Rs)
2020-21	2,500,000	2,260,182	239,000	818

2021-22	2,700,000	2,684,793	15,000	207
2022-23	3,500,000	2,950,705	6,000	43,295
Total	8,700,000	7,895,680	260,000	44,320

The audit observed that the procurements were made without open competition.

Audit is of the view that non-obtaining of competitive rates through annual tendering is violation of Public Procurement Rules, 2004 leading to mis-procurement.

The department did not reply.

Audit recommends stoppage of irregularity and regularization of expenditure from the Finance Division.

CHAPTER 31

MINISTRY OF RELIGIOUS AFFAIRS AND INTERFAITH HARMONY

31.1 Introduction

As per Schedule II [Rule 3 (3)] Distribution of Business among the Divisions read with Schedule III [rule-4(4)] Rules of Business 1973 following main business have been assigned to the Division amongst the other functions.

1. Pilgrimage beyond Pakistan; Muslim pilgrims' visits to India.
2. Ziarat and Umra and Welfare and safety of pilgrims and Zairian.
3. Islamic studies and research including holding of seminars, conferences, etc., on related subjects.
4. Training and education of Ulemas and Khatibs etc.
5. Error-free and exact printing and publishing of the Holy Quran.
6. Exchange of visits of scholars.
7. Ruet-e-Hilal.
8. Tabligh.
9. Observance of Islamic Moral Standards.
10. Donations for religious purposes and propagation of Islamic Ideology abroad.
11. Marriage and divorce, infants and minor's adoption.
12. Policy and legislation with regard to interfaith harmony.
13. International agreements and commitments in respect of all religious communities and implementation thereof.
14. Representation of Pakistan at UN Sub-Commission on Prevention of Discrimination to Minorities.

ATTACHED DEPARTMENTS / AUTONOMOUS BODIES

- i. Hajj and Umrah Directorate (06) subordinate offices.
- ii. Council of Islamic Ideology.
- iii. Pakistan Madrassah Education Board.
- iv. Evacuee Trust Property Board.

v. National Commission for Minorities.

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY-2022-23) Rs. in million	Revenue / Receipt Audited (FY 2022-23) Rs. in million
1	Formations	10	2	6,463.594	
2	Assignment Accounts (Excluding FAP)	-	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	33	4	84.875	-
4	Foreign Aided Project (FAP)	-	-	-	-

31.2 Comments on Budget & Accounts (Variance Analysis)

The final budget allocated to the Religious Affairs And Interfaith Harmony Division for the financial year 2022-23 was Rs.1,270.61 million, however the Division expended an amount of Rs.1,309.61 million. Grant-wise detail of current and development expenditure is as under:

(Rs. In million)

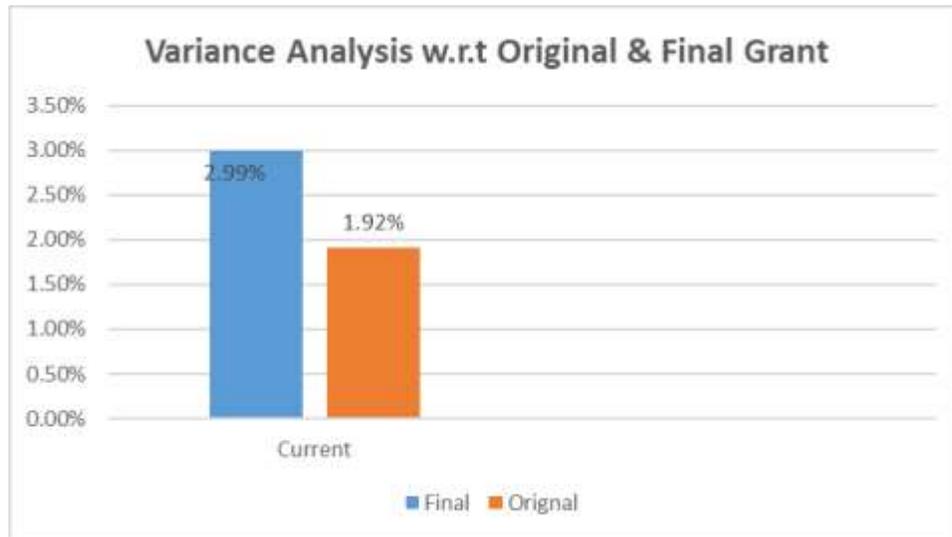
Grant No	Type of Grant	Original Grant	Suppl Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
86	Current	1,285.00	.00	-14.58	1,270.42	1,309.61	39.19	2.99%

Audit noted that there was an overall excess of Rs.39.19 million in current grants.

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of General Financial Rules (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, it was observed that under the current grant there was 1.92% of excess w.r.t original grant which increased to 2.99% excess w.r.t final grant.



31.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs. 2916 million, were raised in this report during the current audit of **Ministry Of Religious Affairs And Interfaith Harmony**. Summary of the audit observations classified by nature is as under:

(Rupees in million)

S. No	Classification	Amount
1	Non-production of record	
2	Reported cases of fraud, embezzlement and Misappropriation	
3	Irregularities	
A	<i>HR/Employees related Irregularities</i>	
B	<i>Procurement related irregularities</i>	
C	<i>Management of account with commercial banks</i>	
D	<i>Recovery</i>	2916
E	<i>Internal Control</i>	
4	Value for money and service delivery	
5	Others	

31.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
2010-11	2	1	1	1	100
2011-12	4	0	0	4	-
2012-13	6	0	0	6	-
2013-14	7	6	1	6	17
2014-15	4	4	2	2	50
2015-16	25	0	0	25	-

2016-17	11	4	1	10	25
2018-19	12	0	0	12	-
2019-20	12	12	0	12	-
2020-21	20	0	0	20	-
2021-22	2	0	0	2	-
2022-23	13	0	0	13	-
Total	118	27	5	113	-

31.5 AUDIT PARAS

Ministry of Religious Affairs and Interfaith Harmony

31.5.1 Non-deposit of rent/receipts collected into Federal Consolidated Fund - Rs. 96.741 million

As per Rule 7(1) of Federal Treasury Rules (FTR) all moneys received by or tendered to Government officers on account of the revenues of the Federal Government shall, without undue delay, be paid in full into a treasury and shall not be appropriated to meet departmental expenditure, nor otherwise kept apart from the Federal Consolidated Fund (FCF) of the Federal Government.

The management of Ministry of Religious Affairs and Interfaith Harmony (Main Secretariat), Islamabad received rent and receipts amounting to Rs. 96.741 million during 2021-22, as per detail below:

Date	Received from	Receipt Description	Amount (Rs.)
30.06.2021	ICT - Police	Rent of Building	2,205,000
14.07.2021	Ripha University	Rent of Building	22,052,835
14.07.2021	Ripha University	Rent of Building	14,701,890
31.05.2022	Ripha University	Rent of Building	50,018,174
31.05.2022	Ripha University	Rent of Building	456,000
02.07.2021	M/s Hotline Travels - HGO	Penalty	500,000
03.09.2021	HGOs - through NBP	Co. Name/Address change	190,000
17.09.2021	HGOs - through NBP	Co. Name/Address change	25,000
29.12.2021	HGOs - through NBP	Co. Name/Address change (25)	635,000
18.02.2022	HGOs - through NBP	Co. Name/Address change (18)	395,000
24.02.2022	M/s Sanofi Aventis Pakistan Ltd	Penalty - vaccine	4,617,000
08.03.2022	HGOs - through NBP	Co. Name/Address change (5)	25,000
15.03.2022	HGOs - through NBP	Co. Name/Address change (11)	245,000
31.03.2022	HGOs - through NBP	Co. Name/Address change (10)	240,000
08.04.2022	HGOs - through NBP	Co. Name/Address change (12)	270,000
25.04.2022	HGOs - through NBP	Co. Name/Address change (14)	70,000
07.03.2022	Pharmaceutical firms	Purchase of tender documents	25,000
25.04.2022	Pharmaceutical firms	Purchase of tender documents	70,000
TOTAL			96,740,899

Audit observed that the management did not deposit rent and receipts into Federal Consolidated Fund (FCF).

Audit is of the view that non-deposit of rent and receipts into FCF is a violation of provisions of FTRs, thus the management's action is held irregular and unauthorized. Furthermore, the government was deprived of its due receipts.

The management did not reply till finalization of the report.

Audit recommends discontinuation of irregular practice of non-deposit of rent and receipts collected into FCF immediately.

Evacuee Trust Property Board, Lahore

31.5.2 Non-Assessment of Evacuee Trust Properties

Section 4(2)(f) of the Evacuee Trust Properties (Management & Disposal) Act, 1975 empowers the Board to assess or reassess the rent or lease amount of the evacuee trust property.

The Supreme Court of Pakistan vide order dated 08-09-2022 decided appeals of some tenants who filed writ petition against Assessment/ Re-assessment in the Scheme 1977. The operative part of the judgment of Supreme Court of Pakistan is as under:

“The respondents are however directed to make a reassessment of the rent in accordance with law. We have been informed that the law provides for reassessment every three years. As soon as the period of three years expires after rent dues in accordance with the law after hearing all concerned parties including the petitioner. The learned counsel for the petitioner on instructions submits that as far as arrears are concerned, the petitioners are ready and willing to pay the same provided reasonable installments are allowed to them to clear their dues. In case, the amount of arrears has been finalized, the petitioners may approach the Department with a reasonable proposal regarding payment of dues in installments and if such application is made the department shall consider the same sympathetically and decide it in accordance with law.”

Audit observed as under:

- i. The ETP Board in 348th meeting held on 27.09.2022 directed to implement the order of the Supreme Court of Pakistan.
- ii. Standard Operating Procedures (SOPs) for assessment / re-assessment were formulated by ETPB Headquarter for implementation.

- iii. The ETPB Headquarter stopped the implementation of the SOPs on the objection raised by the Administrator Faisalabad Zone and Deputy Administrator Lahore-I.

Audit is of the view that the directions of the Supreme Court were very clear and the delay in implementation thereof is undue favour to the tenants.

The management did not reply.

Audit recommends that directions of the Supreme Court of Pakistan may be implemented in letter and spirit besides fixing the responsibility of delay in assessment / re-assessment on the persons at fault.

31.5.3 Non-recovery of rent/ lease money from defaulters - Rs. 1,701 million

Section 4(2)(q) of the Evacuee Trust Properties (Management and Disposal) Act, (No. XIII) 1975 states that the function of the Board shall be to exercise financial and administrative control over offices attached to or under it.

Evacuee Trust Properties Board (ETPB) record revealed that an amount of Rs. 1,701.05 million was recoverable from the tenants/ lessees as per following detail:

S.No.	ETPB-District	Arrears (Rs. in million)
1.	Lahore-I	224.62
2.	Peshawar	118.73
3.	Rawalpindi	79.91
4.	Sukkur	189.31
5.	Karachi (U)	186.82
6.	Karachi (R)	95.58
7.	Hassanabdal	34.38
8.	Lahore-II	64.62
9.	Multan	77.08
10.	Jhang	43.17
11.	Sahiwal	37.05
12.	Layyah	86.47
13.	Sialkot	42.34
14.	Hyderabad	79.73
15.	Sargodha	45.35
16.	Gujrat	102.40
17.	Bannu	39.65
18.	Bhakkar	11.06
19.	Gujranwala	27.05
20.	Faisalabad	42.68
21.	Sheikhupura	10.53

22.	Okara	9.99
23.	Quetta	10.95
24.	Kasur	12.30
25.	Nankana Sahib	21.17
26.	Bahawalpur	8.11
	Total:	1701.05

The audit observed that the management did not take corrective steps to recover the outstanding rent.

Audit is of the view that non recovery of dues had deprived the Board of a legitimate share of income.

The management did not reply.

Audit recommends recovery of outstanding rent.

31.5.4 Non-recovery of arrears from defaulters of ETPB Islamabad - Rs.81.013 million

Clause 3-(i) (a) of as per Amended Scheme for the Management & Disposal of Urban Evacuee Trust Properties, 1977 provides that the tenant shall pay the monthly rent in advance by the 10 of each month and in case of annual lease, the lease money shall be paid by the 10 of the first month of the lease year. In case of default in payment by the above said due date, surcharge @ 10% shall be charged.

The ETPB rented out office space of GT Tower and ET Complex Islamabad to various Ministries/ Divisions and private companies. Rent of office building amounting to Rs. 81,012,788 was outstanding against the following defaulters/lessees of ETPB properties up to 30.06.2023:

Amount in Rupees

Sr. No.	Name of Ministry/ Govt. Department	Period		Outstanding Amount	Received Amount	Amount of Arrears
		From	To			
1	Pakistan Credit Guarantee	01.10.2014	30.06.2019	18,119,056	13,257,879	4,861,177
2	Govt. of Balochistan	15.11.2020	14.11.2023	5,840,327	1421805	4,418,522
3	Federal Board of Revenue	15.01.2021	14.01.2024	6,728,940	2,821,097	3,907,843
4	Hafiz Ahsaan Ahmed & Law Associates	19.08.2022	18.08.2025	1,001,000	0	1,001,000
5	Federal Board of Revenue	15.01.2021	14.01.2024	7,225,200	4,094,280	3,130,920
6	M/O Information Tech.	01.03.2021	28.02.2024	2,091,534	0	2,091,534
7	Federal Board of Revenue (AEIO Zone)	01.01.2022	31.12.2024	9,907,650	3,508,962	6,398,688
8	Poverty Alleviation	05.02.2020	04.02.2023	88,637,737	37,187,465	51,450,272
9	NCRC	01.09.2020	31.08.2023	7,192,032	3,439,200	3,752,832
Grand Total						81,012,788

Audit observed that Evacuee Trust Property Board did not recover the outstanding rent of Rs.81,012,788 up to 30.06.2023 from above said Federal Ministries/Government Departments located at GT Tower and ET Complex Islamabad.

Audit is of the view that due to negligence of the management of Evacuee Trust Property, Lahore the Government/Board was deprived of the due share of income from properties.

The management did not reply.

Audit recommends recovery of the outstanding rent from the tenants.

31.5.5 Non-completion of geo-mapping of ETP properties

Section 4(1) of the Evacuee Trust Properties (Management and Disposal) Act, (No. XIII) 1975 states that general supervision and control of all evacuee trust shall, subject to any directions that may be given by the Federal Government, vest in the Board, and Board shall take such action as it deems fit for the proper management, maintenance, and disposal of such property in accordance with provisions of this Act and the rules, scheme or directions made or issued there under.

ETPB in its 331st Board meeting held on 30-09-2020 approved the proposal of Surveyor General of Pakistan amounting to Rs. 28 million for the geo-mapping of ET properties with completion period of 06 months. A contract agreement for execution of the project was signed on 19-10-2020 between ETPB & Survey of Pakistan.

Audit observed as under:

- i. The implementation period of the project in the contract was mentioned one year in contradiction to the time allowed by the Board of 06 months.
- ii. Despite making payment of Rs. 28 million to the Survey of Pakistan, as approved by the Board in its 340th meeting, the task could not be completed till today.
- iii. Being part of the contract, an android application was also developed to take pictures and location of the property but no progress on its implementation was on record.

Audit is of the view that (i) signing of contract agreement for a period of one year in contradiction to the directions of the Board; (ii) clearance of full payment of contract amount without completion of the task; (iii) non implementation of the Android application to attach the image and location of the property is gross negligence on part of the management.

The management did not reply.

Audit recommends that the process may be completed as per the agreement signed, especially implementation of the Android application to attach the image and location of the property.

31.5.6 Inefficiency causing increase in encroachments despite SUPARCO reports through satellite imagery

Section 4(1) of the Evacuee Trust Properties (Management and Disposal) Act, (No. XIII) 1975 states that general supervision and control of all evacuee trust shall, subject to any directions that may be given by the Federal Government, vest in the Board, and Board shall take such action as it deems fit for the proper management, maintenance, and disposal of such property in accordance with provisions of this Act and the rules, scheme or directions made or issued there under.

Clause 2(i) of Scheme of Removal of Encroachments and Demolition of unauthorized structures on the Evacuee Trust Property, 1983 provides that the Chairman, an Administrator, a Deputy Administrator or an Assistant Administrator hereinafter referred to as the unauthorized officer, may order the removal of any encroachment made on or over an Evacuee Trust Property and may also order the demolition of unauthorized structures thereon, whether temporary or permanent”.

ETPB in its 346th Board meeting approved the proposal of SUPARCO for satellite-based monitoring of ET assets on a quarterly basis for efficient management of ET Properties for Rs. 170.90 million. Accordingly, an agreement was signed with SUPARCO on 12-08-2022 for implementation of the project.

Audit observed as under:

- i. On implementation of the Satellite monitoring by SUPARCO the encroachments were reduced from 57.1466 Acres (in first quarter December 2022 to February 2023) to 7.008 Acres (in second quarter March to May 2023) i.e. reduced by 82 %.
- ii. The encroachment was again increased to 12.4817 Acres in the third quarter from June to September 2023.
- iii. Actions taken by management on the encroachments reported by SUPARCO were not forthcoming from the record.

Audit is of the view lack of action by ETPB and concerned District Administrator on the encroachment reported by satellite imagery is gross negligence on part of the management.

The management did not reply.

Audit recommends that responsibility may be fixed for non-removal of encroachments as reported by satellite imagery.

31.5.7 Non recovery of arrear of lease money from the occupants of Agriculture land - Rs. 101.481 million

Section 24 of the Evacuee Trust Property Board Act, 1975 is reproduced as under:

Any sum due to the Board in respect of any Evacuee Trust Property, which is not paid within thirty (30) days of its having become due, shall be recoverable as arrears of land revenue.

Clause 14 of Scheme for the Lease of Evacuee Trust Agriculture Land, 1975 is reproduced as under:

“The full lease money for the first year shall be payable by the lessee in advance and for subsequent years by the 31st of January every year. In case of auction the lease money shall be payable at the fall of hammer and for each subsequent year payable in advance by 31st of January”.

The management of the ETPB leased out agriculture land in different districts to different farmers for agriculture purposes. Details are as under:

(Rupees)

Sr.#	District	Arrear upto June, 2023
1.	Bahawalpur	179,584
2.	Bannu/D.I.Khan	962,012
3.	Bhakkar	1,645,637
4.	Faisalabad	4,268,221
5.	Gujranwala	8,184,724
6.	Gujrat	1,685,737
7.	Hassanabdal	12,404,073
8.	Hyderabad	325,198
9.	Jhang	8,118,021
10.	Kasur	20,371,428
11.	Multan	2,105,601
12.	Okara	2,225,649
13.	Peshawar	32,500,058
14.	Rawalpindi	4,468,241
15.	Sargodha	92,465
16.	Sialkot	1,674,849
17.	Sukkur	270,114
	Total	101,481,612

Audit observed that the management neither extended the lease period nor recovered the rent amounting to Rs.101,481,612 for the period after the expiry of the previous lease.

Audit is of the view that due to non-recovery the Trust Fund was put to loss.

The management did not reply.

Audit recommends recovery of the outstanding lease money.

31.5.8 Irregular lease of land of 234 Acres to a single lessee

Section 7 (f)&(g) of the Evacuee Trust Properties (Management & Disposal) Act 1975 provides constitution of Trust Pool including (f) all profits and income received or derived from any evacuee trust property (g) all rents, and other amounts received, realized or recoverable in respect of evacuee trust property.

Clause 3 of the Scheme for the lease of Evacuee Trust Agricultural Land, 1975 states that:

(1) the lease of the land in rural areas shall be given to the following:

i. The Cultivator.

ii. The J&K refugees/ allottee/ lessee.

(2) The proposed lessee under sub-para (1) above may be allowed to retain land upto a maximum of 12 ½ acres provided he:

i. Does not own more than 4 ½ acres of agricultural land: or

ii. Who has no tenancy right of 12 ½ acres or more anywhere.

Clause 12(5) of the Scheme for lease of Evacuee Trust Agricultural Land, 1975 states that no person can bid and take on lease rural agricultural land in excess of 12 ½ acres, urban agricultural land in excess of six acres and Banjar land in excess of economic holding with marginal adjustments.

The Chairman ETPB approved to lease agricultural land measuring 234 acres to M/s Pakistan International Agricultural Services (PIAS) (Pvt) Ltd, Lahore @ Rs. 43,000 per acre per annum.

Audit observed as under:

- i. The lease of 234 acres land was offered in violation of the Scheme for the lease of Agricultural Land, 1975.
- ii. The ETP Board approved allowing PMU to lease out the land and retain income derived therefrom in violation of the ETPB Act.

Audit is of the view that lease of 234 acres of agriculture land to a single party is violation of the Scheme 1975. Further giving control over the land to the PMU and receiving the income derived therefrom is irregular.

The management did not reply.

Audit recommends inquiry to fix the responsibility besides deposit of already received income into Trust Pool.

31.5.9 Loss due to non-recovery of rent from tenant of commercial property measuring 15 kanals 12 marla at Bela Basti Ram, Lahore – Rs. 924.551 million

Section 24 of the Evacuee Trust Properties (Management & Disposal) Act, 1975 states that any sum due to the Board in respect of any evacuee trust property which is not paid within thirty days of its having become due, shall be recoverable as an arrears of land revenue.

Evacuee Trust Property measuring 15 kanal 12 marlas 189 Sq.ft situated at Bela Basti Ram, Lahore was leased out to Mr. Amir Abdullah Khan Rokhari for period of 33 years on 26-07-1966 extendable for a further period of 99 years. The lease period was extended w.e.f. 30-07-1999 to 29-07-2032 in favour of Mst. Zeenat Amir Khan Rokhri widow of Amir Abdullah Khan Rokhari (late).

The amount of Rs. 924,551,383 was outstanding against the lessee as on 30-08-2023. The detail of arrear is

From	To	No of Months	Monthly Rent	Total Rent	Annual Increase
01.08.1999	30.06.2002	35	1,094,940	38,322,900	
01.07.2002	30.06.2005	36	1,423,422	51,243,192	30 % Increased
01.07.2005	30.06.2006	12	1,850,449	22,205,383	30 % Increased
01.07.2006	30.06.2007	12	1,998,484	23,981,814	8 % Increased
01.07.2007	30.06.2008	12	2,158,363	25,900,359	8 % Increased
01.07.2008	30.06.2009	12	2,331,032	27,972,388	8 % Increased
01.07.2009	30.06.2010	12	2,517,515	30,210,179	8 % Increased
01.07.2010	30.06.2011	12	2,718,916	32,626,993	8 % Increased
01.07.2011	30.06.2012	12	2,936,429	35,237,152	8 % Increased
01.07.2012	30.06.2013	12	3,171,344	38,056,125	8 % Increased
01.07.2013	30.06.2014	12	3,425,051	41,100,615	8 % Increased
01.07.2014	30.06.2015	12	3,699,055	44,388,664	8 % Increased

01.07.2015	30.06.2016	12	3,994,980	47,939,757	8 % Increased
01.07.2016	30.06.2017	12	4,314,578	51,774,937	8 % Increased
01.07.2017	30.06.2018	12	4,659,744	55,916,932	8 % Increased
01.07.2018	30.06.2019	12	5,032,524	60,390,287	8 % Increased
01.07.2019	30.06.2020	12	5,435,126	65,221,510	8 % Increased
01.07.2020	30.06.2021	12	5,869,936	70,439,231	8 % Increased
01.07.2021	30.06.2022	12	6,339,531	76,074,369	8 % Increased
01.07.2022	30.06.2023	12	6,846,693	82,160,319	8 % Increased
01.07.2023	30.08.2023	2	7,394,429	14,788,857	8 % Increased
Total payable				935,951,963	
Amount paid by lessee				11,400,580	
Outstanding amount				924,551,383	

Audit observed that ETP did not recover the outstanding rent of Rs.924.551 million from the tenant.

Audit is of the view that due to non-recovery of lease money, the ETPB was deprived of its due revenue of Rs. 924.551 million.

The management did not reply.

Audit recommends that recovery of outstanding lease money may be made and verified from audit.

31.5.10 Non-recovery of monthly rent from Dr. AQ Khan Hospital Trust – Rs. 11.214 million

Section 4(1) of the Evacuee Trust Properties (Management and Disposal) Act, (No. XIII) 1975 states that general supervision and control of all evacuee trust shall, subject to any directions that may be given by the Federal Government, vest in the Board, and Board shall take such action as it deems fit for the proper management, maintenance, and disposal of such property in accordance with provisions of this Act and the rules, scheme or directions made or issued there under.

ETPB entered into an agreement with Dr. A.Q.Khan Hospital Trust and lease out land measuring 15 kanals 3 marlas for a period of 30 years with the construction period of 03 years. Rent after construction due as per agreement (50% of rate of category B of Clause 18-B) was as under:

Floor	Covered Area	Rate	Rent per month
Basement	28796	1	28796

Lower Ground Floor	28796	2.25	64791
Upper Ground Floor	30059	2.25	67632.75
First Floor	28116	1.5	42174
Second Floor	28068	1	28068
Third Floor	29835	0.5	14917.5
Mumty	4837	0.5	2418.5
Total	178507		248797.75

Monthly rent amounting to Rs. 11,214,162 was recoverable with 8% annual increase from the Hospital Trust as detailed below:

Period	Rent	Amount (Rs)
11-04-2020 to 30-06-2020	248798 x 3	746,394
01-07-2020 to 30-06-2021	268702x12	3,224,424
01-07-2021 to 30-06-2022	290,198 x 12	3,482,376
01-07-2022 to 30-06-2023	313,414 x 12	3,760,968
	Total:	11,214,162

Audit observed that the monthly rent amounting to Rs. 11,214,162 was not being recovered with an 8% annual increase from the Hospital Trust.

Audit is of the view that non-recovery of the monthly rent has deprived ETPB of its due receipt.

The management did not reply.

Audit recommends recovery of outstanding rent from the lessee.

31.5.11 Non-establishment of Pension Fund

Para 16(1) of Evacuee Trust Property Board (Pension) Regulations requires that there shall be a fund consisting of contribution made by the Board to be called the Trust Property Pension Fund out of which all pension and gratuities shall be payable to its employees.

The management of ETPB Lahore made payment on account of Pension during the financial year 2019-23 as under:

Year	Allocation Rs. million		Payment Rs. million	
	Gratuity	Pension	Gratuity	Pension
2019-20	50.030	161.168	42.991	158.995
2020-21	27.546	184.951	22.223	176.690
2021-22	30.350	194.861	29.810	194.225
2022-23	93.000	247.413	92.955	247.198
Total	200.926	788.393	187.979	777.108

Audit observed as under:

- i. The management did not create a Pension Fund to deposit the amount of monthly contribution of the employees.
- ii. The management got approved its annual budget for pension from the ministry and made payments there against.
- iii. The controlling Ministry and FA Organization did not pinpoint the irregularity since the approval of Pension Rules in 1979 up to 2023.

Audit is of the view that the payment of pension through budget allocation was a violation of the approved Pension Rules.

The management did not reply.

Audit recommends creation of Pension Fund by calculating the monthly contribution from 1979 to 2023 and deducting the yearly amount of pension paid. Further payment should be made from the Pension Fund.

CHAPTER 32

MINISTRY OF SCIENCE AND TECHNOLOGY

32.1 Introduction

As per Schedule II [Rule 3 (3)] Distribution of Business among the Divisions read with Schedule III [rule-4(4)] Rules of Business 1973 (As amended up to 23rd April, 2019) following main business have been assigned to the Division amongst the other functions.

10. Establishment of science cities.
11. Establishment of institutes and laboratories for research and development in the scientific and technological fields.
12. Establishment of science universities as specifically assigned by the Federal Government.
13. Planning, coordination, promotion and development of science and technology monitoring and evaluation of research and development works, including scrutiny of development projects and coordination of development programs in this field.
14. Promotion of applied research and utilization of results of research in the scientific and technological fields carried out at home and abroad.
15. Guidance to the research institutions in the Federation as well as the provinces in the fields of applied scientific and technological research.

16. Coordination of utilization of manpower for scientific and technological research.
17. Promotion and development of industrial technology.
18. Promotion of scientific and technological contacts and liaison nationally and internationally, including dealings and agreements with other countries and international organizations.
19. Initiate promotional measures for establishment of venture capital companies for technological development and growth.
20. Support to NGOs concerned with development of science and technology.
21. Promotion of metrology Standards, Testing and Quality Assurance System.

ATTACHED DEPARTMENTS / AUTONOMOUS BODIES

- iv. National Commission for Science and Technology.
- v. Pakistan Council of Scientific and Industrial Research.
- vi. Council for Works and Housing Research.
- vii. Pakistan Science Foundation.
- viii. National Institute of Electronics.
- ix. Pakistan Council of Science and Technology.
- x. National Institute of Oceanography.
- xi. STEDEC Technology Commercialization Corporation of Pakistan (Private) Limited.
- xii. National University of Sciences and Technology.
- xiii. Pakistan Standards and Quality Control Authority (PSQCA).
- xiv. Prescription of standards and measures for quality control of manufactured goods.
- xv. Establishment of standards of weights and measures.
- xvi. Development, deployment and demonstration of renewable sources of energy.
- xvii. Pakistan National Accreditation Council (PNAC).
- xviii. Pakistan Council of Renewable Energy Technologies (PCRET).
- xix. COMSATS Institute of Information Technology.
- xx. Pakistan Engineering Council (PEC).
- xxi. Pakistan Halal Authority.

xxii. National University of Science & Technology.

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY-2022-23) Rs. in million	Revenue / Receipt Audited (FY 2022-23) Rs. in million
1	Formations	80	4	969.001	10,857.036
2	Assignment Accounts (Excluding FAP)	9	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	41	10	11,879.933	-
4	Foreign Aided Project (FAP)	-	-	-	-

32.2 Comments on Budget & Accounts (Variance Analysis)

Final budget allocated to the Science and Technology Division for the financial year 2022-23 was Rs. 14,820.30 million, out of which the Division expended an amount of Rs. 14801.85 million. Grant-wise detail of current and development expenditure is as under:

(Rs. In million)

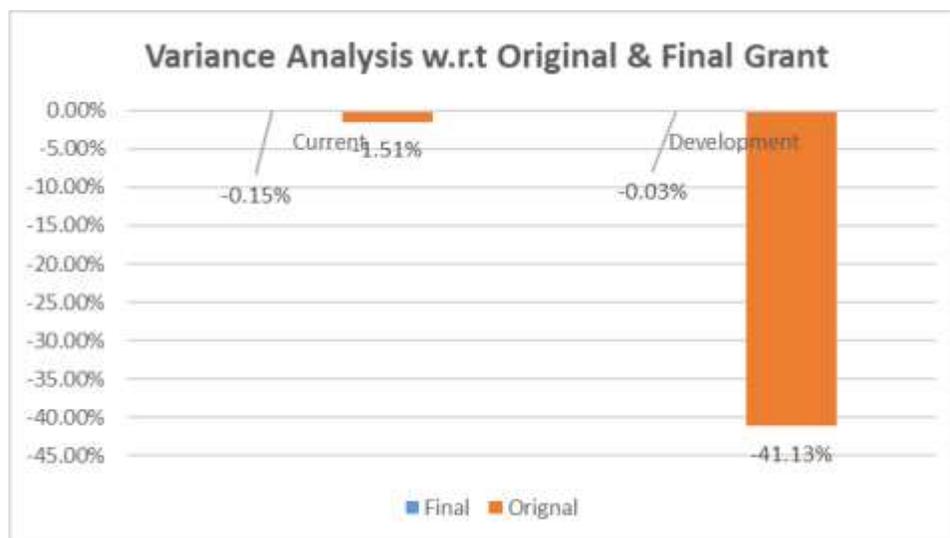
Grant No	Type of Grant	Original Grant	Suppl Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
87	Current	11,611.63	.00	-157.78	11,453.84	11,436.55	-17.29	-0.15%
120	Development	5,716.39	.00	-2,349.93	3,366.46	3,365.31	-1.15	-0.03%
	Total	17,328.02	.00	-2,507.72	14,820.30	14,801.85	-18.45	-0.12%

Audit noted that there was an overall savings of Rs.65.38 million, which was mainly due to saving in current grant.

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of General Financial Rules (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, bifurcating total allocation into current and development expenditure, it was observed that, in case of development grant, there was 41.13% of saving w.r.t original grant which was finally reduced to 0.03% w.r.t final grant and in case of current grant 1.51% saving was finally reduced to 0.15%.



32.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs. 8,271.657 million, were raised in this report during the current audit of **Ministry Of Science And Technology**. Summary of the audit observations classified by nature is as under:

(Rupees in million)

S. No	Classification	Amount
1	Non-production of record	748.378
2	Reported cases of fraud, embezzlement and Misappropriation	1185.786
3	Irregularities	
A	<i>HR/Employees related Irregularities</i>	245.575
B	<i>Procurement related irregularities</i>	11.798
C	<i>Management of account with commercial banks</i>	4242.69
D	<i>Recovery</i>	837.73
E	<i>Internal Control</i>	-
4	Value for money and service delivery	
5	Others	1,000

32.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
2010-11	5	5	3	2	60
2011-12	3	3	0	3	-
2012-13	6	0	0	6	-
2013-14	3	3	2	1	67
2014-15	5	0	0	5	-
2015-16	2	2	0	2	-
2016-17	24	18	0	24	-
2017-18	2	2	2	0	100
2018-19	3	3	2	1	67
2019-20	18	8	0	18	-
2020-21	12	0	0	12	-
2021-22	17	0	0	17	-
2022-23	15	0	0	15	-
Total	115	44	9	106	-

32.5 AUDIT PARAS

Ministry of Science and Technology

32.5.1 Recovery on account of outstanding utility charges from government departments – Rs 20.989 million

Para 3(j) of the standard lease agreement states that the tenant shall pay all utility bills on account of electricity, Gas, telephone and internet charges to the respective agencies consumed within the premises as per their independent meter reading.

The MoST Complex houses five (5) organizations, including PNAC, PHA, ECO-SF & M/o PD&SI, and CPEC at the Ground, 1st and 5th Floors on rental basis. The Ministry of Science & Technology being owner of the building, paid an amount of Rs 21.424 million on account of electricity & gas charges during 2021-22. The management of MoST provided a list of outstanding utility charges against its occupants/tenants as detailed below:

Sr	Department	Electricity Charges		Gas Charges		Grand Total
		2021-22	Accumulated Dues	2021-22	Accumulated Dues	
1	M/o PD&SI	5,423,161	12,355,568	1,160,869	447,343	12,802,911
2	ECO-SF	774,750	2,365,284	165,839	638,906	3,004,190
3	PNAC	1,554,007	2,626,584	663,353	2,555,624	5,182,208

	Total	7,751,918	17,347,436	1,990,061	3,641,873	20,989,309
--	--------------	------------------	-------------------	------------------	------------------	-------------------

The audit observed that the management of MoST was continuously paying electricity charges for the whole building and failed to recover outstanding share amounting to Rs 17.347 against its tenants.

Audit is of the view that expenditure on accounts of electricity charges on behalf of other departments was unauthorized.

The management did not reply.

Audit recommends recovery of outstanding dues besides discontinuation of irregular practice.

32.5.2 Illegal occupation and recovery of outstanding rent from tenant – Rs 71.152 million

Para 2 of the lease agreement between Ministry of Science & Technology and M/o Planning and Development dated July, 2016 states that the ministry will charge monthly rent @Rs 20/ sq.ft (Rs25 with HVAC) for allocated 30,739.6 sq/ft totaling Rs 768,490 per month with annual increase of 10%.

The management of the Ministry of Science & Technology allocated space of its building (i.e. MoST Complex) to M/o Planning and Development at monthly rent of Rs 768,490. Detail of total outstanding rent was as under:

Sr	Period	Monthly rent @10% yearly increase	Yearly Rent
1	01.08.2016 to 31.07.2017	768,490	9,221,880
2	01.08.2017 to 31.07.2018	845,339	10,144,068
3	01.08.2018 to 31.07.2019	929,873	11,158,475
4	01.08.2019 to 31.07.2020	1,022,860	12,274,322
5	01.08.2020 to 31.07.2021	1,125,146	13,501,755
6	01.08.2021 to 31.07.2022	1,237,661	14,851,930
	Total		71,152,430

Audit observed as under:

- i. The Ministry of Science and Technology did not recover the outstanding rent of Rs.71.152 million from Ministry of Planning and Development.

- ii. The lease agreement expired on 31.07.2019 and revised lease agreement was not executed by the Ministry.

Audit is of the view that non-recovery of rent was a lapse on the part of management.

Further, further is of the view that the building was illegally occupied by M/o P&D without lease agreement.

The management failed to reply.

Audit recommends recovery of the outstanding rent.

Pakistan Standards and Quality Control Authority Karachi

32.5.3 Un-authorized withdrawal/transfer of funds from main revenue account of PSQCA for investment - Rs. 1,000 million

Finance Division's vide O.M. No. F.4(1) NTR/2002-666/2022 dated 18.05.2022 withdrawn instruction/policy issued by Finance Division vide OM No.F.4(1)/2002- BR-II dated 02.07.2003, 06.09.2004, 22.09.2005 and 23.12.2014 regarding deposit of working balance and investment of surplus funds belonging to public sector entities and local/autonomous bodies under federal Government and promulgated Public Finance Management Act 2019.

Section 23(2) of Public Finance Management Act 2019 states that "no authority shall transfer public moneys for investment or deposit from government account including assignment account to other bank account without prior approval from the Federal Government". As per section 45 of the above act, it has overriding effect over all other laws and any law inconsistent with this act.

The management of PSQCA withdrawn/transferred funds amounting to Rs.1000 million from Main Revenue Account (No.3117136418) of PSQCA maintained at NBP Sindh High Building Branch Karachi vide transaction dated.30.12.2022 for investment in TDR (Term Deposit Receipt) of same branch @14.60% interest with 6 months maturity period. The detail is given below:

Sr#	Nature of Investment	Name of Bank/Branch	Duration	Rate of Interest	(Rs in million)	
					Amount invested	Profit

Audit observed that:

1	TDR	NBP, High Court Building branch Karachi	31.12.2022 to 30.06.2023	14.60%	1000	66.421
---	-----	---	-----------------------------	--------	------	--------

- i. The amount was withdrawn from departmental receipts and invested without the approval of Finance Division as required in absence of approved financial rules.
- ii. There was no approval of Director General, Board of Directors, Investment Committee and Ministry concerned for withdrawal of such huge amount from main revenue account of PSQCA.
- iii. Copy of TDR was not available in record.

Audit is of the view that withdrawal of funds from departmental receipts for investment without approval of Board of Directors, Ministry of Science & Technology and Finance Division was unauthorized.

The management stated that PSQCA is an autonomous body established under PSQCA Act 1996. It meets all expenditure from its own earnings as not part of federal consolidated fund or public account. As per PSQCA Act 1996, The general direction and administration vests in Board of Directors which can delegate powers to Director General or a member. Accordingly, Board authorized the Director General to utilize earnings and invest funds. The department provided a copy of TDR.

The reply of the management was not accepted as financial rules of authority have not been approved and notified with the concurrence of Finance Division as such relevant rules of the Government are applicable on the Authority. Furthermore, they did not provide approval of the Board of Directors, Director General and Ministry concerned for investment of funds.

The DAC meeting was held on 25.10.2023 and directed that Special Study on PSQCA investment be carried out, draft financial rules be finalized and till the finalization of the rules instructions of the Finance Division be followed.

Audit recommends that decision of the DAC may be implemented.

32.5.4 Unauthorized Re-Investment of funds- Rs.4,183.421 million

Finance Division's vide O.M. No. F.4(1) NTR/2002-666/2022 dated 18.05.2022 withdrawn instruction/policy issued by Finance Division vide OM No.F.4(1)/2002- BR-II dated 02.07.2003, 06.09.2004, 22.09.2005 and 23.12.2014 regarding deposit of working balance and investment of surplus funds belonging to public sector entities and local/autonomous bodies under federal Government and promulgated Public Finance Management Act 2019.

Section 23(2) of Public Finance Management Act 2019 states that “no authority shall transfer public moneys for investment or deposit from government account including assignment account to other bank account without prior approval from the Federal Government”. As per section 45 of the above act, it has overriding effect over all other laws and any law inconsistent with this act.

The management of Pakistan Standards and Quality Control Authority (PSQCA), Karachi re-invested funds amounting to Rs.4,183,421,832 after maturity during financial year 2022-23 @14.60% for a period of six months upto June 2023 in TDRs of different branches of National Bank of Pakistan, Karachi.

Audit observed that:

- i. The amount was re-invested after maturity despite clear instructions of the Finance Division.
- ii. The approval for investment was accorded by Director General PSQCA without seeking approval of Ministry concerned and Board of Directors as he was working on look after charge basis, accordingly he had no authority to exercise administrative and financial powers.

Audit is of the view that continuation of investments was in violation of instructions of the Finance Division and approval thereof accorded by Director General was unauthorized.

The management stated that PSQCA is an autonomous body established under PSQCA Act 1996. It meets all expenditure from its own earnings as not part of federal consolidated fund or public account. As per PSQCA Act 1996, The general direction and administration vests in Board of Directors which can delegate powers to Director General or a member. Accordingly, Board authorized the Director General to utilize earnings and invest funds. The funds available in different Banks were invested in National bank of Pakistan to secure the amount and receive best interest rate.

The reply of the management was not accepted as financial rules of authority have not been approved and notified with the concurrence of Finance Division as such relevant rules of the Government are applicable on the Authority. Furthermore, they did not provide approval of Board of Directors and Ministry concerned for investment of funds.

The DAC meeting was held on 25.10.2023 and directed that Special Study on PSQCA investment be carried out, draft financial rules be finalized and till the finalization of the rules instructions of the Finance Division be followed.

Audit recommends that an inquiry may be conducted to fix the responsibility for unauthorized re-investment of funds.

32.5.5 Non-production of record of investments - Rs.711.702 million

Para 14 of the Auditor-General Functions and Powers Ordinance 2001, states that Auditor-General have authority to require that any accounts, books, papers and other documents which deal with, or form, the basis of or otherwise relevant to the transactions to which his duties in respect of audit extend, shall be sent to such place as he may direct for his inspection; and to enquire or make such observations as he may consider necessary, and to call for such information as he may require for the purpose of the audit. The officer in-charge of any office or department shall afford all facilities and provide record for audit inspection and comply with requests for information in as complete a form as possible and with all reasonable expedition.

Audit requested the management to provide a record of following investments vide audit requisition memo no.03 dated.08.08.2023, but the same was not provided till the close of audit.

S.No	Certificate No.	Placed at	Amount invested (Rs.)
1	Defence Saving Certificate Registration No. 0039133	TSC	5,000,000
2	Special Saving Certificate Registration No. 0082162	TSC	15,612,000
3	Term Deposit Receipts Registration No. 771032	Head Office	100,000,000
4	Term Deposit Receipts Registration No. 771074	Head Office	75,000,000
5	Term Deposit Receipts Registration No. 771075	Head Office	500,000,000
6	Special Saving Certificate Registration No. 85336	Head Office	6,657,000
7	Special Saving Certificate Registration No. 85337	Head Office	9,433,000
Total			711,702,000

Audit is of the view that due to non-production of record; the audit could not verify authenticity of investment amounting to Rs.711.702 million.

The management stated that due to the unavailability of Director (Finance) during audit, record was not provided to audit as all record was in his custody. However, the same is ready for verification.

The department has accepted its irregularity that they did not provide record during audit. Further, they did not provide copies of all certificates regarding amounts as pointed out by the audit.

The DAC meeting was held on 25.10.2023 and directed that Special Study on PSQCA investment be carried out, draft financial rules be finalized and till the finalization of the rules instructions of the Finance Division be followed.

Audit recommends that decision of the DAC may be implemented.

32.5.6 Doubtful Conformity Assessment Report (CAR) certificates issued by Import/Export Section to importers without receipt of Lab report from QCC section – Rs. 1185.786 million

The detailed procedure for issuance of Conformity Assessment Report (CAR) certificate by PSQCA Import/Export Section after getting sample from Port, Airports, Dry port, for testing is that, Sealed samples provided by customers along with testing fees are segregated, tagged and sent to Director QCC, who sends these samples to the laboratory for testing, after testing within stipulated time and getting approval of Director, the reports are then issued by QCC section, on the basis of which CARs are issued to importers for clearance of individual import consignment of mandatory products at port of entry.

The management of PSQCA-Import/Export Section earned revenue of Rs. 1185.786 million during the financial year 2022-23. Progress report is as under:

Period	No. of cases proceeded	No. of samples sent to Lab	Number of CARs Issued	Pending CARs
July 2022 to June 2023	19,357	19,431	15,760	3,597

Audit observed that:

- i. 15,760, CAR Certificates were issued to importers by the Import section without receipt of their lab test report from QCC section.
- ii. Acknowledgement of lab test report by client were not shown to audit.
- iii. Hard copy of reports issued were not produced for the audit.
- iv. Copy of Pay Orders/Invoices received from clients were not produced to audit.

Audit is of the view that without completion of procedures and receipt of reports from QCC labs, the CAR certificates issued to importers were doubtful.

DAC meeting was held on 25.10.2023 and directed that PSQCA prepare a plan to fully automate import/export section. It shall also integrate it with Pakistan Single Window & WeBOC and present it to BOD for approval within three month's time.

Audit recommends that decision of the DAC may be implemented.

32.5.7 Non-Recovery of marking fee against Lucky Cement Limited - Rs.743.520 million

In terms of Para-26 of GFR Vol-1, "subject to any special arrangement, that may be authorized by competent authority with respect to any particular class of receipts, it is the duty of departmental controlling officer to see that sums due to Government are regularly and promptly assessed, realized and duly credited in the public account".

Further Para 28 of GFR Vol-1, "No amount due to Government should be left outstanding without sufficient reason, and where any dues appear to be irrecoverable the orders of competent authority for their adjustment must be sought".

The management of the Pakistan Standards and Quality Control Authority, Karachi was in receipt of marking fee @0.1% on ex-factory price (non-food articles) in the light of notification of Government of Pakistan, Ministry of Science & Technology Islamabad SRO No. 29 (KE) 2008 dated 27th February 2008.

The audit observed that an amount of Rs. 743,520,240/- was outstanding against M/s. Lucky Cement Limited on account of marking fee.

Name of Firm	Due Period	Amount
Lucky Cement Limited	July 2008 to March 2023	743,520,249

Audit is of the view that non recovery / realization of amount from M/s Lucky Cement Ltd reflects inefficiency on the part of management which resulted in loss to the public exchequer.

The DAC meeting was held on 25.10.2023 and directed to pend the para due to court case.

Audit recommends that outstanding amount on account of marking fee may be recovered and deposited into PSQCA account under intimation to Audit.

32.5.8 Non-recovery of outstanding Profit Rs.16.672 million relating to financial year 2020-21 and loss of interest due to its non-re-investment Rs 2.069 million

Para 26 of GFR Vol-I provides that, subject to any special arrangement that may be authorized by competent authority with respect to any particular class of receipts, it is the duty of the departmental controlling officers to see that all sums due to Government are regularly and promptly assessed, realized and duly credited in the public account.

The management of PSQCA HQ, Karachi did not recover outstanding profit relating to financial years 2020-21 up to close of financial year 2022-23. The amount pointed out in previous audit report for the financial year 2020-21 is as under:

Sr#	Name of Bank and Branch	Investment	Period & rate (6 months)	Profit Not realized	Loss of Profit (after 15% tax) @14.60% (2022-23)	(Rs.)
1	NBP High Court Branch	727,256,006	From 30.12.2020 to 30.06.2021 @6.55%	16,672,344	2,069,038	

Audit observed that:

- i. The management have not recovered outstanding profit on investment in TDR from National Bank of Pakistan till date despite lapse of two years.
- ii. Had the profit of Rs.16.672 million been realized in time the same could have been re-invested during financial year 2022-23 at @ 14.60 rate of interest and an amount of Rs.2,069,038 could have been earned.

Audit is of the view that non-recovery of profit till date is serious lapse on the part of management which caused loss to PSQCA on both ends of profit realization and interest thereof.

The management stated that firstly bank credited an amount Rs.1,497,809/- dated.30.06.2021 later an amount of Rs.12,309,148.72 was credited on dated.09.02.2022. After that an amount of Rs.6,381,958.51 was credited. The bank has credited gross profit of Rs.42,546,390.05 in the bank account 03 times on which 15% tax was not deducted at that time in different dates the evidence is attached.

The reply of the management was not convincing as they did not provide a statement showing investment and profit duly reconciled with the amount credited by bank as it did not reconcile with the amount as pointed out by audit.

The DAC meeting was held on 25.10.2023 and directed that Special Study on PSQCA investment be carried out, draft financial rules be finalized and till the finalization of the rules instructions of the Finance Division be followed.

Audit recommends that decision of the DAC may be implemented.

32.5.9 Non-utilization of Project allocated Budget Rs.36.676 million during financial year 2022-23 due to non-completion/termination of Project & non-production of record of Project Costing Rs. 65 million

Para 8.8 of Guidelines of Project Management provides that last but not the least is the role of a Project Director in completing the project without time and cost overrun among all the stakeholders of a development project or program, role of the project Director or Manager will be pivotal in the successful implementation of RBM.

The management of PSQCA did not provide complete record of project costing 65 million despite several verbal and written requests, the documents as provided by PSQCA i.e. Revised PC-I, Budget Order/NIS (2022-23), Surrenders, Reconciliation (2022-23) and Letter to Contractor revealed that:

Pakistan Standards and Quality Control Authority, Karachi planned a project titled “External Development of PSQCA Building Complex, Gulistan-e-Johar, Karachi”. For this purpose, a PC-I was approved by the Development Working Party in its meeting held on 04.04.2016 at a cost of Rs.56.00 million which was revised to 65 million through revised PC-I. Accordingly, the administrative approval and sanction was accorded by Ministry of Science & Technology letter No.10(47)/2016-DAE(P&D) dated.20.09.2021 with condition that “ PSQCA to complete the project within extended period of implementation i.e. 30th June 2022 without any change in its scope.”

The management of PSQCA terminated the project with instruction to demobilize the site vide office letter No. PSQCA/EX.D/2022 (45) dated.28.12.2022 , addressed to Contractor Mr. Muhammad Saleem Mirza, Saleem & Company. The ministry allocated the budget of Project Rs.36.677 million through Cost Centre-KA-3069 during financial year 2022-23.

Audit observed that:

- i. The budget was surrendered to the Ministry concerned on 04.05.2023 without utilization owing to non-execution of work resulting from dispute raised by contractor.
- ii. The contract was executed departmentally through private contractor instead of PWD.

Furthermore, relevant record was not provided to audit to verify the amount released to contractor based on work progress/measurement book, Performance guarantee obtained, Progress of Project as per PC-I and liquidation damages imposed (if any) due to delay in project etc.

Audit is of the view that non-utilization of budget due to non-completion/termination of project resulted in wastage of time and cost besides non-production of record thereof was a serious lapse on the part of management.

The management replied that the work was approved through PSDP and was sponsored by the MoST. As per approved PC-I, allocation to the tune of Rs. 65 million was made with the completion timeline up to 30.06.2022.

DAC meeting was held on 25.10.2023 and directed that a fact-finding inquiry be conducted and fix responsibility for failure of the project.

Audit recommends that decision of the DAC may be implemented.

32.5.10 Irregular payment of incentive share to employees – Rs. 245.575 million

As per Para 25 of GFR Vol-I all departmental regulations in so far as they embody orders or instructions of a financial character or have important financial bearing should be made by or with the approval of the Ministry of Finance.

Section 33 of PSQCA Act 1996 states that the Authority shall, in respect of each financial year, submit for approval of the Federal Government, on such date as may be prescribed, a statement of the estimated receipts and expenditure, including requirements of foreign exchange for the next financial year.

The management of Pakistan Standards and Quality Control Authority (PSQCA), Karachi paid Rs. 245,575,077 as incentive share to employees @ 10% of revenue earned during the year 2022-23.

Audit observed that the payment of incentive share to PSQCA employees was made without prior approval of the Finance Division.

The management stated that PSQCA was established through Act by merger of three departments including Central Testing Laboratory (CTL). The CTL was already paying 40% share of testing fees to employees of CTL with the concurrence of Finance Division vide letter No.1022-R-/83 datd.04.01.1984. Subsequently, PSQCA allowed 10% incentives to all employees without discrimination with the approval of BoD w.e.f 15.06.2012. As a similar para was already pointed out in previous audit report in pursuance of which PAC was held which directed PSQCA to get its financial rules approved within six months.

The reply of the management was not accepted. The PSQCA have not got approved its financial rules till date. Thus, grant of 10% share as incentive share to all employees by PSQCA was unauthorized.

The DAC meeting was held on 25.10.2023 and directed that Special Study on PSQCA investment be carried out, draft financial rules be finalized and till the finalization of the rules instructions of the Finance Division be followed.

Audit recommends that decision of the DAC may be implemented.

National Institute of Oceanography (NIO) Karachi

32.5.11 Non-reinvestment of surplus funds - Rs. 59.269 million

According to Finance Division O.M. No. F.4(1)/2002-BR-11 dated 02.07.2003, investment of working balances/surplus funds be made subject to fulfillment of various requirements such as investment in A rating banks, competitive bidding process, investment exceeding Rs.10 million shall not be kept in one bank, setting up of in-house professional treasury management functions, formation of Investment Committee, employment of qualified investment management staff, utilization of services of Professional Fund Managers approved by SECP, annual certificate of the Chief Executive of the organization, etc.

The management of National Institute of Oceanography (NIO), Karachi is maintaining a Bank Account No. 40042172 in National Bank of Pakistan Clifton Branch for depositing the subscription of G.P. Fund deducted from the salaries of employees under title “NIO employees’ Pension & Gratuity” with National Bank of Pakistan shows balance of Rs. 54.918 million as on 30th June, 2023.

Audit observed that the management has invested in National Savings as detail given below:

Year	Investment in	Invested Amount	Profit earned	Date of maturity	Amount encashed after income tax
2009-10	Defence Savings Certificate	12,920,000	27,778,000	02.09.2021	40,698,000
2016-17	Special savings certificate	16,000,000	3,024,800	29.11.2021	18,571,080

Total Rs 59,269,080

The management encashed the amount of Rs.59.269 million after maturity and deposited the same into above G.P. Fund account and did not re-invest the surplus funds in profitable ventures as per government instructions.

Audit is of the view that non-investment of surplus funds deprived the NIO from its due profit/receipts, which could have improved the financial health of the organization.

The management did not submit the reply within the given time frame and till finalization of the report.

Audit recommends that responsibility should be fixed to the person(s) for non-re-investment of surplus fund, which deprived the government of its due profit / receipt.

32.5.12 Irregular expenditure on purchase of wave tide and current recorder-Rs.5.098 million

Rule 12 (2) of Public Procurement Rules, 2004 states that all procurement opportunities over three million rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

Rule 38 of Public Procurement Rules, 2004 states that the bidder with the lowest evaluated bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract, within the original or extended period of validity.

As per tender documents clause 14.5 all pages of the tender shall be initialized and an official seal be affixed by the person or persons signing the tender.

Clause No.20.2 of tender documents states that withing 7 days from the date of furnishing of acceptable Performance Security under the condition of contract, the NIO will send the successful tenderer the Form of Contract Agreement provided in the tender documents, incorporating all agreement between the parties.

The management of National Institute of Oceanography (NIO), Karachi executed a project titled "Assessment of Tidal Energy Potential along Indus Deltaic Creeks, Sindh Coast". The

project was approved by the DDWP on 02.04.2020 with total cost of Rs.35 million and completed on 30.06.2022

The management of NIO, Karachi awarded contract to M/s.East West Infiniti Pvt. Ltd. and issued supply order on 17.12.2021 for procurement of Wave Tide and Current Recorder costing Rs.5,098,689 during the year 2021-22.

Audit observed the following:

- i. The tender was advertised on PPRA website but was not advertised in newspaper.
- ii. Two firms participated and quoted their rates as (i)M/s. East West Infiniti Pvt. Ltd. Rs.5,098,689/- and M/s. Irtisaal Enterprises Rs.4,082,287/- but the management ignored the lowest bidder without recording any reason and the contract was awarded to highest bidder M/s. East West Infiniti Pvt. Ltd, which resulted in loss of Rs.1,016,402/- to public exchequer.
- iii. Tender documents not stamped nor signed by the bidder.
- iv. No Contract Agreement was signed with the bidder and NIO.
- v. Income tax Rs.229,441 was not deducted from the bill of supplier nor obtained any exemption certificate.

In view of the above, the entire expenditure is held irregular.

The management has not submitted a reply within given time frame and till finalization of the report.

Audit recommends that expenditure may be regularized from the Finance Division besides fixing of responsibility to the person(s) at fault.

Pakistan Council of Renewable Energy Technologies

32.5.13 Inordinate Delay in Completion of Repair/ Maintenance Works of Building by Pak.PWD-Rs. 6.700 million

Rule-12 of GFR Vol-I states that “a controlling officer must see not only that the total expenditure is kept within the limits of the authorized appropriation but also that the funds allotted to spending units are expended in the public interest and upon objects for which the money was provided”.

Pakistan Council of Renewable Energy Technologies, Islamabad released an amount of Rs. 6,700,000/- (in advance) to Pak.PWD Islamabad vide sanction No.PCRET:4(2)/Admn/2005 dated 09.06.2022 and AGPR Islamabad Special Seal Authority No.A-I/AUTH/S&T/D-82/IB-

3367/2021-22/79 dated 20.06.2022 for repair/maintenance of PCRET Office building against receipt of estimates from Pak PWD as under:

S.No.	Item of work	Estimate (Rs.)
1.	Civil	5,233,695
2.	Electrification	1,466,446
Total Rs.		6,700,141

The PCRET vide letter No. PCRET 4(2)/ Admn/2005 dated 28.10.2022 pointed out non-completion of the civil and electrical work done by Pak.PWD.

Audit observed as under:

- i. Despite receipt of advance payment of Rs.6.700 million the Pak.PWD did not complete the civil and electrical works till June, 2023.
- ii. Adjustment accounts have not been received from the Pak.PWD. Therefore, the advance payment of Rs.6.700 million remained unadjusted till June, 2023.

Audit is of the view that non completion of civil and electrical works and non-incurring of advanced amount of Rs. 6.700 million by Pak PWD on the said works is violation of rules.

The management replied that:

- i. The equipment under the extension of MoU Agreement (signed in 2020) between PCRET and NRIRE-HRC arrived in the year 2021. Its installations are to be carried out by the Chinese engineers but due to the COVID-19, they have not visited Pakistan for the said purpose. PCRET is in contact with the Chinese side and the installation will be done in due course of time.
- ii. Only one objective – the upgradation of existing hybrid lab – is delayed due to unavailability of Chinese engineers in Pakistan.
- iii. The useful life of the equipment and other relevant documents such as stock inventories and invoices will be shared with audit as and when required.
- iv. Physical verification of the equipment will be carried out as and when required.

The reply is not cogent. Despite pointing out deficiencies by PCRET, the Pak.PWD neither removed deficiencies nor completed the works till May, 2023.

Audit recommends taking up the matter again with the Pak.PWD for early completion of the works.

CHAPTER 33

PAKISTAN AGRICULTURE RESEARCH COUNCIL (PARC)

33.1 Introduction

Pakistan Agricultural Research Council (PARC) is the apex national organization working in close collaboration with other federal and provincial institutions in the country to provide science-based solutions to agriculture of Pakistan through its statutory functions.

The overall decision-making body of PARC is its Board of Governors (BOG), responsible for the control, direction, and superintendence of the affairs of PARC. The Board is assisted in its operation by a number of Committees. The Federal Minister for National Food Security & Research is the President of the Board:

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY-2022-23) Rs. in million	Revenue / Receipt Audited (FY-2022-23) Rs. in million
1	Formations	1	2	1,299.798	-
2	Assignment Accounts (Excluding FAP)	-	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	-	-	-	-
4	Foreign Aided Project (FAP)	-	-	-	-

33.2 Comments on Budget & Accounts (Variance Analysis)

The final budget allocated to the PARC for the financial year 2022-23 was Rs. 5,351.54 million out of which the PARC utilized Rs.5,351.13 million. The details are as under:

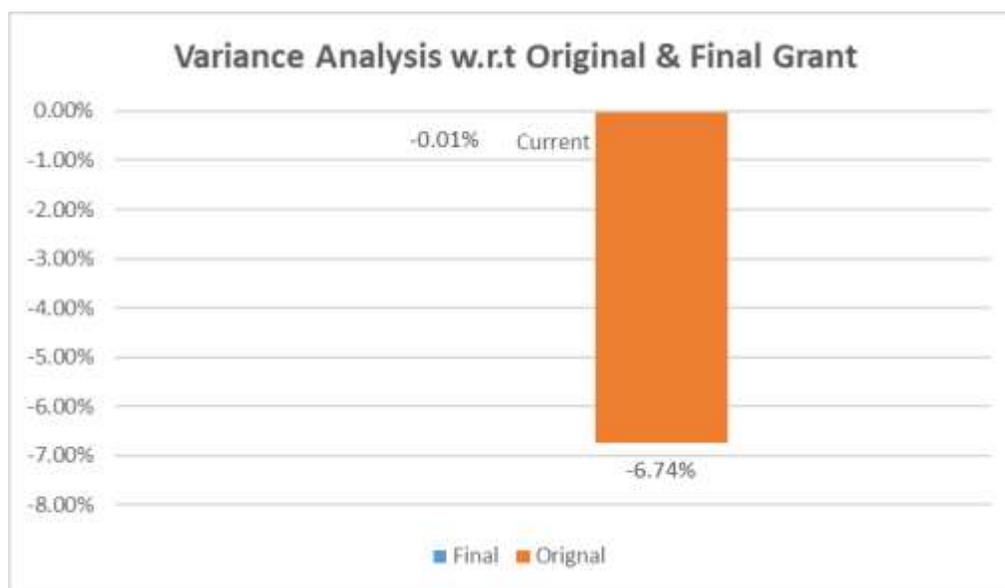
(Rupees in million)

Grant No	Type of Grant	Original Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
75	Current	5,737.81	-386.27	5,351.54	5,351.13	-0.41	-0.01%

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of General Financial Rules (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, it was observed that, in case of current expenditure, there was 6.74% of saving w.r.t original grant which was finally reduced to 0.01% w.r.t final grant.



33.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs. 19.437 million, were raised in this report during the current audit of PARC. Summary of the audit observations classified by nature is as under:

(Rupees in million)

S. No	Classification	Amount
1	Non-production of record	
2	Reported cases of fraud, embezzlement and Misappropriation	
3	Irregularities	
A	<i>HR/Employees related Irregularities</i>	
B	<i>Procurement related irregularities</i>	
C	<i>Management of account with commercial banks</i>	
D	<i>Recovery</i>	19.437
E	<i>Internal Control</i>	
4	Value for money and service delivery	
5	Others	

33.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
------------	--------------------	---------------------------------	------------	------------------------	-----------------

2011-12	1	0	0	1	-
2013-14	2	0	0	2	-
2014-15	3	3	1	2	33
2016-17	10	0	0	10	-
2017-18	9	9	9	0	100
2018-19	2	1	0	2	-
2019-20	18	11	0	18	-
2020-21	6	0	0	6	-
2021-22	12	0	0	12	-
Total	63	24	10	53	-

33.5 AUDIT PARAS

Pakistan Agricultural Research Council (PARC)

33.5.1 Irregular appointments in excess of advertised posts and non-observing of provincial / regional quota

Establishment Division D.O. No. 10(1)/91-CP-1 dated 01.01.1992 states that regional/provincial quotas have been made applicable in Autonomous Bodies/corporations as being observed in the Federal Services.

The management of Pakistan Agricultural Research Council (PARC), Islamabad advertised different One Hundred and Sixty Four (164) posts and appointed Three Hundred and Thirty Two (332) Officers/Officials during the FY 2022-23, as per following details:

S.	Advertisement date	Post / SPS	No. of Posts Advertised	No. of Persons Appointed	Excess
1	03.04.2022	Scientific Officer (SPS-08)	81	148	67
		Asstt. Scientific Officer (SPS-07)	12	51	39
Sub-Total			93	199	106
2	17.08.2022	Deputy Director HR (SPS-09)	1	1	0
		Asstt. Director (SPS-07)	2	4	2
		Network Administrator (SPS-08)	1	1	0
		PRO (SPS-08)	1	1	0
		Asstt. Admn Officer (SPS-07)	2	7	5
		Asstt. Computer Programmer (SPS-07)	2	6	4
		Asstt. Protocol Officer (SPS-07)	1	3	2
		Asstt. Security Officer (SPS-07)	1	1	0
		Asstt. Store Officer (SPS-07)	3	7	4
		Senior Auditor (SPS-07)	2	3	1
		DEO (SPS-05)	4	6	2
		Draughtsman (SPS-05)	1	2	1
		Sub-Engineer Civil (SPS-05)	5	11	6
UDC (SPS-05)	3	12	9		
Lab Tech-I (SPS-04)	5	5	0		

		LDC (SPS-04)	2	17	15
		Scientific Assistant (SPS-04)	12	13	1
Sub-Total			48	100	52
3	01.03.2023	Scientific Officer (SPS-08)	2	2	0
		Asstt. Scientific Officer (SPS-07)	3	4	1
		Store Keeper (SPS-05)	1	1	0
Sub-Total			6	7	1
4	20.10.2022	Asstt. Store Officer (SPS-07)	1	2	1
		Assistant (SPS-07)	2	4	2
		Steno Typist (SPS-06)	1	2	1
		Tube Well Operator (SPS-01)	2	3	1
		Naib Qasid (SPS-01)	4	5	1
		Technician (SPS-01)	2	2	0
Sub-Total			15	24	9
5	18.02.2023	Asstt. Executive Engineer (SPS-08)	1	1	0
		Information Officer (SPS-08)	1	1	0
Sub-Total			2	2	0
GRAND TOTAL			164	332	168

Audit observed that:

- i. Against the advertised 164 posts, appointments on various 332 posts were made, resulting in excess appointments made in excess of the posts advertised.
- ii. Provincial / regional quota was not observed.
- iii. Some posts were re-designated during the process of appointments.

Audit is of the view that appointments made in excess of advertised posts and without observing provincial/regional quota were irregular and unauthorized.

The management did not reply till finalization of the report.

Audit recommends holding of fact-finding inquiry to probe the matter.

National Agricultural Research Council

33.5.2 Non-collection of rent from PATCO on account PARC Display Shop and Water Filtration Plant - Rs. 5.976 million

Scenario VII(ii) of profit sharing in percentage states that PARC will receive 10% share of PATCO owned commercial projects.

Sr. 1 of Ministry Housing and Works letter states that the rates for hiring of office accommodation have been revised w.e.f. 17.03.2017 for other areas in Islamabad is Rs. 60 per sft.

The management of NARC allocated land to PATCO for business operations in NARC premises as per following detail:

- i. 700 sq. ft. land since 2015 for establishment of a shop with name as “NARC Display Centre”.
- ii. 1000 sq. ft. land since 2022 for establishment of water filtration plant with the name of “Aqua PARC”.

Audit observed that:

- i. Despite PATCO generating revenue from Display Centre by utilizing NARC land resources, the NARC management did not receive rent from PATCO since inception i.e. 2015 amounting to Rs. 4,536,000 [700 sq. ft. x Rs. 60 x 108 months].
- ii. Furthermore, NARC did not receive rental income from PATCO on account of utilization of NARC land resources allocated for filtration plant since 2021 amounting to Rs. 1,440,000 (1000 sq. ft. x Rs. 60 x 24 months).

Audit is of the view that non-receipt of rent from PATCO despite utilization of NARC land resources is negligence on part NARC management.

The management replied that PATCO pays the profit share of all the activities to institutes/centers where they are involved directly or indirectly depending upon scenario. Furthermore, PATCO also pays the utility and other bills to the centers as per actual usage whereas profit share paid, other than utilities and materials, against the land and other resources allocation for the required activity. As PATCO is already paying its all liabilities to the PARC and its centers, there is no financial loss to the government. In addition, Aqua PARC activity was started in the FY 2021-22 and it was the first year of the business activity and PATCO did not made any profit in the first and second year of the activity due to not only cost escalation of the material, labor, and overheads for last two year but also incurring extra cost for marketing, promotion, transportation, selling, admin and general expenses. Furthermore, PATCO is expecting profit in the current year 2022-23 in Aqua PARC activity and will certainly pay the due profit share to PARC after settlement of previous year’s loss.

Reply was not accepted as no documentary evidence was provided in support of reply. Furthermore, payment of utility bills cannot substitute the rent.

Audit recommends that the amount of rent be recovered from PATCO besides lining up other commercial activities undertaken by PATCO in NARC premises. Further, the agreement with PATCO also needs revision in the best interest of NARC.

33.5.3 Non-deposit of sale proceeds of auction into Govt. treasury - Rs. 13,461,558

Rule 7(1) of Federal Treasury Rules (Vol-I) states that, all moneys received by or tendered to Government officers on account of the revenues of the Federal Government shall without undue delay be paid in full into a treasury or into the Bank. Moneys received as aforesaid shall not be appropriated to meet departmental expenditure, nor otherwise kept apart from the Federal Consolidated Fund of the Federal Government. No department of the Government may require that any moneys received by it on account of the revenues of the Federal Government be kept out of the Federal Consolidated Fund of the Federal Government.

The management of NARC conducted auctions for unserviceable goods generating an amount of Rs. 13,461,558 during the Financial Year 2022-23.

Audit observed the management did not remit the sale proceeds from the auction into the Government treasury.

Audit is of the view that non-deposit of sale proceeds of the auction into the Government treasury constitutes a violation of established rules and procedures. This discrepancy raises concerns about the transparency and accountability in financial transactions.

The management did not reply till finalization of report.

Audit recommends that deposit of the auction proceeds into the Government treasury without further delay.

CHAPTER 34

PAKISTAN NUCLEAR REGULARITY AUTHORITY (PNRA)

34.1 Introduction

Pakistan Nuclear Regulatory Authority (PNRA) was established through Pakistan Nuclear Regulatory Authority Ordinance, 2001, dissolving the Pakistan Nuclear Regulatory Board and Directorate of Nuclear Safety & Radiation Protection. It established PNRA as a competent and independent body for the regulation of nuclear safety, radiation protection, transport and waste safety in Pakistan, and also empowered it to determine the extent of civil liability for damage resulting from any nuclear incident.

The Authority devises, adopts, makes and enforces such rules, regulations, orders or codes of practice for nuclear safety and radiation protection as may, in its opinion, be necessary. It plans, develops and executes comprehensive policies and programs for the protection of life, health and property against the risk of ionizing radiation, and regulates the radiation safety aspects of:

Exploitation of any radioactive ore; Production, import, export, transport, possession, processing, reprocessing, use, sale, transfer, storage or disposal of nuclear substance, radioactive material or any other substance as the Authority may, by notification in the official Gazette, specify; and Equipment used for production, use or application of nuclear energy for generation of electricity; or any other uses.

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY-2022-23) Rs. in million	Revenue / Receipt Audited (FY 2022-23) Rs. in million
1	Formations	1	1	1,599.000	-
2	Assignment Accounts (Excluding FAP)	2	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	-	-	-	-
4	Foreign Aided Project (FAP)	-	-	-	-

34.2 Comments on Budget & Accounts (Variance Analysis)

Final budget allocated to the Pakistan Nuclear Regulatory Authority (PNRA) for the financial year 2022-23 was Rs.1,659.89 million, out of which the authority expended whole the budget. Grant-wise detail of current and development expenditure is as under:

(Rupees in million)

Grant No	Type of Grant	Original Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
8	Current	1,409.00	.00	1,409.00	1,409.00	0.00	0.00%
123	Development	289.89	-39.00	250.89	250.89	0.00	0.00%
	Total	1,698.89	-39.00	1,659.89	1,659.89	0.00	0.00%

Audit noted that there was no excess / saving in both grants.

34.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs.8.734 million, were raised in this report during the current audit of Pakistan Nuclear Regulatory Authority (PNRA). Summary of the audit observations classified by nature is as under:

(Rupees in million)

S. No	Classification	Amount
1	Non-production of record	
2	Reported cases of fraud, embezzlement and Misappropriation	
3	Irregularities	
A	<i>HR/Employees related Irregularities</i>	
B	<i>Procurement related irregularities</i>	
C	<i>Management of account with commercial banks</i>	8.734
D	<i>Recovery</i>	
E	<i>Internal Control</i>	
4	Value for money and service delivery	
5	Others	

34.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
2011-12	2	2	2	0	100
2012-13	3	0	0	3	-
2013-14	2	2	1	1	50
2019-20	3	0	0	3	-
Total	10	4	3	7	-

34.5 AUDIT PARAS

34.5.1 Irregular Cash withdrawals from Bank Account - Rs. 8.734 million

Rule 157(1) of FTR states that cheques drawn in favour of Government officers and departments in settlement of Government dues shall always be crossed "A/c payee only not negotiable".

Rule 157 (2) of FTR states that Cheques drawn in favour of corporate or local bodies, firms or private persons for payments of Rs.200 and above or in favour of Central Gazetted Government servants or Central non-Gazetted Government servants drawing emoluments of Rs.2000 p.m. and above for payments in respect of their personal claims shall be crossed wherever such payments are made by cheques.

The management of Pakistan Nuclear Regulatory Authority, Islamabad withdrawn cash amounting to Rs. 8,734,312 from account No.4019582228 maintained at NBP, Super Market Branch, Islamabad during 2021-22.

Audit observed that the management drew cash instead of crossed cheques.

Audit is of the view that withdrawal of amount in cash is a violation of Treasury Rules.

The management replied that the cheques related to personal payments which include payments of medical charges, TA/DA, reimbursement of all other personal claims were opened on the request of concerned employee to draw cash. However, it is important to mention here that all cheques issued to suppliers and contractors were crossed cheques.

The reply of the management is not acceptable as there is no provision in the rules for withdrawal of cash instead of crossed cheques.

Audit recommends stoppage of irregular practice and probe the matter to fix the responsibility.

CHAPTER 35

TRADE DEVELOPMENT AUTHORITY OF PAKISTAN

35.1 Introduction

The Trade Development Authority of Pakistan (TDAP), is continuation of erstwhile Export Promotion Bureau, and is a premier government agency mandated to develop programs and projects directed at maximum exploitation of the available export market access to the country.

Trade Development Authority of Pakistan (TDAP) develops and promotes export holistically, through focus, synergy, and with collective wisdom and counsel of its stakeholders. In addition, it is supposed to achieve the objective of rapid export growth through interaction and coordination with respective public and private-sector stakeholders and enhancing value of

products and services by broadening the export base by fostering supportive export culture and facilitation; and by encouraging export oriented foreign investment and joint ventures.

Sr. No.	Description	Total No.	Audited	Expenditure Audited (FY-2022-23) Rs. in million	Revenue / Receipt Audited (FY-2022-23) Rs. in million
1	Formations	1	1	2,020.00	-
2	Assignment Accounts (Excluding FAP)	-	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	-	-	-	-
4	Foreign Aided Project (FAP)	-	-	-	-

35.2 Comments on Budget & Accounts (Variance Analysis)

Final budget allocated to the TDAP for the financial year 2022-23 was Rs. 1,390.79 million out of which the TDAP utilized Rs.1,390.79 million. The expenditure was incurred from grant from the Commerce Division.

(Rupees in million)

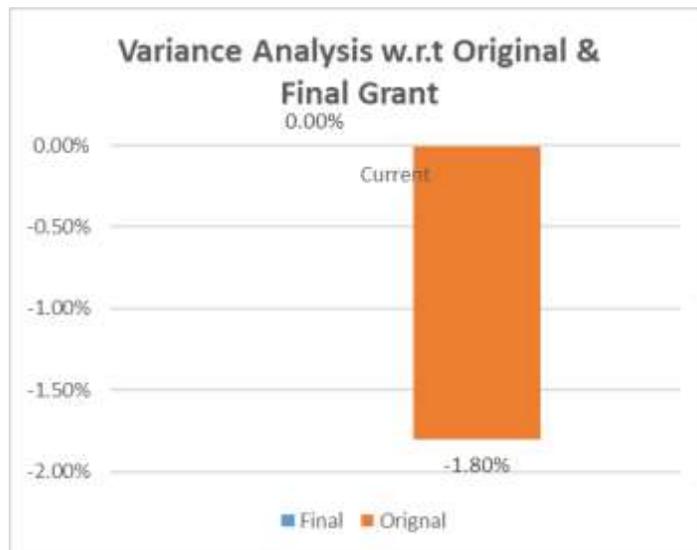
Grant No	Type of Grant	Original Grant	Suppl Grant	Surrender (-)	Final Grant	Actual Expenditure	Excess/ (Saving)	% age Excess/ (Saving)
24	Current	1,416.28	.00	-30.48	1,390.79	1,390.79	.00	0.00%

*Budget of TDAP was included in the demand of Commerce Division having cost Centre KA7304

Supplementary Grants obtained without careful cash forecasting

According to Para 71 of General Financial Rules (Volume I), while framing budget estimates, the authorities should exercise utmost foresight. Rules of good governance demand that budget processes are carried out in accordance with clearly defined expectations and assumptions and a coordinated calendar of activity.

As shown in the chart below, it was observed that, in case of current expenditure, there was 1.80% of saving w.r.t original grant which was finally reduced to zero w.r.t final grant.



35.3 Classified Summary of Audit Observations

Audit observations, amounting to Rs.2,920.602 million, were raised in this report during the current audit of **Trade Development Authority Of Pakistan**. Summary of the audit observations classified by nature is as under:

(Rupees in million)

S. No	Classification	Amount
1	Non-production of record	
2	Reported cases of fraud, embezzlement and Misappropriation	
3	Irregularities	
A	<i>HR/Employees related Irregularities</i>	
B	<i>Procurement related irregularities</i>	84.394
C	<i>Management of account with commercial banks</i>	1871.341
D	<i>Recovery</i>	8.181
E	<i>Internal Control</i>	956.686
4	Value for money and service delivery	
5	Others	

35.4 Status of compliance with PAC Directives

Audit Year	No. of Audit Paras	No. of Actionable Points Issued	Compliance	Non/Partial Compliance	% of Compliance
2010-11	7	6	3	4	50
2011-12	6	0	0	6	-
2012-13	5	0	0	5	-
2014-15	19	0	0	19	-

2016-17	8	0	0	8	-
2019-20	11	0	0	11	-
2020-21	16	0	0	16	-
2021-22	10	0	0	10	-
Total	82	6	3	79	-

35.5 AUDIT PARAS

Trade Development Authority of Pakistan, Karachi

35.5.1 Irregular Payment without Pre-Audit and non-preparation of Financial Statements – Rs. 956.686 million

As per Para-63, Chapter-V of TDAP Financial Rules-2014, the Authority shall observe internal control and audit in prescribed form and manner. For this purpose, Authority shall establish an Internal Audit Section comprising appropriate staff headed by an officer not below the rank of Director (BPS-19 or equivalent) to be nominated as “Internal Auditor” directly reporting to the Secretary; independent of Finance and Accounts Department of the Authority.

Section -26 of TDAP Act, 2013 states that the Authority shall maintain complete and accurate books of accounts of its actual expense and receipts. The Authority shall also maintain its balance sheet, statement of income and expenditure account, and statement of sources and application of funds. The auditors shall make a report to the Authority upon the annual balance sheet and accounts, and state whether in their opinion the balance sheet is full and whether it exhibits a true and correct view of the affairs of the Authority. The Authority will then submit the report to the Board for approval.

The management of TDAP, Karachi spent a total of Rs. 956,686,245 at TDAP HQ, TDAP Promotional / Developmental activities for the period 2021-2022.

Audit observed the following irregularities.

- i. The management of TDAP failed to maintain complete and accurate books of accounts for the years up to 2021-22 since the introduction of the act.
- ii. The management had not prepared the balance sheet, statement of income and expenditure and sources and applications of funds for the years up to 2021-22 in accordance with Int’l Accounting Standards as notified in TDAP Act.
- iii. The management had not introduced a system of internal audit and control in contravention of TDAP Act-2013 and TDAP Financial Rules, 2014. All the payments amounting to Rs.956.686 million were made without pre-audit of claims.

Audit is of the view that expenditure in view of above observations is irregular and unauthorized and in the absence of balance sheet, statement of income and expenditure and

statement of sources, audit is unable to express its opinion upon the fairness and accuracy of the accounts of TDAP.

The management replied that financial statements for the year 2019-2020 and 2020-2021 have already been completed and signed by the Secretary /CEO, and Financial Statement of 2021-22 is under preparation which will be submitted to audit. We are hiring chartered accountants' firm for conducting internal audit.”

The management has admitted its irregularity in its reply.

Audit recommends that responsibility may be fixed for negligence and the compliance of the TDAP Act 2013 regarding preparation of Financial Statements may be made and produced to audit.

35.5.2 Unauthorized maintenance of eight bank accounts and retention of closing balances – Rs. 1,476.279 million

According to Section-23(5) of TDAP Act-2013, the authority may open and operate one account in Pak Rupees and one account in foreign currency in any scheduled bank.

The management of TDAP, Karachi was maintaining 08 Bank accounts in commercial banks.

Audit observed that instead of maintaining only one Bank Account in Pak Rupees and one Bank Account in Foreign Currency in Schedule Banks, the management of TDAP was maintaining 08 bank accounts with cumulative closing balance of Rs.1476.279 million as on 30.06.2022.

Audit is of the view that opening and maintenance of these bank accounts and retention of enormous closing balances is disregard of the provision of TDAP Act, 2013.

The management stated that TDAP receives a non-lapsable annual grant from finance division, Islamabad which is deposited into main account maintained in NBP. Upon receipts of the said grant the management segregate the Promotional portion of grant and place the same amount in other bank account of NBP. Principally maintains a single Bank Account for all payments/grants receipts from Finance Division.

The reply is not convincing despite clear instruction regarding opening of one account in Pak rupees and the other in foreign currency as the management opened eight bank accounts which are held irregular.

Audit recommends that unauthorized operation of 08 bank accounts may be justified besides, closing of additional bank accounts.

35.5.3 Irregular expenditure on purchase of computers and laptops - Rs. 5.743 million

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

Public Procurement Rule 10 provides that specifications shall allow the widest possible competition and shall not favor any single contractor or supplier nor put others at a disadvantage. Specifications shall be generic and shall not include references to brand names, model numbers, catalogue numbers or similar classifications.

Management of TDAP advertised a tender notice on 30.08.2021 in different newspapers and purchased computers and laptops of amounting to Rs.5.743 million from M/s Fatemi Impex, and M/s Continental, Karachi during the audit period 2021-2022.

S. No	Cheque No & date	Particulars	GST not deducted	Amount
1	97820655 02.11.2021	Purchase of 09 laptops of Lenovo Pad M/s Fatemi Impex	148,082	871,074
2	97820784 16.11.2021	Purchase of desktop computers 38 Nos.M/s Fatemi Impex	656,032	3,859,014
3	97820937 13.12.2021	Purchase of laptop one M/s Fatemi Impex	7,281	161,786
4	9782065 02.11.2021	Purchase of 16 Scanners	0	851,200
		Total	811,395	5,743,074

Audit observed the following irregularities.

- i. Management advertised the tender of procurement of computers and laptops by incorporating brand names instead of generic in violation of Public Procurement Rules, 2004.
- ii. GST amount @17% of Rs.811,395 on purchased amount of Computers/laptops and scanners was paid but Sale Tax was not withheld on payment of suppliers.

- iii. The desktop and laptops were not accounted for and issuance of the same was not provided to audit.

Audit is of the view that due to advertising of tender by incorporating brand name of computers and laptops and non-deduction of GST amount is held irregular and unjustified to audit.

The management replied that brand names was used instead generic as per the rule no. 10(3) of PPRA which states that management can use brand name if it is convinced that the use of brand name is essential to complete an otherwise incomplete specification, and no other sufficiently precise or understandable way of describing the characteristics of the good, works or services to be procured is provided, the words “or equivalent” shall be used, after recording specific justification in writing therein. The procuring agency shall be responsible to define the parameters of “equivalence” for all participants to procurement process, to ensure transparency.

The reply is not convincing as computers and laptops have many companies which produce similar specifications items therefore need for specially specifying brand name in this segment is not justified and leads to favoritism to particular brand.

Audit recommends that the responsibility may be fixed on the persons found at fault. Besides, the GST amount of the same may be recovered from the concerned firm.

35.5.4 Non-deposit of Expo Centre’s income in the TDAP Fund and unauthorized expenditure without approval of the Board - Rs. 395.062 million

Section 24 of the Trade Development Authority Act, 2013 states that the Authority shall, in respect of each financial year, prepare its own budget and submit it after obtaining approval from the Board to the Federal Government, through the Ministry of Commerce, at least four months, before the commencement of every financial year.

Section 25 of the Trade Development Authority Act, 2013 states that for the purpose of this Act, a non-lapsable Fund is hereby established which shall be administered and controlled by the Authority. The Fund shall consist of a fee including fees received from parties for participation in international trade fairs and exhibitions as well as the booking of halls in Karachi Expo Centre for holding fairs, exhibitions, seminars and conferences etc.

The management of Karachi Expo Centre, Trade Development Authority of Pakistan, Karachi collected total income of Rs. 395,062,185 on account of booking of halls, participation fee etc. from various parties/firms during financial year 2022-23 and deposited the same in Bank Account No.3149893086 being maintained with NBP FTC Building Branch, Karachi.

Out of the total departmental income of Rs. 395.062 million, the management of Expo Centre incurred an expenditure of Rs. 229,319,806 on civil works, operation and maintenance, utility charges and other expenditure.

Audit observed as under:

- i. Instead of depositing the income of Rs. 395.062 million in TDAP Fund, the management of Expo Centre deposited the entire income in the above said bank account in violation of TDAP Act, 2013.
- ii. The expenditure of Rs. 229.319 million was incurred out of departmental income without any budget allocation approved by the Board.
- iii. The management of Expo Centre neither submitted their budget estimates of income and expenditure to the Board for approval nor reported to the Federal Government as per provision of TDAP Act, 2013.
- iv. Proper income and expenditure statements for the financial year 2022-23 were not prepared.

Audit is of the view that non-deposit of Expo Centre income in the TDAP Fund and its utilization of towards departmental expenditure without approval of the Board is unauthorized.

The management replied that the Board, under Section 20, is the “supreme decision-making body of the Authority” (i.e. “TDAP”). It has the power to supervise, control, direct and regulate affairs of the Authority.

The point wise replies of the Audit observations are as under:

- i. TDAP is an independent Authority headed by its own Board, all financial matters are approved by the department and Board of Directors. Expo Centre is a part of TDAP. Expo Centre generates income through rent from the various stakeholders on account of booking of Halls, Exhibitions, events arranged by this office time to time, therefore, TDAP opened Expo Account for depositing such income. Thus, there was no violation of any Rule.
- ii. It is an established fact that expenditure on account of utilities and other miscellaneous expenses have to be managed from the income of Expo Centre. It has no relevance to the TDAP Regular Budget.
- iii. Agreed with the Audit’s opinion, the management has directed the Expo Division for preparation and submission of Budget estimates for the year 2023-24 for the approval of the Board in its upcoming meeting. TDAP will provide the requisite information at the time of the next audit of TDAP.

The reply is not convincing. Neither the budget allocation was approved from the Board nor submitted to the Federal Government. The Expo income was utilized without approval of the Board.

Audit recommends obtaining ex-post facto approval of the expenditure of from the Board. In the future, the Expo income be deposited in the TDAP Fund. The expenditure be incurred after obtaining approval of budget allocation from the Board.

35.5.5 Irregular expenditure without open competition and non-transparent award of contract to a firm thereof - Rs. 15.532 million

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

Rule 12(2) of the Public Procurement Rules, 2004 states that all procurement opportunities over three million Pakistani Rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

Rule 30 of the Public Procurement Rules, 2004 states that all bids shall be evaluated in accordance with the evaluation criteria and other terms and conditions set forth in the prescribed bidding documents.

The management of the Trade Development Authority of Pakistan, Karachi uploaded RFP on PPRA and TDAP websites for supply of mangoes including treatment, packing and air shipment to Pakistan Missions abroad. Only single firm M/s Progressive Mango Growers, Multan offered the bid. Technical bid of the firm was opened on 20.06.2022 and financial bid on 05.07.2022. The firm was awarded contract vide Intent Letter No. TDAP-194(40)-AM/AGRO-2020 dated 06.07.2022. The payment of Rs.15,532,170 (gross) was made to the firm vide sanction No. TDAP-179(40)/AM/Agro/2019 dated 02.01.2023 and cheque No.41244337 dated 05.01.2023.

Audit observed as under:

- i. No open tender was floated in newspapers to get the benefit of competitive rates as required under Public Procurement Rules, 2004 as the procurement volume exceeded the limit of Rs. 3.00 million. The proof regarding uploading of tender in TDAP and PPRA website was not on record.

- ii. Out of total expenditure of Rs. 15.532 million, an expenditure of Rs. 11.716 million was incurred on air freight charges without open competition which was 75% of the total expenditure. The air freight charges were also paid to the above-said firm without admissibility as the firm was neither registered as air travel agency nor offered the bid for air freight charges. M/s Progressive Mango Growers hired the services of a Logistics Company i.e. M/s Raaziq International Pvt. Ltd. for shipment of mangoes to foreign countries. The management extended undue benefit to the firm at the cost of Authority's Fund.
- iii. The firm was not a member of any Trade Body or Chambers and was not eligible to participate in the tender. Therefore, the 3rd eligibility criteria given in the tender document was relaxed in violation of PPRA Rules, 2004 to extend undue favour to the firm.

Audit is of the view that non-floating of open tender and non-transparent award of contract to the firm is a violation of the Public Procurement Rules, 2004.

The management replied that Agro Food Division of TDAP organized Mango Promotion Campaign during July-September 2022 as per its Annual Business Plan for the period July, 2022-June 2023. During the Mango promotion campaign, Mango was dispatched to 28 countries. In this campaign, TDAP followed all PPRA Rules in the procurement of Mangoes. The RFP in this regard was uploaded on TDAP as well as PPRA website. Furthermore, the RFP for the procurement of Mangoes was published in the leading newspapers of Pakistan as an open tender. The TDAP invited bids from the companies/exporters, for "Supply of Mangoes Chaunsa / Sindhari" along with treatment packaging and air shipment to Pakistan Mission abroad. Air shipment cost was charged by the Air lines on actual rates as per the Airway bill issued by the Airlines. In response to the tender, only one vender i.e. M/s Progressive Mango Grower from Multan applied who had previous experience of organizing the campaign. The selected vender, further, hired the services of Ms. Raziq International for air shipment of Mangoes. TDAP paid the air shipment cost to the selected vendor as per the cost charged by the airline.

The mango promotion campaign is one of the promotional tools for the export promotions of Pakistan mangoes abroad. Due to this activity our exports have increased manifolds. Reports on the Mango Promotion campaign were received from different Missions. The firm M/s Progressive Mango Grower is a member of Multan Chamber of Commerce and Industry as per their certificate.

The reply is not convincing. Nothing was explained about expenditure incurred on freight charges amounting to Rs. 11.716 million without calling open tender.

Audit recommends holding of inquiry to fix responsibility on persons at fault for the lapses besides avoiding such practice in future.

35.5.6 Unauthorized expenditure on civil works of Expo Centre - Rs. 55.106 million

Para 192 of GFR (Volume-I) states that when works allotted to a civil department other than the Public Works Department are executed departmentally, whether direct or through contractors, the form and procedure relating to expenditure on such works should be prescribed by departmental regulations framed in consultation with the Accountant-General generally on the principles underlying the financial and accounting rules prescribed for similar works carried out by the Public Works Department.

Para 193(4)(ii) of GFR (Volume-I) states that the procedure for the execution of works and repairs in connection with sanitary, water supply and electric installations in Government buildings under the administrative control of Federal Civil Department should be as follows:

“All estimates for such works and repairs to be carried out locally should be submitted for prior scrutiny to the Chief Engineer, Pakistan Public Works Department”.

Para 208 of Central Public Works Account (CPWA) Code states that payments of all work done otherwise than by daily labour and for all supplies are made on the basis of measurements recorded in Measurement Books (MBs) in Form 23 in accordance with rules.

The management of Expo Centre, Trade Development Authority of Pakistan, Karachi floated open tender in newspaper on 08.07.2022 for civil work, paint, plumbing, sanitary and electrical work at the Karachi Expo Centre. The work was awarded to M/s Engineering Experts at a total cost of Rs. 81,819,391 and Work Order was issued on 10.10.2022. An expenditure of Rs. 55,106,300 was incurred during financial year 2022-23 as under:

S. No.	Payment description	Gross amount	Net amount paid	Cheque No.& date
1	Mobilization advance 10% of contract amount	8,181,939	7,936,480	09785334 Dt.03.11.2022
2	1 st Running Bill	46,924,361	41,152,248	09785389 Dt. 07.02.2023
Total		55,106,300	49,088,728	

Audit observed that:

- i. The TDAP did not have approved procedure for carrying out the civil works as prescribed by the Pak PWD and required under Para 192 of GFRs. The expenditure amounting to Rs. 55.106 million was incurred on civil works/repair of building

which was neither carried out through Pak. PWD nor was incurred departmentally by making departmental regulations.

- ii. The expenditure of Rs. 55.106 million was incurred without obtaining Technical Sanctions by an authorized/competent engineer of Pak. PWD.
- iii. Measurement Books were not maintained in support of the works carried out. The measurement was not taken date wise along with step-by-step full details of work. In the absence of accurate measurement details, complete in all respect as prescribed by rules, the management had no tool to identify the actual value of work done and amount paid thereof.

Audit is of the view that in the absence of approved procedure for carrying out the civil works, the expenditure of Rs. 55.106 million is unauthorized. Furthermore, due to non-maintenance of Measurement Books the actual value of the work done, and the payments made for the civil works were doubtful.

The management replied that TDAP was established in 2006 (formerly EPB) now TDAP has its own Board of Directors with approved procedure for executing internal financial affairs. All financial matters are approved by the head of the Department and Board of Directors. All the expenditure is carried out in the light of Sections 25 of TDAP Act, 2013. Moreover, the Public Procurement Rules, 2004 are followed in letter and spirit and all the codal formalities are observed while carrying out any civil work in the Authority. All the civil work under this contract was examined and checked by the consultant who has been hired to monitor the civil work in collaboration with the departmental officer. The details of each work on daily basis were maintained in the measurement book.

The reply is not convincing as the incurring of expenditure was subject to observance of GFRs and other rules of the Government. Neither the TDAP had approved procedure to carry out civil works nor provision of the GFRs were followed. No Measurement Book was prepared and produced during the course of audit.

Audit recommends fixing responsibility for the lapses besides regularization of expenditure from Finance Division and avoiding such practices in future.

35.5.7 Non-recovery of liquidated damages from contractor - Rs. 8.181 million

Clause 23 of General Condition of Contract states that subject to GCC Clause 25, if the Supplier fails to deliver any or all of the Goods or to perform the Services within the period(s) specified in the Contract, the Procuring Agency shall, without prejudice to its other remedies under the Contract, deduct from the Contract Price, as liquidated damages, a sum equal to five percentage specified in SCC of the delivered price of the delayed goods or unperformed Services for each

week or part thereof of delay until actual delivery or performance, up to a maximum deduction of the ten percentage specified in SCC. Once the maximum is reached, the Procuring Agency may consider termination of the Contract pursuant to GCC Clause 24.

The management of Expo Centre, TDAP, Karachi floated open tender in newspaper on 08.07.2022 for civil work, paint, plumbing, sanitary and electrical work at the Karachi Expo Centre. The work was awarded to M/s Engineering Experts at a total cost of Rs. 81,819,391 vide Letter of Intent dated 09.09.2022 and Work Order dated 10.10.2022. An expenditure of Rs. 55,106,300 was incurred during financial year 2022-23, as under:

(Rupees)				
S. No.	Payment description	Gross amount	Net amount paid	Cheque No.& date
1	Mobilization advance 10% of contract amount	8,181,939	7,936,480	09785334 Dt.03.11.2022
2	Ist Running Bill	46,924,361	41,152,248	09785389 Dt. 07.02.2023
	Total	55,106,300	49,088,728	

As per TDAP letter No. TDAP-3(236)/KEC/2022/Rehabilitation dated 27.09.2022 addressed to M/s Engineering Experts the contract completion period was four (04) months started from the date of issuance of Work Order. The four months' period expired on 09.02.2023. The contractor did not complete the work within the stipulated period i.e. up to 09.02.2023.

Audit observed that the TDAP management did not recover liquidated damages of Rs. 8,181,939 (81,819,391 x 10%) from the contractor as per provision of Contract.

Audit is of the view that non-recovery of liquidated damages is violation of the provision of Contract. The contractor was extended undue favour on this account.

The management replied that TDAP has made a partial payment in respect of the 1st running bill after verification of all worked done by the consultant. The liquidated damage will be deducted from the pending payment. Liquidity Damages will be deducted from the pending 43% remaining payment from M/s Engineering Experts.

The reply is not convincing as neither the liquidated damages were recovered, nor action was taken against the contractor for non-completion of the works.

Audit recommends recovery of liquidated damages from the contractor at the earliest besides taking action for non-completion of the works.

35.5.8 Irregular expenditure on purchase of IT equipment without calling open tender - Rs. 8.013 million

Rule 12(1) of Public Procurement Rules, 2004 states that procurements over five hundred thousand Pakistani Rupees and up to the limit of three million Pakistani Rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the Authority from time to time. All procurement opportunities over three million Pakistani Rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation.

The management of Trade Development Authority of Pakistan, Karachi incurred an expenditure of Rs. 8,013,000 on purchase of IT Equipment i.e. Desktop Computers, Laptops, Printers, Multimedia etc. during financial year 2022-23.

Audit observed as under:

- i. The expenditure was incurred without calling open tender.
- ii. The purchase orders were split up (with close margin) by keeping the amounts of bills/invoices below Rs.500,000 to avoid calling of open tender.

Audit is of the view that incurrence of expenditure without calling open tender was irregular and unauthorized.

The management replied that TDAP floated two tenders during 2022-23 on PPRA & TDAP Websites. The first was on 07.09.2022 with closing date as 21.09.2022 and the 2nd was on 22.11.2022 with closing date as 06.12.2022. Unfortunately, both the tenders did not materialize. All the supporting documents are available on file. Since both the tenders did not materialize the demand for the office remained unfulfilled, hence items were procured based on three quotations. Furthermore, most of the equipment purchased is of a specialized nature with specifications which are hard to meet through open tender due to PPRA restrictions. Therefore, the purchase was made through three quotations.

The reply is not tenable. The reasons for cancellation of both the tenders were not explained. No further effort was made to float open tender. Purchases were made by splitting up sanctions to avoid open tender.

Audit recommends fixing the responsibility of the persons at fault besides avoiding such practice in future.



AUDIT REPORT
ON
THE ACCOUNTS OF
DEFENCE SERVICES
AUDIT YEAR 2023-24

AUDITOR-GENERAL OF PAKISTAN

DIRECTORATE GENERAL AUDIT (DEFENCE SERVICES)

CHAPTER-1

Public Financial Management Issues

Public Financial Management deals with resource mobilization and expenditure management. The key principles of public financial management in Pakistan are envisaged in Articles 78 to 88, 118 to 127 and 160 to 171 of the Constitution of the Islamic Republic of Pakistan. An elaborate mechanism is provided in various rules, which cover the budgetary management processes, financial and fiscal controls, cash and banking arrangements, and parliamentary oversight. The Defence Services were allocated Rs. 1,592,436.581 million under Grant No.29 in Financial Year 2022-23. This grant is allocated to Ministry of Defence (MoD) for subsequent disbursement to defence forces/departments and Ministry of Defence Production (MoDP). The accounting and reporting of this grant is maintained by the Military Accountant General (MAG), who also conducts internal audit and pre-audit of payments.

In accordance with statutory provisions, the Directorates General of Audit Defence Services (North & South) conducted Financial Attest Audit of Defence Services Grant and the audit results have been reported to the Principal Accounting Officer. The certification of appropriation accounts has been conducted through review of activities, workflows, procedures and internal controls of Controllers Military Accounts to identify high risk areas based on the materiality calculated on the total expenditure of Defence Services provided by the MAG for the Financial Year 2022-23. Given the resource constraints, the audit was conducted on sample basis through 'Test of Controls' and 'Substantive Testing' (test of details and analytical procedures) with emphasis on risk areas of high monetary value prone to irregularities. Budget allocation, actual expenditure and account reconciliation of each audited unit on the basis of system, process and payment has been assessed.

System in vogue in Pakistan Military Accounts Department as contained in their Manuals was studied critically and practices being followed were examined. However, system-based spending-level and detailed head-wise allocation as documented on civil side was not available on defence side.

The Pakistan Army, Pakistan Air Force and Pakistan Navy primarily spent the major chunk of Defence Services Grant No.29 to meet their development and non-development expenditure.

The major heads of expenditure of Defence Services grant include pay and allowances of the armed forces, capital works, repair and maintenance of buildings, defence related procurements and production of arms and ammunition by the defence production organizations, etc.

Despite existence of comprehensive institutional framework of internal audit in PMAD, the Financial Attest Audit of the appropriation accounts revealed several weaknesses in the internal control processes. One of the major risk area observed during the Financial Attest Audit is non-availability of detailed entity wise budget in the financial reports with MAG, which resulted in saving of Rs.379.848 million. Some of the Audit observations derived from the Certification of Appropriation Accounts of

Defence Services include non-adjustment of expenditure, irregular expenditure, misclassification of head of accounts, excess booking of expenditure and non-submission of vouchers for post-audit.⁶ Audit recommends adoption of New Accounting Model (NAM), accounts reconciliation mechanism, proper adjustment of accounts, recovery of government dues, regularization of irregularities committed from competent financial authority and adherence to financial discipline.

⁶ These observations have been highlighted in the management letter for the financial year 2022-23.

CHAPTER-2

Ministry of Defence

2.1 Introduction

As per Rules of Business, 1973, Ministry of Defence is responsible for defence of the Federation or any part thereof in peace or war, defence matters pertaining to treaties and agreements with other governments, matters regarding military assistance to foreign countries, stores & stationery for the Defence Services other than those dealt with by Defence Production Division. In addition, the responsibilities also include administrative control of Northern Light Infantry, administration of National Guards Act, 1973, International Red Cross and Geneva Conventions in so far as they effect belligerents, military awards and decorations, welfare of ex-servicemen, cantonment areas, acquisition or requisitioning of property for Defence Services, pardons, reprieves and respites, of all personnel belonging to the Armed Forces, administrative and budgetary control of Federal Government Educational Institutions (Cantonments/Garrisons) Directorate and its institutions, administration of Military Lands and Cantonments Group. Directorates General of Audit Defence Services (North & South) conduct Financial Attest and Compliance with Authority Audits of this grant as per guidelines issued by the office of the Auditor-General of Pakistan.

Similarly, as per Rules of Business, 1973, Ministry of Defence Production is responsible for laying down policies on all matters relating to defence production, procurement of arms, firearms, weapons, ammunition, equipment, stores and explosives for the defence forces, declaration of industries necessary for the purpose of defence or for the prosecution of war, research and development of defence equipment and stores, co-ordination of defence science research with civil scientific research organizations, indigenous production and manufacturing of defence equipment and stores. Furthermore, the responsibilities also include negotiations of agreements or MOUs for foreign assistance or collaboration and loans for purchase of military stores and technical know-how or transfer of technology, export of defence products, marketing and promotion of activities relating to export of defence products, co-ordinate production activities of all defence production organizations or establishments.

Sectoral Analysis

Ministry of Defence receives single line budgetary grant, which is distributed among Ministry of Defence Production, Services Headquarters⁷, Inter Services Organizations and Strategic Planning Division. Under administrative control of Ministry of Defence, the main job of the armed forces (Army, Navy, and PAF) is to defend territorial integrity, and provide aid to civil administration as and when required.

In this sector, an expenditure of Rs. 566,293.257 million has been audited (during audit year 2022-23, 2nd Phase amounting to Rs. 335,633.136 million and audit year 2023-24, 1st Phase amounting to Rs. 230,659.521 million). Audit identified the non-compliance to the Defence Services Regulations in areas

⁷ Services Headquarters include General Headquarters (GHQ), Air Headquarters (AHQ) and, Naval Headquarter (NHQ).

like Advance Payment before completion of work through Running Account Receipts (RARs), splitting of financial powers, non-recovery of rent and allied charges, non-deduction of applicable taxes, violation of public procurement rules, non-compliance of A-1 land policy and execution of un-authorized work as some of the key issues.

Defence Services were allocated a sum of Rs. 1,563,000.000 million as original budget for financial year 2022-23. Against the final allocation of Rs.1,592,436.581 million, net expenditure of Rs. 1,592,056.733 million as reported by the MAG in expenditure report for June (Supplementary) 2023. Hence, an overall saving of Rs. 379.848 million has, therefore been recorded during financial year 2022-23. Service-wise detail of expenditure against the allocation for financial year 2022-23 is tabulated below:

(Rs. in Million)

S. No.	Service / Organization	Allocation (A)	Expenditure (B)	Saving (-) / Excess (+) (C=B-A)
1.	Army	755,563.698	755,563.698	0
2.	SSD (North)	6,000.000	6,054.723	54.723
3.	SSD (South)	12,000.000	11,998.369	-1.631
4.	PAF	318,127.311	318,127.311	0
5.	Navy	179,029.850	179,029.850	0
6.	MoDP	103,531.165	103,098.225	-432.940
7.	ISOs	58,431.863	58,431.863	0
8.	Accounts Orgs	7,565.294	7,565.294	0
9.	SPD	152,187.400	152,187.400	0
	Total	1,592,436.581	1,592,056.733	-379.848

Source: Appropriation Accounts Defence Services 2022-23

Some of the key functions of this sector can be summarized as follows:

- i. Defence of territorial integrity and aid to civil power is the major purpose for which Defence Services grant is being utilized. The major organizations involved in this sector include the GHQ, NHQ and AHQ.
- ii. Provision of quality education facilities in Cantonment Areas through Federal Government Educational Institutions (FGEI) Schools & Colleges. The expenditure in this sector is catered from the civil grant received by the MoD.⁸ The Directorate is responsible for provision of education facilities in the cantonment areas. FGEI Directorate has 12 regional offices and 311 Schools and 47 Colleges with a total enrollment of 188,321 students. The total budget of FGEI for the year 2022-23 was Rs. 8.997 billion.
- iii. Provision of civic amenities through Cantonment Boards is another key function. This sector is administered by ML&C Department through Cantonment Boards. As per Cantonment Act 1924, the Cantonment Boards are autonomous bodies and self-financing entities with the mandate to provide civic amenities i.e. water supply, sewerage and sanitation, and street lights to the residents. MoD does not provide regular budgetary grant to Cantonment Boards for provision of civic amenities. During audit year 2022-23 (2nd Phase) and 2023-24 (1st Phase) 27 Cantonment Boards have been audited with expenditure of Rs. 28.220 billion. The major audit findings included non-recovery of cantonment dues, unauthorized construction, irregular commercial activities in residential areas.

Ministry of Defence Production

Sectoral Analysis

The MoDP receives budget allocation from MoD out of defence services grant for the purpose of defence procurement and production. The major organizations involved in the process of procurement include Directorate General Research and Development Establishment, Director General Defence Purchase, Director General Procurement (Army), Director Procurement (Air Force) and Director Procurement (Navy). The major defence production organizations include Heavy Industries Taxila Board, Taxila and Pakistan Aeronautical Complex Board, Kamra. During audit years 2022-23 & 2023-24, an expenditure of Rs. 93.230 billion was incurred by Central Procurement agencies / Defence Production Formations under MoDP.

Indigenization and self-reliance in the field of Defence Production has often been identified as a major goal of Ministry of Defence Production. It is worth mentioning here that HITB and PACB have indigenously produced equipment and weapons to achieve self-reliance in the field of defence production. During audit year 2022-23 & 2023-24, receipts of Rs. 3.860 billion have been audited.

⁸Ministry of Defence receives civil grant from the Federal Government for FGEI Directorate.

The summary of the total units audited during the Audit Year 2022-23 (2nd Phase) and 2023-24 (1st Phase) is given below:

(Amount in Million)

Sr. No	Description	Total Nos	Audited	Expenditure Audited	Revenue/Receipts Audited
1	Formations ⁹	3864 (MoD)	409	Rs.566,292.657	Rs.33,523.072
		44 (MoDP)	18	Rs.93,230	Rs.3,860.490
2	Assignment Accounts (Excluding FAP)	-	-	-	-
3	Authorities/Autonomous Bodies etc. under the PAO	-	-	-	-
4	Foreign Aided Projects (FAP)	-	-	-	-

Note: All assignment accounts and DP Formations like Taxila, Kamra and FWO are included in Formations at Sr. No.1.

2.2 Comments on budget and accounts (variance analysis)

The final Grant No.29 pertaining to Ministry of Defence for financial year 2022-23 was Rs. 1,592.436.581 million against which expenditure of Rs.1,592,056.733 million was incurred. Thus, showing an overall saving of Rs.379.848 million. This issue has been highlighted during Certification audit 2022-23 And reported in Management Letter to the MAG.

It is pertinent to mention here that Defence Audit also conducts audit of all other expenditure made by auditee out of funds made available through other sources for AFDP, UNRA, Defence Pension, Aid to

⁹The total formations include 3908 Formations under the Audit jurisdiction of DGADS (North and South), out of which 427 Formations were audited during 2022-23 and 2023-24.

civil power, Election duty, Flood relief, FWO accounts, Civil Grant of Defence-managed organizations, Defence receipts, Cantonment Funds, Defence Production / Procurement establishments, etc.

2.3 Classified summary of Audit observations

Audit observations amounting to Rs. 1,653,278.956 million, US\$ 103.812 million, Euro 351.266 million, JY 2.240 and GBP 0.0207 million were raised as a result of audit. The amount also includes recoverables of Rs.43,483.167 million & US \$ 3.401 million as pointed out by audit. Summary of the audit paras classified by nature is as under:

(Amount in Million)		
Sr. No.	Classification	Amount
1	Reported Cases of Fraud, Embezzlement and Misappropriation	-
2	Irregularities	
A	Non-production of record	Rs.16.526
B	Procurement related irregularities	Rs.11,523.931 & Euro 3.096
C	Unauthorized/Irregular	Rs.671,874.087, USD 0.121 & Euro 3.963
D	Recoverable/Overpayments	Rs.74,919.407, USD 0.624 & Euro 12.504
E	Loss to State	Rs.11,301.274

Note: Above table reflects audit paras already mentioned under section "f" of executive summary (Key Audit Findings).

2.4 Brief comments on the status of compliance with PAC directives

2.4.1 Compliance by Ministry of Defence

The status of compliance of Public Accounts Committee (PAC) directives for the Audit Reports from 1985-86 to 2022-23 discussed during its various meetings held from July, 1992 to December, 2023 is given below:

Year	Total Paras	No. of Paras Discussed	Compliance Made	Compliance awaited / Non Complied	Percentage of Compliance
1	2	3	4	5	6
1985-86	76	07	04	03	57.14%
1986-87	36	06	03	03	50%
1987-88	49	08	01	07	12.5%
1988-89	48	15	03	12	20%
1989-90	69	03	0	03	0%
1990-91	63	04	01	03	25%
1991-92	65	05	01	04	20%
1992-93	91	12	06	06	50%
1993-94	198	86	31	55	36.05%
1994-95	91	02	02	0	100%
1995-96	102	09	01	08	11.11%
1996-97	106	104	58	46	55.76%
1997-98	651	05	01	04	20%
1998-99	762	41	01	39	2.44%
1999-00	443	222	78	144	35.13%
2000-01	699	696	85	611	12.21%
2001-02	570	16	11	5	68.75%
2002-03	161	161	152	9	94.40%
2003-04	111	22	04	18	18.18%

2004-05	55	55	34	21	61.81%
2005-06	138	122	74	48	60.66%
2006-07	95	35	13	22	37.14%
2007-08	56	40	05	35	12.50%
2008-09	102	64	12	50	18.75%
2009-10	244	92	34	58	36.95%
2010-11	49	04	0	04	0%
2011-12	69	05	0	05	0%
2012-13	Report not yet discussed				
2013-14	132	57	11	46	19.29%
2014-15	Report not yet discussed				
2015-16	Report not yet discussed				
2016-17	Report not yet discussed				
2017-18	129	45	19	26	42.22%
2018-19	154	14	09	05	64.28%
2019-20	164	17	05	12	29.41%
2020-21	Report not yet discussed				
2021-22	Report not yet discussed				
2022-23	Report not yet discussed				
Total	5778	1974	659	1312	33.38%

Ministry of Defence complied with 659 PAC directives out of 1974, which indicates that compliance of PAC directives is very slow. The Principal Accounting Officer should take necessary steps to expedite compliance of PAC directives.

* Only paras having amount above Rs 50 Million were discussed by the PAC.

2.4.2 Compliance by Ministry of Defence Production

The status of compliance of Public Accounts Committee (PAC) directives for the Audit Reports from 1985-86 to 2022-23 discussed during its various meetings held from July 1992 to December, 2023 is given below:

Year	Total Paras	No. of Paras Discussed	Compliance Made	Compliance awaited / Non Complied	Percentage of Compliance
1	2	3	4	5	6
1985-86	15	01	0	01	0%
1986-87	12	0	0	0	0%
1987-88	17	13	01	12	7.69%
1988-89	14	05	0	05	0%
1989-90	14	02	0	02	0%
1990-91	10	02	01	01	50%
1991-92	15	04	0	04	0%
1992-93	15	03	0	03	0%
1993-94	26	04	0	04	0%
1994-95	22	0	0	0	0%
1995-96	28	12	03	09	25%
1996-97	91	63	02	61	3.17%
1997-98	55	05	0	05	0%
1998-99	29	29	01	28	3.45%
1999-00	86	33	03	30	9.09%
2000-01	140	48	34	14	70.83%
2001-02	44	27	10	17	37.03%
2003-04	01	01	01	0	100%
2004-05	08	08	04	04	50%
2005-06	27	06	05	01	83.33%
2006-07	07	06	02	04	33.33%
2007-08	08	08	08	0	100%
2008-09	16	03	03	0	100%
2009-10	13	01	0	01	0.00%
2010-11	13	03	0	03	0.00%
2011-12	14	01	0	01	0.00%

2012-13	34	25*	14***	11*	56%
2013-14	18	07	05***	02**	71.42%
2014-15	Report yet not discussed				
2015-16	Report yet not discussed				
2016-17	08	02*	01***	01	50.00%
2017-18	11	11	08	03	72.73%
2018-19	18	18	0	0	0.00%
2019-20	22	21	03	18	14.28%
2020-21	Report yet not discussed				
2021-22	Report yet not discussed				
2022-23	Report yet not discussed				
Total	851	372	109	245	29.30%

Ministry of Defence Production complied with only 109 PAC directives out of 372, which indicates that compliance of PAC directives is very slow. The Principal Accounting Officer should take necessary steps to expedite compliance of PAC's directives.

*Only paras having amount above Rs 50 Million were discussed by the PAC

** Court Cases

***Settled by PAC

PAKISTAN ARMY

Pakistan Army is the first component of Defence Services. It is responsible for territorial defence of the country and aid of civil administration.

AUDIT PARAS

2.5 Procurement related irregularities – Rs. 2,845.310 million

2.5.1 Irregular expenditure in violation of PPRA Rules and beyond financial powers – Rs.2,429.073 million

According to Rule-12(1, 2) of PPRA 2004, "procurements over five hundred thousand rupees and up to the limit of Rs.3.000 million shall be advertised on the authority's website. Further, procurements over Rs.3.000 million should be advertised on the authority's website as well as in two national dailies, one in English and the other in Urdu."

Moreover, in accordance with annexure-A to the Government of Pakistan, Ministry of Defence letter No.F.3/1/98/D-15 dated 23.02.2008 the maximum financial powers of Commanding Officer of the concerned Unit for purchase of contingency items is Rs. 13,500/-.

During audit of certain Army Formations, it was observed from the record that the procurements were made in violation of above Rules.

(Rs. in million)

Sr. No.	DP No.	Nature of PPRA Violation	Amount
1.	DP-N-471/2022-23	Non uploading of tenders on PPRA website and Non-advertisement in print media.	13.341
2.	DP-N-545/2022-23		1,357.899
3.	DP-N-579/2022-23	In addition to above violation of PPRA, the expenditure is also beyond the financial power of commanding officer.6	16.060
4.	DP-N-623/2022-23	Violation of PPRA Rules	151.838

5.	DP-N-136/2023-24	Violation of PPRA Rules	7.090
6.	DP-N-147/2023-24	Violation of PPRA Rules	115.250
7.	DP-N-125/2023-24	Without advertising the contracts in two national daily newspapers	4.000
8.	DP-N-263/2023-24	Without advertising the contracts in two national daily newspapers	763.595
Total			2,429.073

When pointed out by audit, against DP-N-471/2022-23 & DP-N-579/2022-23, the management replied that the point is noted for future compliance and for DP-N-545/2022-23, the management replied that advertisement had been uploaded on PPRA website. Similarly, for DP-N-623/2022-23, the management replied that the procurement was advertised on PPRA's website. However, the same was not advertised in newspapers as the Defence work was of secret nature. Against DP-N-136/2023-24, the management replied that purchase of store through open tender was not feasible due to its emergent nature. Against DP-N-147/2023-24, no reply was furnished by the management. Against DP-N-125/2023-24, the management replied that since the store was purchased in an emergency, PPRA regulations may have delayed the procurement. Against DP-N-263/2023-24, the management replied that as per Public Procurement rules all works costing upto and more than Rs. 1.000 million were required to be advertised in newspaper and the same procedure was adopted.

The replies were not tenable as no documentary evidence regarding advertisement through PPRA was produced to Audit. Furthermore, only PAO (Secretary Defence) can grant exemption from Public Procurement Rules in such cases where procurement is of sensitive/urgent nature. However, no such approval was obtained.

The DAC meetings were held on 26.09.2023, 29.11.2023 and 05.01.2024. Against DP-N-471, DP-N-545 and DP- N-579/2022-23, the DAC directed the management to conduct a court of inquiry within two months. Similarly, in case of DP-N-623/2022-23, DAC shifted the draft para to concerned Army Headquarters. Against DP-N-136/2023-24, the DAC in its meeting dated 29.11.2023 directed to share fact finding inquiry through MOD with audit authorities for verification within two months. Against DP-N-147/2023-24, DAC directed to hold fact finding inquiry, fix responsibility, and share the inquiry report through PAO and get it verified from audit. DAC also directed to get the expenditure

regularized from competent authority. Against DP-N-125/2023-24, it was directed to verify the relevant documents from audit. DAC further directed to hold a court of inquiry and submit it through MoD within two months for verification by audit. Against DP-N-263/2023-24, the DAC in its meeting dated 05.01.2024 was apprised that the procurement opportunities have been advertised in two national dailies and on PPRA website. The DAC directed that relevant record may be got verified from audit. DAC further directed that in case of non-observance of PPRA rules a court of inquiry be conducted and its report be submitted to MoD. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-471, 545, 579 & 623/2022-23, DP-N-125, 136, 147 & 263/2023-24

2.5.2 Irregular expenditure in violation of PPRA rules – Rs. 352.448 million

According to Rule-4 of Public Procurement Rules, 2004, “Procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical”. Furthermore, Rule-12(1) & (2) of Public Procurement Rules 2004 stipulates that “All procurements over five hundred thousand Pakistani Rupees shall be advertised on the Authority’s website in the manner and format specified by regulation by the Authority from time to time.”

During audit of Army Formations for the financial year 2021-22 & 2022-23, it was observed that procurement of different items was made in violation of PPRA rules. The details are as under:

(Rs. in million)

Sr. No.	DP No.	Nature of violation	Amount
1.	S-166/2023-24	Without advertisement on authority’s website as well as in print media.	138.152
2.	S-350/ 2022-23		93.589
3.	S-348/ 2022-23		36.00
4.	S-423/ 2022-23		26.50
5.	S-398/2022-23		16.50

6.	S-367/2022-23		15.46
7.	S-317/2023-24		11.270
8.	S-155/2023-24		7.399
9.	S-95/2023-24	Contract was awarded before advertisement	6.274
10.	S-364/2022-23	Transparency of the tendering was violated as contract was given on favoritism	1.304
11.	S-298/2023-24	Auction made without advertisement on authority's website as well as in print media	0
Total			352.448

Audit is of the view that the procurement in violation of Public Procurement Rules resulted in uneconomical and non-transparent procurements.

The matter was pointed out by audit from November, 2022 to September, 2023. The management in DP S-166 & S-298, did not furnish the reply. In case of DP S-350 & S-367, the management replied that advertisement of tender is responsibility of contract concluding authority i.e., EME depot. The same would be obtained from the unit and produced to audit for verification. In case of DP S- 348, the management replied that documentary evidence of publication of print media will be provided as traced. In case of DP S-423, S-398 & S-155, the management replied that contract concluded by the competent authority after completion the legal formalities, in case of DP S-364, the management replied that procurement was made at the lowest rate. In case of DP S-95, the management replied that required documents were asked from concerned office & will be produced as and when received. In case of DP S-317, the management replied that all the contracts were concluded after advertisement in print media and also on PPRA website.

Replies furnished by the management were not tenable as no documentary evidence was provided regarding compliance of PPRA rules.

The DAC in its meeting dated 30.08.2023 directed the management in DP S-350, S-348, S-423, S-398, S-95, S-155, S-166 & S-317 that relevant tendering documents be provided to audit for verification. In case of DP S-367 & S-95, DAC directed the

management to hold court of inquiry against the violation of rules, to fix responsibility against the person(s) at fault. The inquiry report after endorsement from PAO be provided to audit for examination. In case of DP S-298, DAC directed the management to provide relevant records of auction proceedings of rent pertaining to parking stand and shops to audit for verification. No further progress was reported till finalization of this report.

Audit recommends implementation of the DAC directives.

DP-S-350, 348, 423, 398, 364 & 367/2022-23 and DP-S-95, 155, 166, 298 & 317/2023-24

2.5.3 Procurement of items through local purchase in violation of PPRA rules – Rs. 38.472 million

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

During audit of an Army Formation for the financial year 2021-22, it was observed that an item was repeatedly procured from different contractors amounting to Rs. 38.472 million in violation of the PPRA rules.

Audit is of view that procurement of stores in violation of the PPRA rules indicated weak internal controls within the organization.

The matter was pointed out by Audit in March, 2023. The management replied that procurement within a financial year is carried out using comparative statement (CST) of a Depot and no deviation from it was made. Reply furnished by the management was not tenable as no documentary evidence of CST approved by the Depot was produced. Further, same items purchased issuing the orders to different contractors at same rate on favoritism.

The DAC in its meeting dated 30.08.2023 directed the management to hold court of inquiry against the violation of rules, to fix responsibility against the person(s) at fault. The inquiry report after endorsement from PAO be provided to audit for examination. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-369/2022-23

2.5.4 Procurement of store and maintenance work without codal formalities – Rs.18.030 million

Rule-86 & 87(a) of Financial Regulations Volume-I 1986 stipulates that supplies and services required to carry on the public business shall be obtained ordinarily by contract on the authorized tender forms, all contracts, agreements, understandings, etc. entered into by an officer with commercial or non-Government concerns shall be recorded in writing and a copy thereof, signed by both contracting parties, will be carefully filled.

During audit of an Army School, it was observed that a sum of Rs.18.027 million was expended on repair / renovation of Foreign Trainees Mess Shed and procurement of stores without conclusion of contract agreements and estimate. Furthermore, the repair / renovation works were executed without obtaining NOC from MES. Hence, the expenditure incurred on repair / renovation without conclusion of contracts and obtaining of NOC from MES stood as irregular which needed regularization.

When pointed out by audit, the management replied that funds were allotted for repair/maintenance and indoor facility for Foreign Trainees out of sub allocated fund allotted by GHQ.

The reply was not tenable being irrelevant.

The DAC in its meeting dated 29.11.2023 directed for regularization of expenditure from the competent financial authority and its verification from audit within three months. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-474/2022-23

2.5.5 Irregular procurement in violation of PPRA rules - Rs. 4.111 million

According to Rule 2(f) of PPRA Rules 2004, “Corrupt and fraudulent practices includes the offering, giving, receiving, or soliciting of anything of value to influence the action of a public official or the supplier or contractor in the procurement process.”

During audit of an Army Formation for the financial year 2021-22, it was observed that the lowest bid for procurement of an item was submitted by 2 contractors whereas, purchase orders were issued at higher rate to other contractors irrespective of submission of bids. The details are mentioned below:

(Amount in Rs.)

Serial No	Rate offered by Lowest bidder	Rate offered by Highest bidder
1	850	2100
2	560	800

Audit is of view the issuance of purchase orders at higher rates caused loss to state, which indicated weak internal controls within the entity.

The matter was pointed out by Audit in March, 2023. The management replied that the product was selected as per PPRA Rule 10. It is discretion of workshop to procure at the lowest rate.

Reply was not tenable as the purchase order was issued at a higher rate in violation of PPRA rules.

The DAC in its meeting dated 30.08.2023 directed the management to hold court of inquiry against the violation of rules, to fix responsibility against the person(s) at fault. The inquiry report after endorsement from PAO may be provided to audit for examination. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-373/2022-23

2.5.6 Loss to state due to procurement at higher rate – Rs. 3.176 million

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

During audit of an Army Formation for the financial year 2021-22, it was observed that different items were procured at higher rate despite low rate bids. The purchase orders were issued to all contractors by selecting the higher rate offered and without recording the justification, which caused loss to state amounting to Rs 3.176 million as tabulated below:

Qty	Rate in Rs	Amount Paid (Rs)	Lowest rate (Rs)	Amount payable (Rs in Million)	Loss (Rs in Million)
1855	2100	3.895	850	1.576	2.318
810	800	0.648	560	0.453	0.194
810	450	0.364	335	0.271	0.093
456	2100	0.957	850	0.387	0.571
		5.864		2.687	3.175

Audit is of the view that the award of contract in violation of PPRA rules reflected weak internal controls within the entity.

The matter was pointed out by Audit in March, 2023. The management replied that procurement was made under clause 10 of PPRA by mentioning the specification of brand.

Reply furnished by the management was not tenable as the product was selected in violation of PPRA.

The DAC in its meeting dated 30.08.2023 directed the management to hold court of inquiry against the violation of rules, to fix responsibility against the person(s) at fault. The inquiry report after endorsement from PAO be provided to audit for examination.

Audit recommends implementation of DAC directives.

DP-S-360/2022-23

2.6 Un-authorized / irregular payments – Rs. 8,448.149 million, USD 0.265 million & Euro 1.759 million

2.6.1 Un-authorized release of payment – Rs. 2,000.00 million

According to Rule-47 (e) of Financial Regulation Volume-I, 1986, “The most careful supervision over expenditure shall be exercised and on no account shall money be spent simply because it is available”.

During audit of Al-Mizan Fund at a CMA, it was observed from contingent bills of a Corps Headquarters and Disbursement Vouchers that an amount of Rs. 2,000.00 million was sanctioned and paid for 20 KV Solar System along-with Solar lightening. However,

no CRV, Inspection note and delivery challans were found attached with the bills. Thus, release of payments without these documents is unauthorized.

When pointed out by audit, the management replied that the contract was executed through formal agreement wherein the contractor was bound to complete the work within specified period i.e., up to 10.06.2021 and no supply of stores was required.

The reply was not tenable as CRVs along-with allied documents were demanded for audit verification but not produced.

The DAC in its meeting dated 05.01.2024 directed to shift the para to Army. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives and regularization of the expenditure.

DP-N-188/2023-24

2.6.2 Un-authorized utilization of funds – Rs. 1,506.000 million

According to Government of Pakistan, Ministry of Defence letter No. F.48/49/S/GHQ/F.2/18/D-12/2003 dated 06.11.2003, QMG Fund for shifting of GHQ was established and sanctioned. Furthermore, according to para-2(f) of Ministry of Defence letter No.F.2/18/D-12 (ML&C)/2003 dated 11.11.2003, QMG Fund shall be used to bear all expenses related to shifting / construction of Defence Complex.

During audit of an Engineering Formation, following irregularities were noticed:

- a) A total of 21 contracts involving civil works for different facilities valuing Rs. 330.564 million, were concluded out of Al-Mizan fund which was sanctioned for operational areas. The said contracts were executed in non-operational areas.
- b) Furthermore, 15 contracts involving civil works valuing Rs. 1,175.262 million, were concluded out of Normal Defence Fund which was sanctioned for routine activities.

Audit pointed out that the expenditure on construction works out of Al-Mizan fund and normal defence fund was not covered under provisions of the above referred letter.

When pointed out by audit, the management replied that the audit observation pertained to Qtg & Lands Directorate, GHQ. It was referred to them for reply, which as and when received, would be provided to audit.

The DAC in its meeting dated 26.09.2023 directed the management that work / construction being carried out as per approved list by MoD be submitted to audit for verification within 01 week. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-390/2022-23

2.6.3 Undue favor to contractors for advance payments – Rs. 1,068.738 million

A. According to Para 16 (d) of contract agreement of Directorate General Procurement Army, “100% inspection will be carried out at each consignee Deps. (e) Inspection authority will carry out 5% super check at any consignee dep at the discretion of competent authority.”

During audit of an Army Depot for the financial year 2021-22, it was observed that the depot issued advance CRVs without receipt of stores amounting to Rs. 1,057.584 million. At the same time the Formation issued, IRVs, inspection notes and 5% super check certificates. This resulted in advance payments to contractors.

Audit is of the view that due to the issuance of CRVs without actual receipt of the stores; the Government interest was compromised.

The matter was pointed out by Audit in April, 2023, the management replied that concerned section had already approved issuance of advance inspection notes and CRVs of distribution contracts to avoid lapse of funds, timely completion of procurement formalities and utilization of funds in financial year 2019-20. This depot has cleared advance CRVs against distribution contracts as per instructions of relevant authorities. Reply is not tenable as advance payment was made against the rules.

The DAC in its meeting dated 30.08.2023 directed the management to submit revised reply to audit for examination within one month. No progress was reported till finalization of this report.

Audit recommends holding of inquiry and fixing responsibility on the person(s) at fault.

DP-S-410/2022-23

B. According to Para – 408 of MES Regulation - 1998, “It is necessary sometimes, in the interest of work, to engage laborers or contractors or incur other liabilities on behalf of the contractor concerned, to complete work which he has neglected or failed to complete. In such a case it is permissible to spend Government funds on behalf of the contractor in accordance with the terms of his agreement. Otherwise, no advance or recoverable payment should be made to or on behalf of a contractor, nor should financial aid be given to him in any form. Furthermore, according to Rule 408 – 417 of DSR-1998, there is no provision of advance payment to contractor except secured advance.

During audit of MES Army for the financial year 2022-23, it was observed that advance payment of Rs.11.154 million was paid to the contractors against five contracts. The physical progress of work in all the contracts was less than the amount paid to the contractors.

Audit is of the view that unjustified advance payments to contractors was a serious violation of rules and regulations reflected weak internal controls within the Formation.

The matter was pointed out by the Audit in September, 2023. The management replied that as per progress report the physical progress of all contracts pointed out by Audit authorities were higher than the financial progress of the works. Reply was not tenable as the progress of work were less than the payment made to contractors.

The DAC in its meeting dated 29.12.2024 directed the management to reconcile recoverable amount and the recoveries verified from audit within two months. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-47/2023-24

2.6.4 Irregular usage of Class-C land – Rs. 1,063.221 million

According to Rule 7 of CLA Rule 1937 “no alteration in the classification of land which is vested in the state or in the Board shall be made except by the central govt. or by such other authority as may be empowered in this behalf and the condition on which land may be transferred from one class to another shall be governed by the order of the central govt. or by the provision of any law or rule for the time being in enforce which may be applicable”.

During audit of a Cantonment Board, for financial years 2021-22 and 2022-23, it was observed from CBR No.13 dated 30.01.2019 and letters dated 10.07.2019 & 24.07.2019 that Army Authorities are utilizing Class-C land measuring 4.068 acres valuing Rs. 1,063.221 million without change of purpose from Federal Government in violation of CLA Rules 1937. The unauthorized use of Class-C Land needed regularization from Government of Pakistan besides recovery of rent for the use of land amounting to Rs.106.322 million from July, 2021 to June, 2023 (details in Annexure-II).

When pointed out by audit, the management replied that Class-C land measuring 4.068 Acres was under the utilization of Army in different unit areas and an area measuring 0.805 acres being A-1 land was under the use of Cantonment Board. Case for provision of land of the Cantonment Board / swap over of land with Army Authorities is being initiated to resolve the issue.

The reply was not tenable because irregular use of Cantonment Land was a violation of CLA Rules 1937. Rent of this land to the tune of Rs. 106.322 million (estimated) from July, 2021 to June, 2023 needed recovery from the Army besides discontinuation of the use of Class-C land by army authorities and its resumption by the Cantonment Board. The actual rent before July, 2021 from the date of occupation however, needed to be worked out and recovered from the Army and deposited into Cantonment Fund.

The DAC in its meeting dated 05.01.2024 shifted the para to Army with the direction to resolve the matter by constituting a Board of Officers within three months. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives and strict following of the rules in the matter.

DP-N-379/2023-24(Reported as Critical Issue to PAO)

2.6.5 Irregular sanction of work beyond financial powers – Rs. 898.063 million

A. According to Ministry of Defence letter No.F.3/1/98/D-15 dated 23 February 2008, “The financial power of CLS/DCN(S) in respect of ASC contracts is Rs 13.500 million.”

During audit of an Army Formation for the financial year 2020-22, it was observed that 09 contracts amounting to Rs. 862.013 million were concluded during the period. It was noticed that the contracts were sanctioned by the Chief of Logistic Staff (CLS), who was not empowered to sanction the expenditure beyond Rs.13.500 million.

Audit is of the view that contracts sanctioned were beyond the financial power of the sanctioning authority, which indicated weak internal controls within the Formation.

The matter was pointed out by the Audit in May, 2023. The management replied that as per Ministry of Defence letter dated 23-2-2008, Commander Log Area was empowered to sanction the contract up to Rs. 4.5 million. Reply was not satisfactory as contracts under observation were beyond the financial powers of CLS.

The DAC in its meeting dated 29.12.2024 directed the management to provide relevant record to audit for verification. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-181/2023-24

B. According to Rule-19, of Financial Regulations Volume-1, 1986, "No measure which requires the sanction of the superior authority shall be sanctioned by the sub-ordinate authority in installments". Furthermore, as per Rule-9 of PPRA Rules 2004, "A procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly without any splitting or regrouping of the procurements so planned." Moreover, according to Government of Pakistan, Ministry of Defence letter No. F.3/1/98/D-15 dated 23rd February, 2008, "The revised financial power in terms of procurement of training aid (concerning Rule 43(d) of Financial Regulations Volume-I, 1986) of Service Chief is upto Rs 4,000,000 and IGT&E and PSO concerned at NHQ & GHQ is upto Rs 2,000,000 per item."

During audit of an Army Formation for the period 2020-21 & 2021-22, it was observed that procurement of an item amounting to Rs. 36.050 million was made through 10 sanctions. Audit noted that sanctions were issued in piecemeal as 10 different LPOs (Local Purchase Orders) on same date i.e. 21.03.2022 to avoid approval from higher authorities.

Audit is of the view that the issuance of sanctions in piecemeal was in violation of rules, which indicated weak internal controls within the organization.

The matter was pointed out by audit in April, 2023. The management did not discuss the observations despite the issuance of reminders.

The DAC in its meeting dated 29.12.2024 directed the management to get ex-post facto sanction from competent authority be obtained and get it verified from audit. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-143/2023-24

2.6.6 Irregular usage of building on Class-C land – Rs.717.149 million

In accordance with Para I-C of Ministry of Defence letter No. 11017/2n6/D (lands) dated 07.10.1977 & DG ML&C vide No. 744/27/L/L&Cn7 dated 23.11.1977 have issued the instructions/orders that “Cantonment Board is responsible for detection and removal of encroachments on Class B-4 land within Civil Areas and Class-C land”.

During audit of a Cantonment Board, it was observed that a building known as Old General Bus Stand is under usage of Station Headquarters as office building measuring 130 Marla with a covered area of 7,813.02 sft. However, no rent or adjustment regarding swap over of Class-C land with Class-A land on equal financial value basis was made.

When pointed out by audit, the management replied that the matter regarding swap over of Class-C land with Class-A land was under process.

The reply was not tenable as neither rent was recovered nor adjustment of land in shape of provision of Class-A land against Class-C land was made from the authority concerned.

The DAC in its meeting dated 28.11.2023 shifted the Draft para to Army and again discussed the matter on 29.11.2023. The DAC further directed to recover the rent and expedite the swap over process. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-89/2023-24

2.6.7 Irregular procurement of material – Rs. 296.655 million

According to Rule 47(e) of Financial Regulation 1986, “The most careful supervision over expenditure shall be exercised and on no account shall money be spent simply because it is available”. Under Notes (1) to rule 109 (b) of Financial Regulations Army 1986 regarding payments to contractor, “The above procedure shall not, in any way,

affect the rights of Government to deduct from bills (whether endorsed in favour of a bank or not) any sums due to them from the contractors on account of penalties, overpayments on the contract to which the bills pertain, or on any other contract with the Government”.

During audit of an Army Formation for the financial year 2022-23, it was observed that an amount of Rs.296.655 million was paid to various suppliers for procurement of different material. Audit noticed that procurement of stores was made in excess than its consumption. The comparison was made with stores procured and its consumption per KM.

Audit is of the view that procurement of material in excess of consumption resulted in wastage of funds, which indicated weak internal controls within the Formation.

The matter was pointed out by the Audit in August, 2023. The management replied that detailed justification for procurement of material would be produced shortly for reconciliation. Reply was not tenable as consumption of procured material was not justified.

The DAC in its meeting dated 29.12.2024 directed the management to provide relevant record to audit for verification. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-104/2023-24

2.6.8 Irregular conclusion of contracts – Rs.137.642 million

Under Rule-19 of Financial Regulations (Vol-I) 1986, the limit which has been set in each case extends to each separate sanction. The criterion in any case is the total cost of measure and no measure, which requires the sanction of superior authority, shall be sanctioned by a subordinate authority in installments. Furthermore, according to the Ministry of Defence Letter No.F.3/1/98/D-15 dated 23.02.2008, the Contractual financial power of QMG/DGRV&F is Rs.13.500 million.

During audit of a Military Farm, it was observed that 10,488 tons Bhoosa valuing Rs. 137.642 million were split up and procured through eleven (11) contracts just to bring the same within contractual powers of DG RV & F. Furthermore, the record shows that all the contracts were awarded to one contractor on the same date or in subsequent dates. This procurement was not in order and needed regularization from the government.

When pointed out by audit, the management replied that contracts were awarded for different delivery periods as per requirement. Furthermore, these contracts are of different commodities. Every contract amount is within the financial powers of DG RV&F.

The reply was not tenable as all the contracts were concluded with the same contractor for the same commodity on the same date or on subsequent dates.

The DAC in its meeting dated 29.11.2023 directed for regularization of the expenditure and its verification from audit. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-34/2023-24

2.6.9 Irregular payment to contractor – Rs.132.712 million

According to Rule-13 of Financial Regulations Volume-II 1986 as a safeguard against the possibility of a cheque or Government draft being misappropriated or lost after it has been endorsed by the person in whose favour it has been drawn and before it reaches the cashier, the person concerned shall see that every cheque or Government draft is entered in the cash book immediately after receipt. He shall initial the entry in the cash book before he endorses the cheque or Government draft for realization. Furthermore, Rule-60 requires that a reconciliation statement shall be recorded in the cash book at the end of each month. Moreover, Rule-6 (a) of Financial Regulations Volume-I 1986, every officer should exercise the same vigilance in respect of expenditure incurred from Government revenue as a person of ordinary prudence would exercise in respect of the expenditure of his own money. Rule-47 (e) of same Regulations further states that, most careful supervision over expenditure shall be exercised and on no account shall money be spent simply because it is available.

During audit of a Division Headquarters, it was observed from cash book that an amount of Rs. 132.712 million was shown paid to a vendor through two entries in cash book vide Paid Voucher (PV) No. 67 dated 22.06.2020 for Rs. 66.356 million and PV No. 68 dated 23.06.2020 for Rs. 66.356 million. However, it was noticed that an amount of Rs. 19.988 million was also paid to another vendor against the same PVs i.e., PV No. 67 dated 22.06.2020 for Rs. 10.057 million and PV No. 68 dated 23.06.2020 for Rs. 9.931 million without making any entry in the cash book. The cash book was closed on 30.06.2020 and account was sent to CMA for post-audit comprising details of all payments made during June, 2020 including PV No. 67 dated 22.06.2020 for Rs. 10.057 million and PV No. 68

dated 23.06.2020 for Rs. 9.931 million relating to another vendor as evident from letter dated 16.10.2020.

CMA also carried out the post-audit of these vouchers relating to another vendor without having any detail of payments of Rs. 132.712 million relating to the first vendor. The release of payment to first vendor for Rs. 132.712 million was incorrect and resulted into irregular payment to contractor needing recovery.

When pointed out by audit, the management replied that Rs. 132.712 million was allocated to the Division for construction works during June, 2020. The stores in question were actually purchased from the first vendor through PV No.67 & 68. The same documents were prepared in the name of the first vendor and post audited by CMA. Cash book and cheque books are linkable for payment to first vendor vide PV No. 67 & 68 which has also been audited by LAO. It is once again clarified that no fake PVs were prepared and no payment made to any other supplier.

The reply was not tenable because the cash accounts for Rs.132.712 million against first vendor was sent to CMA for post-audit vide Division letter dated 30.10.2020 comprising PVs No.1 to 14 paid during 24.05.2020 which were not part of the cash book. Therefore, Rs.132.712 million were drawn (PV No.67 dated 22.06.2020 amounting Rs.66.356 million and PV No.68 dated 23.06.2020 amounting Rs.66.356 million) which was entered in cash book and payment was shown related to the first vendor. However, as per original CRVs and paid vouchers payment of Rs.19.988 million (PV No.67 dated 22.06.2020 amounting Rs.10.057 million and PV No.68 dated 23.06.2020 amounting Rs.9.931 million) was actually related to another vendor and the same PVs were forwarded to CMA for post-audit vide letter dated 16.10.2020 which showed that the claim regarding payment of Rs.132.712 million to the first vendor was not correct.

The DAC in its meeting dated 05.01.2024 was apprised by the management that no misappropriation/fake payment was found and no loss to the State was occurred. The DAC directed that facts stated in the reply may be got verified from audit and all linkages may be established. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-221/2023-24

2.6.10 Irregular expenditure out of defence fund – Rs. 119.035 million

According to Sub Para (a) 2 of Para 1 of Appendix-F of Defence Services Regulations for MES 1998, Operational Works should be of a temporary nature actually needed for the prosecution of operations and are restricted to the requirements duly mentioned.

Furthermore, GHQ QMG's Branch letter dated 31.05.1987 clearly stipulates that Defence work funds could only be utilized for purposes mentioned in Appendix-F of DSR for MES 1998.

During audit of a CMA, it was observed that an amount of Rs. 119.035 million was released to Pak Works Section (PWS) for Defence works. However, it was noted that the funds were spent on construction of living barracks at different locations contrary to above provisions. The Controller office was required to make the payment after application of due pre-audit checks.

When pointed out by audit, the Controller office replied that as per Headquarters Corps letter dated 10.12.2018 the said fund had been allocated for expenditure in operational area and approved by the military operations Directorate. The operational reasons approved by military authorities could not be objected by the Accounts office. Keeping in view the importance of national security, this office was bound to release the said amount.

The reply of Controller office was not tenable as execution of residential work out of Defence work funds is unauthorized in the light of relevant government instructions.

The DAC in its meeting dated 28.11.2023 shifted the Para to Army.

Audit recommends for regularization of expenditure.

DP-N-103/2023-24

2.6.11 Unauthorized procurement of equipment – Rs.107.026 million

Government of Pakistan, Ministry of Defence vide their letter No.13(23)/D-2(A-II)/2009 dated 19-09-2009 amended vide even No. dated 21.02.2011, all kinds of Medical Stores less electro medical equipment, disposable and medical gases will be procured through Medical Directorate.

During the audit of various Military Hospitals, it was observed that Electro Medical Equipment amounting to Rs.104.066 million were purchased by the Hospitals at their end, which was irregular due to diversion from the referred Government orders.

When pointed out by audit, against DP-590, the management replied that as per Para-2 of Ministry of Defence letter dated 19.09.2009 “all kind of Medical store will be procured through Medical Directorate”. The electro medical equipment were purchased after due sanction of GHQ AG Branch Medical Directorate. Against DP-581, the management replied that funds for the procurement of electro medical equipment were consumed after sanction of Medical Directorate as per SOP given by HQ Log of the Corps dated 24.08.2016.

The replies were not tenable as the procurement of electro medical equipment was the mandate of DGP (Army).

The DAC in its meeting dated 26.06.2023, against DP-581 directed the management to submit documents to Audit that procurement was carried out as per authority of the Medical Directorate. Whereas against DP-590, the DAC in its meeting dated 29.11.2023 directed for regularization of expenditure from competent financial authority and get it verified from audit within two months. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-581 & 590/2022-23

2.6.12 Non-delivery of store amounting to Euro 1.759 million and US \$ 0.265 million

As per Para-17 of DPP&I-35, the ‘time’ for and the date of delivery of the stores as stipulated in the contract shall be taken as the essence of the contract. All deliveries must be completed within the dates specified in the contract. Should the supplier fail to deliver the stores or any consignment thereof within the stipulated period or any extension thereof, the Purchaser shall be entitled at his option to either:

- (1) Cancel the contract, and
- (2) To purchase elsewhere stores not delivered, at the risk and expense of the Supplier and without notice to him, OR

- (3) To recover liquidated damages at the rate of upto 2% but not less than 1% of the value of un-supplied quantity of the item(s) per month or a part of a month for the period exceeding the original delivery period, subject to the provision that the total liquidated damages will not exceed 10% of the total value of the un-delivered stores.

During audit of a Depot, it was observed that certain contractors failed to supply the store within stipulated delivery period amounting to Euro 1.759 million and US \$ 0.265 million but no action was taken by the Depot in the light of above quoted instructions.

When pointed by audit, the management replied that reminders were issued to the firms against their outstanding spares. Penalty against late delivery of store were imposed on firm at the time of submission of bills for payment.

The reply was not tenable as no documentary evidence in support of reply was provided.

The DAC in its meeting dated 26.09.2023 directed the management to verify the amount of LD imposed, alongwith supporting documents from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-553/2022-23

2.6.13 Irregular local purchase without authorization -Rs. 82.712 million

Annexure A to Rule-9, FR Volume-1 states TO&Es and scales (scales of ration, clothing's scales and specifications of accommodation and furniture scales and rates of living accommodation).

During audit of an Army Depot for the financial year 2021-22, it was observed that an expenditure of Rs. 82.712 million was incurred for purchase of equipment for different units without observing authorization/scaling. In addition, an army depot was also providing the equipment to these units. Furthermore, a huge quantity of the equipment was replaced without declaring these items unserviceable through Board of Officers and not included in auction proceedings.

Audit is of the view that government funds were unnecessarily utilized without authorization.

The matter was pointed out by audit in March, 2023. The management replied that procurement of the items was made by the depot on orders of GHQ.

The DAC in its meeting dated 30.08.2023 directed the management that relevant record i.e., authorization, scales, Board of Officers and handing over the Equipment to the Depot concerned be provided to audit for verification. DAC further directed that auction of the unserviceable stores be held expeditiously. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-445/2022-23

2.6.14 Irregular expenditure on Defence Works – Rs. 75.642 million

As per Para 8 (a) (1) and (2) of SOP of Defence work issued vide letter No.155/2/GS (Plans) dated 24-08-2009 “Physical & financial progress reports of Defence Work to be forwarded to HQ.”

During audit of the accounts of an Army Formation for the year 2022-23, it was observed that an amount of Rs.75.642 million was incurred on execution of 12 different Defence works. However, Progress/Completion reports of works and Material Ledger were not provided/maintained. In the absence of such documents, the expenditure could not be verified.

Audit is of the view that non-maintenance of mandatory documentation is violation of Standing Operating Procedure of Defence work reflected weak internal controls within the organization.

The matter was pointed out by audit in September, 2023. The management stated that reply would follow.

The DAC in its meeting dated 18.01.2024 directed the management to provide relevant record i.e., progress report, material ledger and completion certificate to audit for verification within month. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-301/ 2023-24

2.6.15 Unjustified excess payment more than contractual obligation Rs. 73.498 million

According to Para 15 b. (3) of DSR-1998, “The funds are expended on those duly authorized services for which they are allotted and on no others.”

During audit of an Engineering Formation for the financial year 2022-23, it was observed that five contracts amounting to Rs. 415.345 million were concluded with different contractors whereas, total payment of Rs.488.843 million was released to contractors against such contracts, which resulted in excess payment of Rs. 73.498 million beyond contractual obligation.

Audit is of the view that excess payment made to contractors indicated weak internal controls within the entity.

The matter was pointed out by Audit in August, 2022. The management replied that no overpayment was made to contractors. It was further clarified that funds were booked according to administrative approval instead of contract. Reply was not tenable as excess payment was made beyond contractual obligation.

The DAC in its meeting dated 18.01.2024 directed the management to provide relevant record i.e., contract amount and administrative approval to audit for verification within one month. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-312/ 2023-24

2.6.16 Loss due to irregular purchase– Rs.40.000 million

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

During audit of a Military Farm it was observed that tenders were called for supply of Whole Milk Powder during 2015-16. After opening of bids one bidder came lowest with a rate of Rs.440 per KG and the other bidder was 4th lowest with the rate of Rs.549 per KG. However, offers of the 1st three lowest were not accepted on the grounds of non-submission of CDRs, other documents or sample of milk powder. Afterwards negotiations were carried out with other (4th lowest) bidder and revised offer was obtained with rate of Rs. 488 per KG and contract was awarded to the firm despite the fact that revised rate was also higher

than the 3rd lowest bidder. In this regard it is pointed out that the state was put into loss of Rs. 40.000 million (Rs. 488 – Rs. 440 = Rs. 40 x 1,000,000 KG).

When pointed out by audit, the management replied that the first three lowest bidders were rejected due to non-submission of CDRs. Thus negotiations were carried out with 4th lowest bidder and the contract was awarded.

The reply was not tenable because neither the evaluation criteria of bids was available nor the commercial offer of the technically rejected bid was returned unopened. In addition, negotiation with the bidder is also violation of PPRA.

The DAC in its meeting dated 26.09.2023 directed the management to verify the bidding documents of all bidders that participated in tender to audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-438/2022-23

2.6.17 Un-authorized expenditure beyond financial powers – Rs.40.000 million

According to Rule 19 of Financial Regulations Volume-I 1986 “Sanction in Installments” The limit which has been set in each case extends to each separate sanction. The criterion in any case is the total cost of measure and no measure, which requires the sanction of superior authority, shall be sanctioned by a subordinate authority in installments. Furthermore, as per Rule 43 (d) of Financial Regulations Volume-I (1986), duly amended vide Ministry of Defence letter No F-3/1/98/D-15 dated 23.02.2008 the revised financial powers of the Services Chiefs for procurement of training aids are Rs.450,000 per annum and the expenditure on this account should not exceed Rs.13.500 million in a year.

During Audit of certain Formations, it was noticed that Rs.40.000 million was sanctioned out of annual training grant in piecemeal on consecutive / subsequent dates, restricting upto Rs.450,000 in each case which was irregular being not covered under delegated financial powers.

(Rs. in Million)

Sr. No.	DP No.	Amount
1.	DP-N-356/2022-23	25.000
2.	DP-N-529/2022-23	15.000
Total		40.000

When pointed out by audit, no reply was furnished by the management for DP-356/2022-23, the management replied for DP-529/2022-23, that sanctions were accorded by GHQ, IGT&E Branch (MT Directorate) on behalf of COAS in accordance with Ministry of Defence letter on the subject.

The DAC in its meeting dated 26.09.2023, in case of DP-356/2022-23 directed to submit documents to audit for verification with respect to delegation of financial powers of COAS as per FR 1986 and the expenditure under different heads. In case of DP-529/2022-23 DAC was apprised that purchases were made from different heads of account and as per the financial limit of Service Chief. DAC directed for regularization and its verification from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-356 & 529/2022-23

2.6.18 Splitting up of contracts -Rs. 31.204 million

As per Govt. of Pakistan Ministry of Defence letter No. 2/12/D-15/2001 dated 19.06.2019, "Contractual powers of CMES are Rs.10 million & 12 million (subject to financial consultation)". According to Para 27 of DSR, 1998, "No project will be split up merely to bring it within the powers of an approving authority."

During audit of various Engineering Formations for the financial year 2022-23, it was observed that the following contracts amounting to Rs. 16.297 million were concluded by CMES by splitting up in order to bring them into his financial power:

(Rs. in million)

Sr. No.	DP No	Amount of Final Bill	CBI No. & Date	Date of Acceptance
01	DP-S-176/203-24	7.989	14, (05-06-2023)	10-05-2023
		8.307	15, (15-06-2023)	10-05-2023
Sub-total		16.296		
02	DP-S-297/203-24	6.888	23, (02-06-2023)	10-05-2023
		8.020	24, (02-06-2023)	10-05-2023
Sub-total		14.908		
Grand Total		31.204		

Audit is of the view that contracts were concluded by splitting to bring them within the financial powers of the CMES and to avoid government sanction in violation of the above Rules.

The matter was pointed out by the Audit in August, 2023 & October, 2023. The management of DP S-176, replied that HQ issued various Jobs, with different Job numbers under two million which comes within the power of the Chief of Staff. In case of DP S-297, the management replied that mentioned CAs were concluded by CMES separately within financial power as sanctioned by MoD letter dated 19-06-2019.

The reply was not tenable as the observation was regarding splitting up of contracts to bring the same within the contractual powers of CMES.

The paras were discussed in the DAC in its meetings dated 29.12.2024 and 18.01.2024. In case of DP S-176, DAC directed the management to provide relevant record i.e., sanctions of work be provided to audit for verification. In case of DP S-No. 297, DAC directed the management to verify that the expenditure was not made in piecemeal otherwise the same may be regularized from competent authority. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-176 & 297/2023-24

2.6.19 Irregular conclusion of contracts beyond financial power – Rs. 28.40 million

According to Ministry of Defence letter No F.3/1/98/D-15 dated 23 February 2008, the financial power of D RV&F for conclusion of contract/Indent is Rs 4.5 million and of QMG for conclusion of contract/indent is Rs. 13.5 million for three years.

During audit of an Army Formation for the period 2017-18 to 2021-22, it was observed that a contract for procurement of Milk Powder amounting to Rs. 28.400 million was concluded beyond the delegated financial powers.

Audit is of the view that procurement in violation of government regulations indicated weak internal controls within the organization.

The matter was pointed out by audit in November, 2022. The management replied that QMG has powers of Rs. 13.50 million for conclusion of contract. The reply is not tenable because the agreement involved payment of more than Rs 13.50 million in each case which was beyond the authorized financial limit.

The DAC in its meeting dated 30.08.2023 directed the management that relevant tendering documents and sanctions from the competent authority be provided to audit for verification. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-422/2022-23

2.6.20 Irregular purchase out of election funds – Rs.25.800 million

According to Election Commission of Pakistan Notification No.F.3(2)/2018-Elec-I dated 10.07.2018, the decision to deploy the Pak armed and civil armed forces were for the provision of security inside and outside the polling stations. Furthermore, financial guidelines were issued by GHQ Budget Directorate through Note dated 20.07.2018.

During audit of a Controller Military Accounts, it was observed from the record that laptops and other miscellaneous store items valuing Rs. 22.000 million were purchased by Corps and payment was made vide DV No. 08 for the month of 02/2019. The amount expended was post-election expenditure which was made after the conduct of General Election, 2018 as the stores supplied and taken on charge by the Formations on dates well after the holding date of 25.07.2018 of General Election. Furthermore, there was no provision for procurement of items like laptops as per GHQ policy. Such purchase (of laptops and other miscellaneous store items), therefore, resulted in irregular expenditure.

Similarly, during audit of another Controller Military Accounts, it was observed that a Depot purchased blankets and Durrees amounting to Rs. 3.780 million. The stores were supplied and taken on charge by the Formation in the month of December, 2018 after the elections.

When pointed out by audit, the management replied that necessary clarification had been sought from the concerned Formation.

The reply was not tenable as it was the responsibility of the concerned CMA to check the bill/documents thoroughly while passing the bill.

The DAC in its meeting dated 28.11.2023, shifted the DP No.167 to concerned Depot and DP No.169 to the concerned Corps. No progress was reported till finalization of this report.

Audit recommends for regularization of expenditure.

2.6.21 Maintenance of unauthorized multiple Bank Accounts – Rs. 24.426 million

As per Rule 5(13) of Cash Management and Treasury Single Account Rules 2020, “Principal accounting officers, overseeing the Government offices on the instructions of Finance Division, shall close all bank accounts in commercial banks and provide evidence of such closures to Finance Division. Principal accounting officers shall transfer to treasury single account balances of accounts that contain public moneys appropriated through the Government’s.”

During audit of an Army Hospital for the financial year 2022-23, it was observed that the hospital maintained unauthorized multiple bank accounts with the closing balance of Rs. 24.426 million.

Audit is of the view that operating multiple bank accounts without approval from the competent authority was a violation of rules, which reflected weak internal controls within the Formation.

The matter was pointed out by Audit in December, 2023. The management did not provide any reply.

The DAC in its meeting dated 29.12.2024 shifted the para to Medical Directorate for further correspondence. No further progress was reported till finalization of this report.

Audit seeks justification on the matter.

DP-S-247/ 2023-24

2.6.22 Non-finalization of blacklisting of contractor and non-imposition of penalty -Rs. 8.223 million

According to Rule 19 of PPRA, 2004 “The procuring agencies shall specify a mechanism and manner to permanently or temporarily bar, from participating in their respective procurement proceedings, suppliers and contractors who either consistently fail to provide satisfactory performances or are found to be indulging in corrupt or fraudulent practices. Such barring action shall be duly publicized and communicated to the Authority.” Further, as per Clause-52(a) of PAFW-2249 forming part of contract that ‘if the contractor fails to complete the works and clear the site as stated in Clause-53, such breach be liable to pay as compensation amount equal to 1% of the sum or of the measured

value of the works order for every week, provided that total amount of compensation so payable under this condition shall not exceed 10% of the contract sum.”

During audit of an Engineering Formation for the Financial Year 2022-23, it was observed that a contractor was awarded three different works amounting to Rs. 165.602 million in 2019. The contractor left the job uncompleted. Later on these works were completed through another contractor after lapse of thirty months. The non-execution of work contractor was neither penalized by blacklisting of the contractor nor of liquidated damages of Rs. 8.223 million @ 10% were recovered.

Audit is of opinion that due to non-recovery of LD charges/blacklisting of the contractor reflected weak internal controls within the entity.

The matter was pointed out by the Audit in September, 2023. The executive did not furnish reply.

The DAC in its meeting dated 29.12.2024 directed the management that relevant record including work suspension letter, risk and cost and black listing of contractor be provided to audit for verification. No progress was reported till finalization of this report.

Audit recommends implementation of the DAC directives.

DP-S-46/2023-24 (Reported as Critical Issue to PAO)

2.6.23 Irregular transfer of public funds to regimental fund account – Rs.5.516 million

Rule-115 of Financial Regulation Volume-I (1986), stipulates that, "All cash and store transactions to which an individual in his official capacity is a party, must be brought to account.”

During audit of an Army Formation for the period 2019-20 to 2021-22, it was observed that government funds amounting to Rs. 5.516 million were transferred to regimental fund account (non-public fund) to avoid lapse of funds.

Audit is of the opinion that transfer of public funds into non-public fund account indicated weak internal controls within the Formation.

The matter was pointed out by Audit in May, 2023. The management replied that funds were non-lapsable and transferred to regimental fund.

Reply of management was an admission of the irregularity.

The DAC in its meeting dated 30.08.2023 directed the management that authority for transfer of public fund into Regimental fund be provided to audit for verification. No progress was reported till finalization of this report.

Audit recommends implementation of the DAC directives.

DP-S-429/2022-23 (Reported as Critical Issue to the PAO)

2.7 Recoverable / Overpayments – Rs. 8,165.260 million and USD 0.386 million

2.7.1 Non-recovery of lease rent – Rs. 5,806.403 million

Under Rule 126 (c) of Financial Regulation Vol-II 1986, “Deputy Director Military farms/assistant director military farms/deputy assistant director remount veterinary and farms (RV&FC) shall satisfy themselves that every advance has been made in accordance with regulations and shall verify its adjustment”.

During audit of a Military Farm it was observed from annual trading account for the financial year 2020-21 that prior to 1999 / 2000, Government land was being leased out through Batai system of cultivation, in which cultivation expenses and yield of crops was proportionately shared between owner and tenants. An account was being maintained by Military farms for loans and advances to tenants and valuation of crops for recovery. Subsequently, GHQ revised its policy and switched over to thekka system however, a sum of Rs.5,806.404 million against 18 chaks on account of lease rent for the period from 2000 to June 2021 was not deposited by the tenants. This omission resulted into non recovery of lease rent which needed recovery.

When pointed out by audit, the management replied that recovery action is under process.

The DAC in its meeting dated 29.11.2023 directed to pursue the recovery expeditiously and get it verified from audit. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-141/2023-24

2.7.2 Non-recovery of sales tax on services – Rs. 718.372 million

A. According to Item No. 49 of 4th Schedule of Constitution of Pakistan amended vide 18th Amendment to the Constitution, “The imposition, administration, collection and enforcement of tax on services is the prerogative of the provinces”. As per clarification issued vide U.O. No. 3(10)ST-L&P/2007(PI)114971-R dated 27-09-2018 by FBR (Federal Board of Revenue), “The authority to levy and collect sales tax on services provided within the territorial limits of provinces now vests with the respective provinces. Therefore, the federal/provincial government departments, autonomous bodies and public sector organizations shall withhold the amount of sales tax on such services as prescribed under the provincial sales tax law and rules and deposit the same in the respective provincial heads of account.”

During audit of various Army Formations for the financial year 2021-22 & 2022-23, it was observed that sales tax on services amounting to Rs. 627.941 million was not deducted from suppliers/contractors.

(Rs in million)

Sr. No.	DP No.	Taxable Amount	% of Sales Tax	Amount of Sales Tax on Services
1.	S-101/2023-24	1,836.674	15%	275.501
2.	S-141/2023-24	1,121.847	13%	145.840
3.	S-55/2023-24	1795.347	5%	107.721
4.	S-158-A/2023-24	207.600	13%	26.988
5.	S-122/2023-24	450.196	5%	22.510
6.	S-44/2023-24	292.121	5%	14.606
7.	S-450/2022-23	198.773	6%	11.90
8.	S-17/2023-24	199.507	5%	9.975
9.	S-163/2023-24	150.555	5%	7.528
10.	S-156/2023-24	57.53	6%	3.452
11.	S-361/2022-23	14.773	13%	1.920

Total	627.941
--------------	----------------

Audit is of view that due to non-compliance of rules/orders, government revenue could not be realized which indicated weak internal controls within the organization.

The matter was pointed out by Audit in December, 2022 & March, 2023. The management in DP S-101 replied that documentary evidence of sales tax on services will be produced shortly for audit verification. In case of DP S-141, & S-156, the management did not furnish the reply. In case of DP S-55, the management replied that contractor provided exemption certificates issued by the concerned Revenue Authority. In case of S-158 the management replied that GST@ 1/10th was deducted from contractors` bills and deposited into government treasury. In case of DP S-44, S-122 & S-163, the management replied that Unit Accountant already deducted the tax from final bills. In case of DP S-450 & S-17 management replied that concerned Directorate was approached vide letter dated 22 November 2021, but further decision of higher authority has not been received so far. In case of DP S-361, the management replied that deduction of tax is the responsibility of the CMA concerned.

The replies were not tenable as MoD in its letter dated 27th January 2021 has decided the matter. The MAG vide its latter dated 31-03-2021 has issued Code Head for deposit of the subject tax. Therefore, non-deposit of this tax was a serious violation of rules. In case of DPs S-101, S-44, S-122, S-158, S-163, no documentary evidence was provided by management for verification of recovered sales tax on services. In case of DP S-55, as per BRA letter dated 08-12-2022 it was stated that the sales tax on services is being levied. Therefore, there was no exemption.

The DAC in its meetings held on 30.08.2023 and December, 2023 directed the management in DP S-450, DP S-156 & DP S-163 to reconcile the recoverable amount with @ 6%. Recovery thereafter be made from the concerned contractors and got verified from audit. In case of DP S-361, DAC directed the management that that relevant documents of deduction of sales tax on services by the CMA. DAC further directed that HQs issue fresh letters for the deduction of sales tax on services by the Formations. In case of DP S-17, DP S-44, DP S-101, DP S-122, DAC directed the management to pursue the recovery of sales tax on services within 2 months. In case of DP 55, DAC directed the management to put up updated reply, whereas, remaining recovery be expedited and get it verified from audit. In case of DP S-141, DAC directed that audit will verify the recovery of the tax from CMA concerned. In case of DP S-158, DAC directed that as the unit has moved, the management

of concerned Division will pursue the recovery under intimation to MoD/Audit. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-361 & 450/2022-23 and DP-S-17, 44, 55, 101, 122, 141,156, 158(A) & 163/2023-24

B. During the audit of army Formations for the financial year 2022-23, it was observed that sales tax on services amounting to Rs 90.431 million was less deducted from the payment made to various contractors in contravention of the rules. The details are given below:

(Rs in million)

Sr. No.	DP No.	Amount paid to contractors	Amount deducted	Amount to be deducted	Amount Less recovered
1.	S-53/2023-24	1,757.70	16.472 @ 1%	105.642 @ 6%	88.990
2.	S-235 /2023-24	1,77.202	7.422 @ 4.18%	8.863 @ 5%	1.441
			Total		90.431

Audit is of the opinion that due to less-recovery of sales tax on services from the contractors the government sustained loss. This indicated prevalence of weak internal controls within the Formation.

The matter was pointed out by Audit in 2023. The reply was not tenable as recovery of tax should be made according to prescribed rates.

The DAC in its meeting dated 29th December. 2023 and 18.01.2024, directed the management to reconcile/recover the amount and get it verified from audit within two months. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-53 & 235/2023-24

2.7.3 Non-recovery of allied charges– Rs. 250.241 million

According to Para 442 of DSR-1998, ‘The GE is responsible for making demands for payment of all revenue and for taking steps for its prompt realization.’ As per Rule 81 of Quarters and Rents rules 1985 as amended vide letter No. F.5620/109/Qtg-4/F-2/D-3(AIII)/2002 dated October 14, 2009, scale for free consumption of sui gas to a cook house is prescribed by the government @ 400 cft per person per month.

During audit of various Engineering Formations for the financial year 2021-22 & 2022-23, it was observed that allied charges (i.e. electricity, gas & water) amounting to Rs. 250.241 million were lying outstanding against various consumers / occupants.

(Rs in million)

Sr. No.	DP No.	Amount
3.	DP-SSR-S-462	94.281
4.	DP-S-45/2023-24	61.158
5.	DP- SSR-S-201	33.120
6.	DP- SSR-S-195	16.534
7.	DP-S-51/2023-24	13.690
8.	DP- SSR-S-418	9.610
9.	DP- SSR-S-196	6.632
10.	DP-S-157/2023-24	5.023
11.	DP-S-164/2023-24	2.608
12.	DP-S-165/2023-24	2.179
13.	DP-S-234/2023-24	2.067
14.	DP- SSR-S-197	1.869
15.	DP-S-124/2023-24	1.470
Total		250.241

Audit is of the view that non-recovery of allied charges indicated weak internal controls within the Formations.

Non-recovery was pointed out by audit from August, 2022 to September, 2023. In case of DP S-462, the management replied that ROR have been issued for the recovery of

dues from the concerned. In case of DP S-201, the management replied that the office issued 592 RORs in the light of Rule 28 (a) of Q&R 1985 and accordingly the UA prepared bills against army officers. In case of DP S-195, S-196, S-197, & S-45, S-157, S-165 the management did not furnish the reply, in case of DP S-418, DP-S-51, DP-S-124, DP S-234 the management replied that all the concerned consumers had been approached for recovery. In case of DP-S-234 the management responded that reply would follow. Replies are not tenable as timely recovery of dues is the responsibility of GE.

The DAC vide meeting held in January, 2023 and August, 2023 directed the management in DP S-196 to share documentary evidence of usage of building to audit for verification. In case of DP S-197, DAC directed to provide monthly bills to audit for verification. In case of DPs S-201 and S-124, DAC directed the management to reconcile the issue with audit. In case of DPs S-195, S-418, S-462, S-45, S-51, S-157, S-164, S-165 & S-234. DAC directed the management to verify the recovered amount from audit and pursue recovery of outstanding amount. No progress was reported till finalization of this report.

Audit recommends implementation of the DAC directives.

Note: (i) The issue was reported earlier in the Audit Report for Audit Year 2020-21 vide Para No. 2.7.3 having financial impact of Rs 7.747 million.

(ii) The issue was reported earlier also in the Audit Report for the Audit Year 2020-21 vide Para No. 2.10.2/DP S-105 & S-106 having financial impact of Rs 38.855 million & Para No. 2.10.2/DP S-101, S-154 & S-155 having financial impact of Rs 27.014 million. Recurrence of the same irregularity is a matter of serious concern.

DP-S-SSR-195, 196, 197, 201, 418 & 462 and DP-S-45, 51, 124, 157, 164, 165 & 234/2023-24

2.7.4 Non-deduction of General Sales Tax – Rs. 239.069 million

As per Sales Tax Act, 1990, the applicable rate of sales tax on items in Third Schedule has been increased to 17%. Furthermore, as per Rules 2(2) and (3) of the Sales Tax Special Procedure (Withholding) Rules, 2007 under S.R.O. 660(1)/2007, the 30th of June 2007, withholding agent shall deduct sales tax at 17% of the value of the taxable supplies made to him from the payment due to the supplier”

Furthermore, as per Sales Tax Act – 1990 (as amended upto 01.07-2015 through Finance Act 2015) Chapter –II, Clause 3 (1) that Subject To the provisions of this Act, there shall be charged, levied and paid a tax known as sales tax at the rate of seventeen percent of the value and (1A) “Where taxable supplies are made to a person who has not

obtained registration number, there shall be charged, levied and paid a further tax at the rate of three percent of the value”.

During audit of various Army Formations for the Financial Year 2022-23, it was observed that GST amounting to Rs 239.069 million on supplies from registered/unregistered suppliers was not deducted from suppliers/contractors.

(Rs in million)

Sr. No.	DP No.	Amount Paid	Rate of GST	Amount of Sales tax
1.	S-138/2023-24	1429.909	17%	177.004
2.	S-137/2023-24	296.218	17%	50.357
3.	S-248/2023-24	45.664	20%	9.132
4.	S-97/2023-24	15.150	17%	2.576
Total				239.069

Audit is of the opinion that due to non-deduction of sales tax, government exchequer was deprived of its revenue, which reflected weak internal controls within the Formations.

The matter was pointed out by audit in August, 2023 to December, 2023. The management in DP S-97 replied that the required documents will be produced as and when received. In case of DP S- 138 & S-137, the management stated that to avoid duplication, this office did not deduct GST after provision of invoices as per procedure in vogue. In case of DP S-248, the management replied that deduction of tax was responsibility of CMA.

Reply was not tenable as per paid vouchers GST was not recovered from contractor. In the case of DPs S-138 & S-137, as per rules UAGE being withholding agent was required to withheld 1/5th GST after provision of invoices. The remaining 80% of GST was to be deposited by the contractors through filing sales tax returns. Neither UAGE withheld 1/5th of GST, nor any evidence was provided regarding filing of the tax returns by the concerned contractors.

The DAC in its meeting dated 29.12.2024 and 18.01.2024, directed the management in DP S-97, that case for adjustment be taken up with concerned CMA. In case of DPs S-137 & S-138, DAC directed the management to reconcile recoverable amount, expedite remaining recovery and get it verified from audit. In case of DP S-248, DAC directed the management to provide relevant record to audit for verification. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-97, 137, 138 & 248/2023-24

2.7.5 Non-deduction of income tax- Rs. 187.39 million

According to Income Tax Ordinance 2001 (withholding provisions), Payment for goods, services, and execution of contracts under Section 153(1) Person(s) liable to deduct tax from resident person at the Rate 4.5% on supply of goods (by a person other than a company) and in case of services 10% respectively.

During audit of Army Formations for the Financial Year 2021-22 & 2022-23, it was observed that an amount of Rs. 2571.003 million was paid to different contractors on account of construction works, repair works and other services but income tax amounting to Rs. 187.39 million was not deducted which resulted in loss to the government.

(Rs. in million)

Sr. No.	DP No.	Head	Amount Paid	Rate of income tax	Amount of income tax
1.	S-135/2023-24	Construction of civil work	1805.794	10%	180.579
2.	S-233/2023-24	Hair cutting & washing contract	51.437	9%	4.629
3.	S-362/2022-23	Repair	7.058	20%	1.411
		Repair	7.714	10%	0.771
Total			2,571.003		187.39

Audit is of the view that due to non-deduction of income tax the government was deprived of its revenue, which indicated weak internal controls within the department.

The matter was pointed out by Audit in March, 2023 to December, 2023. In case of DP S-362, the management replied that deduction of tax was the responsibility of the

CMA. In case of DP S-135, the management replied that contractor provided exemption certificate issued by the FBR. In case of DP S-233, the management replied that income tax was deducted.

The reply furnished by the management was not tenable as no documentary evidence regarding recovery of tax was produced to audit for verification. In case of DP S-135, the exemption of contractor was on manufacturing goods whereas contractor provided the services which requires recovery of income tax, Furthermore, contractor has no exemption on the payment of income tax.

The DAC in its meetings dated 30.08.2023, 29.12.2024 and 18.01.2024, directed the management in DP S-362, that relevant documents of deduction of income tax by the CMA, be provided to audit for verification. In case of DP S-135, DAC directed the management to provide relevant record i.e., exemption certificates to audit for verification. In case of DP S-233, DAC directed the management to provide relevant record that the contractors were filers. In case of non-filers, amount of income tax be recovered and get it verified from audit. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives besides, adoption of remedial measures to avoid such lapses in future.

DP-S-362/2022-23 and DP-S-135 & 233/2023-24

2.7.6 Less deduction of income tax from contractors – Rs. 159.577 million

As per Section-153 of Income Tax Ordinance 2001, “Every prescribed person making a payment for rendering or providing of services is liable to deduct Income Tax from the gross amount of the bills at prescribed rates”.

During audit of various Army Formations for the financial year 2022-23, it was observed that income tax amounting to Rs 159.873 million was less deducted from the payments made to various contractors in contravention of rules.

(Rs in million)

Sr. No.	DP No.	Less recovery of income tax
1.	S-54/2023-24	68.227
2.	S-50/2023-24	23.885
3.	S-96/2023-24	16.50

4.	S-173/2023-24	16.046
5.	S-121/2023-24	13.824
6.	S-74/2023-24	9.241
7.	S-16/2023-24	9.150
8.	S-158-B/2023-24	2.704
Total		159.577

Non-deduction of government taxes as per prescribed rate reflected weak internal controls within the entity.

The matter was pointed out by audit from July 2023 to October 2023. The management in case of DP S-54 replied that as per clarification under section 153(1)(c) issued by FBR, rate of tax was 4% and 6.5% for companies and other than companies respectively. In case of DP S-96, the management replied that the required documents would be produced as and when received. In case of DP S-158, the management replies that income tax @ 4% was deducted and deposited into government treasury. The management for remaining DPs replied that all the contractors were filers and active taxpayer certificates were asked from contractors which would be provided for verification.

The reply was not tenable as no documentary evidence regarding status of active taxpayer/ filer of the contractors was provided. Furthermore, the deductions of tax were not made as per prescribed rates.

The DAC in its meetings dated 29.12.2024 and 18.01.2024, directed the management that for DP S-16, to submit updated reply besides reconciliation the recoverable amount, expedite remaining recovery and its verification from audit within two months. In case of DPs S-50, S-54, S-74, S-96, S-121 & S-173, DAC directed the management to provide relevant record that the contractors were filer. In case of non-filing, amount of income tax be recovered and get verified from audit. In case of DP S-158, DAC directed that as the unit has moved, concerned Division will pursue the recovery under intimation to MoD/Audit. No further progress in terms of recovery was reported by management to audit till finalization of this report.

Audit recommends implementation of DAC directives.

2.7.7 Non-deposit of Government shares of commercial activities – Rs.144.923 million

According to policy on use of A-I Land circulated vide Ministry of Defence, letter dated 02.04.2008 launched for commercial activities (Category A) required to serve the residents of the respective garrison, survey will be conducted by a Board of Officers to determine the actual area under usage. The rent shall be charged @ 6% per annum of existing revenue rate of the said land. Government's share @ 25% of the rent so charged will be deposited into Government treasury.

During audit of various Formations, it was observed from the record that certain commercial projects were being run on A-I land but 25% rent being government share amounting to Rs.144.923 million for the year 2018-19 & 2019-20 was not deposited into Government treasury.

(Rs. in million)

Sr. No.	DP No.	Violation	Amount
1.	DP-N-50/2023-24	Non-deposit of Government share into treasury	24.120
2.	DP-N-05/2023-24		23.790
3.	DP-N-13/2023-24		48.979
4.	DP-N-09/2023-24		27.742
5.	DP-N-238/2023-24		20.292
Total			144.923

When pointed out by audit, it was replied by the management for DP-N-50/2023-24, that Rs.1.894 million @ Rs.720,000 per marla would be deposited into Government treasury. Against DP-N-05/2023-24, the management replied that due to increase in DC rates, the case was under process with Deputy Commissioner for rationalization of revenue rates for A-I land. Against DP-N-13/2023-24, the management replied that 6% rent of the projects worked out Rs.7.521 million will be deposited. Against DP-N-09/2023-24, the

management replied that a board proceeding of 6% rent is under process and being finalized. Amount as recommended by the Board of Officers on verification of ground realities / income etc, share of Government will be deposited into Government Treasury. Moreover, during financial year 2019-20 less income was received due to COVID-19. Against DP-N-238/2023-24, the management replied that commercial Projects of Headquarters Division were executed on A-2 Land. Case had already been forwarded to Qtg & Lands Directorate for re-classification of land from A-2 to A-1. 25% of Government share would be deposited into Government Treasury from A-2 to A-1 after reclassification by the concerned authorities. Final outcome of the case, however, remained awaited till finalization of this case.

The replies were not tenable. Government share needs to be deposited immediately.

The DAC in its meeting dated 29.11.2023 against DP-N-05/2023-24, was apprised that Rs.10.878 million for the year 2018-19 has been deposited and Government share for 2019-20 is under process. The DAC directed for verification of the recovered amount from audit and expeditious recovery of balance. Against DP-N-13/2023-24, the DAC directed to reconcile the recoverable amount with audit. Deposit the government share and get it verified from audit in case of Headquarters concerned Corps. DAC shifted the remaining portion to concerned Military Hospital for recovery of amount and its deposit into Government treasury. Against DP-N-50/2023-24 & DP-N-09/2023-24, the DAC directed to deposit Government share into Government Treasury as per A-1 land policy, on notified DC rates within 03 months. Against DP-N-238/2023-24, the DAC in its meeting dated 05.01.2024 directed that conversion of land from category A-2 to A-1 be completed within a month and the amount involved be deposited with retrospective effect. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-50, 05, 13, 09 & 238/2023-24

2.7.8 Non-deduction of sales tax on services – Rs.126.931 million

According to Sr. No. 26 of the Schedule-II to Section 19 of the Finance Act of KP 2013 amended in 2016, “services provided by persons engaged in contractual execution of work or furnishing supplies shall be charged 15% sales tax on services”.

According to clarification made by FBR regarding applicability of Sales Tax issued vide letter dated 27.09.2018, it may be noted that the authority to levy and collect sales tax on services provided within the territorial limits of provinces now rests with the respective

provinces. Therefore, the federal / provincial Government departments / autonomous bodies and public sector organizations shall withhold the amount of sales tax on such services as prescribed under the Provincial Sales Tax Act & rules and deposit the same in the respective provincial head of accounts. MAG vide letter dated 31.05.2021 also directed all CMAs to credit the amount of sales tax on services to respective AGPR sub offices by minus crediting the amount of relevant head of account (0/003/15 Defence code B02386 Civil code).

During audit of an Engineering Formation, it was observed that 173 contracts were concluded during financial year 2017-18 to 2020-21 and an amount of Rs.846.210 million was paid to various contractors. However, 15% sales tax on services amounting to Rs.126.931 million imposed by Government of KP, was not deducted which needed recovery.

When pointed out by audit, the management replied that according to MAG instructions issued to UAs vide their letter dated 31.05.2021, 2% tax was to be deducted which was done accordingly with effect from the same date. This office has neither received any instructions nor there was a provision of 15% Sales tax in the contractors' rates.

The reply was not tenable because as per Finance Act of Khyber Pakhtunkhwa, 15% sales tax was required to be recovered.

The DAC in its meeting dated 26.09.2023, directed the management to recover the amount of sales tax as per Government existing orders. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-360/2022-23

2.7.9 Non-deposit of government share of commercial projects at A-1 land – Rs.102.441 million

According to Accounting Procedure on use of A-1 Land for welfare and commercial projects of the Armed Forces, issued by Government of Pakistan, Ministry of Defence letter No.F-2/5/D-12/ML& C/99 dated 20.11.2009 rent will be calculated @ 6% per annum of existing Revenue Rate of the said land notwithstanding the tenancy/rent agreement of the military authorities with the user (s). The rent so calculated was to be deposited into Government treasury as Government share and Welfare fund account of

respective Service chiefs against relevant head of account in the ratio of 25:75 respectively therein control of accounts concerning.

As per Para 2 (b-1) of Policy on Use of A-1 land for welfare and other projects of the Armed Forces and Canteen Stores Department circulated vide Ministry of Defence letter No.F.2/5/12/ML&C/99 dated 02.04.2008, "Survey will be conducted by board of officers to determine actual area under usage. Furthermore, as per para 5 of the said policy "Past usage of A-1 Land and not the transaction is condoned as one-time measure".

During audit of an MEO, it was observed that certain projects were being run by Army authorities under the jurisdiction of MEO but board of officers was not being constituted regularly on yearly basis to determine actual area under usage. Thus, Government share due to use of A-1 Land for commercial purpose was not deposited into Government treasury. Justification for running of commercial projects without approval of competent authority besides regularization and recovery of 25% Government Share amounting to Rs.102.441 million may be expedited.

When pointed out by audit, the management replied that this office had approached to the concerned military authorities to provide TRs, TE No. on yearly basis and also provide record of deposited Government share as well as proceedings regarding constitution of board of officers.

The reply was not tenable as no follow up had been made so far regarding deposit of Government share.

The DAC in its meeting dated 05.01.2024 shifted the para to Army. No further progress was reported till finalization of this report.

Audit recommends for depositing of Government share at the earliest.

DP-N-286/2023-24

2.7.10 Non recovery of POL & Dry Ration– Rs. 89.021 million

According to Rule 51 of ASC Regulations-1986 (Volume-I), "Issue of Rations on Payment to Civil Armed Forces i.e. Pakistan Coast Guards and Frontier Corps, the following items of rations will be issued on payment at payment issue rates at the same scale as laid down in SRS-1975 to Pakistan Coast Guards. The amount representing the cost of the above, items will be recovered.

- (a) Atta/Rice (b) Dall
(c) Vanaspati (d) Sugar
(e) Salt (f) Tea (g) Matches Safety.”

During the audit of Army Formation for the financial year 2021-22, it was observed that POL and Dry Ration amounting to Rs. 89.021 million were issued to different units on payment without book adjustment/recovery of dues.

(Rs. in million)

Sr. No.	Items issued	Outstanding Since	Amount
1.	POL	July 2021	67.407
2.	Dry Ration		21.614
Total			89.021

Audit is of the view that issuance of POL and Ration without adjustment/recovery of dues reflects weak internal controls within the entity.

The matter was pointed out by audit in May, 2023. The management replied that as per procedure, organizations draw POL and Dry Ration on payment and amount against book adjustment was deposited through TRs in concerned CMA. Reply was not substantiated from documentary evidence.

The DAC in its meeting dated 30.08.2023 directed the management that relevant record of recovery/adjustments against the ration may be provided to audit for verification. No progress was reported till finalization of this report.

Audit recommends implementation of the DAC directives.

DP-S-343/ 2022-23

2.7.II Non-recovery of rent and allied charges – Rs 71.548 million

According to Rule 35 Quarter & Rent 1985, “Assessment of Rent of Public Buildings (a). Rents for all public buildings shall be assessed in accordance with this regulation, under which the GE/ME is authorized to fix the rent of a building unless otherwise fixed by the Government.” Further, according to Para-442 of DSR 1998, “GE is responsible for making monthly demands and prompt realization of rent and allied charges

from the users of Military Buildings and allied services.” According to Para I of COD Estate Land Agreement, “The second party will pay electric charges to MES or authorities concerned and shall deposit a copy of paid bill every month for record.”

A. During the audit of an Army Formation for the period of 2019-20 to 2021-22, it was observed that military land was used for commercial purposes (Institute of Technical Education), but revenue and utilities charges amounting to Rs. 46.800 million was not deposited into government treasury. Furthermore, different commercial activities were also operated by this Formation but rent amounting to Rs. 8.640 million was not deposited into government treasury.

Audit is of the view that non-recovery of rent & allied charges caused financial loss to the public exchequer.

The matter was pointed out by Audit in May, 2023. The management replied that the Institute was a welfare project operated by the concerned Corps, however in other cases reply would be submitted. Reply of management is admissibility of irregularity, whereas non-deposit of rent and allied charges resulted in a loss of Rs. 46.800 million.

The DAC in its meeting dated 30.08.2023, directed the management that relevant documents in evidence that the institute is not being run commercially, be provided to audit for verification. DAC further directed to recover the allied charges from the institute and got verified from audit. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-427/ 2022-23

B. During the audit of an Army Formation for the financial year 2021-22, it was observed that as per lease agreement dated 1st December, 2020 a piece of 42 Acres of land was leased out for farming, however, utilities charges i.e. water and electricity charges, amounting to Rs 5.694 million was not recovered from the contractor, since date of execution of agreement.

Utility	No. of units/ Gallons per day	Units/ Gallon per Annum	Rate Per unit/ Gallon	Amount for year (Rs)	No. of year	Recoverable amount (Rs)
---------	-------------------------------------	-------------------------------	-----------------------------	-------------------------	----------------	-----------------------------------

Water Charges	2000	730000	2.25	1,642,500	3	4,927,500
Electricity	20	7300	35	255500	3	766,500
Total						5,694,000

Audit is of the view that due to no-recovery of dues government sustained loss, which indicated weak internal controls within the department.

The matter was pointed out by Audit in March, 2023. The management replied that electricity is being provided through solar system and water used for agriculture is sewerage water which was certified by PCSIR. Reply is not tenable as neither permission for installation of solar system is on record nor it was physically available, moreover, sewerage water is not fit for agriculture and is dangerous for human life.

The DAC in its meeting dated 30.08.2023 directed the management that that relevant record of recovery of water charges from the concerned contractors may be provided to audit for verification. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-357/ 2022-23

C. According to Rule 35 Quarter & Rent 1985, "Assessment of Rent of Public Buildings (a). Rents for all public buildings shall be assessed in accordance with this regulation, under which the GE/ME is authorized to fix the rent of a building unless otherwise fixed by the Government. Under Para-442 of DSR1998, "GE is responsible for making monthly demands and prompt realization of rent and allied charges from the users of Military Buildings and allied services."

During the audit of an Engineering Formation for the financial Year 2022-23, it was observed that various officers/ officials (in-service & retired) were residing in government accommodations. However, recovery of rent & allied charges amounting to Rs 19.054 million was not made from the occupants.

(Rs in million)

Sr. No.	DP No	Description	Amount
1.	DP-S-311/2023-24	99 Officers/ Officials	14.254

2.	DP-S-300/2023-24	04 Retired Army Officers	4.800
		Total	19.054

Audit is of the view that non-recovery of rent indicated prevalence of weak internal controls.

The matter was pointed out by Audit in August, 2023 & September, 2023. The management replied that rent recovery of some officers were not responsibility of this office. It should be recovered by the unit concerned. Furthermore, some officers were living outside the premises of the Cantonment in private accommodation, for which electric bills were directly charged by the concerned company. However, recovery of water charges is in progress.

Reply was not tenable as per above quoted rule of DSR, GE was responsible for making monthly demand for realization of rent and allied charges. Furthermore, as per record 5% of HRA was deducted from officer which proves that officers were living within the Cantonment area therefore allied charges may be deposited at earliest.

The DAC in its meeting dated 18.01.2024 directed the management in DP S-311, that relevant record establishing that the individuals were residing in private accommodation be provided for verification to audit, otherwise recovery be made from the concerned within one month. In case of DP S-300, DAC shifted the para to concerned Corps. DAC further directed to pursue the recovery and get it verified from audit. No further progress in terms of recovery was reported by management to audit till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-300 & 311/2023-24

2.7.12 Less deduction of GST from the suppliers - Rs 61.346 million

According to Finance Bill, 2015, “The applicable rate of GST is 17% for GST registered firms and 19% for unregistered firms.” Further, According to SRO 896(I)/2013 dated 04-10-2013 and Sales Tax General Order No. 27 of 2014 letter No. C.No.3 (11)ST-L&P/2013-40880 dated -03-2014 “Levy of 2% extra tax on the supply of Auto Parts and Accessories, Tyres and Tubes and Storage batteries has been imposed.”

During audit of various Army Formations for the period of 2017-18 to 2021-22, it was observed that management procured spare parts and other items through local purchase

valuing Rs 435.315 million. However, 17% GST on other items and 2% extra tax was not deducted from the suppliers. Non-recovery resulted in loss to state amounting to Rs 61.346 million.

(Rs in million)

S/No	DP No	Purchase value	GST@ 17%	Extra GST @ 2%	Total GST
1.	S-363/2022-23	188.327	27.361	2.706	30.067
2.	S-413/2022-23	141.158	20.510	2.03	22.54
3.	S-424/2022-23	38.956	5.66	0.56*	7.402
4.	S-415/2022-23	66.874		0.94	1.337
Total		435.315			61.346

*2% Extra GST as the contractor was unregistered with FBR

Audit is of the view that due to non-recovery of GST, government was deprived of its revenue which indicated weak internal controls.

The matter was pointed out by Audit in November, 2022 to April, 2023. The management in DP S-424, replied that both firms were registered, and two contractors were registered firms, while powdered milk was exempted from GST. The management of remaining DPs replied that deduction of taxes is the responsibility of CMA and as per FBR letter dated 18th March, 2014, 2% extra levy tax imposed on automobiles manufacturers, whereas the firms registered with this workshop are general suppliers.

Reply furnished by the management is self-admission as 2% extra sales tax imposed on automobiles, hence amount may be recovered from the concerned under intimation to audit. Reply was non-satisfactory as GST was not deducted, neither the exemption certificate of Milk Replace from FBR was provided to audit nor the GST registration number of the said two contractors provided to audit.

The DAC in its meeting dated 30.08.2023 directed the management in DP S-363, S-413 & S-415 that relevant documents of deduction of GST by the CMA, be provided to audit for verification. in case of DP S-424, DAC directed that import documents of the procurement be provided to audit for verification. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

2.7.13 Non-recovery of dues from foreign students US \$ 0.229 million

According to Annexure-B to Joint Services Instructions, (JSI-4/2006), “Tuition fee @ US \$ 400 per week per student was required to be recovered from foreign students / allied officers”. Furthermore, according to Annexure-E to above stated JSI, “Messing charges @ US \$ 8 per day, Accommodation charges @ US \$ 12 per day single bed room single occupancy and US \$ 6 double occupancy and Medical charges @ US \$ 3 per day per student was required to be recovered from foreign students / allied officers”.

During audit of an Engineering College, it was observed that 05 students of friendly country were selected for engineering degree / programme at the College but messing, accommodation, medical charges and tuition fee amounting to US \$ 229,398 were not recovered from students, which needs recovery.

When pointed out by audit, the management replied that the cadets were detailed in the College to undergo engineering degree courses, they joined the College in October/November, 2018 and October 2019, their courses will be completed in October/November, 2022 and October, 2023 respectively. It was instructed by GHQ that all bills pertaining to foreign cadets be forwarded to MT Directorate for further processing / payment within one month after termination of course.

The reply was not acceptable as instructions of GHQ were not shared with Audit. Recovery was required to be made as per JSI 4/2006.

The DAC in its meeting dated 26.09.2023 directed to pursue the case, expedite recovery and get it verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Note:

The issue was reported earlier also in the Audit Report for Audit Year 2021-22 vide para number 2.7.3 having financial impact of US \$ 0.064 million. Recurrence of the same irregularity is a matter of serious concern.

DP-N-366/2022-23

2.7.14 Non-deduction of sales tax on procurement of stores – Rs.54.198 million

According to Section 236 (A) of income tax ordinance 2001, “Any person making sale by public auction/ tender of any property or goods shall deduct tax including award of any lease to any person” (Tax rate filer 10%, Non filer 20%). Further, according to SRO No. 660(1) dated 30-06-2007 “1/5th Sales Tax is required to be deducted while making payment to contractor and remaining amount of GST is required to be deposited to FBR directly by the contractor. Further, under Rule-6 (d) Financial Regulations Volume-I “Government revenues shall not be utilized for the benefit of a particular person or a section of the community”.

During audit of various Formations, it was observed from the record that certain items were purchased from different contractors but 1/5th Sales Tax amounting to Rs.15.802 million (464.772 million x 17% = 79.010 / 5) was not deducted/withheld. Moreover, evidence regarding depositing of 17% GST Rs.79.010 million was also not available which resulted into loss to State. Details are as under:

(Rs. in million)

Sr. No.	DP No.	Description	Cost of stores	17% GST
1.	DP-N-172/2023-24	GST	98.850	16.804
2.	DP-N-132/2023-24	-do-	115.250	19.592
3.	DP-N-145/2023-24	-do-	26.880	4.569
4.	DP-N-389/2022-23	-do-	132.712	22.561
Total			373.692	63.526

When pointed out by audit, against DP-N-172/2023-24, the management replied that an amount of Rs.338,537 on account of 1/10th of GST was deposited through computerized payment slip Sale Tax. The Supplier is registered with Sale Tax department as Wholesalers and @ 1/10th GST is required to be deposited by the contractor vide 897-(I)/2013 dated 4th October 2013, which was already been made. Against DP-N-132/2023-24, no reply was furnished by the management. Against DP-N-145/2023-24, the management replied that items were not procured from plants. However, the store has been locally transported on which 3% transportation tax has already been deposited into

Government treasury. Against DP-N-389/2022-23, the management replied that 1/10th of GST was deposited through computerized payment slip. The Supplier is registered with Sales Tax Department as Wholesaler and @ 1/10th of GST vide SRO 897-(I)/2013 dated 4th Oct 2013 is required to be deposited by the contractor, which has already been made.

The replies were not tenable, sales tax amount due needs to be recovered.

The DAC in its meetings dated 26.09.2023 and 29.11.2023 directed to reconcile the recoverable amount, deposit the recovered amount, expedite recovery of balance amount and get it verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-389/2022-23, DP-N-172, 132 & 145/2023-24

2.7.15 Non-recovery of Foreign Training charges -US \$ 156,972.78

According to JSI-4/2006, "Tuition fee @ US \$ 300 per week per student was required to be recovered from foreign students / allied officers". Further according to Annexure-E to JSI-4/2006, "Messing charges @ US \$ 8 per day, Accommodation charges @ US \$ 12 per day and Medical charges @ US \$ 3 per day per student was required to be recovered from foreign students / allied officers".

During audit of an Army Formation for the financial year 2020-21 & 2021-22 it was observed that an amount of US \$ 156,972.7 was outstanding against 23 foreign trainees of different countries.

Audit is of the view that non-recovery of allied charges from foreign trainees reflected weak internal controls within the entity.

The matter was pointed out by audit in January, 2023. The management admitted recovery amount of US \$ 156,972.78. The reply is an admission of the audit observation as only partial recovery of the amount was made.

The DAC in its meeting dated 30.08.2023 directed the management to expedite the recovery from the concerned and get it verified from audit. No progress was reported till finalization of this report.

Audit recommends implementation of the DAC directives.

DP-S-380/ 2022-23

2.7.16 Unauthorized payment of HRA and non-deduction of 5% rent – Rs.41.813 million

As per rule 66 of Pay and Allowance (Vol II), 1997 married officers not provided with Government / hired / requisitioned / married accommodation, shall be entitled to House Rent Allowance on the same conditions as in the civil. Further, as per Ministry of Housing and Works O.M No. F-11(33)/2012-Policy dated 17.05.2013 endorsed by Finance Division (Military Finance Wing) vide U.O No. 134/R-1/ASMF/2014 dated 31.01.2014, armed forces officers allotted residential accommodations may not be paid 45% house rent allowance and 5% of their running basic pay should be charged to bring them at par with civilian set up”.

During Audit of Pay Section of a Controller Military Accounts, it was observed that married officer quarters (MOQs) were allotted to Army officers but house rent allowance amounting to Rs.41.813 million was also paid in their monthly pay in violation of above Government order. Furthermore, 5% rent was deducted from few officers only. The irregularity resulted into unauthorized payment of HRA besides non-recovery of 5% rent.

When pointed out by audit, the management replied that as per Government orders the station is declared as non-family/operational. Therefore, deduction of HRA was not authorized. Recovery of 5% with regard to self-help basis building was not clear.

The reply was not tenable. Audit observed from the record of Rent and Allied charges Register maintained by Pak Works Section (PWS) and list of accommodation obtained from UA PWS that officers were residing in MOQs.

The DAC in its meeting dated 27.09.2023, shifted the para to Concerned Army Headquarters with the direction to expedite revision of the HRA policy. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-383/2022-23

2.7.17 Loss to state due to non-deposit of income tax – Rs.31.200 million

According to section 236 (A) of income tax ordinance 2001, “any person making sale by public auction / tender of any property or goods shall deduct tax including award of any lease to any person”. Moreover, according to Clause-11 of Contract Agreement the bonafide Government taxes will be paid / deposited by the lessee. Further, according to Section-205 of Income Tax Ordinance captioned as Default surcharge, a person who fails

to pay any tax on or before the due date for payment shall be liable for default surcharge @ 18% per annum on the tax or other amount unpaid computed for the period commencing on the date on which the tax was due and ending on the date on which it was paid.

During audit of Headquarters of a Corps, it was observed from the record that Contract Agreement for establishment of Cattle Mandi on A-1 Land measuring 32 Acres 6 Kanals and 14 Marlas was awarded / concluded by the Corps Headquarters with a firm on 11.03.2013 for a period of 30 years on rental basis. However, evidence in support of deduction / deposit of Income Tax was not available in the record which was incorrect and resulted into loss to State. Therefore, Income Tax @ 10% for the last five years amounting to Rs.31.200 million (5,200,000 x 12 x 5 years = 312,000,000 x 10%) needs recovery from the contractor concerned for deposit into Government treasury.

When pointed out by audit, the management replied that contractor will be approached for provision of complete details of income tax deposited. On receipt of Computerized Payment Receipt (CPR) / challans from the contractor, the same shall be produced to Audit.

The reply was not convincing. Amount of income tax needed recovery from the contractor concerned for deposit into Government treasury.

The DAC in its meeting dated 05.01.2024 was apprised by the management that as per A-1 land policy 6% dues are already deposited into Government treasury, whereas income tax ordinance is not applicable on A-1 land matter. The DAC directed to reconcile the amount and get the recovered amount verified from audit besides expediting recovery of balance amount within two months. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-295/2023-24

2.7.18 Delay in recovery of outstanding dues against contractors – Rs.28.287 million

As per para-65(c) of PAFW-2249, if as a result of such audit and technical examination any over payment is discovered in respect of any work done by the contractor, or alleged to have been done by him under the contract, it shall be recovered by Government from the contractor by any sum then due or which at any time thereafter may become due to the contractor.

During audit of an Engineering Formation, it was noticed from quarterly report of outstanding dues i.e. electricity charges and recoveries pointed out by relevant inspecting authority against contracts (quarter ending June, 2021) Rs.28.287 million was lying outstanding against various contractors since 1987 which needs immediate recovery.

When pointed out by audit, the management replied that maximum efforts have been made to recover the outstanding dues and during 2020-21 a sum of Rs.13.221 million has been recovered.

The reply was not tenable as no evidence regarding recovery was produced to audit for verification.

The DAC in its meeting dated 26.09.2023, directed to verify the recovered amount to audit and pursue the balance recovery. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-627/2022-23

2.7.19 Non-deposit of government share of commercial activities – Rs. 25.556 million

According to policy issued vide MoD letter No.F.2/5/D-12/ML&C/99, “On use of A-1 land for welfare and other projects of armed forces and CSD dated 2nd April 2008, 25% of the revenue generated will be deposited into Government Treasury and 75% balance will be utilized by respective Formation as per policy to be laid down by respective Service Chief.” According to Para 4(b)(3) of A-1 land Policy issued by Government of Pakistan Ministry of Defence Rwp vide Letter No. F.2/5/D-12/ML&C/99 dated 02-04-2008, “The whole income relating to A-I land for agricultural purposes etc. will be deposited into the Government treasury.”

During audit of various Army Formations for the year 2022-23, it was observed that the A-1 land was being used for commercial/agricultural activities, but the government share as per A-1 land policy amounting to Rs 25.556 million was not deposited into the treasury.

(Rs in million)

Sr. No.	DP No.	Nature of activity	Type of land	Area of Land (Sq Yards)	Amount of Govt Share 25% of 6% of DC rate
1.	S-177/2023-24	Commercial	A-1	38,889	17.137
2.	S-282/2023-24	Commercial	A-1	2616	6.081
3.	S-283/2023-24	Agriculture	A-1	340 Acre	2.338
Total					25.556

Audit is of the view that non-deposit of Government shares from commercial activity and agriculture land caused loss to the state, which reflected weak internal controls within the organization.

The matter was pointed out by Audit in November, 2023 & December, 2023. The management in DP S-177, replied that the completion of said project has been delayed and rent thereof could not be deposited. In case of DP S-282 & 283, the management replied that that transfer of government share is under process and will be deposited after approval of competent authority. Reply was not tenable, shops relating to DP S-177, were already rented by the management.

The DAC in its meetings dated 29.12.2024 and 18.01.2024, directed the management to provide relevant record of commercial activities along-with their board of officers' proceedings and deposit of government share into treasury to audit authorities for verification. No further progress was reported by management to audit till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-177, 282 & 283/2023-24

2.7.20 Non-deposit of profit into government treasury – Rs.12.546 million

According to Ministry of Defence Letter No. 6/5/D-3 (A-II)/2016 dated 09.02.2021, the profit earned on deposit by CNE Account in PLS Account shall be deposited into Government treasury in the light of Article 78 of the Constitution and Rule-2 of Financial Regulations Volume-II, 1986. Moreover, The DAC in its meeting dated 17.11.2021 recommended to remit the recovery of profit into State treasury.

During audit of a Military Hospital, it was observed that a sum of Rs.12.546 million on account of profit was received for the year 2019-2020 on the payment received from Outdoor / Indoor CNEs patients and deposited into Amenity Fund. The profit received from the Bank was required to deposit into Government treasury instead of hospital amenity Fund as per above government orders.

When pointed out by audit, the management replied that the profit is being utilized for welfare of entitled poor cancer patients for their test being carried out from civil laboratories, hence there is no loss to state.

The DAC in its meeting dated 29.11.2023 directed the management to deposit the amount of profit into Government treasury and get it verified from audit within one month. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-96/2023-24

2.7.21 Loss to state due to less application of GST rates – Rs.5.128 million

The Federal Government has made amendment in Chapter-XII of Sales Tax Special Procedure Rules-2007 vide SRO 896(1)2013, dated: 04-10-2013 which entail levy of an additional Sales Tax @2% on purchase of Auto Parts and accessories i.e. 19% instead of 17%.

During audit of a Regional Workshop it was observed that local purchase of Mechanical Transport spare parts was made by applying rate of Sales Tax as 17% instead of 19% during the financial years 2015-16 to 2017-18. The omission resulted in less recovery on account of Sales Tax amounting to Rs.5.128 million.

When pointed out by audit, the management replied that contingent bills inclusive all taxes were submitted in CMA, by respective firm. After necessary verification by CMA, bills were passed and cheques were issued after deduction of withholding tax 1/10th of GST & 4.5% income tax.

The reply was not tenable. GST was required to be applied at prescribed rate.

The DAC in its meeting dated 29.11.2023 directed to approach the firm for recovery of additional 2% GST and get it verified from audit. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-20/2023-24

2.7.22 Non-recovery of HRA from officers - Rs 4.241 million.

As per Government of Pakistan Ministry of Finance OM No.F.2 (2) R.5/2010-530, dated 19th November 2019, a) HRA will not be admissible to Armed Forced Officer who have been allotted Government accommodation/ MOQs. b) recovery of 5% Rent presently be deducted from the married officer will continue as per Rules.

During the audit of various Army Formations for the financial year 2021-22, it was observed that amount of Rs 4.241 million was paid to various officers who were residing in government accommodation.

(Rs in million)

Sr. No.	DP No.	Amount
1.	DP-S-379/2022-23	3.335
2.	DP-S-349/2022-23	0.906
	Total	4.241

Audit is of the view that non-recovery of House Rent Allowance reflected weak internal controls with the entities.

The matter was pointed out by Audit in January and March 2023. The management for DP-S-349/2022-23 agreed to recover the amount from the concerned. The management replied for DP-S-379/2022-23 in some cases recovery of HRA has been made. Reply was not tenable as no record of recovery of HRA verified from audit.

The DAC in its meeting dated 30.08.2023 directed the management to reconcile the recoverable amount with audit and recovery be made expeditiously and got verified from audit. No progress was reported till finalization of this report.

Audit recommends implementation DAC directives.

DP-S-349 & 379/2022-23

2.7.23 Non-recovery of dry ration items over and above authorization – Rs.3.829 million

Under Rule-5 Scales of Rations and Supplies (SRS) read with Annexure A of SRS 1998 that in no circumstances can under drawn of the vegetable rations on one day be made good on any subsequent day. Over drawl on any one day will be adjusted by under drawl on subsequent days with in the month to which the indent pertains, except in the case of over drawl for the last day of the month or these detected during the audit of the ration return for which adjustment will be made by over drawl in the next month.

During audit of a Training Facility for the financial year 2018-19 it was observed that dry/fresh ration items were drawn over and above the authorized strength amounting to Rs.3.829 million which need regularization/recovery.

When pointed out by audit, the management replied that court of inquiry in the matter has been finalized. The amount had been recovered from the accused and will be deposited into Government treasury.

The DAC in its meeting dated 29.11.2023 directed that extra cost in lieu of ration may be recovered and deposited into Government treasury and get it verified from audit. DAC further directed that matter may be investigated and the action so far taken also be intimated to audit. In this regard, fresh reply may also be submitted to audit besides updated reply. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-591/2022-23

2.7.24 Non-recovery of rent from BTS towers installed at A-1 land – Rs.1.200 million

According to Rule 14(3) of CLAR 1937 “Class A-1 land shall not be used or occupied for any purpose other than authorized purpose and according to Ministry of Defence ML&C Department letter No.51/1411/Lands/ML&C/2005 dated 24.06.2005” on provision of No Objection Certificate (NOC) and agreement will be executed with cellular companies for installation of Base Transmission Station and tower fee @ Rs.20,000 per month with annual enhancement of 10% will be recovered.

During audit of a Military Farm it was noticed that 5 BTS Towers of different cellular companies were installed on A-I Land at different locations but Tower Fee amounting to Rs.1.200 million for financial year 2019-20 was not deposited into Government Treasury in violation of above rule.

When pointed out by audit, the management replied that the subject work was under the management of Soldier Welfare Organization. The authority would be approached for depositing of objected amount.

The reply was not tenable as the BTS Tower fee was required to be deposited into Government Treasury by the Military Farm as the Towers were installed on their Land.

The DAC in its meeting dated 29.11.2023 shifted the Draft Para to Army.

Audit recommends for recovery of the amount involved.

DP-N-19/2023-24

2.8 Loss to State – Rs. 7,317.933 million

2.8.1 Loss due to unauthorized structures on military land – Rs. 6,347.20 million

According to Rule-14(1) of the CLA Rules-1937, “The administrative control of Class-"A-1" land including the detection and prevention of encroachments thereon, shall vest in the Military Authorities for the time being in occupation of the land”.

During audit of an MEO, it was observed that encroachments were made on A-1 land measuring 39.67 Acres and commercial businesses were established on state land by Army authorities. This omission resulted into loss to Federal Government amounting to Rs. 6,347.20 million (39.67 x 160 million).

When pointed out by audit, the management replied that according to the Cantonment Lands Administration Rules, 1937 responsibility for removal of encroachment on A-1 land lies with Military authorities. Furthermore, as per SRO No.178/2 dated 16.02.1978 the concerned Station Commander was responsible for detection/prevention of encroachment on A-1 Land.

The reply was not tenable as MEO is the custodian of military land and the case was required to be taken up with Military authorities for getting the land free from occupant.

The DAC in its meeting dated 05.01.2024 shifted the para to concerned Corps Headquarters. No further progress was reported till finalization of this report.

Audit recommends either removal of encroachment or recovery of the amount involved as proposed.

2.8.2 Loss to state due to irregular payment of late payment surcharge Rs.317.110 million

According to Rule-6 (a) of Financial Regulations Volume-I 1986, “Every officer should exercise the same vigilance in respect of expenditure incurred from Government revenue as a person of ordinary prudence would exercise in respect of the expenditure of his own money.”

During the audit of an Engineering Formation, it was observed from paid voucher No.3863/1277/E&M dated 09.06.2021 that an amount of Rs.317.110 million was paid to SNGPL on account of Late payment surcharge. It was observed that there was no position in Quarter and Rent Rules 1985 and MES Regulations, 1998 regarding payment of such penalty/surcharge. Audit was of the view that weak internal control resulted into loss to state due to irregular payment of Rs. 317.110 million on account of late payment surcharge.

When pointed out by audit, the management replied that reply would be provided after scrutiny of record.

It was concluded that only cost of Sui gas consumed should be paid and no payment as Late Payment Surcharge (LPS) was admissible, so the amount may be got regularized.

The DAC in its meeting dated 29.11.2023 directed to provide relevant record to audit authorities for verification. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

2.8.3 Loss to state due to cost overrun of the contract – Rs. 265.122 million

According to Rule-6(a) of F.R (Vol-1) 1986, “Every officer should exercise the same vigilance in respect of expenditure from Government revenue as a person of ordinary prudence would exercise in respect of expenditure of his own money.” Moreover, according to Rule-6 (d) above, “Government revenue shall not be utilized for the benefit of a particular person or section of community.”

During audit of an Engineering Formation for the financial year 2022-23, it was observed that a contract amounting to 3,503.374 million was awarded to a contractor in the year 2021. However, the contract was cancelled and reason and justification for awarding

of a new CA of the same work with the same organization were not provided. At the time of cancellation of the contract total payment of Rs 1,680.600 million was released to the contractor. The new contract amounting to Rs 2,087.896 million, for the remaining work of Rs 1,822.774 million was awarded to the same contractor. This resulted into cost overrun of the contract to the tune of Rs 265.122 million.

Furthermore, as per 1st running payment amount of Rs 126.045 million against income tax and Rs 100.836 million against sales tax on services had been deducted. However, in the new CA, income tax and sales tax on services were not withheld from the payment to the contractor.

Audit is of the view that the cost overrun reflected prevalence of weak internal controls within the organization.

The matter was pointed out by audit in August, 2023. The management replied that Board of officers constituted would be provided soon as the same has been held/forwarded to DGW&CE (A) office for discussion purposes. E-in-C is the competent authority for awarding the contract in this case. Reply was not tenable as the management admitted the stance of audit.

The DAC in its meeting dated 18.01.2024 directed the management that relevant record regarding discontinuation the contract, change of scope of work and awarding the contract for same work to FWO be provided to audit for verification with one month. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-314/ 2023-24

2.8.4 Loss to state due to unauthorized consumption of electricity - Rs. 167.374 million

A. As per Quarter and Rent Rules 1985, Chapter XII rule 82, "Supply to be Restricted to Authorized Scale. Electrification of accommodation may be authorized only at stations where electricity is available. The scale of provision of electrical installations for illumination, ventilation or power purposes shall be governed by the Barrack Synopsis. Where lights and fans, etc, have been installed in excess of the authorized scale, the excess fittings shall be removed so as to reduce the illumination or ventilation to the authorized scale." As per Rule 83, 84 of Q& R 1985, "The following shall be entitled to free supply of electric energy for lights and fans only."

During the audit of an Engineering Formation for the financial year 2021-22, it was observed that free authorization of electricity board was convened for consumption of electricity for entitled building. In this regard, following irregularities were observed,

- Board of Officer for free electricity consumption was worked out on 317 working days (average 4 holidays in a month) whereas normally 248 working days were available hence establishment of board on 69 excess days resulted in excess assessment by the board.
- Extra Fans were added in those building where it was not necessary i.e. MT Sheds, Stores, therefore adding excess fans increases the free consumption units/ loads.
- Fix 100 watt lights were worked out whereas only 40 and 60 watt LED tube lights are available in market, and government revenue could have been saved.
- As per available record of consumption of bulbs neither bulbs were procured nor issued for office and domestic use. This puts into question the calculated load.
- Free consumption of load for winter and summer was almost same which indicates load was not properly worked out.
- Un-authorized free units were allowed to the Mess guest rooms, which was irregular.
- Free consumption of 410,957.8 units in summer and 373,431.4 units in Winter was shown without keeping in view of TO&E of equipment of concerned hospital.
- An amount of Rs 722.477 million was paid to SEPCO on account of electricity bills, but electricity was supplied to buildings without installation of sub-meters to verify the consumption of electricity within free authorized limit.

Audit is of the view that irregular supply and consumption of electricity showed weak internal controls within the organization.

The matter was pointed out by the audit in May, 2023. The management replied that the board was finalized as per procedure. Reply was not tenable as point-wise reply was not furnished by the management.

The DAC in its meeting dated 30.08.2023 directed the management that revised Board of Officers be convened in the line of audit observation, electric meters be installed where un-metered electricity is being supplied, case be taken up for amendment in Defence Services Accommodations Scales 2000, DSR 1998 & Quarter & Rents 1985. No progress was reported till finalization of this report.

Audit recommends implementation of the DAC directives.

DP-SSR-S-416 /2022-23

B. As per Rule 82, Chapter XII of Quarter and Rent Rules 1985, “Supply to be restricted to authorized scale. Electrification of accommodation may be authorized only at stations where electricity is available. The scale of provision of electrical installations for illumination, ventilation or power purposes shall be governed by the Barracks Synopsis. Where lights and fans, etc., have been installed in excess of the authorized scale, the excess fittings shall be removed so as to reduce the illumination or ventilation to the authorized scale.” As per Rule 83, 84 of Q & R 1985, “The lights and fans shall be entitled to free supply of electric energy only.”

During the audit of an Engineering Formation for the financial year 2021-22, it was observed that as per Quarter & Rent Rules 1985, free supply of electric energy was authorized for lights and fans only. Plug points of 1000 watts and 100 watts were free authorized by board of officers, but there was no provision for free authorization of plug points in Q&R Rules 1985.

Sr. No.	Total units of Plug points 1000watts	Total units of Plug points 100 watts	Total Units of Plug points PM	Units 12 Months plug points	Rate per Unit of Bulk supply	Amount (Rs)
1	26,781	160,857	157,638	1,891,654	Rs 31/-	58,641,336

Audit is of the opinion that plug points of 1000 watts and 100 watts were not covered under free allowance, which indicated weak internal controls within the Formation.

The matter was pointed out by Audit in October 2022. The management replied that the contention of audit that as per Q&R 1985, free supply electric energy is authorized for lights and fans only. The contention of audit was not correct. The rule quoted stipulates that scale of provision of electrical installations for illumination, ventilation or power purposes shall be governed by the Barracks synopsis. According to Rule-17(f)(g)(h)(j) of Accommodation scale certain apparatus were allowed for free consumption, therefore, plug point 1000 watts had been included the board for free authorization electric energy. The Reply was not tenable; as 17 plug points were not authorized.

The DAC in its meeting dated 08.05.2023 directed the management to reconcile the matter with audit. Case for amendment in Quarter & Rent Rules 1985 be initiated. No progress was reported to audit till finalization of this report.

Audit recommends implementation of DAC directives.

DP-SSR-S-200 /2022-23

2.8.5 Loss to state due to irregular drawl of fresh ration – Rs.160.401 million

Under Rule – 5 Scale of Ration Strength (SRS) read with Annexure A of SRS 1998 that in no circumstances can under drawn of the vegetable rations on one day be made good on any subsequent day. Over drawl on any one day will be adjusted by under drawl on subsequent days with in the month to which the indent pertain, except in the case of over drawl for the last day of the month or these detected during the audit of the ration return for which adjustment will be made by over drawl in the next month.

During the audit of a Training Facility for the year 2015-16 to 2018-19, it was observed that certain fresh ration items were drawn over and above the authorized scales. The omission resulted in an un-authorized drawl of ration costing Rs.160.401 million which needed recovery besides investigation into the matter.

When pointed out by audit, the management replied that the court of inquiry in the matter has been finalized. The amount had been recovered from the accused and will be deposited into Government Treasury.

The DAC in its meeting dated 29.11.2023 directed that extra cost in lieu of ration may be recovered & deposited into Government treasury and get it verified from audit. The DAC further directed that matter may be investigated and the action taken be intimated to audit. In this regard, fresh & updated reply may also be submitted to audit. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-38/2023-24

2.8.6 Loss due to non-inclusion of PST in contract agreements – Rs.31.899 million

According to S.No.14 of the 2nd Schedule to Section 3 of the Punjab Sales Tax (PST) on Services Act 2012, “Subject to such exclusion as mentioned in Second Schedule, a taxable service is a service listed in Second Schedule, which is provided by a person from his office or place of business in the Punjab in the course of an economic activity, including the commencement or termination of the activity”. Construction services and services provided by contractors of building (including water supply, gas supply and sanitary works), roads and bridges, electrical and mechanical works (including air conditioning),

horticultural works, multi-discipline works (including turn-key projects) and similar other works shall be charged five percent without input tax credit/adjustment in respect of Government civil works and sixteen percent with input tax credit/adjustment for others.

As per FBR Clarification vide letter dated 27.09.2018 “the authority to levy and collect sales tax on services provided within the territorial limits of provinces now rest with the respective provinces. Therefore, the federal / provincial govt. departments / autonomous bodies and public sector organization shall withhold the amount of sales tax on such services as prescribed under the provincial sales tax law and rules and deposit the same in the respective provincial head of accounts”. MAG vide letter dated 31-05-2021 directed all CMAs to credit the amount of sales tax on services to respective AGPR sub office by minus crediting of relevant head of account (0/003/15 defence code B02386 civil code).

During Audit of an Engineering Formation, it was observed that 97 contracts valuing Rs. 637.972 million were concluded for construction / repair and maintenance work without inclusion of clause regarding 5% sales tax on services resulting into a loss of Rs. 31.899 million. It was, therefore, pointed out that the same may be justified besides amendment / recovery / regularization under intimation to Audit.

When pointed out by audit, the management replied that the percentage of sales tax @ 5% was not mentioned in the specifications to avoid any complication during increase of percentage of sales tax. However, the contractor is bound to deposit sales tax under the provision of Clause-15 of PAFW-2249 (form part of contract agreement) “Octroi and Other Charges”.

The reply was not tenable. Clause regarding provincial sales tax on services was required to be included in the contracts which was not done in this case.

The DAC in its meeting dated 29.11.2023 directed to pursue the recovery from contractor on account of PST on services and get it verified from audit. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-158/2023-24

2.8.7 Loss due to purchase at higher rates- Rs.28.827 million

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

During audit of a Depot, it was noticed that various stores items were locally purchased from different contractors during the year 2017-19.

Audit observed that stores were purchased from the highest bidder without any justification. Audit is of the view that due to local purchase of store at higher rate, Government sustained a loss of Rs. 28.827 million which needed recovery and regularization.

When pointed out by audit, the management replied that all rates and procedure as per PPRA Rules 2004 have been followed. Moreover, items accepted by the end users have been procured.

The reply was not tenable because the store was required to be purchased from the lowest bidder which was not done. This resulted into loss to state which needed recovery and regularization.

The DAC in its meeting dated 29.11.2023 directed to carry out fact finding inquiry for not purchasing the store from lowest bidder and get it verified from audit. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-94 & 95/2023-24

MILITARY LANDS AND CANTONMENTS

Military Lands and Cantonments is an attached department of the Ministry of Defence which provides input on defence land and local Government matters in Cantonment areas to the Federal Government and all related stakeholders. Major responsibilities include acquisition of property for Defence Service, de-limitation of Cantonments areas, local self-government and provision of civic amenities in Cantonment areas. It also ensures implementation of Cantonment Act 1924, policies, executive instructions and all rules and regulations in the Cantonment areas.

AUDIT PARAS

2.9 Un-authorized / irregular payments – Rs.141,421.971 million

2.9.1 Irregular utilization of land for commercial purposes – Rs.106.430 billion

A. According to Rule 9 (2) of CLA Rules 1937, “The management of Class A-2 land shall vest in the Military Estate Officer.” Further, according to Rule 14(4) *ibid*, “Class A-2 land shall ordinarily be kept vacant, but its temporary use or occupation may be licensed by the Military Estate Officer under Rule 39, or it may be leased by the Military Estate officer by private treaty for period not exceeding five years with the previous sanction of the officer Commanding-in-Chief, the Command, or for any other period with the previous sanction of Federal Government.”

During audit of Military Estate Office for the Financial Year 2021-22, it was observed that A-2 Land was allotted to a Club, which expired on 16-02-2020. However, the land measuring 206 acres was under custody of the Club till to-date without approval of MoD. In this regard, ground rent and premium amounting to Rs.514.472 million was not recovered, against the value of the land i.e. Rs. 103,109.640 million. The A-2 land was leased out for 48 years by the MEO to a Club in violation of the prescribed rules.

Audit is of the view that the non-recovery of premium & ground rent caused loss to the state due to irregular use of land.

The matter was pointed out by Audit in June, 2023. The management replied that case of obtaining of government sanction for grant of lease was under process since 04-9-2020, the amount of rent and premium will be recovered and deposited as and when finalized.

Reply is not tenable as the use of land for a Club without approval and non-deposit of premium and ground rent stood as irregular.

The DAC in its meeting dated 12.02.2024, directed the management to expedite the case of Government sanction for grant of lease process, after finalization of the lease process, recover the premium and ground rent and get it verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of the DAC directives.

DP S-381/2022-23

B. According to Rule 13 of CLA Rules 1937 (2), "No alteration in the plans and schedules shall be made without the sanction of the Central Government."

During audit of Estate office for the Financial Year 2021-22, it was observed that land measuring 4 acres was allotted for NHS residential purpose, but the same was used for commercial purpose i.e. petrol pump, banks and market without approval of Government of Pakistan. The MEO was custodian of the land utilized for commercial purpose without approval from the sanctioning authority i.e. Secretary Defence, Government of Pakistan. Further, premium and ground rent amounting to Rs.2,806.038 million was also not recovered from the tenants.

Audit is of the view that the use of the land for commercial purpose without approval of the Government stood as irregular. Besides, the non-recovery of premium & ground rent also caused loss to the public exchequer.

The matter was pointed out by Audit in June, 2023. The management replied that it was an A-1 land under the control of Naval authorities.

Reply is not tenable as land is classified as B-4 land and allotted to NHS for residential purpose i.e. construction of bungalows of NHS, however the same is utilized for commercial purpose without approval from the Government.

The DAC in its meeting dated 12.02.2024, directed the management to pursue the case with Pak Navy and share it with the DAC forum, and further directed that representative of concerned Naval unit will attend next DAC meeting with record. No further progress was reported till finalization of this report.

Audit recommends implementation of the DAC directives.

2.9.2 Unauthorized handing-over of A-1 land for Expressway – Rs.17.811 billion

According to Rule-14 (3) of Cantonment Land Administration (CLA) Rules 1937, “Land in Class “A” (1) shall not be used or occupied, without the prior sanction of the Central Government or such authority as they may appoint in this behalf, for any other purpose other than those stated in Rule-5(i) i.e. ‘A-1 Land which is actually used or occupied by the Military Authorities, for the purposes of fortifications, barracks, stores, arsenals, aerodromes, bungalows for military officers which are the property of Government’. Likewise, according to Rule 13 of CLA Rules 1937 (1), “The Military Estate Officer shall maintain plans and schedules of land in Class “A” (1) and (2) for each cantonment in which land is entrusted to his management. (2) No alteration in the plans and schedules shall be made without the sanction of the Central Government. (3) As soon as may be after the 1st April of each year and not later than the 1st July, the Military Estate Officer shall submit a certificate, countersigned by the Officer Commanding the Station, to the Central Government as to the correctness of the plans and schedules of class “A” land, together with a report of any unauthorized structures or encroachments thereon.”

During audit of Military Estate Office for the Financial Year 2021-22, it was observed that 80 acres of A-1 land from survey No. 21 & 22/1 was handed over to Provincial Government for execution of Expressway project without approval of the Government of Pakistan. The market value of the land is Rs.17,811.20 million. The details are as under:

Nature of Project	Actual Area Under Usage (in Sq Yds)	DC Rate per Sq yd 2021 (Rs)	Amount (Rs)
Expressway	387,200	46,000	17,811,200,000

Audit is of the opinion that the award of A-1 land to provincial Government without approval of Federal Government stood as irregular.

The matter was pointed out by Audit in June, 2023. The management replied that Government of Sindh, agreed to provide equal acreage in lieu of class A-1 land, case for NOC from concerned services headquarters was awaited from the Government.

Reply was admission of the irregularity.

The DAC in its meeting dated 12.02.2024 directed the management to pursue the case vigorously with PAF, Army authorities as well as Government of Sindh. No further progress was reported till finalization of this report.

Audit recommends expeditious compliance of the DAC directives.

DP S-382/2022-23

2.9.3 Irregular utilization of A-1 land for Housing Society – Rs. 5.684 billion

According to Rule 13 of CLA Rules 1937 (2), “No alteration in the plans and schedules shall be made without the sanction of the Central Government.”

During audit of Military Estate Office for the Financial Year 2021-22, it was observed that status of land was A-1 at survey No. 1/4 however, GHQ issued NOC for utilization of the land admeasuring 25.30 acres having market value of Rs.5,683.999 million for a Housing Society vide letter dated 02.04.2019, without approval from Government of Pakistan. Furthermore, the land was handed over to the Housing Directorate and construction work started without approval from competent authority. The details are as under:

Area of Project	Actual Area Under Usage (in Sq Yds Approx.)	DC Rate per Sq yd - 2021	Amount Rs in million
25.03 Acre	122,450	46,000/-	5,683.999

Audit is of the opinion that the re-classification of the Govt. land without approval from the competent authority stood as irregular.

The matter was pointed out by Audit in June, 2023. The management replied that as per record, it was an A-1 land under the control of concerned Quartering Directorate. NOC was issued by GHQ in favor of Housing Society on 02.04.2019. Case for re-classification of land is not received from Assistant Director Housing (ADH).

Reply is not tenable as on ground, ADH being a custodian of land, initiated the housing scheme without re-classification of land and the construction work initiated in violation of rules.

The DAC in its meeting dated 12.02.2024 shifted the draft para to Housing Directorate, GHQ for the purpose of reclassification of land with MEO concerned. No further progress was reported till finalization of this report.

Audit recommends providing approval for the change in use of land for purpose other than the specified one.

DP S-383/2022-23

2.9.4 Irregular encroachment of ‘Class C’ land – Rs. 4.658 billion

According to Rule 4 (b) (iii) of CLAR 1937, “Class ‘C’ land is required for local public purposes of a municipal nature, such as streets, markets, hospitals, rubbish depots and so forth.” Further, as per the Rule 7(iii)(f-A) of CLAR 1937, “The Federal Government reserves the right to resume possession of any such land if it is not used for the purpose for which it was granted by the Government to the Cantonment Board.”

During audit of Cantonment Boards for the Financial Year 2022-23, it was observed that class ‘C’ land entrusted to Cantonment Board was encroached by different authorities and used as commercial land without benefit of same being drawn by CB or the Government of Pakistan. Moreover, the government share was not being deposited into treasury. The detail is as under:

(Rs. in million)

S. No.	DP No.	Amount
1.	DP-S-69/2023-24	3035.424
2.	DP-S-110/2023-24	1349.271
3.	DP-S-139/2023-24	248.2
4.	DP-S-113/2023-24	25.285
Total		4658.18

Audit is of the view that the encroachment on Class ‘C’ land, which is specified for amenity purposes, reflected weak internal controls and negligence on the part of the management.

The matter was pointed out by the Audit in July, 2023. The management in DP-S-69 replied that the case had already been taken up with the concerned authorities along

with HQ ML&C Department to get CB's profit share and audit shall be intimated about outcome within due course of time. The management in DP-S-110 replied that a board was constituted by the Garrison headquarters for joint survey and case for re-classification of land will be taken up with HQ ML&C. The management in DP-S-139 replied that parking area in-front of a Hospital is classified as A-2 land and is situated outside bazar area under the management of the concerned MEO. The said area being used for hospital parking purposes with no encroachment. The management in DP-S-113 replied that the shell petrol pump was constructed on A-1 land and was exempt from taxes.

The reply was not tenable as the commercial activity on Class 'C' land by other than Cantonment Board was unauthorized and needed to be stopped.

The DAC in its meeting dated 29th December, 2023 directed the management in DP-S-69, that case may be processed for re-classification of land from Government of Pakistan within 03 months. In case of DP-S-110, DAC directed the management that revised reply may be provided to audit for verification. In case of DP-S-139, DAC directed the management that relevant record in evidence that the land falls in A-2 category, may be provided to audit for verification. In case of DP-S-113, DAC directed the management to pursue the case and resolve the matter amicably. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives/recovery on account of commercial use of land from the concerned.

DP-S-69, 110, 113 & 139/2023-24

2.9.5 Non-transfer of Amenity plots - Rs. 4,234.469 million

According to Serial No. 8(b)(3) of Government of Pakistan, Ministry of Defence (ML&C Deptt) letter No. 55/45/land/ML&C/99 dated 17.02.2011 to submit transfer deed for transfer of the area for roads open space parks and Graveyard to the Cantonment Board. Furthermore, area for public buildings shall be transferred to Cantonment Board and reclassified as 'C' land. The area transferred shall not be used by transferee for any other purpose.

During audit of a Cantonment Board, it was observed from record that the amenity plots valuing Rs. 4,234.469 million were approved by the Board in the schematic plans for different housing schemes and sent to Headquarters ML&C for ex-post facto sanction subject to surrender of the amenity plots in favor of Cantonment Board for maintenance,

repair and look after of the colony. However, the same were not handed over to Cantonment Board.

When pointed out by audit, the management replied that the surrendered deed in respect of amenity plots is under process. Furthermore, the management replied that the same surrendered deed of amenity plots duly registered with the relevant Sub-Registrar in favour of Cantonment Board will be provided after the approval of layout plan by the competent authority.

The DAC in its meeting dated 16.06.2020, directed to hold an inquiry, fix responsibility for the negligence and also recover amenities' plots within one month. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Para 4.5.2, 4.5.3 & 4.5.5 (SAR)/2019-20

2.9.6 Non-provision of mortgage or bank guarantee – Rs.1,740.461 million

According to Serial No. 8(b)(3) of Government of Pakistan, Ministry of Defence (ML&C Dept.) letter No.55/45/land / ML&C/99 dated 17.02.2011, if the Cantonment Board proceed to sanction the scheme then prior to issuance of such sanction, it shall require the developer to mortgage 20% of the saleable area of the scheme or furnish bank guarantee of any commercial bank of Pakistan equivalent to the total area of development works in the name of Cantonment Board.

During audit of a Cantonment Board, it was observed from record that certain housing societies, failed to mortgage 20% of the saleable area of the scheme or furnish bank guarantee of any commercial bank of Pakistan equivalent to the total area of development works in the name of Cantonment Board in contravention of above Rule.

When pointed out by audit, against Para 4.3.1 (SAR)/2019-20, the management replied that:

- a) The management of a Society had produced the registered surrender deeds for amenity plots. While the process of surrendering of remaining amenity plots for schools and roads (partially) were under progress and would be handed over shortly.
- b) Another Housing Scheme was established in the year 2008 before promulgation of the policy. Therefore, the condition of mortgaging of 20% area was not applicable in the instant

case. However, the developer has submitted the layout plan for extension of an area measuring 5.32 acres for approval of the Board which was under consideration and will be finalized. Keeping in view the 2011 policy the progress will be conveyed to audit in due course of time.

- c) Yet another Housing Scheme was established in the year 1997. Since the said housing scheme was established before promulgation of 2011 policy and the development work has almost been completed as such mortgaging of more plots was not required in this case.

Against Para 4.3.3 (SAR)/2019-20, the management replied that the layout / Scheme plan of Housing Society had not yet been approved by the Board/competent Authority.

The replies were not tenable as provisional permission was granted to a Housing Society for the development of work and sale & purchase of the plots.

The DAC in its meeting dated 16.06.2020 directed against para No. 4.3.1 to conduct inquiry and fix the responsibility for the negligence within one month. Against Para No.4.3.3, the DAC was informed that the developer of the housing scheme had not shown any progress after approval of schematic plan. The DAC directed to cancel the approval of schematic plan. DAC also directed to take necessary action for blacklisting of this housing scheme within one month. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Para 4.3.1 & 4.3.3 (SAR)/2019-20

2.9.7 Un-authorized establishment of a housing society – Rs.314.105 million

According to Government of Pakistan/ MoD (ML&C) areas of Pakistan vide letter No.55/45/Lands/ML&C/99 dated 17.02.2011. Further, section 178(a) of Cantonment Act, 1924 no person shall erect a building on any land in a Cantonment without getting building plan sanctioned by the Board. According to Government of Pakistan, Ministry of Defence, letter No.75/853/Lands/92/4970/D-12/ML&C/94 dated 06.11.1994, minimum 10% of assessed Capital Cost of Land and building shall be charged as Composition fee.

During the audit of a Cantonment Board, it was observed from the record that an illegal/un-authorized housing Society was established over an area of 532.35 Kanals in Cantonment limit without approval of layout plan as evident from Cantonment Board Letter dated 07.03.2019. In the light of above Government Policy, composition fee of Rs.

314.105 million needed recovery against illegal / un-authorized establishment of Housing Society.

When pointed out by audit, the management replied that the audit worked out the amount of composition fee upon total area of housing Scheme. However, at present 71 houses are constructed in the said colony. It is further clarified that out of 71 houses, 8 building plans for construction of houses had already been approved by the Board. Thus, recovery of composition fee from the said 8 houses is not tenable. However, the composition fee was only applicable in case of remaining 63 houses and its recovery not tenable on total area of the housing scheme. Sanctioning of building plan in respect of a housing society without having approval of its Master plan from concerned development authority and NOC from other statutory bodies was irregular, requiring to fix responsibility through a court of inquiry.

The reply was not tenable as housing society was established without approval of the Board in the light of Government letter dated 17.02.2011. Furthermore, composition fee was also not recovered which resulted into undue favour to the owner of the society and loss to cantonment fund.

The DAC in its meeting dated 28.11.2023 was apprised by the management that housing society was established in 1984 by Government of Punjab without approval of building plan. The management of the society was approached to get regularized the scheme under the relevant laws of Cantt Act 1924. DAC further directed to pursue the case of regularization of the society / houses and get the compliance verified from audit within one month. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-106/2023-24

2.9.8 Un-authorized conversion of residential lease into commercial – Rs.271.192 million

According to Government of Pakistan Ministry of Defence letter No.3/6/D-12 (ML&C)/97-2007 dated 31.12.2007 further amended vide MoD (ML&C) letter dated 29.12.2008, all such cases whether inside or outside Bazar Area will be charged at 100% of the commercial rates as fixed by Revenue authorities as the property has been used for commercial purpose.

During audit of Cantonment Board, it was observed that two properties were held on residential lease. The lessee has converted the residential property into commercial

purpose without getting approval of Government of Pakistan on payment of prescribe charges, i.e. premium, development charges and ground rent etc. Neither the land was resumed nor the required Cantonment fund dues valuing Rs.271.924 million was recovered from the lessee.

When pointed out by audit, the management replied that neither property number mentioned nor statement of any property is attached with the observation list. Hence, preparation of reply of the observation list in hand was not possible.

The reply was not tenable as complete statement showing property number with locations was already provided. Hence, the regularization action in the matter along with recovery of Cantonment Fund Dues be initiated.

The DAC in its meeting dated 28.11.2023 was apprised by the management that property No. 120 & 129 are situated outside Bazar area and under the management of MEO. DAC shifted the draft para to concerned MEO. No progress was reported till finalization of this report.

Audit recommends for regularization and recovery of amount involved.

DP-N-01/2023-24

2.9.9 Un-authorized construction on class “C” land – Rs.118.075 million

Under Rule 4 (b) read with Rule 9 (6) of the Cantonment Land Administration Rules 1937, the management of Class “C” land vests in the Board under Section 108 of the Cantonment Act 1924. However, reclassification of land can be processed with prior approval of the Federal Government under Rule 7 of CLA Rules 1937.

During audit of a Cantonment Board, it was observed that Military authorities intended utilization of land measuring 1780.7237 Sq. Mtr (3.52 Kanals) at Survey No.127 for construction of Coffee Shop. After detailed deliberations, Board recommended constitution of Board of Officer with inclusion of MEO for proper demarcation & value assessment of land. The Military authorities were also asked to provide NOC from QMG Branch for the swap of land and non-commencement of any activity till finalization of the proposal.

Board of officers for reclassification / swap of land were constituted on 15.03.2017, but neither MEO was involved in the process for proper demarcation/value assessment of proposed land for exchange/swap nor NOC for reclassification of land from QMG Branch

GHQ obtained despite lapse of 04 years. Instead construction of Coffee Shop was started in violation of prevailing rules and regulations. Furthermore, approval for proper reclassification of land from Class “C” land into “A-1” had not been taken from Ministry of Defence.

Audit is of the view that Cantonment Board suffered financial loss of Rs.118.076 million being cost of Class “C” land as well as utilization of the land for its revenue.

When pointed out by audit, the management replied that they will take up the case with Army authorities to complete all codal / legal formalities for exchange / swap of land in the presence of Board including MEO.

The reply was not tenable as encroachment of Class “C” land and construction of Coffee Shop on Class “C” land without proper swap or approval from MoD was an unauthorized activity.

The DAC in its meeting dated 27.09.2023 directed the management to pursue the case with Army authorities and process regularization. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-516/2022-23

2.9.10 Non-payment of dues to KWSC – Rs.63.344 million

According to Rule-22 of the Pakistan Cantonment Account Code, 1955, “All liabilities shall be liquidated without delay, and in no circumstances shall a liability be allowed to stand over to be paid from the budget grant of the following year, no, shall payments or refunds be postponed to the last day of a month or of the last month of the financial year.”

During audit of a Cantonment Board, for the Financial Year 2022-23, it was observed that an amount of Rs. 63.344 million was outstanding against the Cantonment Board on account of bulk water supply in cantonment areas by KWSC. The accumulation of this liability threatens to significantly overburden the Cantonment Fund, impacting its financial stability and ability to fund other critical services. Additionally, this non-payment has led to a financial loss for the Cantonment Fund due to accruing surcharges on the monthly bills.

Audit is of the view that non-payment of the outstanding charges reflected weak financial management within the entity which caused a loss to the Cantonment Fund.

The matter was pointed out by the Audit in August, 2023, the management replied that the KWSC was liable to pay road cutting charges to Cantonment Board. Therefore, the objected amount of Rs.63.344 million will either be paid or adjusted with KWSC and the liability will be reduced.

The reply furnished by the management was not tenable as non-payment of dues caused a burden on the Cantonment Fund.

The DAC in its meeting dated 29.12.2024, directed the management to resolve the matter and reconcile with audit within two months. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-10/2023-24

2.9.11 Un-authorized utilization of old grant lease and non-realization of Cantonment dues – Rs.38.355 million

According to Clause (h) of revised old grant policy issued by government of Pakistan ministry of defence letter No.3/6/D-12/ML&C/97-2007 dated 31.12.2007 as renewed vide letter No.55/305/lands ML&C 2018 dated 05.06.2018 that cases of unauthorized change of purpose shall be dealt as under:

Cases of unauthorized change of purpose e.g. site for hospital / education purposes being used for commercial / other purposes and residential property being used for commercial purposes will be treated as under:

- i. NOC: NOC shall be obtained from the respective garrison Headquarter through station Headquarters.
- ii. Premium: shall be charged on revenue rate applicable for the said purpose.
- iii. Penalty / composition fee: after approval of conversion, respective Cantonment Board to charge due composition fee as per existing rules.
- iv. Resumption of property: those who fail to pay the premium and composition fee their property shall be resumed.

During audit of a Cantonment Board, it was observed that certain lessees have converted their properties into commercial as evident from CBR No.37 dated 03.10.2019 in violation of the old grant policy. Due to unauthorized utilization of residential old grant leases as commercial without permission / regularization resulted into loss of Rs.38.355 million to Cantonment fund / Government exchequer which needed recovery besides regularization or resumption of old grant lease was required to be made in favor of Government.

When pointed out by audit, the management replied that cases of unauthorized change of purpose were placed before the Board and the Board resolved as under: *“Considered and held forth. The Board after detail discussion resolved that strict action be taken against the violators and properties involving unauthorized change of purpose be sealed forthwith”*. As per decision of the Board, properties situated inside Bazar area, were sealed by the Cantonment Board. The offenders filed civil suit against the action of Cantonment Board and court order dated on 14.10.2019 directed the respondents to de-seal the suit shops, however, the plaintiff will be bound to pay all the arrears be it of a tax / composition fee or any money which is subject to recovery under the Cantonments Act, 1924.

The reply was not tenable to as no progress towards implementation of court orders was produced to audit.

The DAC in its meeting dated 27.09.2023 directed the management to pursue the case of revision of Old Grant Conversion Policy. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-551/2022-23

2.9.12 Illegal utilization land by housing society – Rs.26.250 million

According to Para-2(b)2 of ML&C Deptt, Rwp letter No. 55/45/Land/ ML&C/99 dated 17.02.2011, issued on Policy on Preparation / Operation of Housing Schemes on Private Land in cantonment areas in Pakistan. “Application for sanction of scheme submitted by the developers to Cantonment Executive Officer shall not be entertained unless it is accompanied by developer’s ownership / title documents in respect of land proposed for the scheme along with Khasra Plan (Aks-e-Shajra) duly verified by the concerned District Officer (Revenue)”.

During audit of a Cantonment Board, it was observed that encroachment upon private and state land (13.6 and 4.4 Kanals) respectively was made by a cooperative housing society. It was however, noticed that despite illegal encroachment, the Board granted provisional approval to the society without clearance of title by giving undue benefit to the developer worth Rs. 26.250 million.

When pointed out by audit, the management replied that neither any Cantonment Board Class-C land was encroached by the Society nor the said scheme was approved by the competent authority. The reply was not tenable as a provisional permission was granted to the society for land comprising 17 Kanals & 10 Marlas.

The DAC in its meeting dated 16.06.2020 directed to cancel the provisional approval of the Society within one month. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Para 4.14.2 (SAR)/2019-20

2.9.13 Award of contracts to PEC unregistered firms – Rs. 14.720 million

According to Rule 3 (I) Pakistan Engineering Council Bye Laws, 1987, “No engineering work shall be constructed except by a contractor or operator except by an operator licensed as such by the Council.”

During audit of Cantonment Board for the Financial Year 2022-23, it was observed that 22 contracts valuing Rs.14.72 million were awarded to different firms, which were not registered with PEC.

Audit is of the view that the award of contracts to firms not registered with PEC reflected non-adherence of the Govt. rules.

The matter was pointed out by Audit in July, 2022. The management replied that all contracts were awarded to PEC registered firms. Reply is not tenable as status of de-registration of firms was confirmed from PEC certificates.

The DAC meeting dated 12.02.2024 directed the management to provide relevant record to audit for verification. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

2.9.14 Irregular sale of plots reserved for Amenity – Rs.9.000 million

According to Para 5 a (9) of Government of Pakistan, Ministry of Defence (ML&C Department) letter No. 55/45/Lands/ ML&C/99 dated 17.02.2011 “2-10% area should be available in the housing scheme for Public Buildings (Mosque, Community Hall, School, College, Dispensary etc.) on private land in Cantonment areas in Pakistan”.

During audit of a Cantonment Board, it was observed from the case file of a Co-operative Housing Society that the defunct Management Committee of the society made 1922 allotments against 1450 plots on the proposed layout plan. This included 425 residential plots on land which was not even purchased by the society and land pertaining to 381 residential plots was sold after allotment of these plots. At present only 955 plots are free of disputes whereas 927 plots were disputed being either superimposed (‘bala’) plots or plots in respect of which no land existed. The defunct Management Committee also made allotment of 166 commercial plots against 111 which were actually available; 28 plots were created on community land reserved for utilities such as the main park whereas land for 9 plots was not purchased, land for 5 plots was sold and 13 plots were created on land reserved for ‘green belt’. As there is a huge difference by carving plots at present and shown in layout plan, the proposed plan submitted for approval has been absolutely changed and required to be revised to fulfill the purpose approval of layout plan. Amenity plots, parks, grave yards, schools and post offices were sold out to different persons which resulted into a loss to the residents and Cantonment Board amounting to Rs.9.000 million.

When pointed out by audit, the management replied that a show cause notice will be served to the administration of society for deviations from the approved layout plan and conversion of the amenity plots. Further action will follow accordingly.

The DAC in its meeting dated 16.06.2020 directed to pursue the case vigorously and results be shared with audit within one month. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Para 4.14.1 (SAR)/2019-20

2.9.15 Irregular approval of a housing scheme and non-recovery of TIP Tax & conversion charges

According to Para-3 (b) of ML&C Deptt, letter No. 5/45/Land/ML&C/99 dated 17.02.2011, “No Housing Scheme can be approved by the Board without completion of Pre-requisites of Scheme by the Developers”.

During the audit of a Cantonment Board, it was observed that the Board approved a Housing Scheme. However, TIP Tax and conversion charges were not recovered. Moreover, 03 Marla residential plots were approved whereas, minimum 10 Marla plots were required on private housing schemes in Cantonment area as per policy. The omission resulted in irregular approval of Private Housing Scheme without charging of Cantonment Board dues.

When pointed out by audit, the management replied that policy on private housing schemes was promulgated in 2011, whereas a Scheme was actually developed and constructed before implementation of the policy. The Board approved the scheme in 2013 as “fait accompli” under the advice of Regional Headquarters.

The reply was not tenable as the Board was required to formalize mode of approval for layout plans of housing schemes by framing by-laws vide ML&C Department, letter No.55/45/Lands/ML&C/99-G, dated 18.09.1999. Moreover, TIP Tax and conversion charges were not recovered.

The DAC in its meeting dated 16.06.2020, directed that recovery made on the basis of TIP tax and sizes of plots as per policy may be got verified and notification of imposition of conversion charges may be provided to audit for verification within one month. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Para 4.6.8 (SAR)/2019-20

2.9.16 Delay in construction of specific purpose allotted plots

According to Para 5 a (9) of Government of Pakistan, Ministry of Defence (ML&C Department) letter No. 55/45/ Lands/ML&C/99 dated 17.02.2011 “2-10% area should be available in the housing scheme for Public Buildings (Mosque, Community Hall, School, College, Dispensary etc.) on private land in Cantonment areas in Pakistan”.

During audit of Cantonment Board, it was observed that a Housing Society allocated 2-10% land for specific purposes i.e. schools and hospitals, however, despite the lapse of 20 years it remained un-utilized. This delay in construction of public buildings caused inconvenience for general public and violated the above policy.

When pointed out by audit, the management replied that no time period was mentioned in the terms and conditions of the approval for construction of specific purpose plots. Moreover, the administration of the Society has pledged 50% of the proposed commercial area in favour of Cantonment Board till completion of developmental works vides registered surrender deed. The same is still intact and the pledged plots will be released after completion of all developmental works / public buildings and handing over of the infrastructure to the Cantonment Board.

The reply was not tenable as these plots were not constructed even after the lapse of 20 years which indicate negligence on part of Cantonment management as well as Society because the residents were deprived of basic facilities like school, hospitals, mosques and community centers.

The DAC in its meeting dated 16.06.2020, directed that progress may be physically got verified from audit and report be submitted within one month. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Para 4.5.11 (SAR)/2019-20

2.9.17 Irregular approval of Housing Society without physical demarcation

According to Para-2 (b) (a) of Government of Pakistan, Ministry of Defence (ML&C Deptt), letter No. 55/45/Land/ML&C/99 dated 17.02.2011. The developer must arrange joint physical demarcation of the Scheme by revenue authorities and MEO for identification of physical feature by the Cantonment Board.

During audit of Cantonment Board, it was observed from the record of Private Housing scheme, that Cantonment Board has granted approval of the Schemes without MEO and revenue authorities joint physical demarcation report. It was therefore, proposed that Joint Physical Demarcation may please be conducted in the presence of MEO and revenue authorities for identification of physical feature by the Cantonment Board if not carried out earlier.

When pointed out by audit, it was replied in case of Audit Para 4.4.2 that joint physical demarcation was held on 18.09.2015 in the presence of Developer, Halqa Patwari, Girdawar, Representative of Cantonment Board and MEO. Similarly, in case of Audit Para 4.4.3 the management replied that housing scheme was not approved by the Board.

The DAC in its meeting dated 16.06.2020 directed in case of Audit Para 4.4.2 that physical demarcation of the scheme / land from revenue authorities and a certificate to this effect may be got verified from audit authority within one month. Similarly, in case of Audit Para 4.4.3 DAC directed that scrutiny of record held by Cantonment Boards and physical verification of the site / society may be furnished to Audit within one month. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Para 4.4.2 & 4.4.3 (SAR)/2019-20

2.10 Recoverable / Overpayments – Rs.13,405.011 million

2.10.1 Non-recovery of cantonment dues – Rs. 5,068.958 million

Section-92 of Cantonments Act, 1924, states that, “If a person liable for payment of any tax does not, within thirty days from the service of the notice of demand, pay the amount due, or show sufficient cause for non-payment of the same to the satisfaction of the Executive Officer, such sum, with all costs of the recovery, may be recovered under a warrant, issued in the form set forth in Schedule II, by distress and sale of the movable property of the defaulter.”

During audit of Cantonment Board for the Financial Year 2022-23, it was observed that an amount of Rs.5,068.958 million was lying outstanding against different parties/properties on account of house tax, conservancy tax & water charges as tabulated below:

(Rs. in million)

S.No.	DP No.	Outstanding Since	Amount
1.	S-199/2023-24	July 2022	1,799.185
2.	S-08/2023-24	July 2018	1,632.845
3.	S-112/2023-24	July 2022	808.108

4.	S-171/2023-24	July 2019	341.013
5.	S-05/2023-24	July 2022	165.399
6.	S-68/2023-24	July 2018	151.204
7.	S-40/2023-24	July 2018	117.414
8.	S-115/2023-24	July 1997	36.922
9.	S-119/2023-24	July 2022	13.973
10.	S-66/2023-24	July 2022	2.895
Total			5,068.958

Audit is of the view that due to non-recovery of the cantonment dues, the public funds were blocked, which stood as irregular.

Non-recoveries were pointed out by audit in 2023. The management replied that partial recoveries had been made and some properties involved court cases. However, efforts were being made to recover the outstanding amount.

The DAC vide meeting dated 29.12.2024, directed the management for reconciliation of the recoverable amount and for verification of the amount already recovered, besides pursuance of the court cases/outstanding amounts. No progress in the matter was however reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-199, 08, 112, 171, 05, 68, 40, 115, 119 & 66/2023-24

2.10.2 Non-recovery of compensation of land from a Development Authority – Rs.2,710.276 million

Under Clause-3 of Contract Agreement concluded between a Cantonment Board and concerned City Development Authority for construction of Bus Rapid Transit, it was mutually agreed that land owned by the Cantonment Board will be utilized / included in the Bus Rapid Transit Project and the concerned Development Authority will pay the cost of land per marla to the Cantonment Board. Furthermore, under Rule-2(5&6) of Pakistan Cantonment Accounts Code 1955, it is the duty of the management officer and the staff employed by the Cantonment Board to see that dues of the Board are correctly and promptly assessed, collected and paid to the treasury.

During audit of a Cantonment Board, it was observed that an area of land measuring 497.89 Marlas owned by the Cantonment Board was utilized by a City Development Authority for construction of Bus Rapid Transit Project but compensation of land against property bearing survey No. 41 situated at Jinnah Park which came to Rs.2,710.276 million (497.89 Marlas @ Rs.5,443,524 per Marla) was not recovered from the concerned Development Authority as evident from Cantonment Board letter dated 01.07.2021 which needed recovery.

When pointed out by audit, the management replied that the case has been taken up with the concerned Development Authority for recovery of objected amount.

The DAC in its meeting dated 27.09.2023 directed the management that recovery be pursued vigorously with the concerned Development Authority and get it verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-404/2022-23

2.10.3 Non-recovery of outstanding dues – Rs.1,040.707 million

According to Ministry of Defence, letter No.14/2Budget/ML&C/95 dated 10.11.1997 that “all the WAPDA buildings / poles existing in the Cantonment limits should be assessed for recovery of property tax” and read with CBR No.30 dated 04.11.2008.

During audit of a Cantonment Board, it was observed that an amount of Rs. 1,040.707 million on account of ground rent of electric poles and line rent was not recovered from WAPDA which stood irregular.

When pointed out by audit, no reply was furnished by the management.

The DAC in its meeting dated 28.11.2023 was apprised by the management that ground rent of polls and line charges shall not be claimed from distribution companies. DAC directed that relevant record may be got verified from audit within one month. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-82/2023-24

2.10.4 Non-assessment of residential properties and recovery of composition charges – Rs.967.500 million

As per Section 259 of Cantonment Act 1924, arrears of any tax or any other money recoverable by Cantonment Board may be recovered either by a suit or an application to a magistrate having jurisdiction in the cantonment.

During audit of a Cantonment Board, it was noticed from letter dated 14.02.2019 that housing schemes were established in 2009 at Cantonment area. Layout plan of housing schemes were approved by the board in 08.02.2011 and in the meanwhile the management succeeded to sell out 98% of plots of the schemes. Due to non-assessment of irregular construction of houses within the society, Cantonment Board sustained a considerable loss of revenue amounting to Rs.967.500 million for last three years on the basis of property tax and 5% composition charges. Audit, therefore, recommends that residents of the said housing scheme may be advised to submit their building plans. In addition, residents should further submit composition fee and house tax.

When pointed out by audit, the management replied that the audit authorities observed composition fee by considering total plots / houses as mentioned in the submitted layout plan and worked out house tax for 3 years retrospectively. In this regard, the management of Housing Schemes were asked for provision of list stating actual number of houses constructed in violation of the policy, to ascertain exact figure for levying composition fee and house tax. In response, the management informed that 596 houses were actually constructed at site against which the House Tax and composition fee was to be recovered. In this connection, it was pointed out that Cantonment Board had introduced an amnesty scheme for regularization of irregular construction in Cantonment limits as one time measure as approved by the Board vide its resolution of special meetings. After receipt of sanction from the Competent Authority, the said amnesty scheme would be implemented for regularization of irregular constructions in the said housing schemes.

The reply was not tenable, since exact amount of composition fee and property tax was not recovered which needed immediate recovery.

The DAC in its meeting dated 16.06.2020 directed that recovery of property tax and composition charges be made and got verified from audit authority within one month. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

2.10.5 Non-recovery of Sky Charges – Rs.623.560 million

As per Rule 2(5&6) of Cantonment Accounts Code 1955, “It is the duty of the executive officer and the staff employed by the Cantonment Board to see that dues of the Board are correctly and promptly assessed, collected and paid to the treasury.”

During audit of Cantonment Boards for the Financial Year 2022-23, it was observed that an amount of Rs.623.56 million was lying outstanding on account of Antenna/Tower fee and hoarding fee from various cellular companies and military authorities as tabulated below:

(Rs. in million)

Sr. No.	DP No.	Outstanding since	Amount
1.	DP-S-196/2023-24	July, 2010	609.760
2.	DP-S-38/2023-24	July, 2020	13.800
Total			623.560

Audit is of the view that due to non-recovery of the cantonment dues, the public funds were blocked.

Non-recoveries were pointed out by audit in 2023. The management in case of DP-S-196 replied that the cellular operators have deposited partial payments for their sites. In case of DP-S-38 the management replied the matter has been taken up the matter with Garrison HQ for payment of hoarding charges; as and when recovery is made, the same will be intimated to Audit.

The DAC in its meeting held in December, 2023 directed the management in DP-S-38, to develop a mechanism for hoarding policy in consultation with QMG to resolve the matter. DAC pended the case till the finalization of the said mechanism. In case of DP-S-196, DAC was apprised that amount of Rs 66.302 million had been recovered. DAC directed the management that recovered amount be got verified and recovery of remaining amount expedited. No progress in the matter was however conveyed till finalization of this report.

Audit recommends implementation of DAC directives.

2.10.6 Non-deposit of rent into Government treasury – Rs.600.731 million

According to policy on use of A-1 Land circulated vide MoD letter dated 02.04.2008, for launch of essential commercial activities required to serve the residents of the respective garrison, survey will be conducted by a Board of Officers to determine the actual area under usage. The rent shall be charged @ 6% per annum of existing revenue rate of the said land, governments share @ 25% of the rent charged will be deposited into government treasury, besides entire amount of the rent charged on A-1 Land for agricultural purpose will be deposited into government treasury.

During audit of a Military Estate Office, it was observed that certain projects were run by Military authorities on A-1 land under the jurisdiction of MEO. However, the government share amounting to Rs.600.731 million was not deposited which needed recovery.

When pointed out by audit, the management replied that according to Rule-5 of the CLA Rules 1937, A-1 land is actually used or occupied by the Military authorities. According to Rule 9 and 14, the management of A-1 land including the detection and prevention of encroachment thereon, shall vest in the military authorities. According to Rule-2 (v) of the ACR Rules 1944, all land occupied by the Air Force fall under the immediate control of the officer commanding in chief, therefore the instant para may be shifted to concerned Military authorities. As per A-I Land policy 2008, calculation of rent and its remittance was the sole responsibility of the Board of officers so detailed by the respective Corps Headquarters or PN/PAF authorities.

The reply was not tenable. As per Para-7 and 9 of Government of Pakistan MoD letter dated 20.11.2009, MEO being member of board of officers was required to determine the actual area of A-1 land being used for welfare and commercial activities and to calculate rent for Cat-A & C activities.

The DAC in its meeting dated 27.09.2023 pended the para and directed the management to resolve the matter with concerned stakeholders i.e. MoDP. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-525/2022-23

2.10.7 Less-recovery of TIP tax – Rs.455.809 million

In accordance with Gazette Notification No.380 (I)/ 94 dated 07.05.1994 “TIP Tax @ 3% of cost of consideration money of such property as recorded in Sale Deed or as assessed by the Cantonment Executive Officer for the purpose of assessment of tax as market value of the property, whichever is higher will be recovered from the owner of Land at the time of sales of property”.

During audit of various Cantonment Boards, it was noted that TIP Tax was deducted @ 1.5% from the residents instead of 3% in violation of above government orders. Details are as under:

(Rs. In million)

S No.	DP No.	Tax deducted @ 1.5%	Tax to be deducted @ 3%	Less deduction (Rs.)
1.	DP-N-153/2023-24	200.233	400.466	200.233
2.	DP-N-146/2023-24	17.494	34.988	17.494
3.	DP-N-244/2023-24	238.082	476.164	238.082
Total		455.809	911.618	455.809

Audit observed that the amount of TIP Tax rate was reduced from 3% to 1.5%, causing financial loss amounting to Rs.455.809 million to the Cantonment Fund.

When pointed out by audit, the management replied that TIP Tax @ 1.5% was being recovered from sale / purchase situated at the DHA, in the light of decision taken in meeting

dated 09.08.2018 under the Chairmanship of Secretary Defence conveyed vide letter dated 05.11.2018.

The reply was not tenable as any relaxation for imposition of TIP on residents through internal minutes of meeting on the subject at MoD level cannot override the statutory provisions.

The DAC in its meetings dated 28.11.2023 and 05.01.2024. Against DP-N-153/2023-24 & DP-N-146/2023-24, the DAC directed to provide updated reply addressing all aspects of the audit observation and pursue the case with the competent authority. Against DP-N-244/2023-24, the DAC was apprised that the matter is already under consideration of the department. The DAC further directed to pursue the case for revised notification. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-153, 146 & 244/2023-24

2.10.8 Non-recovery of BTS tower rent – Rs.284.842 million

According to Para-92 (1) of the Cantonment Act-1924, “If the person liable for the payment of any tax does not, within 30 days from the service of notice of demand, pay the amount due or show sufficient cause of non-payment of the same to the satisfaction of the Cantonment Executive Officer, such sum, with all costs of recovery may be recovered under warrant.”

During audit of the several Cantonment Boards for the Financial Year 2022-23, it was observed that a sum of Rs.284.842 million on account of tower fee was outstanding against different Telecom Companies for the last 18 years. The details are tabulated below:

(Rs. in million)

Sr. No.	DP No.	Amount
1.	S-02/2023-24	264.676
2.	S-67/2023-24	18.96
3.	S-120/2023-24	1.206
Total		284.842

Audit is of the view that the non-recovery of the tower rent deprived the Cantonment Board of the revenue.

When pointed out by Audit in August 2023, the management replied that efforts are at hand to recover the amount and as soon as recovery is affected audit shall be informed accordingly.

The DAC in its meeting dated 29.12.2024 directed the management that recovered amount be verified from audit and pursue the recovery of the remaining amount. Further progress in terms of recovery was not reported to audit till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-02, 67 & 120/2023-24

2.10.9 Non-recovery of house tax and water charges – Rs.241.981 million

As per Section 259 of Cantonment Act 1924, arrears of any tax or any other money recoverable by Cantonment Board may be recovered either by a suit or an application to a magistrate having jurisdiction in the cantonment.

During audit of a Cantonment Board, it was observed from the record that an amount of Rs.241.981 million on account of House tax and Water charges for financial year 2020-21 was outstanding against various properties which needed recovery.

When pointed out by audit, the management replied that efforts for recovery of outstanding amount are being made.

The reply is not tenable as early action was needed for recovery of the outstanding amount.

The DAC in its meeting dated 27.09.2023 directed the management to recover the balance amount and get it verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-436/2022-23

2.10.10 Non-recovery of Composition Fee – Rs.181.793 million

As per Section 178 (a) of Cantonment Act, 1924, “No person shall erect a building on any land in a Cantonment without getting building plan sanctioned by the Board. Further Govt. of Pakistan Ministry of Defence vide their letter No. 75/853/Lands/92/4970/D-/ML&C/94 dated 06-11-1994, provides that “Unauthorized construction within the limits of a Cantonment is an offence and Board is empowered to demolish the unauthorized construction or regularize it on payment of Composition Fee.”

During audit of Cantonment Boards for the Financial Year 2022-23, it was observed that owners of the various properties carried out unauthorized constructions without approval of the building plan from the concerned Boards, but the management did not recover the composition fee amounting to Rs.181.793 million as detailed below:

(Rs in million)

Sr. No.	DP No.	Amount
1	DP-S-37/2023-24	128.698
2	DP-S-108/2023-24	25.56
3	DP-S-200/2023-24	21.825
4	DP-S-04/2023-24	5.71
Total		181.793

Audit is of the opinion that the non-recovery of composition fee deprived the Cantonment Fund of the due revenue share.

When pointed out by audit in August 2023, the management replied that partial recoveries had been made and efforts were underway to recover the outstanding amount.

The DAC in its meetings held in December, 2023 and February 2024, directed the management in DP S-04, S-108 & S-200, that recovered amount be verified from audit and pursue the recovery of outstanding amount. Further progress in terms of recovery was not reported to audit till finalization of this report. In case of DP S-37, DAC directed the management to expedite the case of revised building plan with concerned residents within

03 months. DAC further directed that the recovery of 17 million from the Park Towers may be got verified from audit.

Audit recommends implementation of DAC directives.

DP-S-04, 37, 108 & 200/2023-24

2.10.11 Non-recovery of Provincial Sales Tax – Rs.150.874 million

According to Serial No: 16 of Schedule-II of the Punjab Provincial Sales Tax (PST) on Services Act, 2012, “16% PST is applicable on cleaning services (including collection and processing of domestic waste and street cleaning services)”.

During audit of a Cantonment Board Hospital, it was observed from record that two contracts were concluded by Cantonment Board for construction of Family Wing Hospital 250 Beds (now 500 beds) and construction of Cantonment Board Medical College near old Cantonment General Hospital but PST on Services Rs.150.874 million was not recovered from the contractor.

When pointed out by audit, no reply was given by the management. Audit stresses upon early recovery of the amount involved.

The DAC in its meeting dated 08.11.2022, directed the management to link up the Court cases and submit a fresh reply to MoD and Audit as well. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Para 9.1 (SAR)/2020-21

2.10.12 Loss due to non-realization of premium charges – Rs.150.00 million

According to Para (v) of Ministry of Defence, Military Land & Cantonment letter dated 25.10.1980, premium of newly constructed commercial premises including shops and flats should be disposed of by public auction.

During Audit of Director Military Lands & Cantonments, it was observed that premium of Rs. 150.00 million on account of newly constructed commercial shops / halls completed in financial year 2018-19 was estimated. However, the same could not be realized despite the fact that capital expenditure had already been incurred.

When pointed out by audit, the management replied that this office being the competent financial authority could only sanction the budget estimates, whereas its realization rests with the concerned Cantonment Board. However, concerned Cantonment Board was also being asked to submit reply to audit.

The reply was not tenable as the management endorsed audit viewpoint that concerned Cantonment Board could not generate the estimated revenue. Audit stresses that immediate steps be taken to realize the revenue.

The DAC in its meeting dated 27.09.2023, directed the management to reconcile the amount and get the recovered amount verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-624/2022-23

2.10.13 Non-recovery of rent and shop board fees – Rs.139.650 million

Section-92 of Cantonments Act, 1924, states that, “If a person liable for payment of any tax does not, within thirty days from the service of the notice of demand, pay the amount due, or show sufficient cause for non-payment of the same to the satisfaction of the Executive Officer, such sum, with all costs of the recovery, may be recovered under a warrant, issued in the form set forth in Schedule II, by distress and sale of the movable property of the defaulter.”

During audit of Cantonment Board for the Financial Year 2022-23, it was observed that an amount of Rs.139.650 million was lying outstanding against different parties/properties on account of residential & commercial rent, and shop board taxes as tabulated below:

(Rs in million)

S. No.	DP No.	Outstanding since	Amount
1.	DP-S-198/2023-24	July 2018	101.913
2.	DP-S-167/2023-24	July 2021	11.613
3.	DP-S-39/2023-24	July 2021	10.859
4.	DP-S-70/2023-24	July 2021	9.50

5.	DP-S-111/2023-24	July 2021	5.76
Total			139.65

Audit is of the view that due to non-recovery of the rent and shop fee; the Cantonment Fund was deprived of its due revenue share.

When pointed out by audit in 2023, the management replied that partial recoveries had been made and efforts were being made to recover the outstanding amount.

The DAC in its meeting held in December, 2023, directed the management in DP S-39, S-70 & S-111, that recovered amount be verified from audit and pursue the recovery of outstanding amount. In case of DP S-167 & S-198, DAC directed to pursue the court cases. No progress in terms of recovery was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-39, 70, 111, 167 & 198/2023-24

2.10.14 Non-deposit of Taxes – Rs.130.458 million

According to Rule-43 (b) of the Income Tax Rules 2002 amended upto 10.02.2017, ‘where the tax has been deducted by a person other than the Federal Government or a Provincial Government, by remittance to the Government Treasury or deposit in an authorized branch of the State Bank of Pakistan or the National Bank of Pakistan, within seven days from the end of each week ending on every Sunday’.

Furthermore, according to Rule-2 (5) of the Sales Tax Special Procedure (Withholding) Rules, 2007 amended upto 30.06.2015, “In case of purchases, the sales tax deducted at source shall be deposited by the withholding agent in the designated branch of National Bank of Pakistan under [under relevant head of account] on sales tax return-cum-payment challans in the form set out at Annexure to these rules, by 15th of the month following the month during which [the purchase has been made]. The return-cum-payment challans shall be prepared and deposited with the bank in triplicate and the bank shall send the original to the [Collectorate of Sales Tax] having jurisdiction, return the duplicate to the depositor and retain the triplicate for its own record”.

During audit of various Cantonment Boards, it was noted that in payments made to various contractors, Income Tax and GST amounting to Rs. 130.458 million was deducted and withheld respectively. Details are as under:

(Rs. in million)

Sr. No.	DP No.	Description	Amount
1.	DP-N-126/2023-24	Sales Tax	15,704,759
2.	DP-N-120/2023-24	Income Tax	14,263,000
3.	DP-N-84/2023-24	Income Tax	19,486,258
4.	Para 9.2 & 9.3 (SAR)/2020-21	Income Tax	81,003,780
Total			130,457,797

Audit observed that Income Tax and Sales Tax was not deposited into Government treasury. The same was required to be deposited into Government treasury within seven days of receipt as per above rules.

When pointed out by audit, against DP-N-126/2023-24 & DP-N-84/2023-24, the management replied that due to weak financial position, this office was unable to pay the amount of Income Tax in to Government treasury. Against DP-N-120/2023-24, the management replied that Income Tax was being deposited with concerned department regularly. Against Para 9.2 & 9.3 (SAR)/2020-21, no reply was furnished by the management.

The replies were not tenable as Income Tax and Sales Tax was required to be deposited into Government treasury within seven days of receipt. Furthermore, no documentary evidence was shown to audit regarding deposit of Income Tax.

The DAC in its meeting dated 28.11.2023 directed for DP-N-126/2023-24 & DP-N-84/2023-24, to reconcile the recoverable amount with audit, recovery may be made expeditiously and the amount already recovered be also verified from audit within one month. Against DP-N-120/2023-24, the DAC directed to deposit the amount of Income Tax expeditiously and get it verified from audit within one month. Against Para 9.2 & 9.3 (SAR)/2020-21, the DAC in its earlier meeting dated 08.11.2022 had directed the management to recover the Income Tax and get it verified from Audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

2.10.15 Non-recovery of conservancy charges – Rs.106.650 million

Rule-67(1) of Cantonment Boards Budget Rules-1966 stipulates that, “it shall be the duty of the Executive Officer to ensure that all income claimable is claimed, realized and credited to the Cantonment Fund”.

During audit of certain Cantonment Boards, it was observed that contract agreements were concluded with Army Authorities for providing conservancy services. However, an amount of Rs.106.650 million was laying outstanding against Army Authorities which needed recovery.

(Rs. in million)

Sr. No.	DP No.	Description	Amount
1.	DP-N-351/2022-23	Conservancy Charges	12,984,400
2.	DP-N-420/2022-23		28,558,000
3.	DP-N-48/2023-24		3,288,000
4.	DP-N-69/2023-24		3,246,600
5.	DP-N-156/2023-24		16,810,000
6.	DP-N-16/2023-24		15,929,000
7.	DP-N-27/2023-24		25,834,000
Total			106,650,000

When pointed out by audit, the management replied that efforts were being made to recover the outstanding amount.

The DAC in its meeting dated 27.09.2023 directed the management against DP-N-351/2022-23 & DP-N-420/2022-23, to get 100% recovery verified from Audit within two weeks. Against DP-N-48, DP-N-69, DP-N-156 & DP-N-16/2023-24, the DAC in its meeting dated 29.11.2023 was apprised that case has

been taken up with Army authorities for recovery. The DAC directed to pursue the recovery and get it verified from audit. Against DP-N-27/2023-24, the management replied that Rs. 5.561 million out of total outstanding amount has been recovered. The DAC directed that remaining recovery may be pursued expeditiously and get it verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Note:

With reference to Sr. No. 1 above, the issue was reported earlier also in the Audit Report for Audit Year 2021-22 vide Para No. 2.10.14 having financial impact of Rs. 16.386 million and Audit Year 2022-23 vide Paras No.2.7.13 having financial impact of Rs. 20.032 million. Recurrence of the same irregularity is a matter of serious concern.

DP-N-351 & 420/2022-23, DP-N-16, 27, 48, 69 & 156/2023-24

2.10.16 Loss due to less-recovery of Cantonment dues – Rs.86.363 million

As per Para-3 (h) (General Conditions) of Government of Pakistan Ministry of Defence letter No.3/6/D-12/(ML&C)/97-2007 dated 31.12.2007 “usage of residential property for commercial purpose will require NOC from respective Station Headquarters on Payment of premium at revenue rate applicable for the said purpose, imposition of composition fee by the respective Cantonment Board and those who fail to pay, their property will be resumed”.

A. During audit of a Cantonment Board, it was observed that a Bungalow measuring 1500 Sq.Yds initially held on lease for residential purpose in schedule IX-A by one person under the management of MEO, Lease hold rights were transferred to another lessee. Subsequently the current lessee started unauthorized use for commercial purpose without obtaining NOC. In addition, the lessee did not pay composition fee, premium, TIP, and development charges (at commercial rates) which resulted into loss to Cantonment Board amounting to Rs. 59.203 million.

B. Similarly, another Bungalow measuring 516.66 Sq. Yds held on lease for residential purpose was un-authorizedly being used for commercial purpose (Medical Clinic) without obtaining NOC. In addition the lessee did not pay the premium, rent, development charges (at commercial rates) and composition fee which resulted loss to Cantonment funds amounting to Rs.27.160 million.

When pointed out by audit, the management replied that both properties are situated outside bazar area and under the management of MEO. Therefore, it is requested that audit observation may please be shifted to MEO.

The reply was not tenable. Cantonment Board was supposed to issue notices to offenders and report to Director ML&C concerned for obtaining approval of DG ML&C regarding issuance of sanction of commercialization on payment of premium, development charges and composition fee on the case submitted by MEO for Rs.86.363 million.

The DAC in its meeting dated 28.11.2023 directed the management that relevant record of commercialization sanction and recovery of Government dues may be got verified from audit within one month. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-115/2023-24

2.10.17 Non-recovery of cantonment dues from bidders – Rs.73.866 million

In accordance with Para-4 of Terms & Condition of Auction ‘If successful bidder fails to deposit total amount of the bid within stipulated period of 30 days (after the approval of the competent authority), the amount deposited by him will be forfeited in favor of Cantonment Board and the plot in-question will be auctioned again’.

During Audit of a Cantonment Hospital, it was observed that 4 successful bidders of auctioned plots failed to deposit their outstanding dues within the stipulated time period as mentioned in the above clause. The Board extended the time period up to 31.12.2019 vide CBR No.106 dated 14.11.2019 whereas the Board was required to forfeit the amount and re-auction the plots. This omission resulted into loss to Cantonment fund amounting to Rs.73.867 million.

When pointed out by audit, no reply was given by the management.

The DAC in its meeting dated 08.11.2022, directed the management to get their record verified with respect to recovery of one plot. DAC further directed to recover the remaining amount and get it verified from Audit within one month. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

2.10.18 Non-realization of bid amount from auction of plots - Rs.66.295 million

According to Para 1, 4 & 5 of the terms and conditions published in the Newspaper dated 13-21 August-2020, the interested bidders will have to deposit CDR of Rs.700,000 in favour of CEO Cantonment Board concerned. The successful bidder will have to deposit 1/10th the total bid on the spot whereas the balance amount will have to be deposited within 30 days after the approval of competent authority, in case of failure the amount deposited will be forfeited.

During audit of a Cantonment Board, it was observed that 2 commercial and 3 residential plots situated at an Officer Housing Scheme were advertised in the national dailies dated 13-08-2020 to 21-08-2020 with opening date on 02-09-2020. The highest bids amounting to Rs. 95.400 million were accepted vide CBR No.27 dated 15-09-2020. 1/10th of the bid amounting to Rs. 9.560 million was deposited by the successful bidders. However, the balance amount of Rs.85.840 million was not deposited despite lapse of considerable time.

It was noted that the highest bids amounting to Rs.95.400 million were sanctioned by the Govt. of Pakistan, MOD (ML&C Deptt) vide their letter dated 11.08.2022 and the highest bidders were intimated vide CB letter dated 16.08.2022 after lapse of 2 years from the date of auction i.e., 02.09.2020. As per CB letter dated 20.09.2022, only a sum of Rs. 29.105 Million was deposited by the successful bidders, whereas the balance amount of Rs. 66.295 Million was outstanding. The delay in approval process and non-depositing of balance amount by the successful bidders despite lapse of 3 years needed investigation as the bidders had to deposit the value of plot as on 15.09.2020, whereas the value of plot after lapse of 03 years should have risen significantly.

When pointed out by the Audit in August 2023, the management replied that the case was forwarded to the Competent Authority for approval. In response, HQ, ML&C has accorded sanction vide letter dated 09.08.2023 for extension of one month time to deposit the remaining balance premium and other dues, the same has been intimated on 10.08.2023 to the highest bidders to deposit the same within one month.

Reply was not tenable as the 1/10th amount was deposited by the highest bidder in the month of September 2020, however approval by the competent authority was conveyed on 16.08.2022. The unnecessary delay of 23 months in the approval process could not be justified, as the prices of the plots should have further escalated, which needed investigation for inordinate delay at different levels in the matter.

DAC held on 5.01.2023 directed the management that the recovered amount may be got verified from audit and the recovery of the remaining amount be pursued vigorously.

Audit recommends implementation of DAC directives and a thorough inquiry into the matter for fixation of responsibility for delay in the remittance of the amount to the Cantonment Fund/ Government and for departmental lukewarm action in the matter.

DP-N-380/2023-24 (Reported as Critical Issue to PAO)

2.10.19 Non-recovery of outstanding loans - Rs.53.200 million

As per Rule 2(A)-5 of the Pakistan Cantonments Account Code 1955, “It is the duty of the Executive Officer and the staff employed by the Cantonment Board to see that dues of the Board are correctly and promptly assessed, collected and paid into the treasury.” Further Rule 2(A)-6 states that, “The Executive Officer is responsible for enforcing financial order and for observance of all relevant financial rules both by himself and by his subordinates.”

During audit of various Cantonment Boards for the Financial Year 2022-23, it was observed that loans amounting to Rs.53.200 million were lying outstanding against different Cantonment Boards, but the same remained unrecoverable despite lapse of a considerable time. The details are as under:

(Rs. in million)

S. No.	DP No.	Outstanding since	Amount
1.	DP-S-06/2023-24	April 2015	27.20
2.	DP-S-197/2023-24	July 2022	26.00
Total			53.200

Audit is of the opinion that the non-recovery of the loans reflected negligence on part of the management besides blockage of the Cantonment Fund.

The matter was pointed out by Audit in July, 2023. The management replied that the reminders for refund of the loan are being issued on regular basis. As soon as the said loans were refunded, audit would be informed accordingly. The management admitted the stance of audit, recovery be affected as soon as possible.

The DAC in its meeting dated 29.12.2024, directed the management in DP S-06, to develop a mechanism in the matter, share the same with audit and resolve the issue within three months. In case of DP S-197, DAC directed the management that case may be pursued expeditiously and get it verified from audit. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-06 & 197/20223-24

2.10.20 Non-recovery of premium – Rs.48.271 million

As per section 259 of Cantonment Act 1924, arrears of any tax or any other money recoverable by Cantonment Board may be recovered together with the cost of recovery either by a suit or an application to a magistrate having jurisdiction in the cantonment.

During audit of a Cantonment Board it was observed from the record that certain Cantonment Board shops were auctioned on tenancy rights basis through open competition. Scrutiny of Premium Register revealed that an amount of Rs.48.271 million was lying outstanding against different bidders which needed recovery.

When pointed out by audit, the management replied that efforts were made to recover the outstanding amount.

The reply was not tenable. Serious effort needs to be made for recovery of the outstanding amount.

The DAC in its meeting dated 27.09.2023 directed the management to reconcile the amount, pursue remaining recovery and get the recovered amount verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-490/2022-23

2.10.21 Un-authorized change in building plan and non-recovery of cantonment dues – Rs.48.158 million

Para 3(h) of Government of Pakistan Ministry of Defence letter No.3/6/D-12(ML&C)/97-2007 dated 31.12.2007, provides that cases of un-authorized change of purpose residential property being used for commercial purpose will be charged premium

on revenue rates applicable for the said purpose, Cantonment Board to charge due composition fees. Those who fail to pay the premium and composition fee, their property shall be resumed. Further Para-3 of Government of Pakistan Ministry of Defence letter No.55/305/lands/ML&C/2007 dated 29.12.2008, clarified that in all such cases whether inside or outside Bazar Area premium will be charged at 100% of commercial rates as fixed by the Revenue Authorities for the property being used for commercial purpose.

During audit of a Cantonment Board and a MEO, it was observed that certain residential properties were used by the lessees for commercial activities but neither the properties were restored nor the premium and development charges amounting to Rs. 48.158 million were recovered from the lessees.

When pointed out by audit, the management replied that the lessees had unauthorizedly changed the status of properties from residential to commercial. However, this office served the notices upon the lessees with the direction to restore the property in its original status i.e. residential or submit Schedule-V for regularization of unauthorized change of purpose.

The reply was not tenable as the lessees had converted residential property into commercial, without approval of revised building plan. Therefore, objected amount of premium and development charges needed recovery.

The DAC meeting was held dated 27.09.2023 was apprised by the management that out of 7 objected properties, 4 have been restored to original status, whereas notices have been issued to owners of the remaining 3 properties. The DAC directed the management to pursue the case of 3 properties and get the same verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-341/2022-23

2.10.22 Non-recovery of transfer of immovable property (TIP) Tax - Rs.25.580 million

According to Section 92(1) of Cantonment Act,1924, “If the person liable of the payment of any tax dues not, within thirty days from the service of the notice of demand, pay the amount due, or show sufficient cause of non-payment of the same to the satisfaction of the Executive Officer such sum with all costs of recovery may be recovered under a warrant, issued in the form set forth in schedule II, by distress and sale of the movable property of the defaulter. “

During audit of Cantonment Boards for the Financial Year 2022-23, it was observed that an amount of Rs.25.580 million was outstanding on account of Transfer of Immovable Property (TIP) Tax against different properties. The detail is as under:

(Rs in million)

S. No.	DP No.	Amount
1.	DP-S-01/2023-24	21.307
2.	DP-S-308/2023-24	4.273
Total		25.580

Audit is of the view that the non-recovery of TIP Tax resulted in loss to Cantonment fund.

The irregularity was pointed out by audit in August, 2023, the management replied that partial recoveries had been made and progress thereof would be intimated to audit.

The DAC in its meetings held in December, 2023 and February 2024, directed the management to recover the amount in full and get the recoveries verified from audit. No progress in terms of recovery was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-01 & 308/2023-24

2.10.23 Non-recovery of rent of commercial property – Rs. 25.481 million

As per section 259 of Cantonment Act 1924, arrears of any tax or any other money recoverable by Cantonment Board may be recovered together with the cost of recovery either by a suit or an application to a magistrate having jurisdiction in the cantonment.

During audit of a Cantonment Board it was observed from the record that an amount of Rs. 25.481 million on account of rent of commercial property of Cantonment Board was lying outstanding against different allottees which needed recovery.

When pointed out by audit, the management replied that efforts were being made to recover the outstanding amount.

The reply was not tenable. Audit stresses upon immediate recovery of the amount involved.

The DAC in its meeting dated 27.09.2023 directed the management to get recoverable amount reconciled and verified from audit. Furthermore, remaining recovery be pursued. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-613/2022-23

2.10.24 Non-realization of Cantonment dues - Rs.24.051 million

According to Para (g) of Revised old grant policy letter No. 55/305/land ML&C 2018 dated 05.06.2018 the un-authorized sale/sale Agreement will be regularized after due verification of the sale deed / sale agreement duly registered under the relevant Registration Act and also after obtaining clearance from respective Garrison through Station Headquarter, No sale agreement executed after the date of issue of this policy will be accepted.

During the audit of a Cantonment Board, it was observed that property bearing No. 454/2 old grant (Residential) measuring 1,437 Sft, was sold at the cost of Rs. 13.00 million without registration of lease agreement. On the request of the transferee the Board vide CBR No. 40 dated 17.09.2018 approved conversion of the land from residential to commercial. As per old grant policy, the premium alongwith other charges was worked out valuing Rs. 19.701 million for sanction of DML&C vide their letter dated 18.12.2018. However, on the direction of ML&C Department a sum of Rs.24.052 million was revised on account of premium, surcharge and development charges which were not realized till date.

When pointed out by audit, the management replied that the case regarding conversion of property No. 454/2 into regular commercial lease has been submitted to the competent authority for approval. After sanction of the competent authority recovery will be made accordingly.

The DAC in its meeting dated 27.09.2023 was apprised by the management that case is subjudice in court. The DAC directed to pursue the case. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-506/2022-23

2.10.25 Non-recovery of Income Tax – Rs.16.167 million

According to section 259 of Cantonment Act 1924, arrears of any tax or any other money recoverable by Cantonment Board may be recovered either by a suit or an application to a magistrate having jurisdiction in the cantonment.

During audit of a Cantonment Board, it was observed that certain Cantonment Board shops were auctioned for Rs. 10.778 million on tenancy rights basis through open competition but Income Tax @ 15 % amounting to Rs. 16.167 million (Rs.10,778,000 x 15%) was not recovered from the successful bidders.

When pointed out by audit, the management replied that concerned tenants of shops were asked for payment of the Income Tax. Final outcome will be intimated to audit in due course of time.

The reply was not tenable. Income Tax from the successful bidders was not recovered causing loss to the state.

The DAC in its meeting dated 28.11.2023 directed to reconcile the recoverable amount with audit, recovery may be made expeditiously and the amount already recovered be also got verified from audit within one month. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-07/2023-24

2.10.26 Less recovery of conversion charges – Rs.15.950 million

According to para-16(a) of Government of Pakistan Ministry of Defence (ML&C Deptt) letter No. 55/45/Lands/ML&C/99 dated: 17.02.2011, following conversion charges will apply according to area carved for residential or commercial activity:

1. Agriculture to Residential 5% of valuation Table.
2. Agriculture to Commercial 25% of valuation Table.
3. Residential to Commercial 20% of valuation Table.

During audit of a Cantonment Board, it was noticed that the Board approved the layout plan of a scheme and DG ML&C granted sanction by relaxing of the policy as a one-time measure. Accordingly, the developer was asked to deposit commercial charges to the area carved for residential / commercial activity vide Cantonment Board letter dated

24.11.2016. The developer submitted an appeal before ML&C Department against the conversion charges applied by the office. The appeal was accepted and Cantonment Board was requested to revisit the calculation of conversion charges. The relevant file was placed before the board which decided that developer would pay Rs.16.790 million in three equal installments.

In this regard, audit was of the view that conversion charges of Rs.16.790 million were calculated on the basis of “Off Road” rates whereas the whole Housing Society is located on Grand Trunk Road. Therefore, rates were required to be applied on the basis of “On Road” i.e. Rs.32.103 million. Therefore, the balance amount of Rs.15.950 million needs recovery.

When pointed out by audit, the management replied that the Board had rightly calculated the conversion charges after taking legal opinion from the legal advisor Cantonment Board and the charges calculated were conveyed to the developer and the developer deposited the same accordingly. The audit objection regarding off and on road was not applicable.

The reply was not tenable, as the conversion charges were calculated on the basis of “Off Road” rates whereas the whole society is located on GT Road, therefore, rates fixed by the board for “On Road” were required to be applied. Due to incorrect application of conversion rates an amount of Rs.15.950 million was less recovered which needed recovery.

The DAC in its meeting dated 16.06.2020, directed for holding of inquiry to fix responsibility within one month, and also provide notification/policy letter for imposition of commercialization charges to audit for verification. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Para 4.8.4 (SAR)/2019-20

2.10.27 Loss due to non-recovery of scrutiny fee – Rs.11.914 million

According to ML&C letter No.55/45/Lands/ML&C/99 dated 17.02.2011, no such application shall be entertained unless it is accompanied by scrutiny fee of the rate as fixed by the Cantonment Board to be revised by ML&C department from time to time.

During audit of a Cantonment Board, it was noticed from letter No. IV/G-113-I/125 dated 24.04.2019 that case regarding regularization of housing scheme in Cantonment was sent to Director ML&C. It was noticed that the Housing Scheme of 1254 Kanals (757,974 Sq yard) was started in 2003 as evident from CBR No. 6 dated 28.09.2017 but developer has submitted layout plan after a lapse of 15 years. However, Scrutiny fee amounting to Rs.11.914 million was not deposited alongwith the layout plan.

When pointed out by audit, the management replied that the objected amount of scrutiny fee was calculated for an area of 1254 Kanal. However, as per layout plan and other documents actual land involved was 1237 Kanal and the actual recoverable scrutiny fee comes to Rs. 11.762 million instead of Rs. 11.914 million. It was further added that the case for regularization of Housing scheme is under consideration and on receipt of its approval from the competent authority, the amount of scrutiny fee would be recovered.

The DAC in its meeting dated 16.06.2020, directed that scrutiny fee be recovered from developer and got verified from audit authority within one month. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Para 4.12.1 (SAR)/2019-20

2.10.28 Loss due to non-recovery of cantonment dues – Rs. 11.567 million

As per Section 178(a) of Cantonment Act, 1924 no person shall erect a building on any land in a Cantonment without getting building plan sanctioned by the Board. According to Government of Pakistan, Ministry of Defence, letter No.75/853/Lands/92/4970/D-12/ML&C/94 dated 06.11.1994, minimum 10% of assessed Capital Cost of Land and Building shall be charged as Composition fee. Furthermore, under section 64 (a) of the Cantonment Act 1924 in the case of railway stations, hotels, colleges, schools, hospitals, factories and any other buildings which a Board decides to assess under this clause, one twentieth of the sum obtained by adding the estimated present cost of erecting the building to the estimated value of the land.

During audit of a Cantonment Board, for the year 2019-20 it was observed that certain owners of commercial properties on private land had carried out unauthorized construction without approval of building plans from the Board. Accordingly, Cantonment Board approved their building plans with imposition of composition fee as per CBR No.89 dated 03.10.2019. However, land tax file from the respective branch was demanded time

and again but not made available for scrutiny. This revealed that neither the properties had been assessed for the purpose of tax nor the composition for their unauthorized construction was recovered. Due to non-recovery of composition fee and assessment of the property Cantonment fund sustained a loss of Rs. 10.870 million on account of composition fee and Rs. 786,932 as property tax.

When pointed out by audit, the management replied that the commercial properties had already been assessed vide CB No.1037, 1037/1-7, CB No.3454/1-19 and CB No.1312/1-9 respectively. Moreover, Property tax files were presented to Audit.

The reply was not tenable as tax file was neither produced during audit nor at the time of discussion. Therefore, composition fee may be recovered besides provision of tax file to verify the assessment.

The DAC in its meeting dated 27.09.2023 directed the management to reconcile the amount and get the recovery verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-432/2022-23

2.10.29 Non-realization of hoarding charges – Rs.10.533 million

Under section-259 of the Cantonment Act 1924 any money recoverable by a board under this Act may be recovered together with the cost of recovery either by suit or, on application to a magistrate having jurisdiction in the cantonment.

During the audit of a Cantonment Board, it was observed from demand and collection register of hoarding charges for the year 2018-19 that an amount of Rs.12.172 million on account of hoarding charges against various bill Board hoardings were not recovered in addition to non-deduction of withholding tax from the bill Board advertisers which needed immediate recovery.

When pointed out by audit, the management replied that out of Rs.12.172 million pointed out by audit, an amount of Rs.1.639 million has been recovered. However, the case of balance recovery of Rs.10.533 million had already forwarded to Cantonment Magistrate for recovery and one case is pending in Civil Court.

The DAC in its meeting dated 27.09.2023, directed the management to reconcile the amount and effect recovery and get the same verified from audit. The DAC also directed to confiscate the hoarding in case of non-recovery. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-558/2022-23

2.10.30 Non-recovery of cantonment dues on conversion of residential lease – Rs.10.273 million

According to Rule-2(a) 4 (i) of Pakistan Cantonment Accounts Code,1955, “every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public money as a person of ordinary prudence would exercise in respect of expenditure of his own money”. A per clause 2(b) of Government of Pakistan MOD letter No.3/6/D-12(ML& C)/97-2007 dated 31.12.2007 conversion charges equal to 50% of Revenue Rate will charged for conversion of residential lease into Commercial lease.

During the audit of a Cantonment Board for the financial year 2020-2021, it was noticed from record that conversion of Regular lease from Residential to commercial Lease in sch IX-C of CLA Rules, 1937 had been approved by the Board vide CBR No.13(6) dated 29/09/2020 in respect of property No.733, Saddar Bazar without recovery of Cantonment dues of Rs.10.273 million.

When pointed out by audit, the management replied that as there is no sanction of the Competent Authority so no loss had been caused.

The reply was not tenable as conversion of residential lease into commercial was approved vide CBR No.13 (6) dated 29.9.2020, which was on record of Cantonment Board.

The DAC in its meeting dated 28.11.2023 directed that the property may either be regularized or restored within two months and be got verified from audit.

Audit recommends implementation of DAC directives.

DP-N-77/2023-24

2.10.31 Non-recovery of commercialization charges – Rs.7.832 million

According to Para-16 (a) of Government of Pakistan Ministry of Defence letter No. 55/45/Lands/ML&C Deptt/99 dated 17.02.2011, “Following conversion charges will apply according to area carved for residential or commercial activity”

1. Agricultural to Commercial: 25% of valuation Table.
2. Residential to Commercial: 20% of valuation Table.

During Audit of a Cantonment Board, it was observed that a Housing Scheme utilized 7.120 Kanal residential land for commercial activities without depositing commercialization charge which resulted into non-recovery of commercialization charges amounting to Rs.7.832 million.

When pointed out by audit, the management replied that the administration of the society was being approached for payment of commercialization charges or provision of receipt, if paid earlier.

The DAC in its meeting dated 16.06.2020, directed for holding of inquiry to fix responsibility within one month, and also provide notification/policy letter for imposition of commercialization charges to audit for verification. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Para 4.8.5 (SAR)/2019-20

2.10.32 Loss due to non-recovery of cost of land and development charges – Rs.6.610 million

According to Para (i) Directorate General of Katchi Abadies Board of Revenue, Punjab letter No.DG (KA)/BOR/1-140/12 dated 21.06.2012 “The current price of evaluation table would be charged from the residents of all categories of Katchi Abadies irrespective of area occupied by them”.

During audit of a Cantonment Board, it was noticed from Property No. CA-543 (Commercial) that cost of land and development charges had not been recovered from the dweller of Kachi abadis in contravention of the above rule. Resultantly Cantonment Board sustained loss to the tune of Rs.6.614 million.

When pointed out by audit, the management replied that Directorate General Katchi abadi had informed that cost of land would be recovered at market rate after 30.06.2013

from dwellers of entire Katchi Abadi. It was a common issue of entire Katchi Abadi and dwellers did not agree to make payment of cost of land at market rate being on higher side. However, CB would issue notice for recovery of outstanding amount of cost of land. Outcome would be intimated to Audit.

The reply was not tenable as the cost of land was required to be recovered from dwellers of Katchi Abadi. Audit opined that either cost of land may be recovered from dwellers or the land may be got vacated as per Rules.

The DAC in its meeting dated 28.11.2023 directed that recovery be made within three months and got verified from audit. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-83/2023-24

2.10.33 Less / non-deposit of Income Tax / GST – Rs.3.476 million

- (i) As per Budgetary changes made through Finance Act 2019-2020, income tax @ 7.5% & @10% is required to be deducted on construction works from filer & non-filer persons /contractors respectively.
- (ii) Income tax @ 10% & @15% is required to be deducted on provision of services from filer & non-filer persons /contractors.
- (iii) GST @ 17% is required to be recovered from contractors winning the auction.

During audit of a Cantonment Board, it was observed that certain works were carried out through different contractors. However, income tax amounting to Rs.2.796 million was less recovered from the contractors. Similarly, auction was conducted for old building material and unserviceable store and highest bid of Rs.4.000 million was won by a contractor duly approved by the President of Cantonment Board but GST @ 17% amounting to Rs.680,000 was not recovered / deposited in to Government treasury.

Income tax amounting to Rs.2.796 million was less recovered and GST @ 17% Rs.680,000 not recovered, which resulted in loss to State exchequer, needed to be deposited into Government treasury.

When pointed out by audit, the management replied that the financial position of this office was very weak. The objected amount of income tax would be remitted to FBR upto 31.01.2022 and GST will also be recovered from the bidder.

The DAC in its meeting dated 28.11.2023 directed that recovery may be made at the earliest and got verified from audit within two months. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-40/2023-24

2.10.34 Loss to state due to non-withholding of 1/10 sales tax from the contractors – Rs.3.110 million

According to Rule-2 of Sales Tax Withholding Rules 2007, “A withholding agent, other than a recipient of advertisement services, shall deduct an amount equal to one fifth of the total sales tax shown in the sales tax invoice issued by a registered person and make payment of the balance amount to him.”

During the audit of a Cantonment Board, for the financial year 2020-21, it was observed from payment vouchers that purchases of goods were made from different contractors who charged an amount of Rs.15.559 million as sales tax from July, 2020 to June, 2021. However, 1/10th of sales tax was not withheld from final payment. The omission resulted into loss to state due to non-withholding of sales tax amounting to Rs.3.112 million (15,558,658 x 20%) which needed recovery.

When pointed out by audit, the management replied that contractors charged sales tax on their invoices which were also being updated in the FBR's online system. Full amount of sales tax was paid by the suppliers by themselves so additional charging of sales tax by the Cantonment Board would just increase the burden on the suppliers.

The reply was not tenable as Cantonment Board authorities were bound to withhold sales tax as per Rule.

The DAC in its meeting dated 28.11.2023 was apprised by the management that whole amount of GST @ 17% was released to contractors as they themselves would deposit it into Government treasury. The DAC directed to provide proof of deposit of amount of

GST and get it verified from audit within one month. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-121/2023-24

2.10.35 Non-recovery of property tax – Rs.2.525 million

According to Section 92 (1) of the Cantonments Act-1924 "If the person liable for the payment of any tax does not, within 30 days from the service of notice of demand, pay the amount due, or show sufficient cause for non-payment of the same to the satisfaction of the Cantonment Executive Officer, such sum with all costs of recovery, may be recovered under a warrant".

During audit of a Cantonment Board, for the financial year 2021-22, it was observed that an amount of Rs.2.525 million in respect of Property No. 1629/C, Survey No.117, was not recovered in contravention of the above rule, which was irregular and needed recovery. Moreover, the same observation was issued during the audit for financial year 2019-20. However, the same irregularity was recurring.

When pointed out by audit, the management replied that a notice under Section 91 of Cantonments Act 1924 for recovery was already issued to the defaulter through magistrate. Efforts were being made to recover the amount. However, recovery action was awaited till finalization of the case.

The DAC in its meeting dated 28.11.2023 directed that assessment of property may be completed, the amount be recovered and got verified from audit within 2 months. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-179/2023-24

2.11 Loss to State – Rs.217.748 million

2.11.1 Non-observance of planning standards – Rs.104.582 million

According to Para-5a (9) of the Policy of Housing Schemes on Private Lands issued vide ML&C Department letter No. 55/45/1 dated 17.02.2011, 2 to 10% of the total Scheme area shall be used for public buildings was re-fixed as minimum 4% through amendment

issued vide ML&C Department letter dated 19.04.2019. Moreover, area for public buildings shall be transferred to Cantonment Board and re-classified as C Land vide Para-8b (4) of the Policy.

During the audit of a Cantonment Board, it was observed that Private Housing schemes, reserved 2% area for public buildings instead of 4%. This omission resulted into loss to Cantonment Fund amounting to Rs. 104.582 million

When pointed out by audit, the management replied that the case for approval of the housing schemes was processed before introduction of this amendment.

The reply was not tenable, as approval of schemes were accorded vide CBR No. 18 dated 04.02.2022 and CBR No.03 dated 27.12.2021. These approvals were granted after the amendment issued on 19.04.2019. Therefore, audit is of the view that 4% area as public building instead of 2% was required to be provided for and transferred to Cantonment Board after re-classification as Class-C land.

The DAC in its meeting dated 08.11.2022 directed to conduct an inquiry, fix responsibility within one month under intimation to audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Para 4.7.3 & 4.7.10 (SAR)/2022-23

2.11.2 Loss due to encroachment of cantonment land – Rs.40.810 million

According to Rule-26(ix) a of Cantonment Land Administration Rules 1937, that an encroachment is an un-authorized occupation of Government Land and should not be permitted to remain in existence under any circumstances unless it is properly regularized. Moreover, as per Section 259 of Cantonment Act 1924, arrears of any tax or any other money recoverable by Cantonment Board may be recovered either by a suit or an application to a Magistrate having jurisdiction in the Cantonment.

During audit of a Cantonment Board, it was observed that land measuring 10.702 marlas comprising survey No. 269 valuing Rs. 8.546 million (10.702 marlas x 798,600) was encroached. Similarly, another land measuring 40.40 marlas comprising survey No. 9 valuing Rs. 32.263 million (40.40 x 798,600 per marla) was also encroached resulting into loss to Cantonment Fund amounting Rs.40.810 million.

When pointed out by audit, the management replied that lessee has already been informed to vacate Cantonment Board land to restore the premises in its original status.

The reply was not tenable, as no concrete action for removal of encroachment or imposition of fine was reported.

The DAC in its meeting dated 27.09.2023, directed the management that documents regarding removal of encroachment be got verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-580/2022-23

2.11.3 Loss due to unauthorized construction – Rs.23.088 million

As per Section 178 (a) of Cantonment Act, 1924 no person shall erect a building on any land in a Cantonment without getting building plan sanctioned by the Board. According to Government of Pakistan, Ministry of Defence, letter No.75/853/Lands/92/4970/D-12/ML&C/94 dated 06.11.1994, minimum 10% of assessed Capital Cost of Land and Building shall be charged as Composition fee.

During audit of certain Cantonment Boards, it was noted that lessee of certain residential and commercial properties have constructed their building either in excess of authorized plot area or deviation of their approved building plans. Details are as under:

(Amount in Rs.)

Sr. No.	DP No.	Description	Composition fee
1.	DP-N-500/2022-23	Composition fee	13,180,000
2.	DP-N-481/2022-23		3,668,000
3.	DP-N-92/2023-24		1,125,000
4.	DP-N-75/2023-24		3,601,000
5.	DP-N-71/2023-24		1,514,000

Total	23,088,000
--------------	-------------------

Audit observed that composition fee amounting to Rs. 23.088 million was imposed on various leases but no recovery thereof was found in record.

When pointed out by audit, against DP-N-500/2022-23, the management replied that out of the total objected amount Rs. 1.354 million has been effected. Against DP-N-481/2022-23, DP-N-92, DP-N-75 & DP-N-71/2023-24, the management replied that fresh survey of the said properties shall be conducted to probe into the matter.

The replies were not tenable. Audit stressed upon early recovery of composition fee.

The DAC in its meetings dated 27.09.2023 and 28.11.2023 directed the management to get the recovered amount verified from audit and pursue the balance recovery within two months. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-481 & 500/2022-23, DP-N-71, 75 & 92/2023-24

2.11.4 Loss to Cantt Fund due to non-assessment of Properties - Rs. 16.760 million

Section 67-72 of the Cantonments Act, 1924, gives detailed statutory provision of system of assessment of building for taxation purposes.

During audit of a Cantonment Board, for the Financial Year 2022-23, it was observed that 1,248 numbers of properties were not assessed in concerned Cantonment Board and due to non- assessment of the properties, a loss of approximately Rs. 16,760,422 was sustained by the Cantonment Fund.

Audit is of the opinion that due to non-assessment of properties a substantial amount of revenue could not be realized, which indicated weak internal controls within the entity.

When pointed out by audit in August, 2023, the management replied that assessment of the properties as pointed out by audit would be done in due course of time in the light of Cantonment Act 1924, and recovery thereof will be made.

The reply was not tenable as under section 72 of the Cantonment Act 1954, all the properties needed to be reassessed and amounts recovered.

The DAC in its meeting held in December, 2023 directed the management to finalize the re-assessment process within 3 months. Further progress in terms of recovery was not reported to audit till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-03/2023-24

2.11.5 Non-recovery of Income Tax and GST – Rs.13.537 million

According to Income Tax Ordinance 2001, “Income tax is required to be deducted at the specified rate.” Moreover, Rule 2 of FR Vol-II, 1986 states that “Income tax recovered should be promptly deposited into government account.”

During audit of the several Cantonment Boards for the Financial Year 2022-23, it was observed that a sum of Rs. 13.537 million on account of income tax and sales tax was either less deducted or not deducted at all against different parties. The details are as under:

(Rs. in million)

S. No.	DP No.	Amount
1.	DP-S-11/2023-24	4.282
2.	DP-S-168/2023-24	2.681
3.	DP-S-57/2023-24	2.276
4.	DP-S-14/2023-24	2.164
5.	DP-S-71/2023-24	2.134
Total		13.537

Audit is of the view that non-deduction/recovery of taxes resulted in loss to state.

The matter was pointed out by audit in October, 2023. The management in case of DP S-11, stated that the contractor was exempt from GST. The Management in case of DP S-168, stated that the amount would be deposited with FBR. The Management in case of

DP S-57, stated that due to financial constraints the amount was not deposited with FBR. The management of DP S-14 & S-71, stated that the contractors were filers. The reply furnished by the management is not tenable as they should have deposited the due tax.

The DAC in its meeting dated 29.12.2024 directed the management in DP-S-11 & S-14 to recover the amount and get it verified from audit. In case of DP S-71, DAC directed the management that relevant record be produced to audit. In case the contractor is non-filer, DAC further directed, that due amount of income tax may be recovered and get it verified from audit within one month. In case of DP S-168, DAC directed the management that amount may be deposited into government treasury and get it verified from audit. Further progress in terms of recovery was not reported to audit till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-11, 14, 57, 71 & 168/2023-24

2.11.6 Non-recovery of Sales Tax on services – Rs 8.112 million

As per Item No. 49 of 4th Schedule of Constitution of Pakistan amended vide 18th Amendment to the Constitution, “The imposition, administration, collection and enforcement of tax on services is the prerogative of the provinces.” As per clarification issued vide U.O. No. 3(10) ST-L&P/2007(PI)114971-R dated 27-09-2018 by FBR (Federal Board of Revenue), “The authority to levy and collect sales tax on services provided within the territorial limits of provinces now vests with the respective provinces. Therefore, the federal/provincial government departments, autonomous bodies and public sector organizations shall withhold the amount of sales tax on such services as prescribed under the provincial sales tax law and rules and deposit the same in the respective provincial heads of account.”

During audit of various Cantonment Boards for the Financial Year 2022-23, it was observed that various services were outsourced by different cantonments boards, but sales tax on services amounting Rs. 57.649 million was not recovered from the contractors’ payments as detailed below:

(Rs. in million)

Sr. No.	DP No.	Amount
---------	--------	--------

1.	DP-S-09/2023-24	5.844
2.	DP-S-118/2023-24	2.268
Total		8.112

Audit is of the view that due to non-recovery of Sales Tax, public exchequer was deprived of revenue.

Non-recoveries were pointed out by audit in August, 2023. The management on DP-S-09/2023-24 stated that CB concerned had filed CP No. D-6866 of 2022 and the matter is subjudice. Furthermore, another CP No. (D) 1917/2023 has also been filed on the matter. Moreover, Cantonment Boards, being Federal institutions, also fall under Item No. 02 of Federal Legislative List, Fourth Schedule, Article 70(4) of Constitution of Pakistan. The management on DP S-118, stated that the matter is under consideration at HQ ML&C, as and when the matter is decided it would be intimated to audit accordingly.

The contention of the management was not tenable as Sindh sales tax act clearly mentions rates against federal projects for deduction of taxes.

The DAC in its meeting dated 29.12.2024, was apprised that subject matter is subjudice, DAC directed the management to pursue the court case vigorously. Further progress in terms of recovery was not reported to audit till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-09 & 118/2023-24

2.11.7 Non-recovery of contractual amount from parking contractor- Rs.7.434 million

According to Clause 1 of contract agreement for parking fee for the year 2022-23, "The highest bidder had agreed to pay Rs 9.40 million vide 03 postdated cheques." Furthermore, Clause 2 of the contract agreement, "In case of default in making payments or in case of dishonor of cheques a surcharge @ 1% for every day of such delay of payment will be charged in addition to termination of the contract and forfeiture of security deposit."

During audit of a Cantonment Board, for the Financial Year 2022-23, it was observed that collection rights for parking fee was awarded to contractor for two sites in the cantonment area. Later on, the said contractor defaulted in payment against the parking contract, resultantly the contract was cancelled on dated 13/4/2023. This resulted in loss to

Cantonment Fund amounting to Rs.7.433 million. Furthermore, as per the contract agreement, the contractor was bound to submit three post-dated cheques for remaining amount, but the same were neither provided nor requested by the management. The details are as under:

Sr. No.	Description	Contract Amount (Rs)	Amount Recovered (Rs)	Balance Amount (Rs)
1.	Parking contracts	9,400,000	3,133,333	6,266,667
2.		1,750,000	583,000	1,167,000
Total				7,433,667

Audit is of the opinion that due to non-fulfillment of terms & conditions of contractual agreement, Cantonment Fund was deprived its due revenue share.

The matter was pointed out by the Audit in August, 2023, the management replied that the contractor was blacklisted from the penal of the concerned CB vide CBR No.60 dated 17.04.2023. Moreover, the actual defaulted amount was Rs. 4,266,000 instead of Rs. 6,266,667. The management is set to file case in the Court of Law, for recovery of the amount.

The reply furnished by the management was not tenable as the payment was not secured as mentioned in the contract agreement.

The DAC in its meeting dated 29.12.2024 directed the management that recoverable amount may be reconciled with audit. DAC further directed that case of blacklisting of the contractor should be expedited and post-dated cheque system may be included in future contracts. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-07/2023-24

2.11.8 Non-adjustment of withholding tax - Rs. 2.400 million

According to Section 170(1) of Income Tax Ordinance 2001, “A taxpayer who has paid tax in excess of the amount which the taxpayer is properly chargeable under this Ordinance may apply to the Commissioner for a refund of the excess.”

During audit of a Cantonment Board for the Financial Year 2022-23, it was observed that an amount of Rs.2,399,767 was deducted as withholding tax from PLS bank accounts of concerned Cantonment Board as non-filers, at the rate of 30%. However, this withheld amount was neither applied for refund nor it was adjusted against the tax liability in the income tax returns. This situation caused loss to the Cantonment Fund, as the advance tax paid was not appropriately offset against the tax liability arising from the profit/gain on investments.

Audit is of the opinion that a lack of mechanism to identify the taxable income and associated tax liability, reflected weak internal controls within the Formation.

The matter was pointed out by the Audit in August, 2023 the management replied that a letter had been issued to the Federal Board of Revenue (FBR) regarding the refund of withholding tax deducted on profit, as indicated by the concerned Cantonment Board vide letter dated 09-08-2023. The management acknowledged the audit findings and expressed intent to address the matter with the relevant FBR authorities.

The DAC in its meeting dated 29.12.2024 directed the management that recovered amount may be verified to audit, and remaining recovery be made within two months. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives/ adjustment of the taxes with FBR besides taking up the case for obtaining Free Tax Number (FTN).

DP-S-170/2023-24

2.11.9 Loss due to non-revision of rent – Rs.1.025 million

According to Rule-12 of the Pakistan Cantonment Account Code 1955 “Any loss of Cantonment Fund Money, departmental revenue or receipts, stamps, stores or other property held by or on behalf of the Cantonment Board caused by defalcation or otherwise, which is discovered in a treasury or office or department, shall be immediately reported by the Executive Officer to the President, the Board and the Director, as well as to the Accountant General, even when such loss has been made good by the party responsible for

it. Such reports must be submitted as soon as there is reason to believe that there has been a loss; they must not be delayed while detailed enquiries are made”.

During the audit of a Cantonment Board, it was observed that rain shelters of Class-C Land were converted into a Bakery. The board of officer assessed rent of the Bakery on 29-11-2011 @ Rs. 4.5 per Sft. per month. It was pointed out by audit that rent of the Bakery may be enhanced at least @ 50% of the adjacent Hotel i.e. Rs.1.738.96 which can contribute to Cantonment Fund to the tune of Rs.1.026 million (1,739.96 (x) 590 sq ft.).

When pointed out by audit, the management replied that the Bakery is presently paying Rs.106,631 per annum which comes to Rs. 15 per sq ft per month. A comprehensive exercise is being under taken to revise the rent of Cantonment Board Properties as per market value. The case of the Bakery is being taken up by the Committee.

The reply was not justified because initially the rent of the Bakery was not calculated on rational basis as compared to other properties in the vicinity which resulted into recurring loss to Cantonment Fund.

The DAC in its meeting dated 28.11.2023 directed for re-assessment as per market rate, resolve the issue within one month and get it verified from audit. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-11/2023-24

MILITARY ACCOUNTANT GENERAL

Pakistan Military Accounts Department is an attached Department of Ministry of Defence. Its main function includes maintenance of Accounts, payments and carrying out internal audit of Defence Services.

AUDIT PARAS

2.12 Procurement related irregularities – Rs.10.000 million

2.12.1 Irregular expenditure without open competition – Rs.10.000 million

According to Cabinet Division letter No.5/1/2005-M-III/Admin (PPRA) dated 14.04.2008, only such objects will be exempted for which the Principal Accounting Officer of the concerned Ministry has certified that these are sensitive in nature, required for Defence Purpose and their procurement under PPRA Ordinance, 2002 and PPRA Rule 2004 will not be in national interest.

According to Rule-12(2) of Public Procurement Rules, 2004, all procurement opportunities over two million rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

During Audit of a Controller Military Accounts, it was observed that an amount of Rs. 10.000 million was released on procurement of accessories and payment was made vide DV No.96 dated 05/2019 without publishing of tender in two national dailies or on PPRA's website. The procurement was made by calling of quotations from three contractors which was contradictory to above Rules.

When pointed out by audit, the Controller office stated that management had been requested to comply with the PPRA Rules in each procurement to avoid audit objections vide letter dated 31.10.2019.

The reply was not tenable as payment was made to contractor after carrying out pre-audit of contingent bill, therefore it was the responsibility of Controller office to bring such irregularities into the notice of executive for compliance.

The DAC in its meeting dated 27.09.2023 directed the management to hold Court of Inquiry and get it endorsed by Secretary Defence within 02 months. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-493/2022-23

2.13 Un-authorized / irregular payments – Rs.93,034.780 million

2.13.1 Irregular deduction of DSOP Fund – Rs.41,536.123 million

According to Rule-8 of DSOP Fund Part–I Rules, Part–II Instructions 1973 Reprint 1980, every officer shall subscribe monthly to the fund not less than the prescribed amounts. MAG Office vide their letter No-36-59/AT/MES/2248-IX P/F dated 04.10.2013, had however permitted that subscriptions may be maintained within the basic/rank pay of officer/official.

During audit of DSOP & DSP Fund maintained by CsMA and FPOs, it was observed that monthly subscription of different Army Officers / JCOs and ORs was being deducted from their monthly pay in excess of their Rank / Basic Pay, which stood irregular. In certain cases, subscription of Civil employees was also made over and above the prescribed rates. As a result, the Government had to pay heavy amounts on account of annual interest.

When pointed out by audit, it was replied by the management that monthly subscriptions were authorized upto the Rank Pay by the MAG. The management replied that all the concerned groups had been instructed to restrict the deduction of DSOP/DSP fund below rank pay. The management also replied that intimation to concerned Units/Formations had been issued for correction. A FPO Centre replied that increase / decrease in the rate of DSP subscriptions are dealt by the concerned Formations and the office was bound to enter the same. However, the policy needs to be reviewed. Another office management replied that case has already been elaborated by the MAG office and therefore, subscriptions were deducted up to a certain limit for a particular rank.

The replies were not tenable to as the rates were much higher as compared to the prescribed rates resulting in heavy interest payments.

The DAC in its meeting dated 07.08.2023 directed the management to reconcile the relevant record with audit and review the procedure, get the case regularized and verified

from audit within two months. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Para-5.2.1 (SAR)/2020-21

2.13.2 Non-conducting of post-audit – Rs. 20,290.00 million

According to Para-10 of Operating & Accounting Procedure for a development Board fund issued by Government of Pakistan Ministry of Defence vide letter No.12/151/D-10 (AF-II)/14 dated 05.10.2015. Monthly cash account consisting of receipt / payment vouchers will be submitted to CAAF for post-audit by specified date of each month.

During audit of a Controller of Accounts, it was observed that cash assignment for the Financial Year 2015-16 to 2018-19 amounting to Rs. 20,290.00 million was placed at the disposal of Chief Project Director Air Headquarter. However, post-audit of cash account consisting of receipt and payment vouchers was not conducted and no report regarding post-audit of paid vouchers was available on record.

When pointed out by audit, the management replied that task of Post-Audit of paid vouchers had been assigned to concerned Unit Accountant in addition to his own duties. Post-Audit reports were available for verification.

The reply was not tenable as post-audit reports for the complete period of Financial Year 2015-16 to 2018-19 were not available on record. The post audit may be conducted as per Government orders and reports be provided to audit.

The DAC in its meeting dated 27.09.2023, directed to get the record verified from audit with respect to cash account vouchers of financial year 2015-16 to 2018-19. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-457/2022-23

2.13.3 Non-reconciliation of the accounts – Rs.19,755.527 million

According to Para 1(viii) of Government of Pakistan Ministry of Defence letter No. 7/6/2004-05/D-21 (Budget) dated 30.11.2004 “Reconciliation of monthly accounts shall be made. Reconciliation of accounts for the month of June shall be made in July”.

During audit of a Controller of Military Accounts, it was observed from summary and relevant accounts record provided by Accounts Authorities that an amount of Rs.19,755.527 million was released from Al-Mizan Fund during the period 2016-17 to 2020-21 as given below. However, no reconciliation of the accounts has so far been made in violation of the above Government policy.

(Rs. in million)

Sr. No.	Financial Year	Amount
1.	2016-17	4,028.89
2.	2017-18	2,296.874
3.	2018-19	1,577.111
4.	2019-20	6,853.652
5.	2020-21	4,999.000
	Total	19,755.527

When pointed out by audit, the management replied that according to para-VIII of Government of Pakistan Ministry of Defence letter dated 30.11.2004 “Reconciliation of monthly accounts shall be made. Reconciliation of accounts for the month of June shall be made in July” is addressed to Director General Budget General Headquarters. As per Para-VII of letter, expenditure incurred during a financial year shall be pre-audited and initially booked by MAG under two separate heads. The booked expenditure shall subsequently be transferred to AGPR for adjustment against the relevant demand of the Finance Division. Furthermore, it was pointed out that reconciliation of expenditure was required to be addressed by MAG Office with AGPR.

The reply was not tenable as reconciliation was a mandatory requirement as per Government policy which was not made.

The DAC in its meeting dated 27.09.2023, directed the management to get the reconciled accounts pertaining to expenditure from United Nations Reimbursement

Accounts (UNRA) and Special Transfer Accounts (STA) for financial year 2016-17 to 2020-21, verified from the audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-565/2022-23

2.13.4 Irregular manual pension payment through GPOs – Rs. 11,261.130 million

According to first paragraph of Revised SOP issued by the Finance Division, Government of Pakistan dated 05-01-2016, “Pursuant to Supreme Court’s Order dated 17.09.2007 in case of Suo Moto Notice in respect of pensioner in human rights case No.2492 of 2007 and circular No.11 dated 6-06-2009 of State Bank of Pakistan issued to banks, it was decided to credit pension direct in the pensioner’s bank account opened in any Schedule Bank including National Saving Centers for this purpose. It will enable a pensioner to draw monthly pension without preferring a pension payment claim at the bank. Further, Direct Credit system was made mandatory w.e.f. 01.08.2014.”

During Special Study of Pension Payment System of Naval Accounts, for the period 2017-18 to 2019-20, it was observed from the DCS Report of CNA office dated 24.06.2020 that out of total 48,345 pensioners 53% i.e. 25,196 pensioners were drawing pension manually from the GPOs in violation of Supreme Court and Government orders. The detail is as under:

(Rs. in million)

Sr. No.	Financial Year	Pension Amount
1.	2017-18	3,793.471
2.	2018-19	3,601.681
3.	2019-20	3,865.978
Total		11,261.130

Audit is of the view that due to non-compliance of government orders, 53% of the pensioners drawing pension manually reflected weak internal controls within the organization.

The irregularity was pointed out by audit in June, 2021. The management replied that as per SOP for new retirees, it is mandatory to be brought on DCS roll w.e.f. 01.08.2014. However, old pensioners were given option for DCS. NHQ had issued

memorandum to make country wide advertisement for familiarization and benefit of PN personnel from DCS.

The DAC vide meeting dated 06.07.2022, directed the management that DCS be pursued on the top priority basis; and discourage the manual payments of pension and get it verify from Audit. No further progress was reported till finalization of this report.

Audit recommends implementation of the DAC directives.

(DP-S-SSR-464/2022-23)

2.13.5 Unauthorized payment beyond contractual scope – Rs.192.000 million

According to Para-1 of contract agreement dated 06.06.2020, regarding scope of work under which the contractor was allowed to execute solar lightening of the outer border of fort, bunker and check post in operational areas.

During audit of a Controller Military Accounts, it was observed from contingent bill dated 10.06.2020 of a Headquarters Corps that an amount of Rs. 192.00 million was paid to a firm on account of an item of work in operational areas on 96 posts @ Rs. 2.000 million per post vide DV No.07 of 06/2020. It was, however, evident from contract agreement dated 06.06.2020 that the works were required to be executed at operational area instead these were executed at places not covered in the scope of work / contract.

When pointed out by audit, the management replied that the contract was executed almost in the same areas mentioned in the contract.

The reply was not tenable as no documentary evidence in support of reply was produced at the time of discussion.

The DAC in its meeting dated 05.01.2024 was apprised by the management that in the light of audit recommendations, amendments in the contracts have been made. The DAC directed to get the relevant record verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-212/2023-24

2.13.6 Unauthorized payment system

As per the Article 170 (1) of the Constitution of Islamic Republic of Pakistan, the accounts of the Federation and of the Provinces shall be kept in such form and in

accordance with such principles and methods as the Auditor-General may, with the approval of the President, prescribe.

During audit of Controller of Accounts Air Force (CAAF), and its sub-offices following was noted:

- a. Payments pertaining to Air Force were made by concerned Air Force Bases and vouchers of such payments are submitted to concerned CAAF sub-offices for post-audit. This system of payment and accounting is contrary to the constitution and not endorsed by the AGP as required under the Constitution of Pakistan.
- b. Current payment and accounting system of Air Force is totally different from the system prevailing in other arms of the Pakistan military. For instance, in case of Pakistan Army and Navy Pre-audit system of payment through Controllers of Military Accounts working under MAG is currently in operation. This is resulting in lack of uniformity throughout the armed forces creating exceptions in the accountability chain.
- c. Due to this unauthorized system, neither the pre-audit function nor the post-audit function is working effectively.
- d. Development of unique payment and accounting system by Air Force is an encroachment in the areas of AGP since AGP is empowered under the Article of 169 and 170 of the Constitution of Islamic Republic of Pakistan read with section 63 of the Constitution (Eighteenth Amendment) Act 2010 for prescribing the form of accounts.
- e. Audit is of the view that since, Constitution empowered AGP for endorsement of accounting system of all Government entities therefore, the implementation of accounting system by Air Force Authorities without AGP's endorsement is unauthorized.

Non-observance of Government rule shows weak internal control. The management may immediately take up the case with OAGP for approval of the accounting system and may take up the case for regularization of the expenditure made under the existing unauthorized system and uniform payment and accounting system should be established and implemented in all Formations of Defence Services.

When pointed out by audit, the management replied that PAF is making payment of Pay & Allowances to PAF Officers/Staff according to AFI 42/57 at their end without pre-audit by CAAF.

Being a systemic issue, the same may be taken up with PAF / MoD at higher level for its resolution. Furthermore, audit authorities may include PAF CAO / Director Accounts in its certification audit activity to comprehensively cover the financial attest audit.

The reply was not tenable. The action suggested be taken under intimation to Audit.

The DAC in its meeting dated 05.01.2024 pended the para. No further progress was reported till finalization of this report.

Audit recommends for immediate action as proposed.

DP-N-364/2023-24

2.13.7 Non-reconciliation of pension payments with National Bank of Pakistan

According to Section 4.7.19.1 of APPM, "The Bank will send the "Bank Return" to the Account section, where a delegated officer shall check the Bank Return with the copy of the Pension Advice Note and Pension Credit Advice. In respect of the Pension Credit Advice the total will be reconciled with the total appearing on the Bank Return. The officer shall investigate any item which is on the Bank Return but not on the Pension Advice Note and the Pension Credit Advice, and vice versa."

During Special Study of Pension Payment System of Naval Accounts, for the period 2017-18 to 2019-20, it was observed that reconciliation of pension payments was not made with NBP and DGPR. This showed non-adherence of rules at the end of management.

The irregularity was pointed out by audit in June 2021. The management replied that reconciliation with banks were being carried out on quarterly basis and it would be made more effective in future. The reply was not tenable as no documentary evidence was provided to audit for verification.

The DAC vide meeting dated 06.07.2022, directed the management to provide reconciliation statement to audit for verification. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-SSR-467/2022-23

2.14 Recoverable / Overpayments – Rs.98.731 million

2.14.1 Loss due to non-recovery of PST – Rs.70.717 million

According to Punjab Revenue Authority letter No PRA/WH/3880, dated 28.10.2016, "it is the responsibility of withholding agent to deduct sales tax at prescribed

rates while making payments for receipt of services like transport of goods / intercity carriage”.

During audit of a Controller Military Accounts, it was noticed that a sum of Rs.441.983 million was paid to the contractor on account of Hired Mechanical Transport services but Punjab Provincial Sales Tax (PST) on Services @ 16% amounting to Rs.70.717 million was not recovered from the contractor, which needs recovery.

When pointed out by audit, the management replied the recovery of PST was initiated after receipt of Government Orders in this regard. Furthermore, clarification regarding date of implementation had been received from MAG, vide his letter dated 25.5.2021.

The reply was not tenable as PST deduction notification had been in place since enforcement of 18th Amendment to the Constitution, empowering provincial governments to collect the taxes at prescribed rates. MAG as withholding agent has clear instructions to calculate, recover/deposit taxable amount of PST as per prescribed provincial sales tax law through CsMA vide GHQ GS Branch Budget Directorate, letter dated 05.03.2021.

The DAC in its meeting dated 28.11.2023, directed the management to pursue the case for recovery as per government orders in vogue. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-72/2023-24

2.14.2 Non-deduction of Income Tax – Rs.22.069 million

According to Finance Act-2017 income tax is recoverable on gross amount payable to the contractor while making payment for execution of the contract under section 153(1)(c) @ 7.5 %.

During audit of a Controller of Military Accounts, it was observed from contingent bills amounting to Rs. 294.137 million furnished by Corps Headquarters on account of repair/maintenance works for payment to supplier during financial year 2017-18 and 2018-19. The supplier claimed exemption from Income Tax by providing an exemption certificate.

Audit was of the view that non-deduction of Income Tax on the basis of exemption certificate issued to the supplier resident of taxable area who provided services in non-taxable areas need justification / clarification from Chief Commissioner, Regional Tax Office. In this regard reference is made to the FBR clarification issued vide their letter dated 18.11.1998 which states that goods entering / supplied to PATA area of Balochistan from the areas of Pakistan subject to tariff are to follow to standard rate of Sales Tax as well as other applicable taxes. Similarly, the services provided in FATA/PATA by the resident of the tariff area of Pakistan is also liable to pay income tax.

When pointed out by audit, the management replied that Tax exemption certificates were issued to contractors for the period w.e.f 01.01.2018 to 30.06.2018 and 01.01.2019 to 30.06.2019, hence no violation of Government orders have been made during the release of payments.

The reply was not tenable as clarification from FBR authorities with reference to Audit contention was not obtained.

The DAC in its meeting dated 27.09.2023, directed the management to get exemption certificates verified from FBR and share it with audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-564 & 566/2022-23

2.14.3 Payment of pension without recovery of outstanding dues – Rs.3.185 million

According to Para 14 of Army Regulations Vol-I, “Any public claim outstanding against the pensioner shall be liable to be recovered from the pension/gratuity (including commuted value payable to him or her). However, no recovery shall be made from the disability pension without the special orders of the competent authority.”

During Special Study of Pension Payment System of Naval Accounts, for the period 2017-18 to 2019-20, it was observed that an amount of Rs.3.185 million was outstanding against the pensioners. Audit noted that the outstanding dues were recovered on monthly installment basis whereas, as the same were required to be recovered as lump sum amount of COVP (Commuted value of Pension) at the time of grant of pension.

Audit is of the view that the payment/grant of pension without recovery of outstanding dues reflects weak internal controls and financial management within the organization.

The irregularity was pointed out by audit in June, 2021. The management replied that Rs. 984,056 had been recovered against Rs. 3,1984,921 and remaining amount was being recovered from the monthly pension.

The DAC vide meeting dated 06.07.2022, directed the management to recover the amount and get the same verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-SSR-S-468/2022-23

2.14.4 Non-recovery of stamp duty from contractors – Rs.2.760 million

As per Ministry of Defence Government of Pakistan letter No. MOD's U.O No.5-1/2019 (PAC-III) dated 31.07.2019 for the subject "NON-RECOVERY OF STAMP DUTY" Duty is applicable and its recovery from contractor is by provincial Government is applicable even when the contract is signed between contractor and a Federal Entity and the work has been performed in Cantonment Area. As per Government of Punjab Finance Act 2018, "Stamp duty of Twenty five paisa for every hundred rupees or part thereof of the amount of the contract will be charged".

During audit of a Controller Military Accounts, it was observed that an amount of Rs.1,104.919 million was paid to different contractors but stamp duty was not recovered from the contractors for amounting to Rs.2.762 million.

When pointed out by audit, the management replied that case had been taken up with the executive of concerned units. Audit concluded that amount may be recovered from contractors.

The DAC in its meeting dated 28.11.2023 directed to pursue the case for recovery of stamp duty from contractors. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

2.15 Loss to State – Rs.2,982.846 million**2.15.1 Irregular overstatement of opening balances – Rs.2,982.846 million**

Para-5 of Military Account Code (Revised Edition) of 2005 provides that each Controller is responsible for the accuracy and efficient working of the numerous processes of which the monthly account is the outcome. He should keep himself thoroughly acquainted with the progress of Receipt and Expenditure, so as to be able at once to bring to notice any matter demanding attention.

From scrutiny of computerized record of DSOP / DSP Fund databases maintained by CMA concerned and FPOs, an overstatement of Rs. 2,982.846 million was observed between opening and closing balances of 2017-18, 2018-19 and 2019-20 against 21,774 Army Officers / JCOs / ORs. Overstatement of opening balances vs closing balances of DSOP / DSP Funds resulted in undue benefit to the employees and loss to the State.

When pointed out by audit, the management replied that Army officers attached with PAF & Navy, when reverted back their balances of DSOP Fund are received through MID schedules and adjusted accordingly. The management of a regimental centre replied that the subscription and refund amount shown in notified financial years are not verified due to non-availability of their subscriptions and refund schedules. As and when their schedules are received from respective CsMA interest amount will be calculated. Another Centre management replied that all the cases have been re-checked. It was revealed that the said over-statement occurred due to negligence of the computer operator. Yet another Regimental Centre management did not furnish any reply.

The replies were not tenable. Reconciliation of statements and certificate regarding the correctness of data may be furnished to audit.

The DAC in its meeting dated 07.08.2023, directed the management to reconcile the relevant record with audit and get the same verified from audit within two months. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Para 5.1.4 (SAR)/2020-21

PAKISTAN AIR FORCE

Pakistan Air Force (PAF) is the second component of Defence Services primarily responsible to safeguard the aerial territory of Pakistan.

AUDIT PARAS

2.16 Procurement Related Irregularities - Rs. 6,387.649 million

2.16.1 Irregular award of contract to other than the most advantageous bidder Rs. 4,540.094 million

According to Rule 36 of Public Procurement Rules 2004, “The bidder with the most advantageous bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract, within the original or extended period of bid validity.”

During audit of various Project for the Financial Years 2021-22 & 2022-23, it was observed that two contracts amounting to Rs. 4,540.094 million were awarded against the recommendations of procurement committee. The details are as under:

(Rs in million)

Sr. No.	DP No.	Remarks	Amount
1.	S-64/2023-24	Irregular award of contracts after negotiations with the highest bidder	3,030.647
2.	S-76/2023-24	Award of contract against recommendation of procurement committee	1,509.447
Total			4,540.094

Audit is of view that award of contracts to other than most advantageous bidders in violation of Public Procurement Rules resulted in loss to state which reflected prevalence of weak financial controls within department.

When pointed out by the Audit in October 2023, the management on DP-S-64, replied that shortcomings were conveyed to lowest bidder, but no response was received, hence the contract was awarded to second lowest bidder. In case of DP S-76, the contractor was already awarded two contracts, hence, the contract was awarded to another contractor.

Replies are not tenable as in all cases contracts were awarded to bidders other than the most advantageous ones.

The DAC in its meeting dated 28.12.2023 directed the management to recover the remaining amount from the contractor, and hold a Fact Finding Inquiry and get it verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-64 & 76/2023-24

2.16.2 Irregular conclusion of contracts with a blacklisted firm Rs. 1,294.234 million

According to Rule 2(f) of PPRA, “Corrupt and fraudulent practices” includes the offering, giving, receiving, or soliciting of anything of value to influence the action of a public official or the supplier or contractor in the procurement process or in contract execution to the detriment of the procuring agencies; or misrepresentation of facts in order to influence a procurement process or the execution of a contract, collusive practices among bidders (prior to or after bid submission) designed to establish bid prices at artificial, non-competitive levels and to deprive the procuring agencies of the benefits of free and open competition and any request for, or solicitation of anything of value by any public official in the course of the exercise of his duty.” Further, according to Rule 19 of PPRA, 2004, “The procuring agencies shall specify a mechanism and manner to permanently or temporarily bar, from participating in their respective procurement proceedings, suppliers, and contractors who either consistently fail to provide satisfactory performances or are found to be indulging in corrupt or fraudulent practices. Such barring action shall be duly publicized and communicated to the Authority.”

During audit of a PAF Project, for the Financial Years 2021-22 & 2022-23, it was observed that the two contracts amounting to Rs. 1,294.234 million were concluded with a contractor, who was already blacklisted by E-in-C. Hence, contracts were awarded in violation of the directives of competent authority.

Audit is of the view that the award of contract to a blacklisted contractor compromised the government interest which reflected weak internal controls within the entity.

The matter was pointed out by the Audit in October, 2023. The management did not furnish a reply.

The DAC in its meeting dated 28.12.2023, directed the management to provide relevant tendering documents and get it verified from audit within one month. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-62/2023-24

2.16.3 Loss to state due to award of contract at higher rate – Rs. 451.985 million

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

During audit of the accounts of PAF Project for the Financial Years 2021-22 & 2022-23, it was observed that 04 contracts amounting to Rs. 2,936.256 million were awarded to two different contractors whereas, lowest bids submitted were of Rs 2,484.271 million, resultantly government sustained loss amounting to Rs 451.985 million. The details are as under:

(Rs in million)

S No.	Accepted Bid Amount	Lowest Offer	Loss
1.	700.204	677.627	22.577
2.	774.284	705.613	68.671
3.	735.163	605.086	130.077
4.	726.605	495.945	230.66
Total	2936.256	2484.271	451.985

Audit is of view that award of contract on higher rates reflected weak internal controls within department.

The matter was pointed out by Audit in October 2023. The management replied that in case of Sr. No. 01 some shortcomings were conveyed to lowest bidder but no response was received, hence the contract was awarded to the second lowest bidder. In case

of Sr. No. 02, it stated that the contractor was already awarded two contracts, therefore, it was awarded to another contractor. In case of Sr. No. 03, due to arithmetical errors rate was increased. In the case of Sr. No. 04, the management did not furnish a reply.

Reply was not tenable as contracts were awarded in violation of PPRA rules.

The DAC in its meeting dated 28.12.2023 directed the management to recover the remaining amount from contractor, and hold a Fact Finding Inquiry and get it verified from audit.

Audit recommends implementation of DAC directives.

DP-S-84 /2023-24

2.16.4 Irregular award of contracts Rs. 70.094 million

According to Rule 2(f) of PPRA Rules 2004, “Corrupt and fraudulent practices” includes the offering, giving, receiving, or soliciting of anything of value to influence the action of a public official or the supplier or contractor in the procurement process or in contract execution to the detriment of the procuring agencies; or misrepresentation of facts in order to influence a procurement process or the execution of a contract, collusive practices among bidders (prior to or after bid submission) designed to establish bid prices at artificial, non-competitive levels and to deprive the procuring agencies of the benefits of free and open competition and any request for, or solicitation of anything of value by any public official in the course of the exercise of his duty.”

During the audit of a PAF Project for the Financial Years 2021-22 & 2022-23, it was observed that pre-qualification of consultant was announced through different newspapers dated 19-12-2021, wherein, 09 No. of consultants participated, out of which six consultants qualified for financial bid. The lowest bidder quoted Rs. 50. 850 million but the work was awarded to a contractor with a bid of Rs. 70.094 million by revising the rate of lowest bidder to Rs. 126.999 million at the instance of the management.

Audit is of the view that the award of contract to the second lowest bidder caused loss to the public exchequer which reflected weak financial controls within department.

The matter was pointed out by Audit in October, 2023. The management did not furnish reply.

The DAC in its meeting dated 28.12.2023, directed the management to provide relevant record and get it verified from audit within one month. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-61 & 83 /2023-24

2.16.5 Procurement of stores without calling open tenders - Rs. 29.305 million

According to Rule 12(2) of Public Procurement Rules 2004, “All procurement opportunities over three million Pakistani Rupees should be advertised on the Authority’s website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.”

During audit of PAF Formations for the Financial Years 2017-22, it was observed that procurement of different items was made without open competition in violation of PPRA rules. The detail is as under:

(Rs. in million)

Sr. No.	DP No.	PPRA Rule violated	Amount
1.	S-394/2022-23	Rule 12(2)	5.935
2.	S-449/2022-23	Rule 12(2)	10.000
3.	S-265/2023-24	Rule 12(2)	13.370
Total			29.305

Audit is of the view that procurement was made in violation of Public Procurement Rules.

The matter was pointed out by Audit in 2022 & 2023. The management in DP-S-394, replied that all contracts were concluded as per PPRA rules by concerned authority. In case of DP-S-449 the management replied that contract was awarded to a lowest bidder. The management in DP-S-265, did not furnish reply.

Replies furnished by the management were not tenable as no documentary evidence was provided regarding compliance of PPRA rules.

The DAC in its meetings held in August, 2023 and February 2024, directed the management in DP S-394 and S-265 to provide relevant tendering documents to audit for verification. In case of DP S-449, DAC directed the management to hold court of inquiry against the violation of rules, to fix responsibility against the person(s) at fault. The inquiry report after endorsement from PAO be provided to audit for examination. No progress was reported till finalization of this report.

Audit recommends verification of record/fixation of responsibility against the person(s) at fault.

DP-S-394 & 449/2022-23 and DP-S-265/2023-24

2.17 Un-authorized / irregular payments – Rs.12,117.311 million

2.17.1 Loss to State due to defective works – Rs. 5,330.508 million

According to Rule 6 (a) FR Volume I, 1986, “Every officer should exercise the same vigilance in respect of expenditure incurred from government revenue as a person of ordinary prudence would exercise in respect of the expenditure of his own money.”

During audit of a PAF Project for the Financial Years 2021-22 & 2022-23, it was observed that significant deficiencies in construction quality were identified in various works amounting to Rs. 5,225.486 million. Deficiencies mainly included unusual cracks in construction, faulty raft footing foundations, causing building cracks, and structural cracks in hospital and mosque buildings. The details are as under:

(Rs in million)

Sr. No	DP No.	Detail of the Work	Amount
1.	S-93/2023-24	Unusual cracks in the construction	1,491.312
2.	S-92/2023-24	Raft footing foundation, which is major cause of cracking in Building	1,169.637
3.	S-77/2023-24	Cracks in the Hospital building	1,081.323
4.	S-90/2023-24	Cracks were observed at the junction of columns, beams & wall joints	849.594
5.	S-91/2023-24	Cracks at Mosque Building	633.62

6.	S-229/2023-24	Handing over of 3 buildings with defective works	105.022
Total			5,330.508

Audit is of the view that release of payments to the contractors despite these evident defects reflected weak internal controls within the entity which resulted in a loss to the public exchequer.

The matter was pointed out by the Audit in October, 2023. The management replied that remedial measures were taken against the cracks, stability, and soundness of the projects. Raft foundation was being designed for up-coming projects.

The DAC in its meeting dated 28.12.2023 directed the management that relevant record of rectification work by contractor, without any additional cost, may be provided to audit for verification. No progress on the matter was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-77, 90, 91, 92, 93 & 229/2023-24 (Reported as Critical Issue to PAO)

2.17.2 Execution of work without recovery of risk & cost - Rs. 4,333.141 million

According to Clause 12.1 of PEC bidding documents, "If the Contractor has not taken all practicable steps to remedy the default within fourteen (14) days after receipt of the Employer's notice, the Employer may by a second notice given within a further twenty-one (21) days, terminate the Contract. The Contractor shall then demobilize from the Site leaving behind any Contractor's Equipment which the Employer instructs, in the second notice, to be used for the completion of the Works at the risk and cost of the Contractor."

During audit of a PAF Project for the Financial Years 2021-22 & 2022-23, it was observed that package of 10 different works was awarded to a construction company on 31-5-2017, for Rs.816.888 million. The contractor left the work incomplete and the same was re-awarded to different contractors in different packages with increased cost of Rs.5,150.038 million. Total increase in amount was Rs.4,333.141 million, but without recovery of risk & cost from the first contractor in light of the terms and conditions of the bid.

Audit is of the opinion that due to non-recovery of risk & cost, the Govt. sustained loss, which reflected weak internal controls within the department.

The matter was pointed out by the Audit in October, 2023. The management replied that in 2018, the site was abandoned due to negligence of contractor, the remaining work awarded to two different contractors at lowest bid. Reply is not tenable as the contractor defaulted but still the works were awarded without recovery of risk & cost.

The DAC in its meeting dated 28.12.2023 directed the management to pursue the recovery and get it verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-65 /2023-24

2.17.3 Children School Project designed without Soil Testing – Rs. 1,169.637 million

According to Rule 6(a) FR Volume I, 1986, “Every officer should exercise the same vigilance in respect of expenditure incurred from government revenue as a person of ordinary prudence would exercise in respect of the expenditure of his own money.”

During audit of a PAF Project for the Financial Years 2021-22 & 2022-23, it was observed that Water, Mineral & Environmental (WME) Consultants carried out the study in January 2020, with scope i.e. “various buildings have under-gone extensive cracking and their stability and soundness is in question”. The study carried out on Children School for Infants found that the building was designed without carrying out the soil investigation. The project was designed on 2.5 tons soil bearing capacity. As a result, major cracks were observed in the building. Hence, the expenditure of Rs. 1,169.637 million on the school buildings was wasteful.

Audit is of view that the design of the building without soil investigation reflected negligence on part of the management.

The matter was pointed out by Audit in October, 2023. The management replied that in all other cases soil investigation was carried out after the observation. Reply is not tenable as soil investigation was required to be carried out before construction work.

The DAC in its meeting dated 28.12.2023 directed the management to provide relevant record of soil testing and get it verified from audit within one month. No further progress was reported till finalization of this report.

Audit stresses early implementation of the DAC recommendations.

2.17.4 Irregular award of contract without Government sanction – Rs.677.699 million

According to Ministry of Defence letter No.2/12/D-15/2001 dated 12.06.2006 amended vide letter No. 2/12/D-15/2001 dated 19.06.2019 abnormal repair work costing over Rs.12.000 million require prior approval of Government of Pakistan.

During audit of an Engineering Formation, it was observed from the record that up-gradation work valuing Rs. 677.699 million, each work costing over Rs.12.000 million was awarded to different contractors, without obtaining sanction of the Government.

When pointed out by audit, the management replied that contracts were concluded under Para-17. However, Government sanction will be obtained and provided to audit.

The reply was not tenable as the sanction of the Government was required to be obtained before award of contracts.

The DAC in its meeting dated 27.09.2023 was informed by the management that all formalities for regularization and approval of rehabilitation work had been completed. The DAC directed to get the regularization status verified from audit within 02 weeks. No further progress was however reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-375/2022-23

2.17.5 Irregular conclusion of contracts with unregistered firms - Rs. 290.237 million

According to Pakistan Engineering Council Bye-Laws, 1987, Rule (3)(1), “No engineering work shall be carried out except by an operator licensed as such by the Council.”

During audit of certain Engineering Formations for the Financial Year 2022-23, it was observed that twenty contracts amounting to Rs. 290.237 million were awarded to different contractors, which were unregistered/deregistered in Pakistan Engineering Council. Hence, the following expenditure stood as irregular.

(Rs in million)

Sr. No.	Sector	DP No.	Amount
---------	--------	--------	--------

1.	PAF	DP-S-210	38.707
2.		DP-S-318	251.53
Total			290.237

Audit is of the view that the award of contracts to the unregistered/deregistered firms reflected weak internal controls on the part of the management.

The matter was pointed out by the Audit in November & December, 2023. In case of DP-S-210 the management replied that firms in question were registered with Pakistan Engineering Council (PEC). In case of DP-S-318, the management replied that notices were issued to the contractors for submission of renewed licenses. Replies are not tenable as documentary evidence of valid PEC registration was not produced to Audit.

The DAC in its meetings held in December, 2023 and February 2024, directed management that relevant record in evidence that the contractors were registered with PEC be provided to audit for verification within one month. within one month. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-210 & 318

2.17.6 Loss to state due to collapse of building – Rs. 123.668 million

According to Para 38 (a) of PAFW-2249, “The contractor shall be responsible at his own expense for precaution to prevent loss or damage from any and all risks and to minimize the amount of any such loss or damage and for provision of all protective works, casing, coverings etc. required for the purpose until the works were handed over complete to the GE.”

During audit of Engineering Formation, for the year 2022-23, it was observed that on 11-07-2022, a building suddenly collapsed, and one causality was also reported. In this regard, audit observed following irregularities:

- i. Despite lapse of one year, the Court of Inquiry was not finalized.
- ii. The department did not initiate action to blacklist the contractor.
- iii. The Board of officers for Assessment of Risk and Cost along with L.D charges was not convened.

- iv. The Bank Guarantee of the above said work expired in December, 2022 but despite knowing the facts, the contractor was allowed to continue the work without pledging the renewed Bank Guarantee. In the absence of a valid Bank Guarantee, no damage can be claimed.

The matter was pointed out by the Audit in August, 2023. The management replied that the Board of Inquiry for subject work was already in progress. After completion of the Board of Inquiry, case for Risk & Cost would be initiated accordingly. It was also added that the subject building collapsed during rain and no work was carried out after that time period until the contractor provided fresh bank guarantee.

The DAC in its meeting dated 28.12.2023 directed the management that penalty may be imposed on the contractor. DAC further directed that Court of Inquiry be held and get it endorsed by PAO and be verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-27/2023-24

2.17.7 Irregular Supply of furniture beyond approved specification – Rs. 48.258 million

According to Rule 6 (a) FR Volume I, 1986, “Every officer should exercise the same vigilance in respect of expenditure incurred from government revenue as a person of ordinary prudence would exercise in respect of the expenditure of his own money.”

During audit of a PAF Project for the Financial Years 2021-22 & 2022-23, it was observed that school furniture was not taken on charge by the concerned GE due to the different observations by dealing Board of Officers. In this regard, following irregularities were observed by Audit:

- i. The size of the tables was not as per BOQ.
- ii. Revolving chairs were replaced with teacher chairs.
- iii. Student chairs were replaced with benches.
- iv. Book rack sizes were not as per BOQ.
- v. Hydraulic door closer was not provided.

Audit is of the view that the store supplied was not as per specifications.

The matter was pointed out by the Audit in October, 2023. The management did not furnish the reply.

The DAC in its meeting dated 28.12.2023, directed the management to hold Fact Finding Inquiry and irregularity may be regularized within two months. No further progress was reported till finalization of this report.

Audit recommends implementation of the DAC directives.

DP-S-63/2023-24

2.17.8 Unauthorized expenditure on provision of security lights – Rs.43.181 million

As per Para-20 (1) of Defence Services Accommodation Scales, (DSAC) “Perimeter lighting will only be permitted with the prior concurrence of Government of Pakistan”. Furthermore, as per Clause-6(d) of particular specifications of contract, to satisfy the department regarding genuineness / authenticity of the approved products procured and brought on site the contractor may be required to produce invoices / bill of purchase and/or indicate the source of procurement to the Engineer in charge.

During audit of a Garrison Engineer, it was observed that contract valuing Rs. 43.181 million was concluded for provision of security lights. As per above Rule sanction of Government of Pakistan was required to be obtained. However, same was not found on record.

When pointed out by audit, the management replied that regularization action was in process and would be provided shortly.

The DAC in its meeting dated 27.09.2023 directed the management to get regularization status verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-460/2022-23

2.17.9 Irregular disbursement of salary in cash – Rs.42.933 million

In accordance with Rule-36 (J) of Financial Regulations 1986, “With the exception of local payments for less than Rs.10.000 and out station payments less than Rs.100 in value in each case, which should be made in cash, all payments must be made by cheque.”

During audit of Dy. CAAF, it was observed from the pay bills received from various Formations that a sum of Rs.42.933 million was disbursed on account of Pay & Allowances in cash instead of crossed cheques or through digital means which was against the above mentioned Government orders. The violation resulted into irregular cash payment of pay & allowances which needed justification.

When pointed out by audit, the management replied that the observation was forwarded to PAF authorities and reply would be provided when received from the concerned units which, however, remained awaited till finalization of this case.

The DAC in its meeting dated 05.01.2024 shifted the para to PAF. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives besides fixing of responsibility on the person (s) at fault and non-recurrence of the irregularity in future.

DP-N-363/2023-24

2.17.10 Delay in risk & cost assessment and blacklisting of the defaulting contractor – Rs. 41.809 million

According to Rule 19 of PPRA, 2004, “The procuring agencies shall specify a mechanism and manner to permanently or temporarily bar, from participating in their respective procurement proceedings, suppliers and contractors who either consistently fail to provide satisfactory performances or are found to be indulging in corrupt or fraudulent practices. Such barring action shall be duly publicized and communicated to the Authority.”

During audit of an Engineering Formation for the year 2022-23, it was observed that a work was executed as urgent military necessity. The work order was issued to the contractor on 31.05.2019, with completion date of 30-05-2020. In this connection, CMES’s office letter dated 26.05.2023, revealed that “the contractor has left the site since long and no activity at site”. Only 66% progress of work was reported till 30th June, 2023 but the department neither initiated action for blacklisting of the firm nor was Board of Officer convened for assessment of Risk and Cost along with imposition of the LD charges.

Audit is of the opinion that the management failed to take action against the defaulting contractor, resultantly the incomplete work was exposed to the weather impact, which caused loss to the exchequer.

The matter was pointed out by the audit in August 2023. The management replied that the contractor was not enlisted contractor of MES. However, a case for removal of contractor from the list of approved contractors had already been initiated as per MES Instruction No.602/21. Furthermore, a case as per Para 55a of PAFW-2249 concerning cancellation and risk & cost of the contract had already been forwarded to E-in-C's Branch. Currently Board of Officer would be convened so that the remaining work can be completed at the Risk and Cost.

The DAC in its meeting dated 28.12.2023 directed the management to provide relevant record in justification of delay of work and get it verified from audit within one month.

Audit recommends implementation of DAC directives.

DP-S-28/2023-24(Reported as Critical Issue to PAO)

2.17.11 Unauthorized supply of electricity by MES – Rs 13.282 million

According to Rule 6(d) of FR-1986, "Government revenues shall not be utilized for the benefit of a particular person or a section of the community."

During audit of an Engineering Formation for the Financial Year 2021-22, it was observed that payment on account of electricity for private consumers was made by MES, which is unjustified. The detail is as under:

(Amount in Rs.)

Sr. No.	FY	Amount of Electric & Water Charges
1.	2021-22	1,104,108
2.	2021-22	5,015,752
3.	2021-22	1,133,094
4.	2021-22	5,251,439
5.	2021-22	32,354
6.	2021-22	745,574
Total		13,282,321

Audit is of the view that despite having direct electric supply lines, the supply and payment of electricity bills of private consumers from Defence Budget is unjustified.

The matter was pointed out by Audit in September 2022. The management replied that electric connections to the consumers mentioned in the observation were provided due to the non-availability of other sources in the area. However, all private consumers have already been asked to shift their connection to relevant electric supply company. The reply was not tenable as despite having electric lines, supply through MES was unauthorized.

The DAC in its meeting dated 31.08.2023 was apprised that that Rs 6.50 million have been recovered. DAC directed the management that recovered amount be got verified from audit and expedite the outstanding recovery. DAC further directed that relevant documents in evidence of disconnection of electricity load from MES, may also be provided to audit for verification. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-SSR-S-377 /2022-23

2.17.12 Irregular drawl of allowances during the period of foreign attachment Rs.2.975 million

According to MAG letter No.44/AT/PO/5981-LXIX dated 31.05.2016, “Case for admissibility of adhoc allowances to Armed Forces Personnel during training on courses or temporary duty abroad is still under consideration in Ministry of Defence. Finance Division (Military Finance Wing) has already recommended to stop payment of such allowances to officers who proceeded abroad on a training course or temporary duty.” Moreover according to Government of Pakistan Finance Division Regulations Wing letter No. F.No.1(1) Imp/2021-216 dated 08.07.2021, the amount of Adhoc Relief Allowance 2021 will not be admissible to the employees during the tenure of their posting / deputation abroad.”

During audit of Dy. CAAF, it was observed that 13 officers were deployed as Air / Defence Attaches at foreign countries. The officers, however, continuously drew Ad-hoc Relief 2021 & 2022, Conveyance, Entertainment and Flying allowances which was against the referred Government orders. The violation resulted into irregular payment to officers amounting to Rs. 2.975 million which needed recovery.

When pointed out by audit, the management replied that the observation was forwarded to the management and reply would be submitted as and when received from the concerned unit. It remained awaited till finalization of this report.

The DAC in its meeting dated 05.01.2024 shifted the para to PAF. No further progress was however reported till finalization of this report.

Audit recommends recovery of amounts involved from the concerned and non-recurrence of such irregularity in future.

DP-N-309/2023-24

2.18 Recoverable / Overpayments – Rs.1,350.125 million & US\$ 0.115 million

2.18.1 Non deposit of Government share into treasury against commercial activities – Rs. 226.234 million

As per Rule 4(a) (i) (b) of Cantonment Land Administration (CLA) Rules 1937, “Class A-1 Land is required or reserved for specific military purposes.” Further, according to policy on use of A-1 Land circulated vide MoD letter No. F.2/5/D-12/ML&C/99 dated 2nd April, 2008, read with MoD letter No. F.2/5/D-12/ML&C/99 dated 20 November, 2009, “In order to launch essential commercial activities required to serve the residents of the respective garrison, survey will be conducted by a board of officers to determine the actual area under usage. The Military Estate Officer (MEO) concerned is the member of the Board of Officers (BOO). The rent shall be charged @ 6% per annum of existing revenue rate of the said land. Government’s share @ 25% of the rent so charged will be deposited into Government treasury.”

During Audit of a PAF Formation for the Financial Years 2021-22 & 2022-23, it was observed that the 25% Government share amounting to Rs.226.234 million against rental income of commercial activities was not deposited into the Government treasury.

Audit is of the view that the government was deprived of its revenue due to non-deposit of 25% Government share against rental income of commercial activities, which indicated prevalence of financial indiscipline within the organization.

When pointed out by audit in November, 2023, the management replied that due Government share will be deposited into Government treasury after reconciliation with audit and as per Government share determined by the Board of Officers. Reply is not tenable, pointed out amount may be deposited into government treasury.

The DAC in its meeting dated 28.12.2023, directed the management that updated reply may be submitted to audit besides reconciliation with audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-148/2022-23

2.18.2 Non-recovery of Allied Charges - Rs. 152.930 million

According to Para 442 of DSR-1998, “The GE is responsible for making demands for payment of all revenue and for taking steps for its prompt realization.” As per rule 81 of Quarters and Rents rules 1985, as amended vide letter No. F.5620/109/Qtg-4/F-2/D-3(AIII)/2002 dated October 14, 2009, “Scale for free consumption of sui gas to a cook house is prescribed by the government @400cft per person per month.”

During audit of several Engineering Formations for the Financial Years 2021-22 & 2022-23, it was observed that allied charges (electricity, gas & water) amounting to Rs 152.93 million were lying outstanding against various consumers / occupants as detailed below:

(Rs in million)

Sr. No.	DP No.	Amount
1.	DP-S-41/2023-24	80.936
2.	DP-S-232/2023-24	26.726
3.	DP-SSR-S-15/2022-23	13.586
4.	DP-S-29/2023-24	12.630
5.	DP-SSR-S-376.2022-23	8.669
6.	DP-S-89/2023-24	7.098
7.	DP-SSR-S-185/2022-23	3.285
	Total	152.930

Audit is of the view that non-recovery of allied charges indicated weak financial management within the organization.

Non-recoveries were pointed out by audit from August, 2022 to December, 2023. In case of DP-S-15, DP-S-376, DP-S-29, DP-S-232 & DP-S-41 the management replied that all the concerned consumers had been approached/informed for recovery. In case of DP S-185 & DP S-89 the management did not furnish any reply. Replies are not tenable as timely recovery of dues is the responsibility of GE.

The DAC in its meetings held in January 2023, August 2023, December 2023 and February 2024, directed the management that recovered amount be verified from audit and pursue the recovery of outstanding amount. No progress was reported till finalization of the report.

Audit recommends implementation of DAC directives.

Note: The issue against the Formation of DP-S-41, was also reported in the Audit Report for the year 2020-21 vide para No. 2.14.2 with the financial impact of Rs 41.824 million. Recurrence of the same irregularity is a matter of serious concern.

DP-SSR-S-15, 185 & 376/2022-23 and DP-S-29, 41, 89 & 232/2023-24

2.18.3 Non-withholding of Sales Tax on Services - Rs. 142.566 million

As per Rule 3(3) of Sindh Sales Tax Special Procedure (Withholding) Rules, 2014 and Balochistan Sales Tax Special Procedure (Withholding) Rules, 2017, "In where the invoice issued by the registered person does not indicate the amount of sales tax, the withholding agent shall deduct and withhold the amount of sales tax, at the rate applicable to the services provided or rendered to him, from the amount invoiced or billed or charged by such registered person under tax fraction formula."

During audit of several PAF Formations for the Financial Years 2017-18 to 2022-23, it was observed that an amount of Rs.2,685.821 million was paid to different contractors/officials against the different services procured, but Sindh Sales Tax on services for Rs. 142.566 million was not recovered from the contractors/officials in violation of rules. The details are as under:

(Rs in million)

Sr. No	DP No.	Amount of Bill	Sales tax on Services
--------	--------	----------------	-----------------------

1.	S-85/2023-24	2,450.814	126.679
2.	S-230/2023-24	178.559	8.928
3.	S-393/2022-23	51.894	6.276
4.	S-355/2022-23	4.554	0.683
	Total	2,685.821	142.566

Audit is of the view that due to non-recovery of Tax, the exchequer was deprived of its revenue.

The matter was pointed out by audit in June, 2022, & October, 2023. The management for DP-S-85 and DP-S-393, replied that sales tax on services is exempted on construction work. In case of DP-S-230 replied that contracts were concluded in 2020 and sales tax on services was not part of CA. Sales Tax on Services is applicable since 1st January, 2022. In case of DP-S-355, the management replied that deduction of Sales tax on Research Supervisors/Guest Speakers payment is the domain of Base Accounts Squadron, as College is not a self-accounting entity. Replies were not tenable as the tax has been imposed since 2011.

The DAC in its meetings held in August, 2023, December, 2023, January 2024 & February 2024, In case of DP S-85, S-393 & DP S-230, DAC directed the management to recover the amount from contractor; the same may be deposited to MAG and get it verified from audit. For DP S-355, DAC directed that management to reconcile the recoverable amount and pursue the recovery from the concerned. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Note: The issue against the Formation of DP-S-85, was also reported in the Audit Report for the year 2021-22 vide para No. 2.4.10 with the financial impact of Rs 4.637 million. The issue was also reported against the Formation of DP S-230 in the Audit Report for the year 2021-22 vide para No. 2.14.1 with financial impact of Rs 18.733 million. Recurrence of the same irregularity is a matter of serious concern.

DP-S-355 & 393/2022-23 and DP-S-85 & 230/2023-24

2.18.4 Non-deposit of security money into treasury Rs.85.976 million and interest of Rs.22.702 million

Rule-2 of FR-Vol I stipulates that all transactions to which any officer of Government in his official capacity is a party, shall, without any reservation, be brought to

account and all moneys received by or tendered to Government officer which are due to, or are required to be deposited with Government shall, without undue delay, be paid, in full, into a Government treasury.

During audit of the record of use of A-I land, centrally maintained by PAF for the years 2012-13 to 2018-19, it was observed from the tenancy contracts that heavy amount of Rs.59.253 million / Rs.85.976 million on account of Refundable / Non-refundable premium respectively was received from the tenants / contractors. The profit accrued on the amount of Security Deposits during the period of retention in PAF accounts, was credited into Non-Public Fund. Resultantly, Government was deprived from its due revenue to the tune of Rs.22.702 million. Audit pointed out following irregularities in this regard:

- i) PAF authorities received Premium /Security Deposits (Non-Refundable) in official capacity from the tenants / contractors amounting to Rs. 85.976 million beyond the authority vested in them under any Government Rules / A-I land Policy. Hence, the same was liable to be deposited into Government treasury.
- ii) The Security Deposits were received by PAF in official capacity on account of use of Government / Military land, hence the profit to the tune of Rs.22.702 million accrued thereupon was to be deposited into Government treasury.

When pointed out by audit, the management replied that as per A-1 land policy 2008, no provision or guideline was given in respect of collecting / taking any security money against any activity being carried out on A-1 land. However, to safeguard the national / PAF interest, nominal amounts were mentioned in some contracts to be collected under the head of security money. So that in case of non-compliance by the contractor, that money could be forfeited.

The reply furnished by the management was evasive.

The DAC in its meeting dated 27.09.2023 directed the management to reconcile the returnable amount and get the relevant record verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives, fixing of responsibility in the matter on the person (s) at fault, deposit of amount into Government Treasury and non-recurrence of irregularity in future.

DP-N-446/2022-23

2.18.5 Non-recovery of electricity charges – Rs.63.354 million

According to Para-442 of Defence Services Regulations 1994, the GE is responsible for making demands for payment of all revenue and for taking steps for its prompt realization. Under Rule-6 (a) Financial Regulations Vol-I 1986, every officer should exercise the same vigilance in respect of expenditure incurred from Government revenue as a person of ordinary prudence would exercise in respect of the expenditure of his own money. Furthermore, Rule-6 (d) Financial Regulations Vol-I 1986, “Government revenues shall not be utilized for the benefit of a particular person or a section of the community”.

During audit of an Engineering Formation, it was observed that an amount of Rs.63.354 million on account of electricity charges was lying outstanding against an Officers Housing Society.

When pointed out by audit, the management replied that case had already been taken up with higher authorities. Final outcome will be intimated in due course of time.

The reply was not tenable as the electricity charges needed recovery from the Society without further delay.

The DAC in its meeting dated 05.01.2024 was apprised that the bills are regularly paid to the concerned Electric Supply Company by MES as per actual meter reading and recovery has been made from the concerned residents. The DAC directed to get the recovery verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-302/2023-24

2.18.6 Non-recovery of GST – Rs. 46.672 million

According to General condition of contract Clause No. 73.1, “Payment of taxes and stamp duty, “the contractor, sub-contractor and their employees shall be responsible for payment of all their income tax, super tax GST on furniture and equipment and other taxes on income arising out of the contract and the rates and prices stated in the contract shall be deemed to cover all such taxes.” Further, as per FBR letter dated: 13-12-2019, “Sales tax and income tax on salvage value vehicle and misc. store, Sales tax on taxable goods for registered person is 17% of the bid amount and for un-registered person is 20% of the bid

amount. Further, according to Sales Tax Act 1990 Section 110 of Sixth Schedule “The following items with dedicated use of renewable source of energy like solar and wind, subject to certification by the Alternative Energy Development Board (AEDB), Islamabad.”

During audit of several PAF Formations for the Financial Years 2021-22 & 2022-23, it was observed that an amount of Rs. 46.672 million on account of GST was less deducted from contractors & participants of auction. The detail is as under:

(Rs in million)

Sr. No.	DP No.	Amount
1.	DP-S-296/2023-24	29.644
2.	DP-S-59/2023-24	8.264
3.	DP-S-78/2023-24	8.264
4.	DP-S-420(B)/2022-23	0.500
	Total	46.672

Audit is of the view that due to non-recovery of Tax, the exchequer was deprived of its revenue.

The matter was pointed out by audit in May, 2022 to October, 2023. In case of DP-S-420(B), the management replied that action carried out by specialized Government auctioneers was according to the procedure in vogue. Taxes were withheld and deposited as per calculation by Government auctioneer. In case of DP-S-59 the management replied that furniture was supplied to complete the scale under original work of MES under para 21 a (i) & 183(ii). In such cases sales tax is not applicable. In case of DP-S-78 & DP-S-296 the management did not furnish any reply. The replies are not tenable, pointed out amount may be recovered.

The DAC in its meetings held in August, 2023 and February 2024, directed the management in DP S-420, that relevant record in evidence that contractors were active tax payers/filers and registered with FBR with Sales Tax, may be provided to audit for verification. In case of DP S-59 & S-296, DAC directed the management to recover the GST from the contractor and get it verified from audit within two months. In case of DP S-78, directed the management relevant record in with the evidence that contractor has paid

GST be provided to audit for verification within one month. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives/besides recovery of GST from the concerned.

DP-S-420(B)/2022-23 and DP-S-59, 78 & 296/2023-24

2.18.7 Non-deposit of BTS Towers' Fee –Rs. 43.147 million

According to Policy for installation of Tower Base Transmission in Cantonment area circulated through ML&C Department vide letter No.51/1411/Lands/ML&C/2005 dated June, 24, 2005 “On provision of NOC from concerned authorities and department an agreement will be executed with cellular companies to install Base Transmission Station Towers/antennas in Cantonment area. The cellular companies will require to pay an antenna/tower fee @ Rs.20,000/- per month with an annual increase of 10%.” Furthermore, Para-12 of Hoarding Policy circulated through ML&C Department vide letter No.1/1/Gen/Hoarding Policy/ML&C/2012 dated 04.07.2012 that, “The Sky charges shall be recovered by respective Cantonment Board/MEO/Military Authority may levy the ground rent for the use of their land. In case of installation of advertisement/billboards on A-1 land. Ground rent will be recovered by the respective MEOs and Sky charges by the respective Cantonment Boards. In case of advertisement boards installed on private land, ground rent would be paid to land owners and Sky charges to the respective Cantonment Board. The principle would apply in case of installation of BTS Towers.”

During Audit of a PAF Formation for the Financial Years 2021-22 & 2022-23, it was observed that fourteen BTS Towers of Cellular Companies were installed on A-1 Land in different PAF Bases. However, relevant fee, and rent amounting to Rs. 43.147 million was not deposited.

Audit is of the view that the government was deprived of its revenue due to non-deposit of tower fee and ground rent.

The matter was pointed out by audit in November 2023. The management replied that revised policy of BTS Towers issued by Cabinet Division vide letter dated 21st July 2021, has been implemented in PAF. As per revised policy, BTS Towers antenna/tower fee @ Rs 20,000/- per month with an annual increase of 10% has been discontinued. Therefore, no rent was payable to the Government.

Reply was not tenable, as the management has referred policy regarding sky charges whereas, audit observed non-deposit of ground rent and sky charges against the BTS Tower.

The DAC in its meeting dated 28.12.2023 directed the management to reconcile the amount and recovered amount may be deposited and get it verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-149/2022-23

2.18.8 Non-recovery of training and allied charges from foreign trainees – US\$ 114, 678

Under Joint Services Instruction No.4/2006, “It is laid down that training and allied charges contained would be recovered from the Government of International Trainees as per agreement/instructions.”

During audit of a PAF College, for the year 2021-22, it was observed that an amount of US\$ 114,678 was outstanding on account of training & allied charges from foreign trainees, but recovery of the same was not made.

Audit is of the view that non-recovery of allied charges from foreign trainees reflected weak internal controls within the entity.

The matter was pointed out by audit in May 2022. The management replied that the management has raised training bills to AHQ vide letter dated 07th October, 2022 for onward submission to concerned embassy for payment. The Department admitted in the reply about the non-recovery of training charges in time from foreign trainees.

The DAC in its meeting dated 31.08.2023, directed the management to expedite the recovery of outstanding amount and get it verified from audit. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-353/2022-23

2.18.9 Loss due to non-charging of PST – Rs.27.556 million

According to Government of the Punjab, Punjab revenue authority letter No. PRA/unit-4/1557 dated 07.10.2016 addressed to the Secretary Defence, Government of Pakistan, after constitutional amendment read with 7th NFC award, the provinces started exercising their constitutional right to levy, collect and administer sales tax on services from July, 2012.

According to serial No.48 of second schedule (taxable services) of Punjab sales tax on services Act 2012 (XLII) of 2012, 16% Punjab sales tax shall be levied by the withholding agent on services provided for intercity carriage of Goods by road and deposited in accordance to the procedure laid down in Government of the Punjab, Punjab revenue authority notification no PRA/orders.06/2012 dated 20.02.2015.

During audit of a PAF Base, it was observed from record that an amount of Rs. 172.223 million was paid to a vendor (service provider) on account of Hired Mechanical Transport services but 16% Punjab Sales Tax amounting to Rs.27.556 million was not deducted / withheld for financial year 2018-19 contrary to above provisions.

When pointed out by audit, the management replied that PAF is a Federal organization under MOD. In this regard, levy of tax against contractual services in PAF was applicable under the Federal Government rules instead of Provincial rules and no instructions to withhold Punjab Sales Tax on contractual services were received from MOD / AHQ.

The reply was not tenable as the amount needed recovery.

The DAC in its meeting dated 29.11.2023 directed to pursue case for recovery as per Government orders in vogue and get it verified from audit. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-70/2023-24

2.18.10 Non-deposit of interest income into Government treasury– Rs. 16.552 million

According to Rule 2 of Financial Regulations Vol-II 1986, “All transactions to which any officer of Government in his official capacity is a party, shall, without any reservation, be brought to account and all moneys received by or tendered to Government

officer which are due to, or are required to be deposited with Government shall, without undue delay, be paid, in full, into a Government treasury or into the bank to be credited to the appropriate account.”

During audit of a PAF Formation for the Financial Years 2021-22 & 2022-23, it was observed that total receipts from different commercial & agricultural activities were deposited into non-public fund account. These receipts including Government share were invested into investment schemes, but the benefit of such investment schemes was not proportionally deposited into Government treasury. The detail is as under:

Government Share	Minimum simple interest rate per annum	Interest Income
Rs 331,298,000/-	5%	Rs 16,552,000

Audit is of the view that the Government was deprived of its revenue due to non-deposit of interest income.

The matter was pointed out by audit in November, 2023. The management replied that income of A-1 land was being utilized for welfare activities of the troops and amount was not invested. Reply is not tenable as government share was retained and deposited into non-public fund.

The DAC in its meeting dated 28.12.2023 directed the management that case may be pursued for reconciliation and verification with audit. No progress was reported till finalization of this report.

Audit recommends prompt deposit of the interest income into government treasury and its verification from audit.

DP-S-151/2022-23

2.18.11 Non-deposit of rent on account of agricultural land – Rs.492.686 million

As per “policy” for use of A-I Land for welfare and commercial projects of the Armed Forces introduced vide Government of Pakistan, Ministry of Defence, letter No.F-2/5/D-12/ML&C/99, dated 02.04.2008, total rent received from agricultural land shall be deposited into Government treasury.

During audit of an MEO, it was noted that Land was used by Air Force authorities for agricultural purpose without approval of assessed rent by the Board of Officers. Details are as under:

(Rs. in million)

S No.	DP No.	Rent of Agricultural land
1.	DP-N-216/2023-24	11.318
2.	DP-N-226/2023-24	11.300
3.	DP-N-230/2023-24	470.068
Total		492.686

Audit observed that rent of agricultural land amounting to Rs. 492.686 million was not deposited into Government treasury.

When pointed out by audit, the management replied that audit of commercial activities on A-I land was required to be carried out centrally in Air Headquarters.

The reply furnished by the management was evasive.

The DAC in its meeting dated 05.01.2024 shifted the paras to PAF for submission of comprehensive reply by 10.01.2024. No further progress was reported till finalization of this report.

Audit recommends fixing of responsibility on the person (s) at fault and early deposit of rent on account of agricultural land into Government Treasury.

DP-N-216, 226 & 230/2023-24

2.18.12 Less recovery of water charges - Rs.10.736 million

As per Rule 1, Annex A (to Appendix 'O') of Defence Services Regulations, (DSR) 1998, "The all-Pakistan flat rate for water charges will be as notified from time to time in Joint Services Instruction (JSI) or other Government orders." Further, according to Notes at the end of Rule 2 of Annexure-A (Appendix 'O') of DSR 1998, "Any increase of rates

as and when notified/imposed by the Provincial Government./supplying agency shall be recovered in addition to the rates specified in this rule.”

During audit of an Engineering Formation for the Financial Year 2021-22, it was observed that Rs.221/- per 1000 gallons of water were paid to Water & Sewerage Corporation and an amount of Rs.73.096 million was also spent on supply of fresh water through water tankers @ Rs 1.70 per gallon and Rs.114.002 million was spent on supply of water through RO Plant @ Rs.1.55 per gallon. However, contrary to above rule, recovery at a flat rate of Rs 300/- from the officers and Rs.100/- per month from others was made, which resulted in less recovery of Rs 10.736 million per annum from different consumers. Summarized position is tabulated below:

Category	Scale of Water Gallons	Rate per 1000 Gallons	Amount to be recovered (Rs)	Amount recovered (Rs)	Difference per month (Rs)	No. Of Quarters	Yearly difference Less recovery of water Charges (Rs)
Married Officers	9600	219	2102	300	1802	48	1,037,952
Single Officers JCOs, Airmen	4800	219	1050	100	950	92	1,048,800
Civilian	9600	219	2102	300	1802	400	8,649,600
Total							10,736,350

Audit is of the view fixation of less rate of water charges through Board of officer against the government rules indicates non-adherence of government orders by the management.

The matter was pointed out by Audit in September, 2022. The management replied that academy authorities had been approached for revision of water charges through Board of officers.

Reply was not tenable as Board of Officer cannot over-rule government orders. The fixation of water charges on the lower side, as compared to the rates of supplying agency, is a recurring loss to the state.

The DAC in its meeting dated 31.08.2023 directed the management to reconcile the recoverable amount after application of revised water charges with audit, recovery thereafter be made and got verified from audit. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-SSR-S-375 /2022-23

2.18.13 Less-deduction of Income Tax - Rs 7.872 million

According to Section 236 (A) of Income Tax Ordinance 2001, “The tax rate on auction at the time of sales by auction is 10% for filer and 20% for non-filer. As per FBR letter dated: 13-12-2019 sales tax and income tax on salvage value vehicle and misc. store, Sales tax on taxable goods for registered person is 17% of the bid amount and for un-registered person is 20% of the bid amount.”

During audit of several PAF Formations for the Financial Years 2021-22 & 2022-23, it was observed that an amount of Rs.7.872 million was less deducted from contractors on account of Income Tax. The detail is as under:

(Rs in million)

Sr. No.	DP No.	Amount of Bill	Income Tax Due	Income Tax deducted	Income Tax less deducted
1.	S-231/2023-24	78.593	11.003	5.894	5.129
2.	S-420(A)/2022-23	16.777	4.025	1.961	2.06
3.	S-355/2022-23	4.554	0.683	0	0.683
	Total	99.924	15.711	7.855	7.872

Audit is of the view that due to non-observance of rules, exchequer was deprived of its due revenue share on account of taxes.

The matter was pointed out by audit in May, 2022 and December, 2023. The management in DP-S-231 replied that letters have been issued to contractors for submission of income tax returns. The management for DP-S-420(A), replied that action carried out by specialized Government auctioneer as per procedure. Taxes were withheld and deposited as per calculation Government auctioneer. For DP-S-355, the management replied that Income tax is calculated on total income of individual. However, this institute

paid in small amounts. Reply is not tenable as online verification from FBR revealed that contractors were non-filers.

The DAC in its meetings held in August, 2023, January, 2024 and February 2024, directed the management in DP S-420 & S-231, that relevant record in evidence that contractors were active tax payers/filers and registered with FBR with Sales Tax, may be provided to audit for verification. In case of DP S-355, DAC directed the management to reconcile the recoverable amount and pursue the recovery from the concerned. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-355 & 420(A)/2022-23 and DP-S-231/2023-24

2.18.14 Non deposit of Government Share into treasury against agricultural activities Rs. 7.763 million

As per Rule 4(a) (i) (b) of Cantonment Land Administration (CLA) Rules 1937, "Class A-1 Land is required or reserved for specific military purposes." Further, according to policy on use of A-1 Land circulated vide MoD letter No. F.2/5/D-12/ML&C/99 dated 2nd April, 2008, read with MoD letter No. F.2/5/D-12/ML&C/99 dated 20 November 2009, "In order to launch essential commercial activities required to serve the residents of the respective garrison, survey will be conducted by a board of officers to determine the actual area under usage. Military Estate Officer (MEO) concerned is the member of the Board of Officers (BOO). The entire amount of rent charged for use of A-I land for agricultural purposes will be deposited into Government treasury."

During audit of a PAF Formation for the Financial Years 2021-22 & 2022-23, it was observed that entire amount of rent amounting to Rs.7.763 million charged against agricultural activities was not deposited into Government treasury, which is in violation of above quoted rules.

Audit is of the view that the government was deprived from its revenue due to non-deposit of entire amount of rent charged against agricultural activities.

The matter pointed out by audit in November, 2023 the management replied that due Government share will be deposited into Government treasury after reconciliation with audit and as per Government share determined by the Board of Officers.

The reply was not tenable as the government share when realized was required to be deposited immediately as per the A-1 Land Policy.

The DAC in its meeting dated 28.12.2023 directed the management that updated reply may be submitted to audit besides reconciliation with audit. No progress was reported till finalization of this report.

Audit recommends prompt deposit of rent charges into government treasury and its verification from audit.

DP-S-150/2022-23

2.18.15 Irregular payment of HRA to Officers – Rs. 3.379 million

According to Finance Division, Government of Pakistan Office Memorandum No. F. 2(2)R.5/2010-530 dated 01-11-2019, “It is clarified that under existing rules House Rent Allowance is not admissible to those Government officers/ officials who have been allotted Government accommodation / MOQs.”

During audit of a PAF Base for the Financial Year 2021-22, it was observed that various officers were drawing House Rent Allowance Rs.3.379 million, despite occupation of Government accommodation stood as irregular.

Audit is of view that non-compliance of rules caused loss to state, which indicates prevalence of weak internal controls within the organization.

The matter was pointed out by audit in December, 2022, the management replied that officers from Sr. No.1 to 219 of the observation were allotted with service married accommodation and officers from Sr. No. 220 to 273 were residing in below entitlement accommodation.

Reply was not tenable as evidence of recovery of HRA was not provided. Furthermore, Ministry of Defence had already issued directives in this regard for recovery of the assessed house rent from officers residing below standard/entitled accommodation vide U.O. letter dated 14th January, 2016.

The DAC in its meeting dated 31.08.2023, directed the management to reconcile the recoverable amount with audit and recovery thereafter be made expeditiously and amount already recovered be verified from audit. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-448/2022-23

FRONTIER WORKS ORGANIZATION (FWO)

Frontier Works Organization (FWO) is established as an independent Formation of Pakistan Army and primarily provides engineering services to the armed forces. Additionally, FWO works as a registered contractor of Pakistan Engineering Council and carries out construction works in both public and private sector.

AUDIT PARAS

2.19 Un-authorized / irregular payments – Rs.353,059.495 million

2.19.1 Variation in expenditure reported versus booked by CMA – Rs.168,037.895 million

Article-170 (I) of the Constitution of Islamic Republic of Pakistan provides that the accounts of the Federation, and of the provinces shall be kept in such form and in accordance with such principles and methods as Auditor-General may with the approval of the President, prescribe.

During audit of FWO, it was observed that expenditure amounting to Rs.199,924.012 million was reflected in All Pakistan Annual Compilation prepared by the concerned CMA for the financial year 2016-17 to 2019-20, whereas on the other side expenditure amounting to Rs. 31,886.117 million was reported in the financial statements for respective financial years audited by a private Audit firm which showed a huge difference of Rs. 168,037.895 million on account of reported revenue figures.

When pointed out by audit, the management replied that the expenditure report of CMA was based on cash basis of accounting while income and expenditure reported in financial statements follow accrual basis of accounting, wherein income / expense are recorded whenever accrued irrespective of the fact that same had been received / paid by FWO.

The reply was not tenable. Audit, recommended that all types of reports containing accounts of receipts and expenditure along with financial statements be got approved from the Auditor-General of Pakistan.

The DAC in its meeting dated 29.11.2023 was apprised that receipts & expenditure report of CMA is based on cash basis of accounting while income and expenditure reported in financial statements follow accrual basis of accounting, wherein income/expenses are recorded whenever accrued. However audit observed that there was huge difference in the reported figures in revenue and expenditures in financial statements versus those reported

in All Pakistan Annual Compilation by the concerned CMA. The DAC directed to evolve a comprehensive mechanism for proper reporting of all revenues of FWO. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-157/2023-24

2.19.2 Variation in revenue reported through appropriation accounts – Rs. 102,279.867 million

According to Para-27 to Chapter-3 of FBA&A, a CMA has been authorized to DG FWO under Ministry of Defence letter No 6214/149/SD-4/1436/S/D34, dated 03.05.1967. He will act as the accounts and audit officer and audit officer for FWO. Furthermore, Para 28 restricts that, all payments in connection with the project will be made by the CMA concerned or the disbursing officer appointed by DG FWO from time to time.

FBA&A Procedures while detailing Job Description of Director (Finance), makes the Officer responsible to ensure that accurate and complete accounting, reporting are functioning and that all relevant records are maintained. FBA&A Procedures further provide that holders of public office are accountable for their decisions and actions, to the public and must submit themselves to whatever scrutiny is appropriate to their office.

During audit of FWO, it was observed that revenue amounting to Rs.194,924.012 million was reflected in All Pakistan Annual Compilation prepared by the concerned CMA for the financial year 2016-17 to 2019-20, whereas on the other hand revenue amounting to Rs. 297,203.879 million was reported in the financial statements for respective financial years prepared by the private Audit firm which showed a huge difference of Rs. 102,279.867 million on account of reported revenue figures.

When pointed out by Audit, the management replied that receipts & expenditure report of CMA is based on cash basis while income and expenditure reported in financial statements follow accrual basis of accounting, wherein income/ expenses are recorded whenever accrued irrespective of the fact that same has been received/paid by FWO. Receipts in CMA report represent payments released by HQ FWO to CMA for onward release to Group Headquarters, contractors and suppliers etc. Moreover, Expenditure report represents payments released by CMA onwards to respective Group Headquarters, contractors and suppliers. Therefore, the figures are not comparable resulting in anomaly.

The reply was not tenable. Audit recommended to present true and fair picture of revenue and expenditure of FWO.

The DAC in its meeting dated 29.11.2023 directed to evolve a comprehensive mechanism for proper reporting of all revenues of FWO. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-99/2023-24

2.19.3 Irregular retention of funds – Rs.46,146.202 million

As per article 78 (1) of the Constitution of Pakistan, all revenues received by the Federal Government, all loans raised by that Government, and all other moneys received by it in repayment of any loan, shall form part of a consolidated fund, to be known as the Federal Consolidated Fund. Furthermore, as per Ministry of Law, Justice and Human rights letter U.O. No. 610/2014/Law-1 dated 09.01.2015, FWO is a government organization. Moreover, as per Chapter 3, Section 28 of FBA&A procedure, a CMA has been authorized to act as the accounts and audit officer for FWO.

During audit of FWO, it was observed from the statement of cash flows for the year ended 30.06.2020 that FWO has cash and cash equivalents of Rs.46,146.202 million. However, these funds are being retained in private accounts which have not been approved from the government.

When pointed out by audit, the management replied that FWO has kept funds in banks under FBA&A procedures. FWO undertakes mega construction and development projects throughout Pakistan. Bank accounts with scheduled (private) banks are being maintained to obtain funded/ non-funded facilities (bank guarantees required for project bidding and execution as well), to undertake projects under Public Private Partnership mode and to manage toll collection activities.

The reply was not tenable. Audit recommended that retention of money in private accounts may please be justified.

The DAC in its meeting dated 29.11.2023 directed that rules on the subject be framed with approval of the government.

Audit recommends implementation of DAC directives.

2.19.4 Un-verified income reported in financial statements – Rs. 29,393.988 million

As per Section 32 (2) of Financial, Budget, Accounting and Audit Procedures, the FWO shall keep at its Headquarters proper books of accounts with respect to all sums of money received and expended by the FWO and matters in respect of which the receipt and expenditure takes place. Furthermore, FBA&A Commercial Procedure through caption Integrity guides that, holders of public office should not place themselves under any financial or other obligation to outside individuals or organizations that might seek to influence them in the performance of their official duties.

During audit of FWO, it observed from the financial statements for the period from financial year 2008-09 to 2019-20 that FWO reported revenue from toll collections in its profit and loss account as part of income. The total amount of this revenue from toll collections for the period from 2008-09 to 2019-20 amounted to Rs.29,393.988 million. However, these figures were not backed up by any bills, vouchers, receipts or any data which could authenticate these figures. Lack of supporting documentation make it difficult to verify the authenticity of these figures.

When pointed out by audit, the management replied that year-wise and motorway-wise summary details of toll income earned were available. Supporting documents were also available for verification.

The reply was not tenable as the stated supporting documents were not provided.

The DAC in its meeting dated 26.09.2023 directed management to submit updated reply to audit within one week, besides year wise receipts of toll income for verification. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-416/2022-23

2.19.5 Un-justified payment on account of donation and charity – Rs.7,201.543 million

According to Head Integrity to code of Commercial Conduct FWO that Holders of public office should not place themselves under any financial or other obligation to outside individuals or organizations that might seek to influence them in the performance of their official duties.

During audit of FWO, it was observed from the Financial Statements that FWO paid donation and charity worth Rs.7,201.543 million. However, FWO being a government organization does not have any official responsibility for giving charity. The list of beneficiaries was also not found nor was any approval sought for this expense.

When pointed out by audit, the management replied that being a defence organization, FWO also assumes its role for corporate social responsibility and contributed for the benefit of society. Year wise details and supporting documents are available for verification.

The reply was not tenable as the Government of Pakistan is running specialized organizations for the same purpose. Hence donations and charity by FWO on its own is not justified.

The DAC in its meeting dated 26.09.2023, was apprised by management that FWO plays a pivotal role in public welfare. The DAC directed management to establish rules/procedure as per international best practices of corporate social responsibility and get all the record verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-423/2022-23

2.19.6 Irregular establishment of a new venture without government approval

According to Financial Budgeting Accounting and Auditing Procedure (FBA&A), caption Integrity provides that, Holders of public office should not place themselves under any financial or other obligation to outside individuals or organizations that might seek to influence them in the performance of their official duties. Moreover, Extracts of Rule-12(1)(d) of Rules of Business, 1973 restrict that (1) No Division shall, without previous consultation with the Finance Division, authorize the issue of any orders which will affect directly or indirectly the finances of the Federation or which in particular involve (g) the receipt or expenditure of foreign exchange unless already allocated.

During audit of FWO, it was observed that FWO had set up a new venture without government approval. Neither any approval was sought from the government with regard to its establishment nor was any detail of the expenditure incurred or revenue received maintained.

When pointed out by audit, the management replied that this venture entered in contract with FWO on 27.12.2020. Therefore, it doesn't fall in audit session 2008-09 to 2019-20 and that the reply to objection would be furnished in appropriate audit session i.e. 2020-2021.

Reply was not tenable as the observation was not addressed by the management.

The DAC in its meeting dated 26.09.2023, directed the management to verify all relevant documents to audit showing that the Project Board is competent to approve establishment of this venture. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-411/2022-23

2.19.7 Un-authorized service of army personnel in private company

Financial Budgeting Accounting and Auditing Procedure (FBA&A), through caption Integrity guides that, holders of public office should not place themselves under any financial or other obligation to outside individuals or organizations that might seek to influence them in the performance of their official duties.

During audit of record held with FWO, it was observed that FWO established a private limited liability company abroad. The establishment being a Limited Liability Company, worked as a private establishment. The rendering of services by Army officers in a private company cannot be termed as regular service counting towards promotion / pension.

When pointed out by audit, the management replied that FWO established a Limited Liability Company abroad with the order of President of Pakistan for purpose of doing business/ expanding its works in the International market. Establishment of an LLC Company is a necessity to do business abroad. Officers sent abroad are being selected by Army as incentive comparable to selection for United Nations Mission. Their duty tenures abroad are covered by GHQ policy on the subject.

The reply of FWO authorities is not tenable. Audit suggested that the activity be provided legal cover.

The DAC in its meeting dated 29.11.2023 directed that connected documents may be verified to audit within one month. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-108/2023-24

2.20 Recoverable / Overpayments – Rs.25,131.817 million

2.20.1 Non-recovery of outstanding dues from employers – Rs.11,780.893 million

According to Section 2.01.09 of FBA&A procedure, where the receivables/advances are of material nature, recovery through legal cases be initiated with the approval of the Directorate General Frontier Works Organization.

During audit of FWO, it was revealed that a sum of Rs. 11,780.893 million was lying in accounts as Receivables from employers which needed to be recovered immediately.

When pointed out by audit, the management replied that efforts were in hand for pursuance of recoveries.

The reply was not tenable. The amount was outstanding for a long time and needed to be recovered immediately.

The DAC in its meeting dated 26.09.2023 directed the management to pursue the recovery of FWO receivables with all concerned. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-347 & 414/2022-23

2.20.2 Variation in the figures of reported tax – Rs.8,258.990 million

Section 165 of Income Tax Ordinance under caption Statements restrict that (1) Every person collecting tax or deducting tax from a payment shall furnish to the Commissioner a statement in the prescribed form setting out:

- (a) the name, [Computerized National Identity Card Number, National Tax Number] and address of each person from whom tax has been collected or to whom payments have been made from which tax has been deducted
- (b) the total amount of payments made to a person from which tax has been deducted
- (c) the total amount of tax collected.

Furthermore, Rule 44 of Income Tax Rules 2002 provides that a person required to furnish a monthly statement shall furnish a reconciliation of the amounts mentioned in the aforesaid annual and monthly statements with the amounts of income, statements, related annexes and other documents submitted from time to time.

During audit of FWO, it was observed that the figures of tax remitted to FBR amounting to Rs.7,386.546 million was depicted in All Pakistan Compilation Report for the financial year 2016-17 to 2019-20. However, tax remitted figures amounting to Rs. 15,645.536 million were reported in the financial statements for respective financial years prepared by a private Audit firm. This resulted in a huge difference of Rs. 8,258.990 million on account of tax figures reported to FBR.

When pointed out by audit, the management replied that amount of tax figures reported by CMA represents the tax deducted and deposited through CMA in Government Treasury against a particular financial year. While the figures of tax withheld reported as per financial statements represent tax withheld by FWO at year end that is yet to be deposited in Government Treasury. Therefore, the figures are not comparable.

The reply was not tenable. Audit recommended that the amounts need to be reconciled.

The DAC in its meeting dated 29.11.2023 directed that connected documents may be got verified from audit within one month. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-100/2023-24

2.20.3 Non-remittance of withholding tax to government – Rs. 4,585.850 million

According to Rule 143 of Income Tax Rules 2002 amended upto 08.09.2020 under the caption Payment of tax collected or deducted stipulates that, “As required under Section 160 and under the Sixth Schedule to the Ordinance the tax collected or deducted under

Division II or Division III of Part V of Chapter X of the Ordinance, Chapter XII of the Ordinance or Sixth Schedule of the Ordinance shall be paid to the Commissioner by way of credit to the Federal Government:

- i) where the tax has been collected or deducted by the Federal Government or a Provincial Government on the day the tax was collected or deducted; or
- ii) where the tax has been collected or deducted by a person other than the Federal Government or a Provincial Government;-
- iii) by remittance to the Government Treasury or deposit in an authorized branch of the State Bank of Pakistan or the National Bank of Pakistan, within Seven days from the end of each week ending on every Sunday.

During audit of FWO, it was observed from Sr. No.20 of notes dated 30.06.2020 of the financial statement for the year ended 30.06.2020 that FWO had withheld tax payable amounting to Rs. 4,584.850 million. FWO was required to deposit the same into government treasury as required under the rules quoted above. However, FWO failed to deposit the withheld tax and retained the said payable tax in private bank accounts in violation of the rules quoted above.

When pointed out by audit, the management replied that withholding tax was being deposited into Government Treasury through CMA. Balance amount of tax would be deposited into Government Treasury. Reply was not tenable because the amount of tax was not deposited.

The DAC in its meeting dated 26.09.2023 directed the management to submit updated reply. DAC further directed to reconcile, recover and deposit withholding tax into Government Treasury and get the deposited amount verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-409/ 2022-23

2.20.4 Loss to state due to non-remission of collected tax – Rs.490.649 million

According to Section-153 of Income Tax Ordinance, 2001 captioned as Payments for goods, services and contracts, “Every prescribed person” making a payment in full or part.

During audit of FWO, it was noticed that:

A. Scrutiny of Expenditure Reports versus Treasury Receipts revealed a deduction of Rs. 90.967 million from payments made to suppliers and contractors but not remitted to Federal Treasury. This was retained in Project Accounts from November, 2017 till June, 2020 resulting in loss of Rs. 90.967 million.

B. Similarly, irregular retention of government receipts amounting Rs. 399.683 million was also noted.

As a result, Rs.490.649 million (Rs.90.967 + Rs.399.683) were irregularly retained by the Formation.

When pointed out by audit, the management replied that TRs pertaining to Rs.90.966 million were produced.

However, during discussion, it was decided that original record would be got verified from Audit. Audit recommended compliance of agreed minutes of discussion.

The DAC in its meeting dated 29.11.2023 directed that connected documents may be verified to audit within one month. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-131/2023-24

2.20.5 Overpayment of special assignment allowance – Rs.15.435 million

FWO Revised HR Policy 2018 issued vide FWO HR Letter No. 25201/HR/HRO dated 13-11-2018, Para c (1) Annexure A, B & C, Salary Structure for Management, Non-Management and Field Staff consist of Basic Pay and Allowances which provides maximum limit of Special Assignment / Qualification Allowance.

During audit of FWO, it was observed that Special Assignment / Qualification Allowance was paid to the employees in excess of prescribed limits amounting to Rs.15.435 million. Payment of Special Assignment / Qualification Allowance in excess of prescribed limits resulted into over payment.

When pointed out by audit, the management replied that fact finding inquiry will be held to determine future course of action.

The reply was not tenable. Audit recommended that inquiry be expedited and final outcome be shared with Audit.

The DAC in its meeting dated 26.09.2023, directed the management to pursue and expedite recovery and get it verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-424/2022-23

2.21 Loss to State – Rs.528.648 million

2.21.1 Loss to state due to writing-off advance tax – Rs.528.648 million

As per Ministry of Law, Justice and Human rights U.O. No. 610/2014/Law-1 dated 09.01.2015, Frontier Works Organization is a government organization. Furthermore, as per section 32 (2) of Financial Budgeting Accounting and Auditing Procedure (FBA&A), FWO shall keep at its Headquarters proper books of accounts with respect to all sums of money received and expended by the FWO and matters in respect of which the receipt and expenditure takes place and all liabilities of FWO.

During audit of FWO, it was observed from note 27.1 of the financial statements for the years ended 30th June 2008-09 to 2019-20 that FWO had written off advance tax amounting to Rs. 528.648 million. However, by writing off tax FWO deprived government of revenue.

When pointed out by audit, the management replied that this advance tax was related to deduction of tax at source made by Civil Aviation Authority (CAA) on an International Airport while making payment to FWO. Since, the tax was deducted at source, the same would have been deposited in Government Treasury by CAA. The amount was erroneously booked as receivable.

The reply was not tenable. Audit stressed that complete documents be produced showing deposit of said amount in Government Treasury for verification.

The DAC in its meeting dated 26.09.2023, was apprised by the management that project sponsored by CAA was executed by JV and tax was deducted by CAA. The DAC in this regard directed to get the record verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-413/2022-23

INTER SERVICES ORGANIZATIONS

Inter Services Organizations (ISOs) of the defence services are those organizations which provide services to the tri-forces. ISOs include Joint Services Headquarter, FGEIs, and Medical institutions.

AUDIT PARAS

2.22 Un-authorized / irregular payments – Rs.89.989 million

2.22.1 Irregular purchase of medical store – Rs.89.989 million

According to Rule-47(e) to Financial Regulation Volume-I (1986), “the most careful supervision over expenditure shall be exercised and on no account shall money be spent simply because it is available.

During audit of a Medical Institute, following observations were noted in the local purchase of medical supplies worth Rs.89.989 million:

- i. Ex-post Facto Sanction of the Surgeon General / DMS (IS) accorded for LP exceeded the financial limit of the authority (i.e. delegated power of Rs.3.000 Million of COAS to Surgeon General / DGMS(IS)).
- ii. No Government sanction was obtained for previous years 2016-17 & 2017-18 liabilities for Rs.82.414 million (Rs.89.989 million – Rs.7.575 million).
- iii. Procurements made for in violation of Rule 12(2) of Public Procurement Rules, 2004.
- iv. Receipt of store taken on ledger charge may also be got verified to Audit.

When pointed out by audit, the management replied that main reason for liabilities was that budget allocation for these medical supplies was significantly lower than the expenditure, which subsequently led to liabilities for financial year 2016/2017, 2017/2018. Rs.90.000 million was allocated by MoD for clearance of outstanding liabilities.

The reply advanced was not tenable, for the following reasons:

- i. Ex-post Facto Sanction of the Surgeon General / DMS (IS) exceeded the financial limit of the authority which required regularization from CFA.
- ii. No Government sanction was obtained for previous years 2016-17 & 2017-18 liabilities for Rs.82.414 million (Rs.89.989 million – Rs.7.575 million) in violation of Rule quoted.
- iii. Procurements made for in violation of Rule 12(2) of Public Procurement Rules, 2004.
- iv. Receipt of store taken on ledger charge was not got verified from Audit.

The DAC in its meeting dated 27.09.2023 directed the management that action of regularization and SOPs with respect to medical equipment be got verified from audit within 02 weeks. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-450/2022-23

2.23 Recoverable / Overpayments – Rs.35.596 million

2.23.1 Irregular transfer of profit to private fund – Rs.26.231 million

Rule-2 of Financial Regulation Volume-II 1986 stipulates that “All transaction to which any officer of Government in his official capacity is a party, shall, without any reservation, be brought to account and all moneys received by or tendered to Government officer which are due to, or are required to be deposited with Government shall, without undue delay, be paid, in full, into a Government treasury or into the bank to be credited to the appropriate account or they shall be credited through the pay bill or other public account if it is so authorized”. Furthermore, Ministry of Defence, vide their UO No. 6/5/D-2 (AII)/2016, dated 09.02.2021, conveyed its decision to Medical Directorate/ DMS (IS) (C) to deposit the amount into Government treasury on the profit occurred on CNE Fund Account.

During audit of a Medical Institute, it was observed that a sum of Rs.26.231 million was earned on account of profit on CNE account. However, the same was not deposited into Government treasury in violation of above Government order/rules.

When pointed out by audit, the management replied that case was already under process. Action will be taken after receipt of the final decision.

The reply was not tenable in the light of Rules/government orders.

The DAC in its meeting dated 27.09.2023 directed to pursue the case of reviewing decision for depositing bank profit into Government treasury. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-473/2022-23

2.23.2 Loss due to less deposit of government share – Rs.9.365 million

According to GHQ Med Dte letter No.3532/32/DMS-3(c) dated 21.02.1983 “a specialist is allowed total of three CNE cases only in a station at a time. Sometimes additional CNE cases may have to be admitted on a life saving measure at the discretion of OC Hospital. It is therefore, clarified that if any additional cases is admitted at the request of any specialist, the charges should go to the Government and Hospital Amenity”.

During the scrutiny of cash book of Indoor CNE Patients held with a Medical Institute, it was observed that a sum of Rs.17.027 million was received from additional cases of CNE patients (more than 3 cases). However only 15% amount was deposited into Government treasury and remaining amount was credited in to Hospital Amenity / Medical Officer Shares. Therefore, remaining share of Government may be deposited into treasury as per the policy mentioned above.

When pointed out by audit, the management replied that this institute is strictly adhered to the policy. However, in some cases the CNE patients have been admitted in the evening against CNE patients discharged from hospital in the morning.

The reply was not tenable. Government share as per policy of GHQ issued in 1983 may be deposited into Government treasury.

The DAC in its meeting dated 28.11.2023 was apprised by the management that Government share has been deposited into Treasury as per Government orders. The DAC directed that the same may be got verified from audit within one week. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-113/2023-24

PAKISTAN NAVY

Pakistan Navy is the third component of Defence Services administered by the Naval Headquarters. It is primarily responsible for protection of maritime borders of Pakistan.

AUDIT PARAS

2.24 Procurement related irregularities – Rs.173.120 million

2.24.1 Award of contracts in violation of public procurement rules – Rs.173.120 million

According to Rule-12(2) of Public Procurement Rules, 2004, all procurement opportunities over one hundred thousand rupees and upto the limit of two million rupees shall be advertised on the authority's website. These procurement opportunities may also be advertised in print media. Further procedure governing the execution of operational and emergency works is laid down in Appendix "F" to Para-41 of DSR for MES 1998.

During audit of a Garrison Engineer, it was noticed that 123 contracts valuing Rs.173.120 million were concluded and finalized by the GE during July-2018 to June-2020. However, the requisite documentary evidence regarding advertisement of works in daily newspapers and other details on PPRA's website were not found on record in the office of the GE. Due to the omission, the entire expenditure incurred without observing Public Procurement Rules was treated as irregular.

When pointed out by audit, the management replied that the objected contracts were concluded after necessary advertisement in two different newspapers and PPRA formalities were observed. Requisite documents are hereby produced for verification.

The reply was not tenable as original record was not furnished to Audit for verification.

The DAC in its meeting dated 05.01.2024 was apprised that the procurement was advertised on PPRA website from time to time. The DAC directed that record relating to advertisement as per PPRA rules may be got verified from audit. In case of non-observance of PPRA Rules, a fact finding inquiry may be conducted. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

2.25 Recoverable / Overpayments -Rs. 26,674.260 million & US\$ 0.123 million

2.25.1 Non-deposit of government share of rental income – Rs. 2,301.772 million

According to Policy on use of A-1 Land circulated vide MoD`s letter dated 2nd April 2008, “for launch of essential commercial activities required to serve the residents of the respective garrison, survey will be conducted by a Board of Officers to determine the actual area under usage. The rent shall be charged @ 6% per annum of existing revenue rate of the said land. Government's share @ 25% of the rent so charged will be deposited into government treasury.”

During audit of several Navy Formations for the financial year 2021-22, it was observed that government share amounting to Rs 2,301.772 million on account of different commercial activities carried out on A-1 Land was not deposited into government treasury in violation of A-1 Land policy.

(Rs in million)

Sr. No.	DP No.	Amount
1.	DP-S-404	2,292.732
2.	DP-S-436	9.040
Total		2,301.772

Audit is of the opinion that non-deposit of government share into government treasury resulted in loss to exchequer.

The matter was pointed out by Audit in 2022. The management in DP-S-404, did not furnish any reply. In case of DP-S-436, the management replied that all activities run at site are already approved by NHQ vide letter dated 01 October, 2010, and government share was being deposited.

The replies furnished by the management were not tenable as the due amount was not deposited into the government treasury as per A-1 Land policy.

The DAC in its meeting dated 30.08.2023 directed the management in DP-S-404, that following record may be provided to audit for verification: regularization of the commercial activity with revision of contracts with regard to business activity; Board of Officers' proceedings, approved by NHQ; revised contract agreement of the commercial activity; In case of DP-S-436, DAC directed the management to reconcile the DC rates

with audit. Reconciled amount be deposited into government treasury and got verified from audit. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Note: This issue was also reported earlier in the Audit Report for the year 2020-21 vide Para No. 2.10.2, DP S-254 having financial impact of Rs 2.366 million. Recurrence of the same irregularity is a matter of serious concern.

(DP-S-404 & 436/2022-23)

2.25.2 Non-recovery of Sales Tax on Services – Rs. 107.782 million

According to Sindh Sales Tax Act No XII of 2011, issued by Sindh Revenue Board (SRB), Government of Sindh, vide Notification No. SRB/TP/51/2016/212146 dated 08th March 2017, “Sales Tax would be charged @ 5% to 15% against different services”. Further according to Balochistan Sales Tax Ordinance, 2000 dated 29th June 2000, as amended vide Balochistan Sales Tax on Services Act, 2015, Schedule II, Part-B, services provided or rendered by persons engaged in contractual execution of work or furnishing supplies are liable to pay 15% Sales Tax on their rendered services.

During audit of several Navy Formations, it was observed that sales tax on services amounting to Rs. 107.782 million was not deducted from suppliers/contractors. Details are depicted as below:

(Rs in million)

Sr. No.	DP No.	Year	Amount	Rate	Sales Tax on services
1.	DP-S-346	2022-23	144.879	15%	18.897
2.	DP-S-406	2022-23	1,351.998	5%	67.600
			3.797	13%	0.493
3.	DP-S-438(A)	2022-23	32.300	13%	4.186
4.	DP-S-446(A)	2022-23	16.529	13%	2.149

5.	DP-S-19	2023-24	208.540	5%	10.427
6.	DP-S-302	2023-24	31.000	13%	4.030
Total			1,789.043		107.782

Non-withholding of sales tax on services caused financial loss to the public exchequer which indicated lack of internal controls and weak financial management within the organization.

The matter was pointed out by Audit in 2022. The management of DP-S-346, submitted irrelevant reply. For DP-S-406, the management replied that sales tax on services of building works was not applicable. For DP-S-438(A), the management did not furnish reply. For DP-S-446(A), the management replied that Sindh sales tax @ 13% was deposited by contractor. For DP-S-19, the management replied that they already had approached the contractor to provide exemption of Sindh sales tax on construction services otherwise, the amount in question would be deducted from upcoming dues. For DP-S-302, the management replied that 5% sales tax as per Sindh Revenue Board would be recovered.

Replies were not tenable as after the 18th Amendment, subject of sales tax on services was transferred to provinces. In this regard, the MoD has already issued directives for the recovery of sales tax on services from the contractors.

The DAC in its meetings held on 30.08.2023 and 28.12.2023 and February 2024, directed the management in DP S-346, S-406 & S-438, to pursue the recovery of sales tax on services from the concerned. In case DP S-446, DAC directed the management to provide relevant record of recovered amount to audit for verification. in case of non-recovery, pursue the recovery from the concerned contractors and got verified from audit. In case of DP S-19, DAC directed the management that the recovered amount may be got verified from audit and recovery of the balance amount be affected expeditiously. For DP S-302, DAC directed management to verify the recovered amount and reconcile that recovery of sales tax affected has been based on the rate of 5%, as per Sindh Revenue Board. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-346, 406, 438(A) & 446(A)/2022-23 and DP-S-19 & 302/2023-24

2.25.3 Non-billing of utility charges to residential buildings –Rs. 99.528 million

According to Para 442 of Defence Service Regulations 1998, Garrison Engineer is responsible for making demands for all revenue and its realization into Government treasury.

During audit of an Engineering Formation for the financial year 2021-22, it was observed from RORs that some residential buildings were not billed for utility charges for years without any justification which resulted into loss to state amounting to Rs. 99.528 million (estimated).

Audit is of the opinion that non billing of utility charges to residential buildings, Officers Mess and ward rooms indicated prevalence of weak internal controls and misuse of public resources within the Formation.

The matter was pointed out by Audit in December, 2022. The management replied that bills were forwarded to buildings mentioned in the observation, but recoveries had not yet been received.

The DAC in its meeting dated 30.08.2023 directed the management to provide relevant record of recovered amount to audit for verification and pursue the recovery of outstanding amount from the concerned residents. DAC further directed to provide details of buildings where recovery was not being made and RORs were not being issued. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-SSR-S-455 /2022-23

2.25.4 Non-recovery of allied charges – Rs. 90.006 million

According to Para 442 of DSR-1998, ‘the GE is responsible for making demands for payment of all revenue and for taking steps for its prompt realization.’ As per rule 81 of Quarters and Rents rules 1985 as amended vide letter No. F.5620/109/Qtg-4/F-2/D-3(AIII)/2002 dated October 14, 2009, scale for free consumption of sui gas to a cook house is prescribed by the government @400cft per person per month.

During audit of several Engineering Formations for the financial year 2021-22 and 2022-23, it was observed that allied charges (i.e. electricity, gas & water) amounting to Rs.

90.006 million were lying outstanding against various consumers / occupants. The details are as under:

(Rs in million)

Sr. No.	DP No.	Audit Year	Amount
1.	DP-S-SSR-32	2022-23	44.322
2.	DP-S-286	2023-24	12.148
3.	DP-S-105	2023-24	8.099
4.	DP-S-34	2023-24	6.104
5.	DP-S-225	2023-24	5.680
6.	DP-S-35	2023-24	3.091
7.	DP-S-99	2023-24	2.446
8.	DP-S-152	2023-24	2.204
9.	DP-S-299	2023-24	0.905
Total			90.006

Audit is of the view that non-recovery of allied charges indicated weak financial management within the organization.

The matter was pointed out by Audit in 2023. For DP-S-SSR-32 and DP-S-152, the management did not furnish any reply. For DP-S-286 and DP-S-99, the management replied that the notices were sent to non-paying consumers. For DP-S-105, the management replied that action would be taken as per audit recommendations. For DP-S-34 and DP-S-35, the management replied that UAGE was approached to provide the record regarding recovery. For DP-S-225 and DP-S-299, the management replied that the amount recovered would be intimated to audit for verification.

The reply furnished by the management was not tenable as the amount was not recovered. Moreover, no documentary evidence was presented to Audit for verification.

The DAC in its meetings held on January, 2023, December, 2023 and February, 2024, directed the management to verify the recovered amount from audit and pursue recovery of outstanding amount. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-SSR-32/2022-23 & DP-S-286, 105, 34, 225, 35, 99, 152 7 299/2023-24

2.25.5 Non-adjustment of advance salaries - US \$ 122,884

As per Ministry of Defence letter No. JST/3618/MC/F-8/109/D-16(C-ii) 77 dated 12th December 1978, the advance as drawn by the deputationist will be adjusted against their entitlement of Pay and Allowances in the foreign countries and will be reimbursed in foreign exchange to the Government of Pakistan by the Government of countries concerned.

During audit of a Navy Formation for the financial year 2021-22, it was observed that various officers/officials were deployed on deputation abroad. They were paid three months advance salary amounting to US\$ 122,884 but same was not adjusted from their pay.

Audit is of opinion that non-adjustment of advance pay indicated weak internal controls within the Formation.

The matter was pointed out by audit in January, 2023. The management did not furnish reply.

The DAC in its meeting dated 30.08.2023 directed the management that adjustment of advance salaries may be expedited and the documents be provided to audit for verification. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(DP-S-433/2022-23)

2.25.6 Loss to state due to un-recorded consumption of water – Rs. 28.552 million

As per Para 442 of Defence Services Regulations to MES, 1998: “The GE is responsible for making demands for payment of all revenue, whether credited to Main Head VIII/X-H/Xi-C or D, or compiled as deduction from expenditure, and for taking steps for its prompt realization.’

During audit of an Engineering Formation of Navy, for the financial year 2021-22 it was observed that an amount of Rs. 36.674 million was paid for the procurement of water from KWSC and water through a bowser. In contrast, bills for the recovery of Rs. 8.122 million (approximately Rs. 676,884 x 12 months) against water charges were collected from officers, officials, and civilians, representing a recovery of only 22.146%. Audit noted that 77.85% of the annually procured water was treated as free authorization, totaling Rs. 28.552 million which was a loss to state.

Water bill amount as per MER	Recovery bills issued through RAR	Free consumption of water charges amount
Rs 36.674	Rs 8.122 (22.14% of total bill)	Rs 28.552 (77.86%)

Audit is of the view that recording of 77.86 % as free utilization of water consumption without justification was burden on the exchequer which reflected weak internal controls within the organization.

The matter was pointed out by the audit in November 2022. The management replied that Navy hospital was one of the largest Military Hospitals which operates 24/7 where a large amount of water was being consumed for the convenience of patients and other naval facilities due to which Free Consumption Board as per Defence Accommodation Scale was convened and approved by competent authority.

The reply was not tenable as recording of 77.86% as free authorization was not justified. Moreover, record of free authorization board of water was also not provided.

The DAC in its meeting dated 09.05.2023 directed the management to provide record of free authorization of water consumption to audit for verification. DAC further directed the management to pursue the case for recovery and get the same verified from audit. No progress was reported to audit till finalization of this report.

Audit recommends implementation of DAC directives.

DP S-282/2022-23

2.25.7 Irregular hiring of residential accommodations – Rs. 11.631 million & Non-recovery of hiring charges -Rs. 6.323 million

According to Financial Regulation (Navy) Rule 0104 (1)(a), “Every public officer should exercise the same vigilance in respect of expenditure incurred from Government revenues as a person of ordinary prudence would exercise in respect of the expenditure of his own money.”

During audit of a Navy Formation for the Financial Year 2021-22, it was observed that an amount of Rs. 11.631 million was disbursed for the hiring of accommodations for 24 officers/ officials. On verification, it was revealed that these hired accommodations, for which payments were made, were not being utilized by the officers. Consequently, the

accommodations were de-hired. However, the payments already made on account of hired accommodations were not recovered from the concerned.

Audit is of the view that Government sustained a loss due to non-recovery on account of non-utilization of the hired accommodations by the officers / officials.

The matter was pointed out by the audit in June 2023, the management replied that out of Rs. 11,631,965 an amount of Rs. 5,308,535 was recovered from the concerned individuals. Efforts were being made to recover the remaining amount of Rs. 6,323,430 at the earliest.

The DAC in its meeting dated 28.12.2023 directed the management that recovered amount may be got verified from audit within one month. No progress was reported to audit till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-23/2023-24

2.25.8 Non-recovery of training and allied charges from Foreign trainees – Rs.15.45 million

Under Joint Services Instruction No.4/2006, it is laid down that training and allied charges contained would be recovered from the Government of International Trainees as per agreement / instructions.

During audit of a Navy Formation for the year 2021-22, it was observed that an amount of Rs 15.450 million was outstanding on account of training & allied charges from foreign trainees but recovery of the same was not made.

Audit is of the view that non-recovery of allied charges from foreign trainees reflected weak internal controls and financial management on the part of the management.

The matter was pointed out by Audit in February, 2023. The management did not furnish reply.

The DAC in its meeting dated 30.08.2023 directed the management to pursue the recovery from the concerned and got verified from audit. No progress was reported till finalization of this report.

Audit recommends implementation of the DAC directives.

2.25.9 Non-recovery of General Sales Tax – Rs. 7.024 million

As per Finance Bill 2010 After amendments in the Sales Tax Act, 1990, “The applicable rate of sales tax on items in Third Schedule has been increased to 17% with effect from 1st July 2010”. if purchases are made from unregistered persons, the withholding agent shall deduct Sales Tax at the rate of 19% of the value of the taxable supplies made to him from the payment due to the supplier”.

During audit of a Navy Formation for the years 2021-22, it was observed that General Sales Tax on goods procured from market amounting to Rs. 7.024 million was not deducted from the contractors.

Audit is of the opinion that non-recovery of General Sales Tax resulted in loss to state and reflected weak internal controls within the Formations.

The matter was pointed out by Audit in 2023, the management replied that GST was deposited into treasury.

The reply was not tenable as no record of deposit of GST in treasury was produced to audit.

The DAC in its meeting dated 30.08.2023 directed the management to pursue the recovery from the concerned contractors and got verified from audit. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-405(A)/2022-23

2.25.10 Less-deduction of income tax from contractors - Rs. 6.192 million

As per Section-153 of Income Tax Ordinance 2001, “Every prescribed person making a payment for rendering or providing of services is liable to deduct Income Tax from the gross amount of the bills at prescribed rates”.

During audit of several Navy Formations for the period 2021-22, it was observed that income tax amounting to Rs. 6.192 million was less deducted from the payments made to various contractors in violation of rules.

(Rs in million)

Sr. No.	DP No.	Year	Total Amount	Less deduction of income tax
1.	DP-S-405(B)	2021-22	44.322	1.319
2.	DP-S-438 (B)	2021-22	32.200	3.220
3.	DP-S-446 (B)	2021-22	16.529	1.653
Total				6.192

Audit is of the view that less deduction of income tax indicated weak internal controls within the organization.

The matter was pointed out by Audit in 2023. For DP-S-405(B), the management replied that Income Tax was deposited into Treasury. For DP-S-438(B), the management did not furnish any reply. For DP-S-446(B), the management replied that income tax @ 10% was deposited by contractor.

The reply furnished by the management was not tenable as no documentary evidence was presented to Audit for verification.

The DAC in its meeting dated 30.08.2023 directed the management for DP-S-405(B) & DP-S-438(B) to pursue the recovery of income tax from the concerned. In case of DP-S-446(B), DAC directed that relevant record of recovery of income tax be provided to audit for verification. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-405(B), 438(B) & 446(B)

2.26 Un-Authorized / Irregular Payments -Rs. 1,693.939 million

2.26.1 Irregular determination of free authorization of electricity - Rs 621.753 million

A. According to Rule-85 of Q&R Rules 1985, "Except when occupied by non-entitled consumers, Military buildings for which power points are authorized in Barrack Synopsis, shall be supplied free electric energy for authorized consuming apparatus (see also rule 772 of Regulations for the MES). According to Rule-83 of Q&R 1985, officers messes are authorized for free electric for lights only. According to Rule-84 of Q&R 1985 "Officers messes are not authorized for free electricity of fans."

During audit of an Engineering Formation of Navy for the financial year 2021-22, it was observed from electric bills that an amount of Rs. 408.873 million was paid to KE for consumption of electricity whereas bills for recovery of Rs. 54.545 million against

electric charges by allied consumers (officers, officials, private consumers, & commercial consumers) was demanded which was 13.35% in-terms of recovery. Audit is of the view that annually 86.65% of free electricity was utilized by this Formation which is Rs. 354.328 million in annual loss to state which may be reconciled with accommodation of scale & Quarter & rent. Furthermore, free electricity amounting to Rs. 408.873 million was provided to Navy installation and other entitle officers / officials on the recommendation of Board, Audit noted that un-necessary lights and others electric points were free authorization by board which resulted in extra burden on Defence fund which is irregular and violation of rules.

(Rs in million)

Amount of Payment to KE as per MER	Amount of Recovery through RAR	Amount of Free consumption of electric charges
408.873 (100%)	54.545 (13.35%)	354.328 (86.65%)

Audit is of the view that 86.65 % of free utilization of electric consumption, reflected weak internal controls within the organization.

The matter was pointed out by the audit in November, 2022, the management replied that the concerned hospital is a large Military Hospital which operates 24/7 where a large amount of electricity is consumed for which free consumption board was convened and approved by competent authority. Reply was not tenable as free consumption was made on higher side.

The DAC in its meeting dated 9th May, 2023, directed the management to provide record of free authorization of electricity consumption to audit for verification. DAC further directed to reconstitute the board, rationalize electricity consumption, and get the same verified from audit. No progress was reported to audit till finalization of this report.

Audit recommends implementation of DAC directives.

DP-SSR-S-281 /2022-23

B. According to Free Authorization Board of FY 2016-17, “Over & above consumption of electricity will be recovered from the unit concerned and which will be later, paid on TR in favor of concern GE. According to Rule-85 of Q&R 1985 “Except when occupied by non-entitled consumers, military buildings for which power points are authorized in Barrack Synopsis, shall be supplied free electric energy for authorized

consuming apparatus (see also rule 772 of Regulations for the MES). According to Para-772 of DSR 1998, “Energy for any unauthorized appliances will be charged for. Any allowance for hot weather establishment which would be admissible may be drawn where fans are installed at unit expense and the energy is paid for by the unit.”

During audit of an Engineering Formation for the year 2021-22, it was observed that an amount Rs 399.781 million was paid to the KE on account of electricity bills. Free authorization of electricity is authorized for Lights and Fans only whereas physical visit of units revealed that a number of Air Conditioners were un-authorizedly installed in each office of Formations and Headquarters. Due to the unmetered supply of electricity to consumers, audit worked out unaccounted for consumption of electricity of Rs. 267.425 million which is tantamount to loss to state. Details are summarized as follows:

(Amount in Rs.)

Billed Units	Paid Amount	ROR units	RORs Amount	Un accounted for electricity	
				Units	Amount
(a)	(b)	(c)	(d)	(a – c)	(b – d)
11,761,458	3,29,779,809	3,764,042	62,354,671	7,997,416	267,425,138

Audit is of the view that due to unmetered electricity supply the chance of unauthorized use of electricity may not be ruled out.

The matter was pointed out by Audit in August, 2022. The management replied that audit recommendation would be shared with HQ/ higher authorities for rectification of the highlighted observations in the up-coming board of officer for assessment of free consumption of electricity units.

The DAC in its meeting dated 09.05.2023 directed the management that relevant record including board of officers for free authorization of electricity, details of operational equipment be provided to audit for verification. No progress was reported to audit till finalization of this report.

Audit recommends implementation of DAC directives

DP-SSR-S-30 /2022-23

2.26.2 Infructuous expenditure due to non-completion of abandoned projects – Rs. 406.957 million

According to Para 210 (a) of DSR, 1998, “Infructuous expenditure arises when Government funds were expended for which Government receives no useful return or in which there was unnecessary or avoidable extra expenditure.”

According to Para- 55 (b) of Form-2249, "Whenever the Accepting Officer exercises his authority to cancel the contract under this condition, he may complete the works by any means at the contractor's risk and expense.”

During the audit of several Engineering Formations of Navy, for the Financial Year 2022-23, it was observed that four (04) contracts, valued at Rs. 406.957 million, were abandoned due to default by contractors. The contractors, in these instances, left the work incomplete, and payments totaling Rs. 255.03 million were disbursed against such works to them. Audit noted that these works were not completed at the contractor's risk and expense despite lapse of 3 to 4 years. Furthermore, there was a failure to blacklist the firms, and the forfeiture of their performance guarantees was not done. The details are as under:

(Rs in million)

Sr. No.	DP No.	Audit Year	Amount
1.	DP-S-128	2023-24	151.937
2.	DP-S-130	2023-24	255.002
Total			406.957

Audit is of the view that the recurring pattern of contract abandonment signifies an alarming potential for financial implications and exposes a lapse in upholding contractual obligations.

The matter was pointed out by the Audit in 2023. The management for DP-S-128 replied that the subject contract was determined vide letter dated 20-04-2023 and a Joint Measurement Board was ordered vide letter dated 16-05-2023. A draft of left over work was also forwarded to HQ on 03-11-2022, and management for DP-S-130 replied that Joint Measurement Board for works in question was under process the same would be produced on completion to audit for verification.

Reply was itself an admission of audit contention as the left over work was not completed nor any action was taken against the defaulting contractors.

The DAC in its meeting dated 28.12.2023 directed the management that documentary evidence regarding cancellation of the contract and award of new contract on Risk & Cost basis be provided to audit for verification.

Audit recommends implementation of DAC directives.

DP-S-128 & 130/2023-24

2.26.3 Irregular consumption of utilities without free authorization Board - Rs 239.000 million

According to SPAO-11/86 free authorization of electricity for each building is required to be fixed through a Board of Officer. Further, as per rule-83 to 85 Q&R 1985, Persons/Buildings are entitled to Free Supply of Electricity for Light and fan only. The list of free Formations entitled, is also provided in the rules.

During audit of an Engineering Formation of Navy for the financial year 2021-22, it was observed that payment on account of electricity and water bills were made to concerned authorities without Board of Officers for free authorization of consumption. Hence, payment of Rs 239 million without Board of Officers stood as irregular.

(Rs in million)

Sr. No.	Description	Amount of Bills
1.	Electricity Bill	186.506
2.	Water Bill	52.494
Total		239.000

Audit is of the opinion that payment of all utility bills without free authorization board indicated misuse of public resources within the Formation.

The matter was pointed out by audit in December, 2022. The management replied that six (06) number of Boards of free authorization of electricity were convened in FY-2021/2022. Reply was not tenable, as no documentary evidence was produced to audit for verification.

The DAC in its meeting dated 30.08.2023 directed the management to convene Board of Officers as per rules for calculation of free authorization and charged

consumption of electricity. The same be provided to audit for verification. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-SSR-S-347 /2022-23

2.26.4 Unjustified transfer of public fund into non-public account - Rs 203.445 million

Under Rule 626 (1) of Financial Regulations (Navy) 1993, “All transactions to which any officer of the Government, in his official capacity is a party may without any reservation be brought to account and all money received be paid in full, without undue delay, into the State Bank or Government Treasury to be credited to the appropriate head of account or taken on charge in the Public fund (Main Cash) account and deposited with the Supply Officer. The appropriation of departmental receipts to departmental expenditure, except when specially authorized, is strictly prohibited.”

During audit of a Navy Formation for the year 2018-19 to 2021-22, it was observed from the cash book that a sum of Rs. 203.445 million was transferred to non-public fund account opened for foreign cadets messing etc. Audit observed following irregularities:

- i. Transfer of funds from public fund to non-public fund without rule/authority was not justified.
- ii. Further, despite two written reminders, record of utilization of same fund was not provided to audit.

Audit is of the view that transfer of funds from government accounts without any authority is not justified. This indicates weak internal controls within organization.

The matter was pointed out by Audit in 2023. The management replied that the unit emphasized on streamlining the process of audit of all kinds. During audit, documents from CAO Department were asked. CAO office extended its full support by producing requisite documents. Audit team was conveyed that the documents were held at HQ. However, during audit same were not produced to audit team. Moreover, same would be produced as & when required by the audit team in future visit Audit.

The reply furnished by the management was itself admission that the said record was not provided to audit team.

The DAC in its meeting dated 30.08.2023 directed the management to provide; details of expenditure, Rules and Regulations on matter, rules and procedure for utilization

of Imprest Account be provided to audit for verification. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-407/2022-23

2.26.5 Irregular payment of electricity bills to K-Electric – Rs. 145.101 million

According to Rule 6(d) of FR-1986, “Government revenues shall not be utilized for the benefit of a particular person or a section of the community.”

During audit of an Engineering Formation of Navy for the year 2021-22, it was observed that an amount of Rs 145.101 million was paid to KE on account of electricity bills of Naval residence which was unjustified as MES was not responsible for supply of electricity to the residents outside of Cantonment area. Furthermore, no record was maintained to verify the status of recovery against consumers outside cantonment areas.

(Amount in Rs.)

Sr. No.	Meter No	Location	Annual Expenditure
1.	BH-000005	NORE-I	96,409,442
2.	BH-000641	NORE-II	34,645,039
3.	BH-004214	NORE-II	5,799,026
4.	BH-000137	NORE-II	8,247,497
		Total	145,101,004

Audit is of the view that payment of electricity bills of consumers outside cantonment area from Defence Budget was unjustified and its non-recovery in accordance with the ratio of payment to K-Electric was to loss to state.

The matter was pointed out by Audit in August, 2022. The management replied that the matter was already in process at appropriate level and will be sorted out shortly.

The DAC in its meeting dated 09.05.2023 directed the management to provide relevant record regarding recovery of electric bills to audit for verification. No progress was reported to audit till finalization of this report.

Audit recommends implementation of DAC directives/stop the payment of electricity bills of residents outside cantonment areas.

DP-S-31/ 2022-23

2.26.6 Irregular procurement of fresh water beyond permissible limit - Rs.45.00 million

According to Para-5 of Appendix “K” of DSR 1998, “Agreements or memoranda of terms for taking a supply of electric energy or water from an outside source for military buildings when the annual payment in the case of each station does not exceed Rs. 5 million”.

During audit of an Engineering Formation of Navy for the financial year 2021-22, it was observed that nine contracts valuing Rs 45 million for supply of fresh water through bowser were concluded by splitting the sanction to avoid sanction of government (i.e., Ministry of Defence) in violation of rules. Furthermore, only Rs 5 million per annum is authorized for fresh water for each station whereas the same was done by splitting up sanctions for expenditure of Rs.25.00 million and Rs. 20.00 million respectively.

Audit is of the view that expenditure beyond permissible limit reflected weak internal controls within the entity.

The matter was pointed out by Audit in 2023, the management replied that contracts were concluded due to shortage of water. Board of officers was approved by NHQ, and concurrence of contracts was also obtained from HQs. The reply was not tenable as only Rs. 5 million per annum is authorized for fresh water on each station.

The DAC in its meeting dated 30.08.2023 directed the management to initiate the case through NHQ for enhancement of ceiling for procurement of water in DSR 1998. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(DP-S-443/2022-23)

2.26.7 Non-recovery of Liquidated Damages Charges – Rs. 32.673 Million

According to Clause 55 (3 & 4) of Form 2249, “The Accepting Officer may without prejudice to any other right or remedy which shall have deemed or shall accrue thereafter to Government, cancel the contract in any of the following cases, if the Contractor:- (3) Fails to comply with any of the terms and conditions of the contract or

after reasonable notice in writing, with order properly issued thereunder, or (4) Fails to complete the works and clear the site on or before the date of completion. Whenever the Accepting Officer exercises his authority to cancel the contract under this condition he may complete the works by any means at the contractor's risk and expense.”

During audit of several Engineering Formations of Navy for the Financial Year 2022-23, it was observed that the management failed to impose Liquidated Damages (LD) of Rs. 32.673 million against two contractors for not completing the project within the stipulated time. The detail is as under:

(Rs. in million)

Sr. No.	DP No	Date of commencement of work	Date of completion of work	Work progress on 30 th June, 2023	CA Amount	Amount paid to contractor	LD Charges
1.	S-284/22-23	19-04-2021	18-04-2023	14%	184.361	23.369	18.436
2.	S-285/22-23	01-07-2020	20-06-2022	20%	142.378	59.286	14.237
						Total	32.673

Audit is of the view that, due to abnormal delay in the completion, intended benefits of the project remain unachieved besides the government sustained loss due to non-recovery of LD Charges.

The matter was pointed out by Audit in November, 2023. The management of DP-S-284, replied that notice was issued to the contractor for completion of work. In case of DP-S-285 the management replied that due to some technical / design changes work was determined by E-in-C on 20-12-2022 and Draft CA for leftover work was forwarded to relevant authority.

The DAC in its meeting dated 12.02.2024 directed the management that case regarding risk and expense be pursued with E-N-C Further, DAC further directed that physical progress of the work along with the actual payment made in this regard be verified within 01 month. No further progress was reported till finalization of this report.

Audit recommends for implementation of DAC directives.

CHAPTER-3

Ministry of Defence Production

3.1 Introduction

The Ministry of Defence Production was established to meet the requirements of Armed forces through procurement (local and import) and indigenous production. Ministry of Defence Production comprises two components i.e. Procurement including Director General Defence Procurement, Directorate General Munitions Production, Director General Procurement (Army), Director Procurement (Air Force) and Director Procurement (Navy) and Production which includes Heavy Industries Taxila, and Pakistan Aeronautical Complex Board, Kamra.

As per Rules of Business, 1973 Ministry of Defence Production is responsible for laying down policies on all matters relating to defence production, procurement of arms, fire arms, weapons, ammunition, equipment, stores and explosives for the defence forces, declaration of industries necessary for the purpose of defence or for the prosecution of war, research and development of defence equipment and stores, co-ordination of defence science research with civil scientific research organizations, indigenous production and manufacture of defence equipment and stores. Furthermore, responsibilities also include negotiations of agreements or MOUs for foreign assistance or collaboration and loans for purchase of military stores and technical know-how or transfer of technology, export of defence products, marketing and promotion of activities relating to export of defence products, co-ordinate production activities of all defence production organizations or establishments.

AUDIT PARAS

3.2 Procurement related irregularities – Rs.2,083.620 and Euro 3.096 million

3.2.1 Award of contract in violation of PPRA rules – Rs.1,360.896 million

Under Rule-4 of Public Procurement rules 2004, Procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner. Under terms and conditions of tenders, multiple rates against one item are liable to be rejected.

During audit of a Central Procurement Organization, it was observed that tenders were called for procurement of ration (Ghee & Dhall) while scrutiny of record revealed

that one firm being with higher bids was asked to provide revised quotes on opening date of tender by neglecting the other lowest quotes and the contract for all zones was awarded which is against PPRA rules and thus the whole expenditure of Rs.1,360.896 million stood irregular.

When pointed out by audit, the management replied that Oil Mill was the lowest quote in all 04 zones with quoted rate Rs. 199 kg. Due to over writing / cutting on revised offer and also stabilization of rates of Ghee in the market firm willingly reduced the rate @Rs. 184.00 / kg. Resultantly an amount of Rs. 17.250 million was saved and no loss to state occurred. In respect of contracts of Dhall Channa (all Zones) it was stated that before opening of commercial offer/ rate announcement, all firms are allowed to deposit the revise bid in the light of para 12b (1), Chapter-III of DPP&I-35 (Revised 2019).

The reply was not tenable as originally, Oil Mill was the highest quote but revised rate was obtained to award the contract which stood irregular. Furthermore, PPRA does not allow for obtaining revised offer / two offers from one firm.

The DAC in its meeting dated 12.09.2023 was apprised by the management that DPP&I-35 was followed. Based on the justification, DAC directed the management to get the record verified as per DPP&I from the audit within 07 days. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-519/2022-23

3.2.2 Procurement of stores on proprietary basis without approval – Rs.510.204 million & Euro 3.096 million

Under Rule-13 (b) of DPP&I revised 2019, circumstances may arise when procurement agency may encounter an occasion to adopt one of the procurement tendering modalities like limited tender or single tender on proprietary basis, in such cases prior approval of principal accounting officer i.e. Secretary Defence Production for exemption from applicability of PPRA Rules is a mandatory requirement.

During audit of a Central Procurement Organization for 2019-20, it was observed that different contracts were awarded for procurement of Defence stores valuing Rs.5.204 million & Euro 3.096 million to different contractors on proprietary basis without obtaining prior approval of Secretary Defence Production regarding exemption on applicability of PPRA for floating of tenders on proprietary basis in violation of rules.

When pointed out by audit, the management replied that subject contracts were concluded on Proprietary basis as per Rule-13 of DPP&I-35. According to para-2 clause “c” of this rule all the requisite approvals have been obtained.

The reply was not tenable as exemption of Secretary DP from PPRA was a mandatory requirement for procurement on proprietary basis.

The DAC in its meeting dated 12.09.2023, directed the management to submit revised reply and get the documents verified from the audit within 02 weeks. It was further directed that the management may follow the procurement procedure of DGP (Army). No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-376/2022-23

3.2.3 Award of contract in violation of public procurement rules – Rs.75.328 million

According to Rule-23 of PPRA-2004, procuring agencies shall formulate precise and unambiguous bidding documents that shall be made available to the bidders immediately after the publication of the invitation to bid. For competitive bidding, whether open or limited, the bidding documents shall include: Invitation to bid, instructions to bidders, form of bid, form of contract, general or special conditions of contract, specifications and drawings or performance criteria, qualification criteria, bid evaluation criteria, format of all securities required, details of standards that are to be used in assessing the quality of, works or services specified. According to Government of Pakistan, letter No. PACB/1701/1/ MC(PC)/PACB/1002/58/Org dated 24.08.2015 a contract above Rs.30.000 (M) was to be concluded with the sanction of the Chairman.

During audit of a Hospital, it was observed that the 02 contracts valuing Rs.75.328 million for daily LP of medicines was concluded with a subsidiary firm by disqualifying all the other suppliers on various grounds like non-availability of space near the hospital, non-provision of medicines at the earliest etc. Audit noticed that neither bidding documents were prepared with these conditions nor these restrictions were conveyed to the suppliers. It was also observed that contracts were concluded without Board approval.

When pointed out by audit, it was replied in respect of above that hospital had invited quotations through open tender. The hospital had carried out technical vetting. During the scrutiny some points were raised that the daily LP medicines were required round the clock on daily and urgent basis for critically ill admitted as well as outdoor

patients. All the three firms which were disqualified were situated outside the premises and were unable to provide the medicines round the clock. Furthermore, the contract for financial year 2018-19 and onward was being approved by the Board. Management further replied that contract was finalized on the basis of commercial quotation instead of Technical quotation.

The reply was not tenable as bidding documents were neither prepared nor made public.

The DAC in its meeting dated 08.11.2023 directed the management to carry out fact finding and submit the report to PAO within one month for sharing with audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-154/2023-24

3.2.4 Procurement of stores at higher rates - Rs.56.561 million

A. According to Para 6 (h) of Defence Purchase Procedure and Instruction (DPP&I)-35, "Supplier fails to deliver the store or any consignment within the period prescribed, then on the expiry of 21 days after such period, the purchaser shall be entitled at his option to take either of the following:

- a) Cancel the contract, and/or
- b) To purchase from elsewhere stores not delivered, at the risk and expense of the Suppliers and without notice to him."

During audit of Army Depot for the year 2021-22, it was observed from central contracts of 2019-20 & 2021-22 that quantity of 2031 items amounting to Rs.31.954 million were lying outstanding which were procured through local purchase at higher rates instead of risk and expense of the contractor in violation of above quoted rules.

Audit is of the view that non-procurement of outstanding items against cost of risk and expense reflected weak internal controls within the Formation.

The matter was pointed out by Audit in April, 2023. The management replied that risk and expense purchase is undertaken by the buyer i.e. concerned central procurement agency. In case of sellers failing to honor the contracted obligations within the stipulated period concerned central procurement agency may be approached for the recovery of

additional amount spent by the government, due to seller defaulting in supply. Reply was itself admission of audit contention that stores were not supplied within time.

The DAC in its meeting dated 30.08.2023, shifted the para to DGDP (MoDP) for reply. No response was reported to audit till finalization of this report.

Audit recommends recovery of cost of Risk and Expense from the concerns.

DP-S-411/ 2022-23

B. According to Rule-6 (a) of Financial Regulations (Vol-01), 1986, every officer should exercise the same vigilance in respect of expenditure incurred from Government revenue as a person of ordinary prudence would exercise in respect of the expenditure of his own money. Furthermore, under Rule-47 (e), most careful supervision over expenditure shall be exercised and on no account shall money be spent simply because it is available.

During audit of Army Depot for the year 2021-22, it was observed that central contracts were concluded at exorbitant rates by concerned central procurement agency whereas, local purchase of same items were made at lower rates which resulted in loss to state amounting to Rs. 21.171 million.

Audit is of the opinion that the procurement made at higher rates by concerned central procurement agency reflected weak internal controls within the Formation.

The matter was pointed out by audit in April, 2023 the management replied that difference of rates was because concerned central procurement agency purchased bulk quantity directly from importer contractors, therefore, rates of spares were less. Spares Depot purchased said items from different contractors as per lowest rates according to approved comparative statement financial year 2021-22. The Depot could not purchase these items from central contractors; therefore, it was not included in CST.

Reply was not tenable as central contract items of same specification procured through LP at lower rates and various items were procured at higher rates as compared to central contracts.

The DAC in its meeting dated 30.08.2023, shifted the para to MoDP for reply. No response was reported to audit till finalization of this report.

Audit seeks justification in the matter.

DP-S-412/ 2022-23

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

During audit of Army Depot, for the year 2021-22, it was observed that a contract was concluded by concerned central procurement agency at higher rates for supply of stores. The same items were tendered by the Depot, which received lower rate than the central contract. This resulted in loss to state amounting to Rs.3.436 million.

Audit is of the opinion that store procurement at higher rate reflected weak internal controls within the Formation.

The matter was pointed out by Audit in March, 2023. The management replied that Depot purchased at cheaper rates than concerned central procurement agency. Therefore, responsibility of loss rested with concerned central procurement agency.

Reply furnished by the management was not tenable as observing the economy in procurement was responsibility of the unit, once lowest rates received, same procurement should have been observed at Depot level instead of placing order to concerned central procurement agency, which caused loss to state.

The DAC in its meeting dated 30.08.2023, shifted the para to MoDP for reply. No response was received to audit till finalization of this report.

Audit seeks justification in the matter.

DP-S-359/2022-23

3.2.5 Irregular procurement through negotiated tendering – Rs.48.142 million

Under rule-42(c)(v) of Public Procurement Rules 2004, a procuring agency may engage in negotiated tendering with one or more suppliers or contractors with or without prior publication of a procurement notification. This procedure shall only be used when, for reasons of extreme urgency brought about by events unforeseeable by the procuring agency, the time limits laid down for open and limited bidding methods cannot be met. The circumstances invoked to justify extreme urgency must not be attributable to the procuring agency. Further, under rule-2(g) “emergency” means natural calamities, disasters, accidents, war and operational emergency which may give rise to abnormal situation

requiring prompt and immediate action to limit or avoid damage to person, property or the environment.

During audit of a Factory, it was observed that contract dated 16.03.2021 was concluded for supply of an item at a total cost of Rs.48.142 million. Scrutiny of record revealed that the said contract was concluded on negotiated tendering basis instead of open tendering which stands irregular. Furthermore, the contracted store was required to be delivered within 3 months of contract but no item was delivered by the contractor up to August, 2021. However, no action was taken against the contractor.

When pointed out by audit, the management replied that the case for procurement of the item was initially processed on open tender in year 2019-20 and 4 firms were finally selected on the basis of quality standard. Later on in 2020-21 tender was processed on negotiated tendering duly approved by all members of the Board, as one time measure being a critical item. The contracting process takes approximately 6 months on open tender and delivery of stores another 4 months. Production was to be completed in current year failing which would delay this particular project. Initially the indent for the procurement was processed on open tender basis on 27.02.2019 and the contract was awarded to the lowest / best evaluated bidder for 2019-20. In 2020-21 particularly the tender was issued to 3 firms qualified in previous bidding process being a negotiated tendering case in accordance with PPRA Rules-42(d). As far as delivery of stores was concerned the supplier was being pursued firmly for timely delivery of stores and would be dealt as per terms and clauses of the contract.

The reply was not tenable as negotiated tendering was not covered under the rules.

The DAC in its meeting dated 13.09.2023, was apprised by the management that the LD has been imposed on the firm for late delivery of the store. The DAC also directed the management to get the relevant record verified from the audit within 07 days. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-362/2022-23

3.2.6 Irregular revalidation of contract – Rs.20.000 million

Under Rule-42(c)(iii) of PPRA Rule 2004, “a procuring agency shall only engage in direct contracting where a change of supplier would oblige the procuring agency to acquire material having different technical specifications or characteristics and would result in incompatibility or disproportionate technical difficulties in operation and maintenance provided that the contract or contracts do not exceed three years in duration.”

Furthermore, according to Rule-12(2) of Public Procurement Rules, “all procurement opportunities over two million rupees should be advertised on the Authority’s website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu”. Furthermore, Rule-50 of PPRA 2004 states that any unauthorized breach of these rules shall amount to mis-procurement.

During audit of the Procurement Directorate of Defence Production Organization, it was observed that a contract for hiring of transport services was concluded with a firm for an amount of Rs. 20.00 million for one year. The contract was revalidated number of times without advertising in Newspapers and on PPRA website in violation of above rules.

When pointed out by audit, the management replied that Contract was concluded with a Goods Transport Company for a period of one year and as per DP-35 Chapter No. XVI para 7(a), 7 extensions were given to the firm with approval of the Board. In parallel the indent for conclusion of fresh contract was initiated on 18.07.2018 and the same was approved by the Board on 18.11.2018. After a lot of effort and meeting with the firms, finally a fresh RRC Contract was concluded on 14.01.2021.

The reply was not tenable. PPRA rule has overriding effect on all other rules.

The DAC in its meeting dated 13.09.2023, directed the management to carry out fact finding inquiry in which financial effect may also be explained alongwith market rates comparison. The report be submitted for perusal of PAO within one month and shared with audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-396/2022-23

3.2.7 Irregular procurement of medicines – Rs.12.489 million

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

During audit of a Factory, it was observed that contract of Local Purchase of Medicine was awarded to a firm at 15% discount on retail price. However, during scrutiny of contract file, it was revealed that the contract was awarded to the 2nd lowest bidder in contravention of above mentioned rules which resulted in irregular procurement of medicine Rs. 12.489 million.

When pointed out by audit, the management replied that according to Air Headquarters letter dated 19.04.2011, discount rate should not be the only criteria for awarding contracts. Good business practice, good reputation sound financial standing, past experience with the supplier and suppliers fulfilling requirement of the hospital should also be given due weightage.

The reply was not tenable because Air Headquarters could not over rule the government orders.

The DAC in its meeting dated 13.09.2023, directed to carry out fact finding inquiry. The report be submitted for the perusal of PAO within one month and shared with audit. DAC further directed that procedure of DGP (Army) may be followed in the future. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-380/2022-23

3.3 Un-authorized / irregular payments – Rs.61,893.206, USD 4.383 and Euro 10.612 million

3.3.1 Lack of proper cost accounting system – Rs.4,829.072 million and expenditure – Rs.55,334.149 million

Sub-Section-1 of Section-9 of a Defence Production Facility's Board Act, 1999 stipulates, namely, "The Board shall maintain in accounts including those of the factories

in such manner and form as may be prescribed by the Federal Government in consultation with the Auditor-General of Pakistan”.

During Audit of a Defence Production Organization, it was observed that the costing and accounting procedure for development activities has not been approved by office of the Auditor-General of Pakistan (OAGP). Therefore, receipt amounting Rs.4,829.072 million and expenditure Rs.55,334.149 million for the period 2012-13 to 2017-18 could not be certified as per laid down accounting procedure.

When pointed out by audit, the management replied that subject issue was discussed in the meeting dated 17.10.2012 in Finance Division, Islamabad. During the said meeting, it was unanimously agreed that the existing Accounting Procedure of Revolving Funds may continue. It was also added that the above stance of Board was supported by MoDP that Government letter authorizing establishment of Revolving Funds (both in LC & FE) was issued after approval of Ministry of Finance.

The reply was not tenable as it was restricted to Revolving Fund only, whereas audit had asked for approval of the costing system. The procedure would act as an instrument to enable the management to make informed decisions about production.

The DAC in its meeting dated 03.01.2024 was apprised that draft Financial Accounting & Costing System has been framed, and has been forwarded for final approval. The DAC directed the management to pursue the approval from competent authority and get it verified from audit. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-214/2023-24

3.3.2 Non-replacement of rejected store Euro 6.649 million

Para-8 of DPP&I-2017 stipulates that in the event of any item/equipment failing to conform to the specification given in the contract or not being in accordance with the description or the particulars or designs, or being of unsuitable quality of materials, the Inspector shall have the right to reject the same.

According to clause-23 of FOB contract agreements, the consignee will render a discrepancy report within 90 days after receipt of the material in Pakistan for any discrepancy found in consignment and shortage in quantities for which the seller is responsible to replace short quantity free of cost. If the seller is unable to provide the

replacement for the rejected store/short quantities within 90 days, the seller will make a complete refund of any payment received against the rejected store/short quantities to the purchaser. In case the stores on checking/test after receipt at consignee's warehouse are found not conforming strictly to the contract specification and other particular, the seller shall immediately replace the rejected store by acceptable store free of cost and without any obligation to the purchaser.

During Audit of the accounts of a Factory for the years 2016-17 to 2020-21, it was observed that store valuing Euro 6.649 million, against FOB contracts placed during last ten years, was rejected by the purchaser i.e. dealing Factory while the same could not be replaced till date despite elapsing one to six years after raising Discrepancy Report (DR). However, no action was taken and the contracts were still outstanding due to non-replacement of rejected store.

Audit pointed out the following issues:

- i. Non-replacement of the rejected store in time by the suppliers against their contractual obligations.
- ii. As per terms of payment (80-20%) of FOB contracts, 80% payment against the rejected store has been made to the suppliers.
- iii. Foreign Exchange has also been blocked for a long time.
- iv. In case of non-replacement of the rejected store, the amount is recoverable from the suppliers.

When pointed out by audit, the management replied that due to obsolescence and old vintage of the said aircraft system, spares were not readily available in the international market and the supplier had to go through an extensive cycle for the search of items and in case, same was not available in the open market or rejected, firm had to get the items manufactured in the light of DR which involve longer manufacturing. Due to this reason suppliers were continuously kept engaged in the contracts till the delivery of complete stores. However, LD charges and other punitive actions were also taken against deserving firms. Concerned firms were being approached to provide items against outstanding contracts.

The reply was not tenable as no tangible measures were in place to enforce the terms of the contract.

The DAC in its meeting dated 04.01.2024 was apprised that out of total 283 DRs, 98 DRs have been cleared. Store against 168 DRs is no more required by the user. Store

against 17 DRs is required by the user. The DAC directed that 98 DRs cleared be verified from audit and 17 DRs may be pursued. The DAC further directed that amendment in contract against 168 DRs no more required may be made and advance payment made against 168 DRs may be recovered. LD charges for late delivery against 17 DRs be recovered and verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-213/2023-24

3.3.3 Un-authorized release of full payment to contractor before delivery of store – Rs.1,217.250 million

According to Para 22 of Annex E to Rule 42 Financial Regulations (Vol-I) 1986, no advance payment (except in case of Government to Government contracts) and letter of credit will be authorized without concurrence of the Finance Division, even though the contract may have been approved without reference to the Finance Division.

During Audit of a Central Procurement Organization, it was observed that a contract dated 17.05.2019 valuing Rs.1,217.249 million was concluded with a Company on 17.05.2019 for procurement of Trucks. During scrutiny of record, it was noticed that full payment was released on 21.06.2019 on the basis of CRVs showing that complete store was delivered by the contractor and taken on charge despite the facts that actually store was not delivered as evident from firm letter dated 21.06.2019.

When pointed out by audit, the management replied that firm had delivered stores within DP vide firm's delivery challans and consignee CRVs.

The reply was not tenable as advance payment was made as evident from firm's letter which needed regularization.

The DAC in its meeting dated 12.09.2023, was apprised by the management that the firm had delivered the stores within delivery period. Later on, CMA released the payment after scrutiny of all relevant documents. DAC pended the para and directed the management to get the documents verified by the audit as per revised reply within 07 days. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Note:

The issue was reported earlier also in the Audit Report for Audit Year 2019-20 vide Para No.3.7.1 having financial impact of Rs.5,901.602 million. It was reported again in Audit Year 2020-21 vide Paras No.3.7.1 & 3.7.2 having financial impact of Rs.886.311 million. Furthermore, in Audit Year 2021-22 it was noted vide Para No.3.1.8.10 having financial impact of Rs.345.442 million. Again in Audit Year 2022-23 it was objected vide Paras No.3.3.6 & 3.3.13 having financial impact of Rs.89.730 million. Recurrence of the same irregularity is a matter of serious concern.

DP-N-379/2022-23

3.3.4 Irregular placement of FOB contracts without obtaining proforma invoice of OEM / principal – USD \$ 4.262 million

Para-13(b)(6) of Chapter-IV (Acceptance of Tenders) of DGDP Purchase Procedure & Instructions-2002 stipulates that offers are liable to be rejected if Principal's invoice, in duplicate clearly indicating whether prices quoted are inclusive or exclusive of the agent commission, is not enclosed.

In addition to above, Para-5(f & g) of Chapter-IX (Terms of Contracts) of DGDP Purchase Procedure & Instructions-2002 prescribes namely:

- a. Maker's Name and Brand as in Proforma Invoice or Offer is shown in the contract.
- b. Based on Principal's Offer / Proforma Invoice, country of origin is shown in the contracts.

Moreover, in terms of answer (xxx) of PPRA to FAQ-15 published in PPRA Procurement Code-2012, it is mandatory upon procuring agency to keep on record import invoices, letter of credit and shipping documents in respect of each contract and produce to Audit on requirement.

During audit of the accounts of a Factory, it was observed that majority of the Free on Board (FOB) contracts were placed on Foreign Supplier / OEM through Local Agent in Pakistan.

Scrutiny of Contract documents / files that the purchaser relied upon quote of local agent and no proforma / import invoice was held on record. Audit requested management to produce proforma / import invoices in respect of the contracts but no such proforma / import invoice was obtained.

Due to non-availability of proforma invoices, Audit could not certify the award of the contracts valuing US \$ 4,261,643.98 to this report on the lowest competitive prices.

When pointed out by audit, the management replied that as per Para-10 to 18 of Board SOP, the objection did not come under the domain of the Factory. Furthermore, Audit Team carried out regular audit of Directorate of Central Procurement (DCP) office. All the objectionable documents could be verified from the said office.

The reply was neither relevant to the Audit observation nor acceptable due to the fact that all the contracts were paid out of budget allocated to the Factory. Hence, all the contracts documents should have been maintained by the Factory and produced for audit of the expenditure and not by the Directorate of Central Procurement (DCP) which was the approving authority.

The DAC in its meeting dated 04.01.2024 directed the management to regularize the case from competent authority. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-259/2023-24

3.3.5 Non-delivery of store within stipulated period - Euro 3.603 million and non- imposition of LD charges - Euro 0.360 million

Under Clause-3.4 of the FOB contract dated 21.06.2019 that the stores worth Euro 3,602,500 was to be shipped to a Depot within 08 months from the date of LC opening as per terms of delivery schedule.

During audit of a Central Procurement Organization, it was observed that as per contract L.C issued on 27.06.2018 with final delivery of contracted stores valuing Euro 3.603 million by 21.03.2019. But the firm failed to deliver the stores within L.C period. However, neither the delivery period was extended nor L.D charges @ 10% valuing Euro 360,250 (10% Euro 3,602,500) were imposed. The performance bank guarantee @ 5% Euro 180,125 (3,602,500 x 5%) was also not revalidated.

When pointed out by audit, the management replied that contract was concluded. However, payment against contract was stopped by NHQ due to non-adherence of contractual deliverables by contracting firm resulting in delays in acceptance. NHQ had accorded approval for extension in delivery period with imposition of LD vide letter dated

30.08.2019. Case is under process and evidence of same would be provided when finalized. Furthermore, bank guarantee amounting to Euro €180,125.00 = (US \$ 210,026.00) was valid upto 20.05.2020 which was forwarded to the concerned CMA on 26.10.2018.

The reply was not tenable because the store was not received even after expiry of LC.

The DAC in its meeting dated 12.09.2023 was apprised by the management that the firm has delivered the stores and critical spares in lieu of LD amount. DAC directed the management to get the relevant record verified from the audit within 07 days. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-547/2022-23

3.3.6 Non-surrender of saving against budgetary provisions – Rs.358.936 million

Rule-95 of General Financial Rules stipulates that all anticipated savings should be surrendered to Government immediately these are foreseen but not later than 15th May of each year in any case, unless they are required to meet excesses under some other unit or units which are definitely foreseen at the time.

Rule-31(a) of Financial Regulations Vol-I (1986) stipulates that if savings are anticipated, the primary controlling authority will report the fact to the next higher authority, giving reasons for surrender and stating the amount surrendered. The surrender of excess allotments at the earliest possible date is very important since it will enable the excess to be diverted to meet shortages in the grants under other heads.

During Audit of the accounts of a Factory, for the years 2016-17 to 2020-21, it was observed from the statement of Budget Versus Expenditure provided by the management that an amount of Rs.358.936 million emerged as saving under accounts head “Carry Over” at the close of financial years. The saving was not surrendered to government as per above mentioned rules.

When pointed out by audit, the management replied that Carry Over is an obligatory payment and is directly controlled by concerned Controller Military Accounts. Payment was released against previous years Carry Over liabilities on shipment of stores by the suppliers. As regard saving for the year 2016-17 it was stated that an amount of Rs.355.961 million was kept for expected delivery of store while MAG booked an amount of

Rs.210.706 Million and intimated in December, 2017 while at that time it was not possible to surrender saving of Rs.145.255 Million. As regard 2017-18 the management replied that due to minus charge by MAG saving resulted which could not be surrendered in time.

The reply was not tenable as the payment of carry over depends upon delivery period of contracted store.

The DAC in its meeting dated 04.01.2024 directed the management to carry out fact finding inquiry, submit the same to PAO for approval. The DAC further directed to regularize the amount. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-209/2023-24

3.3.7 Irregular acceptance of store without technical inspection – Rs.103.622 million

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

Furthermore, according to clause 11-m of contract dated 25.06.2021, selected samples were to be tested on tyre testing machines by the inspecting authority IV&EE. In case the store do not qualify the test the whole lot of store was to be rejected.

During audit of a Central Procurement Organization, it was observed that contract dated 25.06.2021 was concluded for procurement of a store at a cost of Rs.103.622 million. Scrutiny of record, however, revealed that IV&EE did not have requisite machines (As defined in clause 11 above) to test the requisite samples of tyres as evident from their letter dated 13.12.2021. Thus an undue favour was granted to the supplier and store was accepted without completion of inspection procedure.

When pointed out by audit, the management replied that due to non-availability of requisite test IV&EE approached the firm for provision of endurance test and high speed uniformity test reports. Firm provided the same and inspection agency accepted the tyres on the basis of above mentioned reports.

The reply was not tenable as store was delivered without inspection of samples by the technical authority. Deviation from laid down procedure, therefore, needs regularization.

The DAC in its meeting dated 04.01.2024 was apprised that testing facility of required store was not available. The DAC directed to regularize the case from competent authority. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-313/2023-24

3.3.8 Non-adoption of transfer pricing and costing procedure – Rs.50.178 million

Sub-Section-1 of Section-9 of a Defence Production Facility's Board Ordinance XXVIII of 2000 stipulates that;

“The Board shall maintain its accounts including those of the factories in such manner and form as may be prescribed by the Federal Government in consultation with the Auditor-General of Pakistan”.

Sub-Section-5 of Section-9 of the Board Ordinance XXVIII of 2000 further stipulates that;

“The Board shall establish a costing mechanism in all the factories so as to exercise effective cost control and organized production on modern commercial lines”.

During audit of a Factory, it was observed that neither transfer pricing nor costing procedure for development activities has been approved by office of the Auditor-General of Pakistan (OAGP). Therefore, expenditure of Rs. 50,177.954 million for the period 2016-17 to 2020-21 could not be certified as per laid down accounting procedure.

When pointed out by audit, the management replied that the organization was primarily being manned by PAF Officers and Airmen besides some civilians. The Officers and Airmen were governed by PAF Act and PAF system of accounting for their pay and allowances and TA/DA claims etc. The accounting staff in the factories was taken from PAF Accounts Branch, who were qualified officials to deal in accordance with provisions of Air Force Instructions (AFI) 42/57. The system of post-audit was also followed by all factories up to now in accordance with sanction issued vide Defence Production Division letters. It was also added that at the time of authorization of imprest to these factories the concurrence of the competent financial authorities was obtained. Cost accounting

procedure was elaborated in SOP titled “Man Hours / Cost accounting” and was being followed in true letter and spirit.

The reply was not tenable. Audit recommended approval of a proper accounting procedure in respect of the factory on the lines duly approved by Federal Government in consultation with AGP.

The DAC in its meeting dated 04.01.2024 directed the management to get the accounting procedures approved from relevant competent authority and get it verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-303/2023-24

3.3.9 Un-authorized transfer of foreign currency through money exchanges instead of banks USD \$ 0.121 million

Section 3(1) of Pakistan Foreign Exchange Regulations Act 1947 provides that only the State Bank of Pakistan may authorize to deal in foreign exchange. Section 4 ibid restricts any person to deal in Foreign Exchange except with the permission of State Bank of Pakistan.

During audit of an Export Promotion Formation it was observed from record that an amount of USD \$ 121,002 was required to be paid to a contractor on account of space charges. It was mentioned that due to SBP restrictions on payment in USD payment may be made through private money changers instead of Banks. Consequently an amount of USD-121,002.5 (Equivalent to Arab Emirates Dirham (AED)-444,381.5) was transferred through money exchanges. Furthermore, evidence of receipt from the payee was also not available on record. Un-authorized transfer of amount and non-availability of record of receipt by the payee stood irregular which needed regularization from the government.

When pointed out by audit, the management replied that space charges were required to be paid before exhibition in order to get a better location. This facilitates Defence Production Entities participating in the exhibition, since payment was required to be made urgently and no banking channel was ready to process the payment. Thus money exchanges were utilized as a last resort to make the payment.

The reply was not tenable as there is no rule which allows to transfer foreign exchange through private money exchanges.

The DAC in its meeting dated 03.01.2024 directed the management to take regularization action and get it verified from audit. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-353/2023-24

3.4 Recoverable / Overpayments – Rs.57.027, USD 0.136 and Euro 12.504 million

3.4.1 Non-delivery of contracted stores Euro 12.259 million and non-imposition of LD Euro 0.245 million

Under Clause-3.4 of the contract dated 19.06.2018 regarding supply of stores valuing Euro 12.259 million were to be shipped to the consignee within 12 months from date of Letter of Credit opening.

During the audit of a Central Procurement Organization for the year 2018-19, it was observed that as per Letter of Credit (LC) date for shipment of stores was 6th July, 2019. But the firm failed to deliver the contracted stores worth Euro 12.259 million even within expiry of L.C period. Neither Extension of Time (EOT) was obtained nor L.D @ 2 % was imposed i.e. Euro 245,182 (12,259,132 x 2%). Furthermore, revalidated Performance Bank Guarantee (PBG) @ 5% i.e. Euro 612,957 as required under Clause-13 of contract was also not obtained after expiry of Letter of Credit.

When pointed out by audit, the management replied that payment against contract was stopped / held by Naval Headquarter (NHQ) due to non-adherence of contractual deliverables. Now NHQ has accorded approval for extension in delivery period with imposition of LD.

The reply was not tenable as the store was not received even after expiry of LC. Therefore Shipment / delivery of stores besides imposition of LD and revalidated of 5% PBG be finalized and intimated to Audit.

The DAC in its meeting dated 08.11.2024 was apprised that the contracted store have been delivered successfully. Joint inspection had also been carried and accepted by PN. The management further apprised that amount of LD Euro 245,182 will be deducted from remaining/balance amount of Euro 316,847 which has been held up at LC bank. The DAC directed the management to get the relevant record reconciled and verified from audit within 15 days. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-36/2023-24

3.4.2 Non-recovery of liquidated damages US \$ 0.136 million

According to Para-I to Chapter-X of Defence Purchase Procedure and Instructions (DPP & I) Revised 2017, “the time for and the date of delivery of the stores as stipulated in the contract shall be taken as the essence of the contract. All deliveries must be completed within the dates specified in the contract. Should the Supplier fail to deliver the stores or consignment thereof within stipulated period or any extension thereof, the purchase shall be entitled to cancel the contract and purchase from elsewhere if stores not delivered, at the risk and expense of the supplier and without notice to him, or impose/recover LD”.

During audit of a Factory, it was noticed from a contract dated 02.05.2018 that the store was supplied after expiry of the stipulated delivery period but LD charges amounting to US \$ 136,802 were not recovered from the firm concerned which needed recovery.

When pointed out by audit, the management replied that Liquidated damages of US\$ 136,802.00 for late delivery of stores against contract have already imposed on the firm.

The reply was not tenable as imposition of LD charges was not sufficient. Recovery process needed to be expedited.

The DAC in its meeting dated 13.09.2023 was apprised by the management that the LD amount has been received. DAC directed the management to get the relevant record verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-352/2022-23

3.4.3 Non-deposit of GST into government treasury – Rs.32.713 million

Section 3 of Sales Tax Act, 1990 stipulates that subject to the provisions of this Act, there shall be charged, levied and paid a tax known as Sales Tax @ 17% of the value of taxable supplies made by a registered person in the course of furtherance of any taxable activity carried on by the person.

During audit of Revolving Fund of a Defence Production Organization, it was observed that a Contract dated 06.06.2018 was concluded with a firm for procurement of certain engines. Scrutiny of record revealed that an amount of Rs.32.713 million of GST was to be paid to concerned agencies by the Budget Directorate as per Government letter dated 19.04.2018. However, no evidence for deposit of GST was available on record.

When pointed out by audit, the management replied that the contract is a CIF Import Contract. Sales Tax is not applicable at the import stage, but on the finished product, which is being regularly deposited.

The reply was not acceptable as GST is not exempt on import of store. Payment of GST to the Government may be expedited under intimation to Audit.

The DAC in its meeting dated 03.01.2024 was apprised that as the imported material form part of end product and Sales Tax on supply of these Defence products is being regularly deposited into government treasury. The DAC directed the management to get the facts verified from audit. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-283/2023-24

3.4.4 Non-forfeiture of earnest money of the lowest bidder – Rs.21.079 million

Under Rule-25 of PPRA Rules 2004 as amended from time to time, the procuring agency may require the bidders to furnish a bid security not exceeding five percent of the bid price.

During audit of a Central Procurement Organization, it was observed that during commercial offer opening on 25.05.2019 a firm was found the lowest with total bid cost as Rs.421.580 million for supply of store @ Rs.98,000 per M/Ton which was approved by the financial bid evaluation committee. After opening of commercial bid the firm had shown its inability and requested for withdrawal. The competent authority approved the same dated 29.08.2019 subject to confiscation of earnest money. However, the confiscation of earnest money equal to 5% of the bid value Rs.21.079 million (5% of Rs.421,580,000) as ordered by the CFA was not made.

When pointed out by audit, the management replied that earnest money submitted by firm was forwarded to the concerned CMA for confiscation on 20.06.2019.

The reply was not tenable. Confirmation regarding deposit of amount into Government treasury from the concerned CMA be obtained and produced to Audit for verification.

The DAC in its meeting dated 12.09.2023 was apprised by the management that the contract was not concluded. However earnest money was confiscated and deposited into Government Treasury. The DAC directed the management to get the relevant record i.e., contract cancellation and confiscation of earnest money, verified from the audit within 07 days. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-521/2022-23

3.4.5 Non-recovery of risk and expense amount from contractor – Rs.3.235 million

According to para I of Chapter XI of Defence Purchase Procedure and Instructions (DPP & I) 2002, specified delivery period is the essence of the contract. All the deliveries must be completed by the specified date. Upon failure of supplier to deliver the store within the stipulated time frame the purchaser shall be entitled to cancel the contract and purchase elsewhere stores not delivered at the risk and expense of the supplier.

During audit of a Factory, it was observed that 7 contracts were concluded for supply of various items at total cost of Rs. 12.594 million. However, contractors failed to supply the store and contracts were cancelled at the risk and expense of the contractors. Subsequently, new contracts were concluded and an amount of Rs. 3.235 million was established against defaulting contractors, but no recovery was made.

When pointed out by audit, the management replied that the concerned CMA has been notified to recover R&E amount from contractors. As per DGDP Procedure, responsibility for recovery of risk and expense amount rest with the CMA.

The reply was not tenable as recovery of risk and expense amount was required to be expedited.

The DAC in its meeting dated 08.11.2023 was apprised that R&E amount has been recovered. As regards, deduction of R&E amount from contractor, BGs have been confiscated and firm is now ready for payment of remaining R&E amount. The DAC directed the management to get the recovered amount verified, expedite the recovery

process of balance amount and in case of any in-appropriate action of the firm, legal action be initiated as per rule. No further progress was reported till finalization of this report.

Audit recommends the implementation of DAC directive.

DP-N-41/2023-24

3.5 Loss to State – Rs.254.099 million

3.5.1 Loss due to retention of Advance money by contractor – Rs.149.881 million

Under Rule-6(a) Financial Regulation Volume-I (1986), an officer should exercise same vigilance in respect of Government money as he would exercise with his own money.

During audit of a Factory, it was observed that 20% advance payment amounting to Rs.149.881 million was paid to suppliers against advance bank guarantees. However, none of the contracts were materialized even after a lapse of 3 years.

When pointed out by audit, the management replied that contracts are in progress i.e. in test and trial phase of prototypes.

The reply was not tenable, as considerable time had elapsed without materialization of the contracts.

The DAC in its meeting dated 13.09.2023, directed that facts stated in the executive reply to DAC may be got verified from audit within in 7 days. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-541/2022-23

3.5.2 Loss to state due to non-deposit of annual rent – Rs.29.400 million

According to Para.02 (a) (1) of Accounting Procedure on use of A-I land issued by Government of Pakistan Ministry of Defence vide letter No.F.2/5/D-12/ML&C/99 dated 20.11.2009, a board of officers will be detailed by the respective Corps Headquarters or PN/ PAF Admin Authority for Garrison/ Cantonments/ Bases/ Units/ Establishments etc within their area of responsibility to determine the actual area of A-1 Land being or required to be used, excluding roads, free parking space(s) and area left for utility services etc. Calculation of rent shall be worked out @ 6% per annum of existing Revenue Rate

(Old DC Rate) notwithstanding the tenancy /rent agreements of the Military authorities with the user(s). Sub para (2) ibid further stipulates that,

(2) “The rent so calculated shall be deposited into Government Treasury by the concerned Army Formation, PN / PAF Admin Authorities and TRs Forwarded to the respective Controller of Accounts for disposal as per Para.09 below.”

During audit of commercial activities on A-1 land at a Factory, it was observed that the Commissary was constructed with covered area around 5 Kanal (100 Marla) approximate. The Commissary is situated outside the Boundary wall of the Factory having easy access for general public. After introduction of A-1 land policy in 2008, these projects were required to be dealt in conformity with the policy under which 6% annual rent was mandatory to be deposited into treasury, but keeping these projects outside the ambit of policy was gross violation of rules. It was also revealed from internal audit report for the period January, 2019 to November 2021, issued by Chief Financial Officer of the Organization dated 31.12.2021, that the Commissary gained net profit of Rs.44.729 Million in last 3 financial years (January, 2019 to November, 2021). Since no record regarding GLR extract, Survey No & notified DC Rates in respect of Commissary was shared, Audit calculated 6% annual rent on applicable DC rates. An amount of Rs. 29.400 million was required to be deposited into Government treasury forthwith besides following the accounting procedure mentioned in Para 9 of A-1 Land policy-2009, which was not done.

When pointed out by audit, the management replied that the activity was undertaken for welfare of troops under Category “B” activities. However, a Board would be assembled at Factory to ascertain the assessed rent.

Audit stressed upon assessment of rent and demarcation of covered area on the basis of DC rates and deposit of due amount into Treasury.

The DAC in its meeting dated 04.01.2024 directed the management to deposit the amount of rent of A-I land as per government policy / rule and verify from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-253/2023-24

3.5.3 Loss to state due to non-execution of contract on stamp paper – Rs.22.022 million

In terms of Section-3 read with S.No 22-A (b) of Schedule to Stamp Duty Act, 1899 as further clarified by Law and Justice Division vide their OM No.152/2016-Law-1 dated 20.01.2017 and circulated vide Min of Defence UO.No.5-1/2019 (PAC-III) dated 31.07.2019, Stamp duty @ 25 paisa per Rs.100 or part thereof the amount of the contract is recoverable as Government revenue in respect of contracts on account of procurement of store and material. Furthermore, Government of Pakistan, Ministry of Defence vide U.O dated 31.07.2019 clarified the case, vide Para 1(2) of cited letter; the contractor remains liable to pay the duty.

During audit of a Central Procurement Organization for the year 2019-20, it was observed that FOR contracts valuing Rs.8,808.997 million were awarded during the financial year 2019-20 but neither the contracts were found executed on Stamp paper of the corresponding value nor the duty was deposited by the contractors to the relevant head of revenue receipt. Resultantly, Government was deprived from due revenue of Rs.22.022 million which required recovery.

When pointed out by audit, the management replied that the Directorate concludes contract in light of instructions given in DPP&I-35. There is no procedure of conclusion of contracts on judicial stamp paper in DPP&I-35.

The reply was not tenable as the observation was based on above government orders.

The DAC in its meeting dated 08.11.2023 directed the management to frame a mechanism on the issue and send it to the relevant Revenue Authority and get the record verified from the audit within 15 days. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-161/2023-24

3.5.4 Loss to state due to non-deposit of rent of A-I land used for agriculture purpose – Rs.20.875 million

According to use of A-I Land Policy issued by Government of Pakistan Ministry of Defence vide letter No.F.2/5/D-12/ML&C/99 dated 02.04.2008, Category–C activities include agro based activities, i.e. nurseries, land used for agricultural purposes and poultry

/fish/cattle farms etc, temporary Melas and Circus etc. Para.4 (b) (2) (3) stipulates that, in case of agricultural land, rent be fixed separately for 'irrigated' and 'barani' lands. The complete rent so fixed shall be deposited into Government treasury.

During audit of commercial activities on A-1 land at a Factory, it was noticed that a piece of land measuring 835 Kanals was leased out to 5 private tenants for agricultural purpose including a mini cattle farm. However, no board of officers was assembled for assessment of annual rent on the land being used for agricultural purpose. Audit requested the management for provision of record of rent received from tenants, original deeds concluded with the tenants alongwith board proceedings, GLR extracts, notified DC rates, Khasra / Mouza / Survey No, etc vide requisition dated 21.07.2022 but nothing was furnished to audit till closing of audit period. The Government sustained loss amounting to Rs.20.875 million approx. on account of non-deposit of rent of A-I land being used for agricultural purpose in Government treasury which needed recovery.

When pointed out by audit, the management replied that no proper execution of contracts took place since inception. There were various limitations to carry out agriculture activities in the given area. However, a Board of Officers would be assembled at the Factory to ascertain the assessed rent.

The reply was not tenable. Audit recommended that board proceeding may be initiated for assessment of rent in accordance policy.

The DAC in its meeting dated 04.01.2024 directed the management to deposit the amount of rent of A-I land as per government policy and get it verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-233/2023-24

3.5.5 Irregular release of advance payment and transfer to private fund – Rs.18.241 million

According to Para 22 of Annex E to Rule 42 Financial Regulations (Vol-1) 1986, No advance payment (except in case of Government to Government contracts) and letter of credit will be authorized without concurrence of the Finance Division, even though the contract may have been approved without reference to the Finance Division. Moreover, according to Rule 6 (d) of above regulation, Government, revenue shall not be utilized for the benefit of a person or section of community.

During audit of a Depot, it was observed that CRVs were released in advance against a Contract for procurement of store amounting to Rs. 18.241 million to the contractor and payment was to be deposited back by the contractor in the Central Procurement Organization account as per MOU signed between the organization and the contractor. This was un-authorized and not covered in any rule. The payment was drawn from national exchequer and transfer into Private fund as store was not delivered till August, 2019.

When pointed out by audit, the management replied that CRV in advance was issued as per instructions of the concerned central procuring agency.

The reply was not tenable as payment made on the basis of advance CRVs and transfer of amount on basis of MOU may be inquired at an appropriate level.

The DAC in its meeting dated 26.09.2023, directed to shift the draft para to concerned central procurement agency. Furthermore, audit authorities also advised to sort out matter of advance CRV between MoD and MoDP. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-368/2022-23

3.5.6 Loss to state due to re-tendering – Rs.13.680 million

According to Rule-6 (a) of Financial Regulations (Vol-01), 1986, every officer should exercise the same vigilance in respect of expenditure incurred from Government revenue as a person of ordinary prudence would exercise in respect of the expenditure of his own money. Furthermore, under Rule-47 (e), most careful supervision over expenditure shall be exercised and on no account shall money be spent simply because it is available.

During audit of a Central Procurement Organization, it was observed that in response to tender for supply of Dall Moong, a firm quoted the lowest rate of Rs. 137 per KG. However, instead of conclusion of contract with the lowest firm, re-tendering was opted. As a result of re-tendering 2 other firms quoted rate of Rs. 143 per kg and contracts were awarded to them. The award of contracts was not justified as the same firm quoted the rate of Rs. 137 per Kg in the first tendering but contract was not awarded and on re-tendering the same firm was awarded contract at the higher rate of Rs. 143 per Kg. Thus un-justified re-tendering and non-conclusion of contract after 1st tendering caused a loss of Rs.13.680 million (Rs. 143-137= Rs. 6 x 2,280,000 KGs).

When pointed out by audit, the management replied that due to receipt of higher rate than Last Purchase Rate (LPR) i.e. 29.24% and achieved rate in North Zone-I i.e. 14.17%, competent authority decided that re-tendering be carried out only for Central Zone on the expectation to achieve lower rates than LPR i.e. equal/ near to North Zone-I rate i.e. Rs. 120.00 per kg. In this regard, re-tendering was preferred and 10 firms quoted their rates which were ranging between Rs.143.00 to Rs.155.00 per kg. Achieved rates were higher than LPR as during retender process a sudden spike occurred in market due to non-availability of Dall Moong in market and increase in rates in international market. Due to expected continuous increase of the rate in international market, competent authority decided to conclude contract @ Rs.143.00 per kg.

The reply was not tenable because keeping in view the rising trends in market rate of Rs.137 was required to be accepted but re-tendering was opted which caused loss of Rs.13.680 million.

The DAC in its meeting dated 12.09.2023 directed the management to carry out a fact finding inquiry. The report may be submitted for the perusal of PAO within one month and shared with audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-370/2022-23

CHAPTER-4

Impact Audit (DGADS North)

Impact Audit of Water Distribution Network for Rawalpindi and Chaklala Cantonment Boards based on Khanpur Dam Water Source Phase-II

4.1 Introduction

Impact Audit gauges outcomes attributable to an initiative, program or project. It focuses on ultimate outcomes or wider impact as envisaged through the project. This audit has been conducted as a new initiative as per the direction of the Auditor-General of Pakistan for ushering in a new era of audit which focuses on analyzing the real time benefit of a government initiative for the people.

4.2 Background

Citizens of Islamabad and Rawalpindi up to the 1980s were being provided with potable water from Rawal Dam, Simly Dam, tube wells & self-bored arrangement in houses. Due to increase in population, decrease in rainfall and depleting underground water level in the area, acute water shortage was faced during late 1980s and early 1990s. In order to solve the issue, Government decided to provide potable water to inhabitants of twin cities from Khan Pur Dam (22,300 MG storage capacity). Federal Government under the CDA, through Japan International Cooperation Agency (JICA) launched a mega project costing Rs. 6,828.000 million, which comprises water from Khan Pur Dam to Sangjani Raw Water Reservoir (61 MGD capacity with workable capacity of 51 MGD), construction of treatment plant at Sangjani and laying bulk supply pipelines upto Tomar Reservoir near Kashmir Highway / Golra More. The project was completed by late 1999. CDA, RDA & RCB had to lay down their own distribution network as per following portion decided by ECNEC.

CDA	17.0 MGD (33%)
RDA	14.4 MGD (28.2%)
RCB	19.6 MGD (38.2%)

In order to cope with the shortage of water in RCB & Chaklala area (including Defence Services Establishments), Federal Government decided to provide relevant portion of 19.6 MGD water to the inhabitants by sourcing the Project out of PSDP valuing

Rs. 1,570.500 million in three phases. Phase-I (2001) and Phase-II (2002-2007) have been executed by HQ Engineers of a Corps as deposit work while Phase-III is being executed by RCB which is still under progress.

4.3 Role of Project

The prime role of the project is to provide adequate access to clean drinking water to the residents of Rawalpindi and Chaklala Cantonments. After completion of the project, almost 400,000 people of Cantonments will get access to clean drinking water in line with the social sector development policies of the Federal Government, aimed at improving the access to clean drinking water.

At present, the residents of these areas are fed by the tube wells, which dry up during summers. Water supply from Khanpur Dam source will ensure continued water fed by gravity and thus saving huge amount spent on electric energy to run the tube wells.

4.4 Overview

Phase-I:

CDWP sanctioned Rs. 180.000 million for Phase-I, entailing the installation of a 4.75 km-long, 1200 mm pipeline to convey Khanpur water to Westridge Rawalpindi Cantonment reservoirs, including connections to reservoirs on Valley Road, Seham, and Rommi Road. Completed in July, 2001.

Table-1

1.	Approved Cost	Rs. 180.000 million
2.	Start date	February, 2001
3.	Completion date	July, 2001, completed within the time limit
4.	Components	<ul style="list-style-type: none"> ➤ Trunk Line 48" 4.75 KM ➤ Underground Water Tanks 20,000 cap with 03 Nos ➤ pumping facility
5.	Saving	Rs. 10.000 million

6.	Areas Served	North West of Cantonment: Westridge-I, II & III. Lanes 1 to 7 along Peshawar Road, Allahabad, Aliabad, Naseerabad and Qasimabad
7.	Status	Operational

Source: (PC-I of the Project)

Phase-II:

Approved by Executive Committee of the National Economic Council (ECNEC) at a cost of Rs.510.000 million, Phase-II focused on enhancing water infrastructure in Rawalpindi Cantonment. It involved the construction of additional storage at Misrial, creation of a water pipeline "loop" throughout the cantonment, rehabilitation of existing systems, and the connection of water from Rawal Lake to the loop.

Table-2

1.	Approved Cost	Rs. 510.000 million
2.	Start date	March, 2002
3.	Completion date (PC-I)	31.02.2004
4.	Completion date (Actual)	31.10.2007
5.	Savings	Rs. 13.585 million
6.	Components	<ul style="list-style-type: none"> • 8" to 48" Lines - 35 KM • Underground Water Tanks 1.5 MG cap-01 No • Overhead Reservoir 0.2 MG cap-02 Nos
7.	Areas Served	<p>South East & South West of Cantonment:</p> <p>RCB Area: Dhok Syedan, Kamalabad Road, Asteroid Misrial Road, Allama Iqbal Colony, Tench Bhatta,</p> <p>CCB Area: Mughalabad and Chamanabad Tahli Mohri, Dheri Hassanabad, Lalazar,</p>

		Tulsa Road, Sher Zaman Colony and Aslam Shaheed Road
8.	Status	Operational

Source: (PC-I of the Project)

Phase-III:

Phase-III addressed water scarcity in areas like Gowal Mandi, Marir Hassan, Dhoke Charagh Din, Jhanda Chichi, Chaklala Scheme-II, Ghazi Abad Colony, Chak Madad, and Nothia. These regions were heavily reliant on tube wells, prone to yield depletion during drought conditions, received provision for Khanpur water, ensuring a more reliable water supply.

Table-3

1.	Estimated Cost	Original
		Rs. 699.500 million
2.	Start date	October, 2010
3.	Completion date	October, 2012 (As per initial approved PC-I)
4.	Completion date	24.08.2019 (As per revised approved PC-I)
5.	Completion date	Physical project has been completed
6.	Components (as per revised PC-I)	<ul style="list-style-type: none"> • Overhead Water Tanks - 07 Nos • Combo Tank - 01 No • Underground Water Tanks - 03 Nos • Mild Steel pipe lines - 14.742 KM • Polythlene pipe lines - 7.80 KM • Water Meter - 4,802 Nos • Flow Meter - 01 No • Const of RCC Nullah - 01 No (300 Feet)
7.	Areas Served	Marrir Hassan, Jhanda Chichi, Dhoke Chiraghadin, Chaklala Scheme-III, Gawalmandi , Saddar area, Dhoke Kashmirian

8.	Progress	Physical Progress = 100%,	Financial Progress = 98%
----	-----------------	---------------------------	--------------------------

Source: (PC-I of the Project)

4.5 Project benefits and analysis:

The income from the project as compared to the cost of the project is negligible as RCB provides water to its residents on subsidized rates. As a result, a total of 400,000 people of Rawalpindi / Chaklala Cantonments will get clean drinking water, which will fulfill one of the most important basic needs and will contribute towards a healthy living.

As per approved PC-1, the executing agency has indicated projected population vs daily demand. Following table illustrates year-wise growth in population vs demand.

4.6 Projected Population and total average daily demand

Table-4

Population				Water Demand at 30 GPCD
Year	RCB (Growth rate 3.5%)	Army Personnel	Total	In Million Gallons Per Day
2016	1,166,152	200,000	1,366,152	40.98
2017	1,206,967	200,000	1,406,967	42.20
2018	1,249,211	200,000	1,449,211	43.47
2019	1,292,933	200,000	1,492,933	44.78
2020	1,338,186	200,000	1,538,186	46.14
2021	1,385,022	200,000	1,585,022	47.55
2022	1,433,498	200,000	1,633,498	49.00
2023	1,483,671	200,000	1,683,671	50.51
2024	1,535,599	200,000	1,735,599	52.06
2025	1,589,345	200,000	1,789,345	53.68

Source: (PC-I of the Project)

4.7 Source and water availability Million Gallon Daily (MGD) during next 5, 10, 20 years

Table-5

Year	Tube Well Supply	Rawal Lake	KD Water	Total
2016	2.00	0.03	9.00	11.03
2016-20	1.90 (@5% depletion in water table per five years)	0.03	19.482	21.412
2021-30	1.80 (@10% depletion in water table per five years)	0.03	19.482	21.312
2031-50	1.60 (@10% depletion in water table per five years)	0.03	19.482	21.312

Source: (Reports of Cantonment Boards)

4.8 SWOT analysis of the project

The Strength, Weakness, Opportunity and Threat analysis (SWOT) of the project has been carried out and it has been concluded as under:

Table-6

	STRENGTH:	WEAKNESS:
Internal	<ul style="list-style-type: none"> • Government's VISION 2025 brings focus on social development • The project is financed at a 90:10 ratio between the Federal Government and the Rawalpindi & Chaklala Cantonment Boards • Major improvement in infrastructure of the area • Provision of potable water to the population of the area 	<ul style="list-style-type: none"> • Ill-planned phases • Non-provision of secondary Treatment Plant • Massive population growth and unplanned urbanization • Inadequate and late release of funds • Operation & Maintenance issues

External	OPPORTUNITY	THREAT
	<ul style="list-style-type: none"> • Catalyst for the greater socio-economic uplift of the area • Accelerate the economic activities • Employment generation • Better standard of living & quality of life • Better quality of services • Economic growth in every sector • Promote development of allied facilities and services in the private sector 	<ul style="list-style-type: none"> • Late or low precipitation • Non-replacement of rusted and ruptured pipes • Non-provision of adequate recurring budget for operations & maintenance • Long term sustainability of the facility • Non-billing/non-deposit of utility bills by the consumers • Absence of proper allied infrastructural framework • Water theft

4.9 Scope and Methodology

a. Scope

The scope of the Impact Audit was to gauge the causal relationship between project activities and wider impact of the project on the residents of both Cantonments Boards. Model showing logical follow up of input, activities, output, outcomes and impact is mentioned below:

Table-7

Inputs	Activities	Output	Outcomes	Impact
<ul style="list-style-type: none"> • Project Funds • PC-I guidelines • Injection of resources Rs.880.500 million • Acquisition of land measuring 7.22 Kanal • Hiring of skilled and 	<ul style="list-style-type: none"> • Surveys • Data collection • Awareness & publicity • Coordination with other agencies • Procurement / tendering • Execution of works 	<ul style="list-style-type: none"> • A total of 7 overhead (OH) water tanks • A total of 3 underground (UG) water tanks • Combined UG / OH water tank of 0.5 MG -01 No • Mild Steel Pipeline network 14,742 meters 	<ul style="list-style-type: none"> • Provision of water reservoirs and distribution network for various water starved areas of RCB/CCB 	<ul style="list-style-type: none"> • Living standards improvement • Increased income and revenues • Filtration plants • Improved health and wellbeing

unskilled labor • Procurement of material		• Polyethylene pipelines network 7,800 meter • Water meters 4,803 • Flow meter – 01		
--	--	---	--	--

The scope of the audit focuses on the last column i.e. Impact. The analysis focuses on authorities, inhabitants (residents and commercial) and tourists. The audit focuses on condition with and condition without, for both Treatment Group and Control Group.

b. Methodology

Audit methodology includes data collection, determining audit objectives and criteria, analyzing available records, interviewing target group, stakeholders and residents.

Impact Indicators

Table-8

Economic Indicators		Social Indicators	
Direct Indicators	Proxy Indicators	Direct Indicators	Proxy Indicators
<ul style="list-style-type: none"> ➤ Supply of water ➤ Construction of overhead and underground water tanks 	<ul style="list-style-type: none"> ➤ Provision of basic facilities ➤ Water quantity supplied ➤ Increase In water connections ➤ Water tanks underground and overhead ➤ Potable water supply ➤ Gravity supply ➤ Regular supply of water ➤ Increase in timing of supply of water ➤ Sustainability 	<ul style="list-style-type: none"> ➤ Social impact due to water Supply ➤ Social Equity ➤ Environmental impact ➤ Water quality ➤ Improved public health ➤ Infrastructure reliability ➤ Community perception ➤ Resilience to climate change 	<ul style="list-style-type: none"> ➤ Improvement in health of public ➤ Property value increase ➤ Monthly expenditure decrease ➤ Business growth ➤ Increase in storage of water

a) Unit of Analysis:

Beneficiaries (residents, traders, doctors) were taken as unit of analysis as scheme was planned and implemented with respect to beneficiaries. In this regard, it was decided that beneficiaries will be interviewed at random basis and area will be physically inspected to observe the project improvements.

b) Estimation of Sample Size:

Four types of survey were conducted to assess the impact of water distribution project on residents of RCB & CCB. A total of 200 surveys were conducted.

c) Random Selection of Beneficiaries:

Though beneficiaries were taken as the unit of analysis for selection of sample, all the beneficiaries could not be covered. Therefore, in order to get data from beneficiaries, certain locations were visited for collection of data.

4.10 Data Analysis and Findings

4.10.1 General Impact:

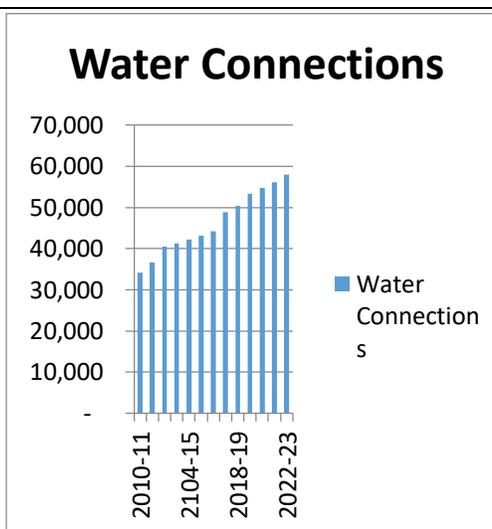
General impact includes visible changes / physical improvements, enhanced access to clean water, promoting public health and fostering economic development in communities.

(b) Water Connections:

After completion of water distribution network RCB & CCB based on Khanpur Dam source (Phase-I, II, III), the water connections to the residents of both Cantonments have increased.

Table-9

Sr No	Financial Year	Water Connections
1	2010-11	34,146
2	2011-12	36,604
3	2012-13	40,571
4	2013-14	41,328
5	2104-15	42,166
6	2015-16	43,135
7	2016-17	44,171
8	2017-18	48,792
9	2018-19	50,323
10	2019-20	53,271



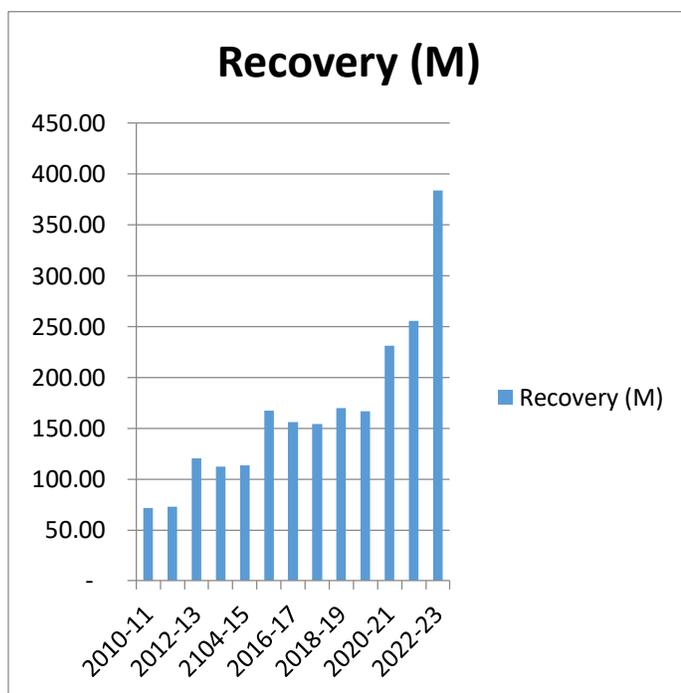
11	2020-21	54,687
12	2021-22	56,094
13	2022-23	57,995
Source: (Reports of Cantonment Boards)		

Revenue:

Revenue from different heads relating to the project was gathered from the authority. As per data, the revenue of the authority increased every year. The latest position is as under:

Table-10

Sr No	Financial Year	Recovery Rs. million
1.	2010-11	71.76
2.	2011-12	72.82
3.	2012-13	120.50
4.	2013-14	112.12
5.	2104-15	113.45
6.	2015-16	167.38
7.	2016-17	156.37
8.	2017-18	154.28
9.	2018-19	169.79
10.	2019-20	166.60
11.	2020-21	231.49
12.	2021-22	255.76
13.	2022-23	383.98



Source: (Reports of Cantonment Boards)

d) Capacity Increase:

Overall Capacity in Million Gallon Daily (MGD)

Table-11

Cantonment	Phase-I	Phase-II	Phase-III	%
Rawalpindi	N/A	16	50	68%
Chaklala	N/A	4.12	25	84%

Source: (Reports of Cantonment Boards)

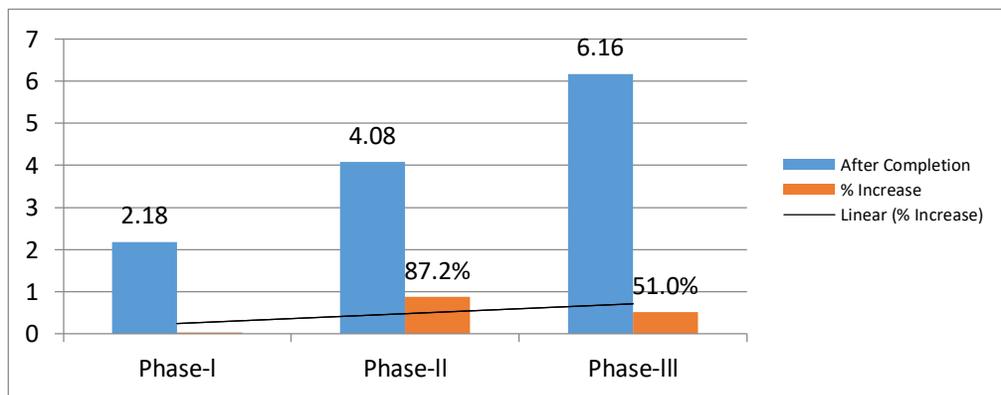
Storage Capacity

Table-12

Description	Before	After Completion	Addition	% Increase
Phase-I	2.1	2.18	0.08	3.8%
Phase-II	2.18	4.08	1.9	87.2%
Phase-III	4.08	6.16	2.08	51.0%

Source: (Reports of Cantonment Boards)

Storage capacity (MGD):



Source: (Reports of CBs)

4.10.2 Project Impact:

Effectiveness

It was originally planned that daily water supply volume would be distributed at a ratio of one-third to Islamabad, two-third to Rawalpindi respectively. The current daily water supply volume falls below targets set at the planning phase, target was provision of 19.6 MGD but currently it is receiving just 11 MGD. This poor performance is linked to reduced water volume at the Khanpur dam due to drought, which has made the supply of purified water production difficult at the forecasted rate for the Khanpur filtration plant. Furthermore, extension of water pipes in the areas of Rawalpindi serviced by RCB and CCB was delayed. In addition, due to delayed rainfall, discussions are being held between RCB and WASA to determine how water will be distributed.

Daily water supplying hours vary by region. In Islamabad, water is available for approximately 1-2 hours. In RCB and WASA-controlled areas, water is available for a minimum of 32-45 minutes and four hours respectively. Current daily water volume stands at just 40% of values determined at the project planning stage, the reason for the problem being the drought-induced water shortage at Khanpur Dam, (a situation which is also prevalent at Simly Dam). Given that secure water source is so crucial to the success of the project, it is clear that certain factors were not given sufficient consideration at the planning phase, i.e. estimates of the amount of water that could be drawn from Khanpur Dam and geographical conditions for the construction of reservoir that would ensure reliable water sources, among others.

As for the quality of water supplied, according to the water quality department of the CDA, water is distributed to end users only after testing at each purification and distribution facility based on government standards. Furthermore, in response to poor water quality due to rain and waste water entering the pipes through the distal ends due to damage caused by deterioration, the CDA conducts daily random sampling of water quality at the distal ends and proceeds with repairs where necessary. The frequency of testing and repairs is, however, far from sufficient. According to the CDA, most people utilize mineral water

or boiled water for drinking, using the water supplied by the waterworks systems for washing, cooking, and the other such activities.

Impact on Society

To assess the impact of the project on society, a questionnaire survey was shared with local residents, being the major beneficiaries of the project. The survey was carried out in the residential areas of Rawalpindi under the jurisdiction of the RCB & CCB. Based on advice offered by the RCB, the area selected for the survey was one that had been supplied with water from wells and jointly owned water tanks prior to receiving water supply from the project. In the absence of resident registries and other materials critical to the sampling process, the survey was carried out with the goal of a sample of 200 residents. As for the actual process, a number of researchers paid random visits to homes in the designated areas and conducted interviews with the residents over a specified period (10 days), attaining a total of 190 completed questionnaires. The purpose was to investigate any changes in water supply before and after project-assisted water supply was instituted, as well as any changes in the daily lives of the residents. The average age of those surveyed was 38-60 years. Water was available for an average of 30-60 minutes per day at the time of the survey, indicating that the minimum timeframe set by the RCB was being met.

The survey found that the water was used for washing, bathing, and drinking/cooking in that order; most drinking water needs were met by purchased mineral water or from filtration plants. As for changes in water supply and pressure, 60% and 74% of respondents respectively noted that water volume and pressure was not according to plan. The questionnaire indicated that residents were paying a monthly average of Rs.200 to Rs.1000 more than they had paid previously. Most respondents (60%) reported, however, that overall they were happy with the water service provided.

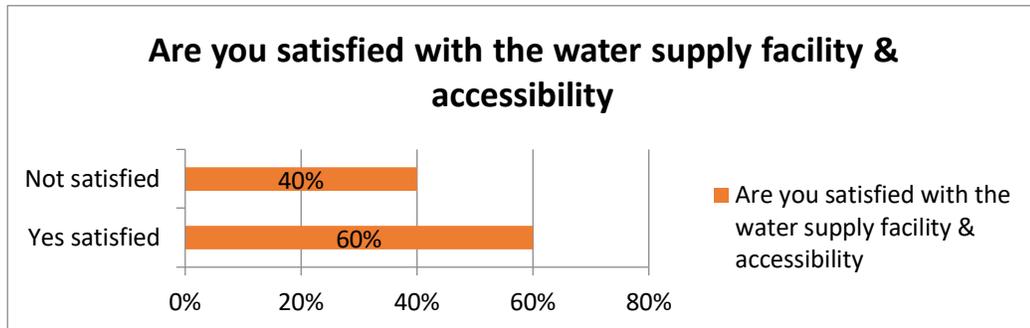
The questionnaire also inquired about changes in daily habits, i.e. the frequency with which respondents washed hands, washed dishes, bathed, washed clothes, and cleaned. Most residents answered that no changes had occurred. No changes were reported in the instance of outbreak of waterborne diseases such as gastrointestinal disorders and parasites. However, the short period of time, during which the water was actually available limited the ability of the residents to obtain safe water from the project. Similarly, a limited water supply makes it difficult to form an opinion on the quality of water.

Based on the results described above, including the fact that residents were happy with the results of the project. It was evaluated as having had a socially positive and beneficial impact. However, since the average time of water supply remains at 30-60

minutes, the same period as prior to project implementation, there have been many calls for water utility rates to be lowered. Also, without increasing the time of water supply, there can be no expectation for changes in daily habits or for decreased instance of waterborne disease. In light of these factors, important issues for future consideration include a more balanced utility fee system and making water available for longer periods of time.

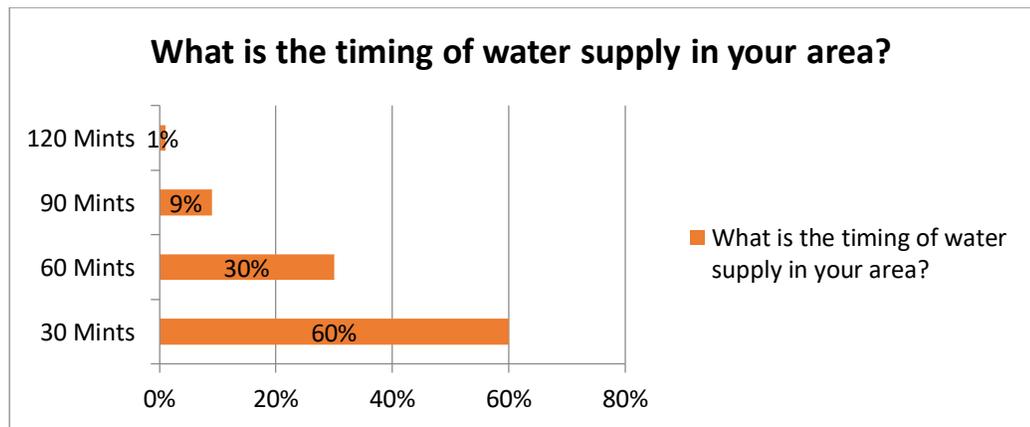
➤ **Water Accessibility**

Are you satisfied with the water supply facility & accessibility?



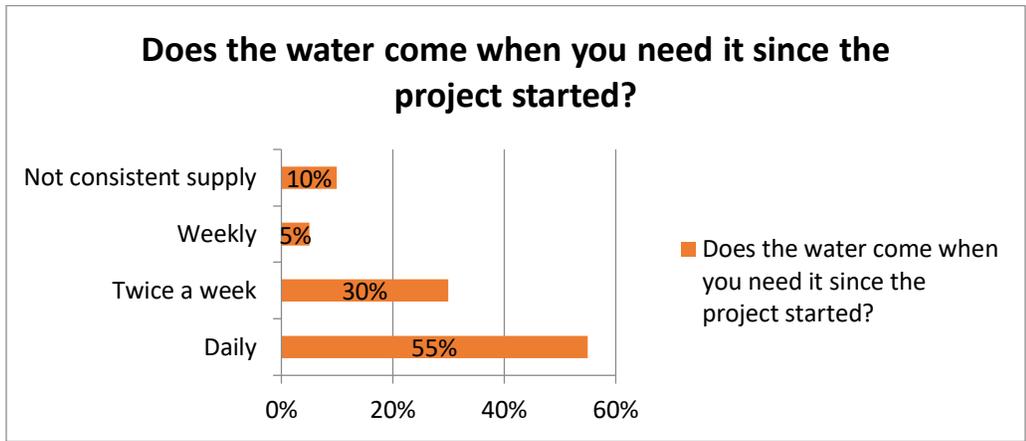
Source: (Survey by Audit)

➤ **Water timing**



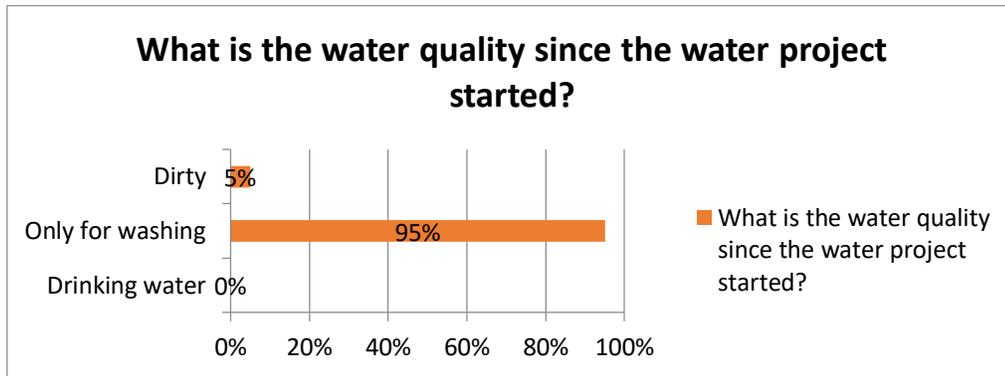
Source: (Survey by Audit)

➤ **Reliability of Supply**



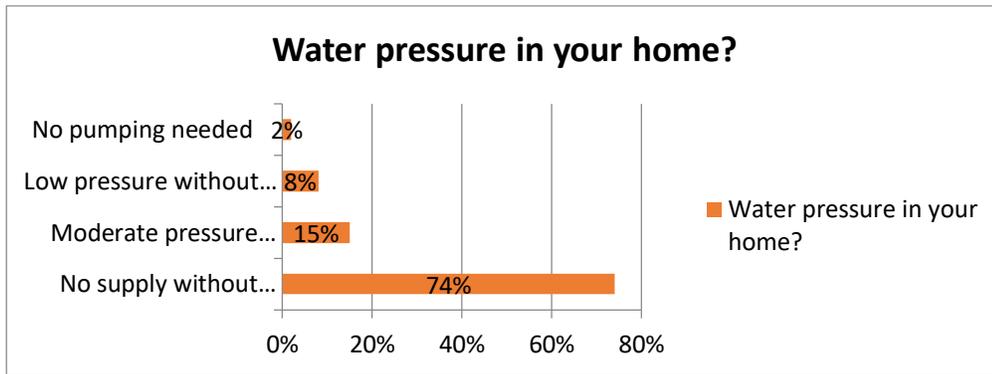
Source: (Survey by Audit)

Water Quality



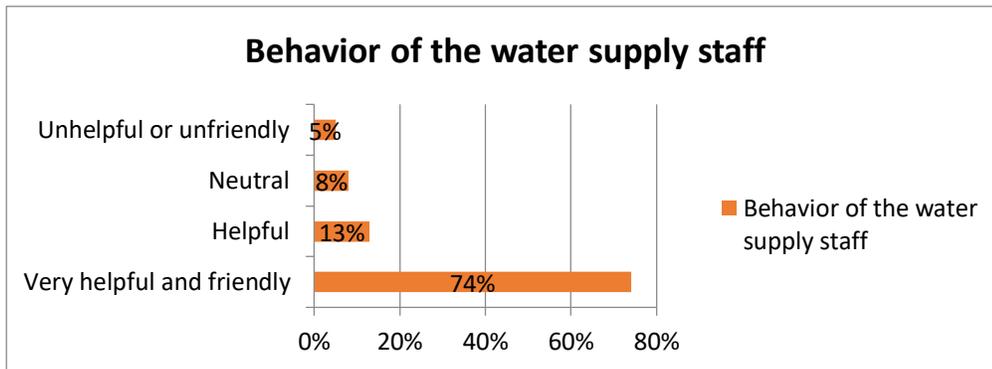
Source: (Survey by Audit)

➤ **Water Pressure:**



Source: (Survey by Audit)

➤ **Rate the behavior of the water supply staff**



Source: (Survey by Audit)

4.10.3 Economic Impact

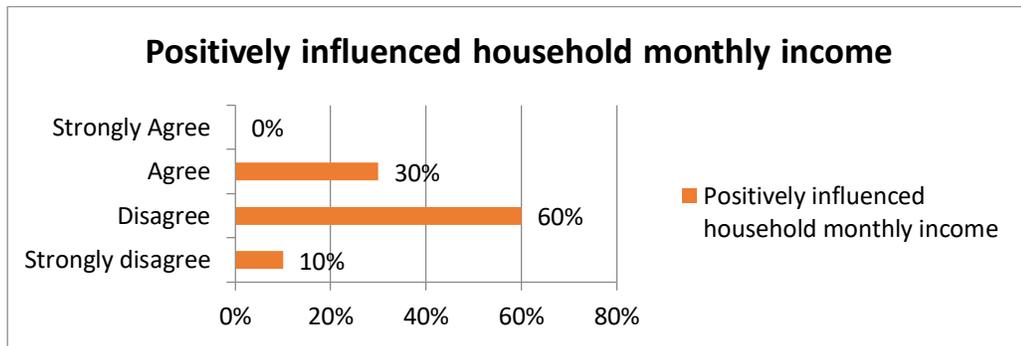
Water projects can have significant economic impact on society, both at the local and national level. The effects can be diverse and can influence various aspects of the economy. Here are some of the key economic impacts of water projects on society (sample questionnaire at Annexures-I).

➤ **Infrastructure Development:**

Water projects often involve the construction of infrastructure such as dams, pipelines, and water treatment facilities. This contributes to economic growth by creating jobs and stimulating demand for construction materials.

➤ **Income Generation and Growth:**

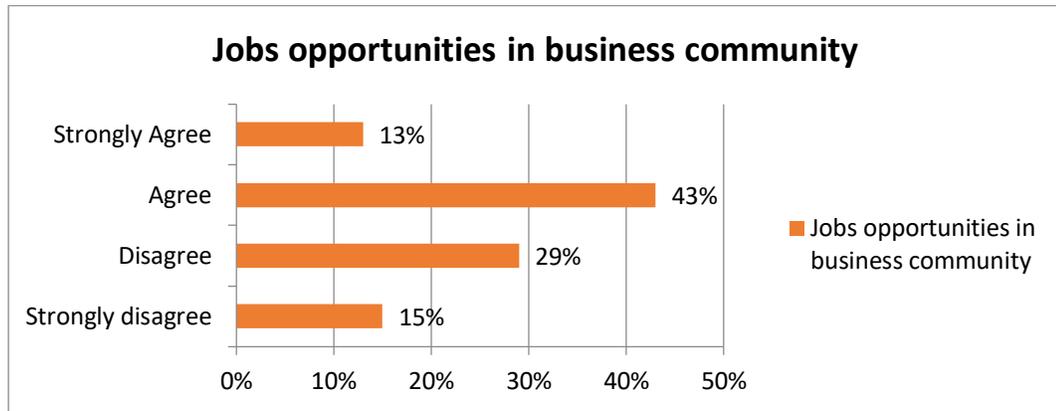
Improved water access can lead to income generation opportunities for communities. For example, access to water for irrigation can enable communities to engage in small-scale vegetable gardening and other income-generating activities.



Source: (Survey by Audit)

➤ **Employment Opportunities:**

The implementation and maintenance of water projects creates employment opportunities. This includes jobs related to project planning, construction, operation, and maintenance of water infrastructure.



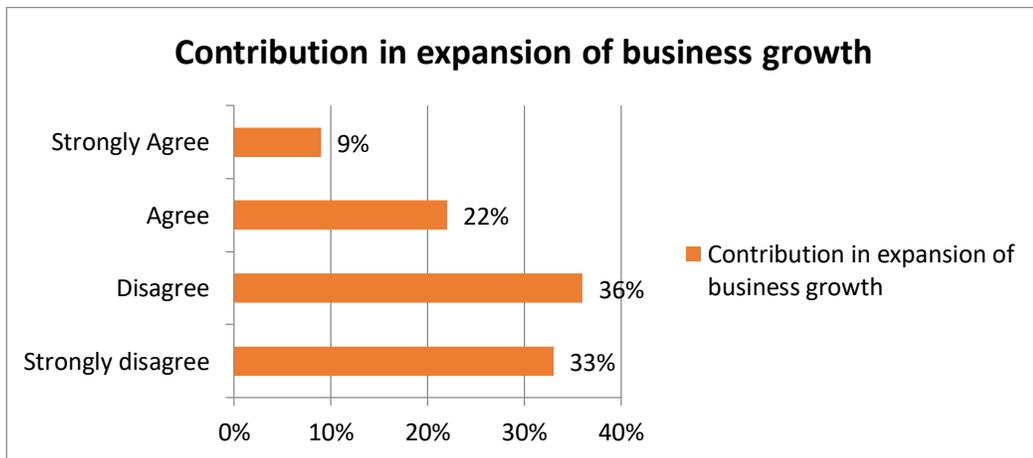
Source: (Survey by Audit)

➤ **Urban Development**

Reliable water supply is crucial for urban development. Water projects that provide sufficient water for households and businesses contribute to the growth of urban areas, attracting businesses and residents.

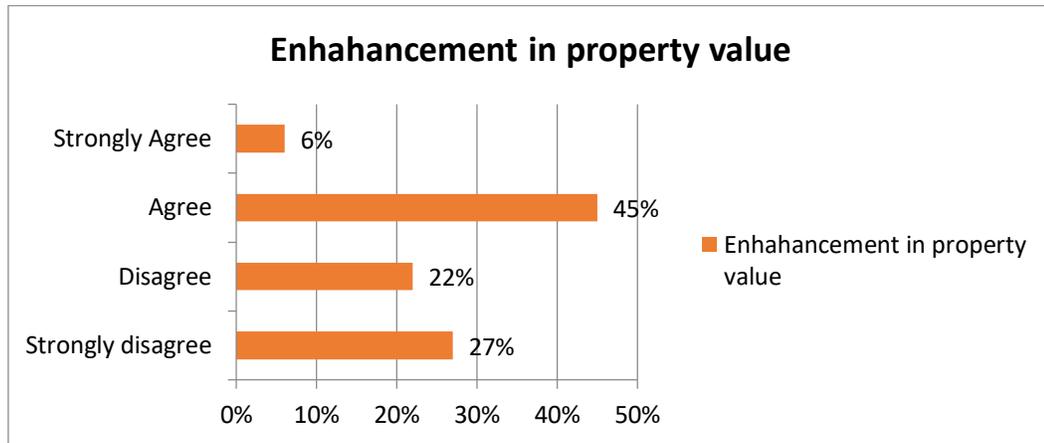
➤ **Business and industrial Growth**

Adequate water supply is essential for industrial processes and business growth in a society. Water projects that ensure a reliable water source for industries can foster industrial growth and attract investments. This, in turn, can lead to the creation of more jobs and increased economic activity.



Source: (Survey by Audit)

➤ **Increase in property valuation**



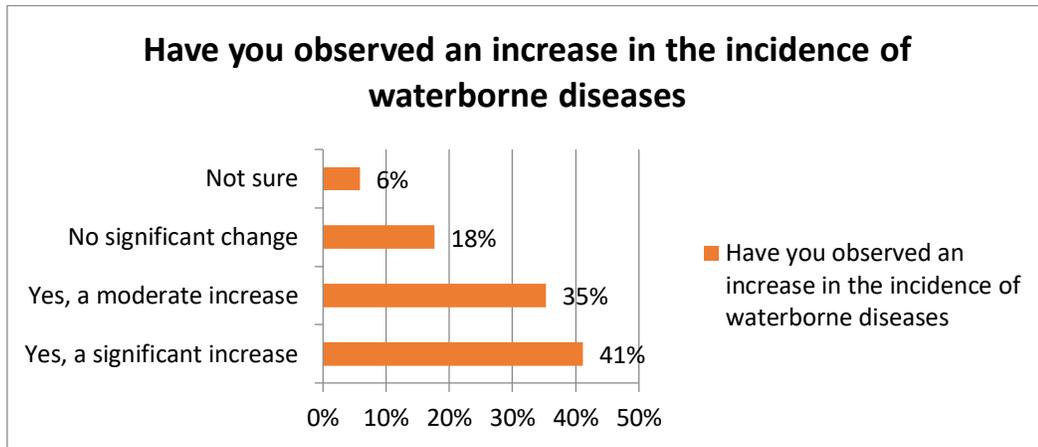
Source: (Survey by Audit)

4.10.4 Impact on the Health

In assessing the impact of a water distribution project on health, it is crucial to analyze both direct and indirect effects. The availability of clean and accessible water can lead to improved hygiene practices, reducing waterborne diseases and promoting overall health. Additionally, enhanced water supply may positively influence nutrition and sanitation, further contributing to community well-being. Monitoring indicators such as reduced instances of waterborne illnesses, improved child health, and enhanced community health awareness can provide valuable insights into the project's impact. It is essential to collaborate with health professionals, gather community feedback, and employ statistical data to comprehensively evaluate the positive health outcomes resulting from the water distribution initiative. For this study, total 25 surveys were conducted from doctors, health professionals and residents.

➤ Disease Incidence

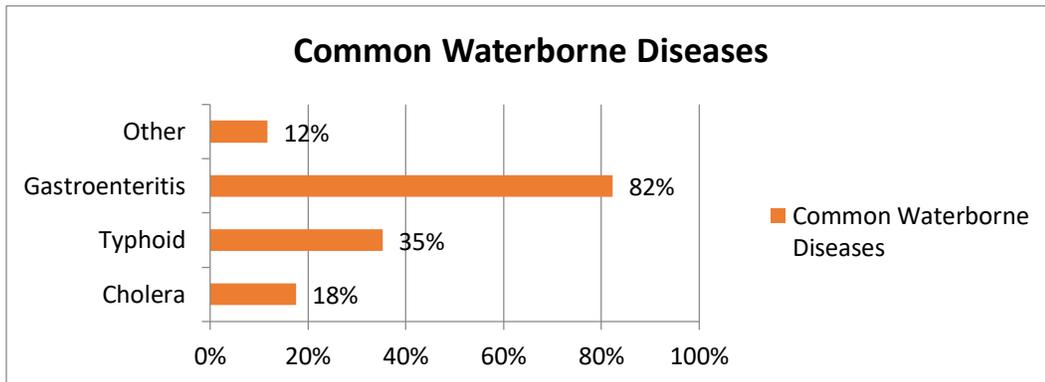
The survey focused on the observation of the health professionals and others regarding increase in the incidence of waterborne diseases, such as cholera, typhoid, or gastroenteritis, during their practice.



Source: (Survey by Audit)

➤ **Common Waterborne Diseases**

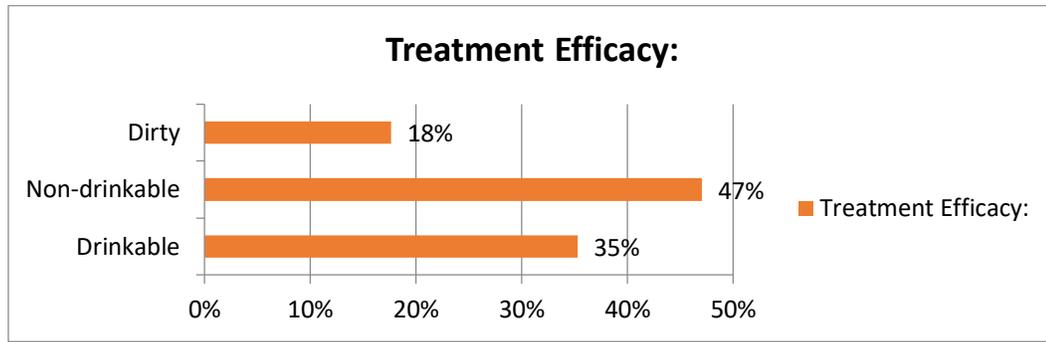
The survey focused on the observation of the health professionals and others regarding waterborne diseases most frequently diagnosed in patients from this community.



Source: (Survey by Audit)

➤ **Treatment Efficacy**

The survey focused on the observation of the health professionals and others regarding the quality of water in jurisdiction of Cantonment Board area.



Source: (Survey by Audit)

4.10.5 Impact on the Environment

According to the executing agency, no particular negative impact stemming from the project has been reported as of the present, though there were delays related to land acquisition and administrative procedures that required more time than anticipated in the original plan, which led to a longer implementation period.

4.10.6 Sustainability

- Non-achievement of targeted revenue provided in PC-I

Year	Total Income Forecasted as per PC-I	Actual Revenue as Per Cantt: Board Record	Achieved Goal %age
2007-08	224.49	41.19	18.32
2008-09	246.93	43.28	17.52
2009-10	271.63	53.53	19.71
2010-11	298.74	71.76	24.02
2011-12	328.49	72.83	22.17
2012-13	361	109.51	30.34
2013-14	397.1	112.12	28.25
2014-15	397.1	113.45	28.57
2015-16	397.1	167.38	42.15
2016-17	167.38	156.37	93.42
Total	3089.96	941.42	30.47

Source: (Annex-F to PC-I of Phase-II & III)

- Non-consideration of minimum water storage capacity of Khanpur Dam source resulting into less discharge of water in Left Canal Bank (LCB) affecting the per day requirement of CDA/RCB.

4.11 Issues and Observations

The major issues and observations pertaining to the execution of the project are summarized as under:

- i. Executing agency has not yet submitted PC-IV and PC-V of Phase-I & II.
- ii. The executing agency has furnished data of availability of water from WAPDA (as Khanpur dam operations and maintenance is under the administrative control of WAPDA). The data clearly depicts the depletion of water reservoir level against the reservoir's maximum level and also demonstrates the decreased runoff water.
- iii. The delays in the execution of the project has mainly resulted due to poor planning. This was further compounded by inadequate and late release of funds to the project.
- iv. The executing agency has focused on the storage of water by incorporating the component of overhead and underground water tanks instead of extension/renovation of distribution system.
- v. Project consultancy (design & supervision) was awarded to a single consultant. However, the contractual timelines have already expired and the consultant is still working.
- vi. It has also been observed that the quality of civil work is not monitored properly and no such record is being maintained.
- vii. The residents of the tail-end of the network are often forced to water bore due to unreliable water supply. However, no data of boring was maintained by the authorities.
- viii. Proper handing/taking of phase-I & II was not provided by the Cantonment. The record of the assets was not reconciled.
- ix. Infrastructure was developed but still unused especially in Chaklala Cantonment Board.
- x. Main lines were connected with the Khanpur supply lines but still further distribution facility in many areas has not been provided in CCB/RCB.
- xi. Water supply meters installed at houses in some areas costing approximately Rs.35.000 million are not yet functional.
- xii. Recovery is far less as compared to taxable houses and many illegal consumers are misusing water supply in both Cantonment Boards.
- xiii. Proper replacement system to change the filters at filtration plants is not in place. During the study, no record was produced in both areas.
- xiv. Utility bills of MES, SCO & CCB are pending, affecting the overall sustainability of the project.
- xv. A reconciliation exercise between CDA and RCB has never been carried out. Resultantly, liabilities to be paid by RCB to CDA are still pending.

4.12 Recommendations/Way Forward

Following are the recommendations / way forward for smooth completion of the project:

1. Sponsoring Ministry (Ministry of Defence) should submit PC-IV and PC-V of the Phase-I & II to ascertain the benefit to the residents.
2. Sponsoring Ministry should start work on the preparation of the PC-IV of Phase-III immediately and submit it to the Planning Division.
3. In order to avoid audit objections, the management should immediately grant an Extension of Time (EoT) in the contractual agreement for civil work as well as for consultancy work.
4. Since project's main objective is to provide clean drinking water to the inhabitants of RCB and CCB, therefore, management should make all its efforts for the speedy execution of the project.
5. The Executing agency should make a proper plan to charge the domestic and commercial water tariff, for better sustainability of the facilities.
6. The Executing agency should devise a water supply management system with online booking of water meters, complaint lodging system and increasing the tariff as per covered area for sustainable operation of the facilities.
7. Pending liabilities must be cleared as early as possible with CDA.
8. Utility bills pending with MES, SCO and CCB may be recovered at the earliest.

4.13 Conclusion

It is difficult to assess the impact of the project, as the water supply is much below the target due to various reasons given above. At present, its output is less than 40% of the projected capacity. The main reason is that system of distribution of water through pipelines is not yet fully laid. Due to the absence of a fully functional distribution system, the level of optimum use of the dam water is still not achieved. These problems were not perceived at the time of the design of the project, and emerged after the completion of the project.

Since this project supplies water for drinking and other purposes, its purification process should be fully functional. However, as reported in the evaluation report, the frequency of its testing and repair is far from sufficient. Thus, its ability to positively impact public health in its coverage area remains compromised. It seems unlikely that large number of people, who have very low buying capacity, can use bottled water from the market. They use water for drinking, either by boiling it, or otherwise.

The provision of potable water through this dam has provided an important facility to the population of RCB/CCB. However, the people's lives have not changed significantly after the project. This is probably due to lack of effective social campaign on how to use water economically. The effective distribution of water from Khanpur Dam has the potential to bring about positive transformation in public health, economy, and community well-being. Continued efforts to manage water resources sustainably and addressing emerging challenges will be essential in ensuring a sustainable and prosperous future for the society.

CHAPTER-5

Impact Audit (DGADS South)

Impact Audit of Development of Fair and Uniform House Tax Parameters and their Implementation on Self-Occupied Residential Properties in Four CBs

5.1 Introduction

Impact Audit focuses on outcomes attributable to an initiative, program or project. It highlights ultimate outcomes or wider impact as envisaged through the project. This audit has been conducted as a new initiative as per the direction of the Auditor-General of Pakistan for ushering in a new era of audit which analyzes the real time benefit of a government initiative for the people.

Property tax stands as a pivotal revenue stream for Cantonment Boards (CBs) in Pakistan and it constitutes their significant financial component. The collective contribution from cantonment residents amounts to Rs. 9.00 billion, representing over 35% of the total tax revenue collected by CBs across diverse categories. This fiscal reliance on house tax underscores its critical role in sustaining the operational vitality of CBs. The substantial revenue from cantonment residents bolsters Boards' ability to finance essential services, infrastructure development, and community-oriented projects.

As a linchpin in the economic architecture of CBs, house tax fosters financial resilience, enabling the Boards to meet evolving challenges and invest in the well-being and progress of cantonment communities. This taxation mechanism not only reflects the fiscal robustness of CBs but also underscores the cooperative fiscal relationship between the Boards and the residents.

5.2 Background

A study had been conducted by the Headquarter Military Lands and Cantonments Department in the year 2022-23 in the light of various audit paras raised by Directorates General of Audit Defence Services (North & South) regarding anomalies in the assessment of House Tax. The study found a huge variation and arbitrary discrimination in taxation on similar properties in the same vicinities in almost all CBs, which needed intervention and correction. The state of affairs was against justice, fair play, transparency, and uniformity to earn respect and goodwill of the cantonment residents.

The issue was also thoroughly discussed in the Directors' Conference of ML&C Department on 01.04.2022. Accordingly, ML&C department formulated the new policy i.e. 'Development of fair and uniform House Tax parameters and its implementation on all self-occupied residential properties in CBs'. The policy was introduced on 23.08.2022. The main objective behind the new policy was to apply uniform taxation on the residents of CBs. According to the new uniform taxation policy, ARV shall be fixed on the formula i.e. Annual Rental Value = Latest DC Rates + fixed cost of construction/20 along with a fixed percentage of rebate on ARV. Before the introduction and implementation of the new uniform taxation policy, ARV was fixed as per following method i.e. Cost of Land + Construction Cost (at that time) / 20 = ARV x a certain % of House Tax or Conservancy Tax as decided with the discretion of the Cantonment Boards. As a practice, the parameters for the calculation of ARV as well as House Tax were revised after every 2-3 years @ 10%, 15%, 20% or 30% as the case may be with the approval of the respective Boards. According to Para-8 of the Annexure of letter No.40/2/Budget/ML&C/79 dated 05.01.2001 issued by Ministry of Defence (ML&C Department) regarding guidelines for determination of fair annual value of buildings for levy of tax, the rates fixed for any category of a building would be reduced by 10% for each 10 years.

5.3 Role of Project

The intended role of the new policy was exhibition of justice, fair play, transparency and uniformity by the CBs in order to earn respect and goodwill of the cantonment residents. This was to be achieved through implementation of uniform taxation on the residential units in the jurisdiction of various Cantonment Boards. Prior to the introduction of the policy, the residents of the CBs paid uneven house tax on similar properties in the same areas.

5.4 Overview

As per the new policy, CB Clifton is supposed to charge house tax equal to 12.5% and offer rebate of 60%. CBs Hyderabad and Quetta, to charge house tax equal to 6% and offer rebate of 60% and CB Karachi to charge tax equal to 5% and allow rebate of 67% on respective ARVs.

According to Para (iii) of CBR No.3.2 dated 26.09.2022 of Cantonment Board Clifton, the basic concept for the revision of assessments/ARVs was to reassess the under-assessed taxable units and not to burden already fairly assessed units. However, uniform tax policy has been applied on all the self-occupied houses/flats, which is unjustified. Consequently, the total tax after uniform taxation on self-occupied residential units has

almost doubled as compared with the tax collection before the uniform taxation. This has resulted in increased tax burden on the public. Besides this, in the new taxation policy, no depreciation in cost of structure has been allowed on properties constructed in the last five years, which is unfair & unjustified as the houses constructed five years ago had lower cost of land and cost of construction as compared with the current market price. Though provision for the rebate has been given in the new policy, but this is not fairly justified and cannot offset the impact of increase in cost of construction during the last five and more years. The ratio of rebate and inflation is totally disproportionate. Furthermore, the cost of construction may also vary on quality of construction like best, standard and sub-standard/poor. Furthermore, other reduction/depreciation slab on cost of structure was allowed like 5%, 7.5%, 10% etc., which was unjustified.

5.5 Scope and Methodology

a. Scope

The scope of the Impact Audit was to assess the impact of the new taxation vis-à-vis development of fair and uniform house tax parameters and its implementation on all self-occupied residential properties in the jurisdiction of 04 Cantonment Boards i.e. Karachi, Clifton, Hyderabad & Quetta. In addition to this, another objective of the new taxation policy was that the civic bodies such as Cantonment Boards must exhibit justice, fairplay, transparency and uniformity to earn respect and goodwill of the cantonment residents. Therefore, the Impact Audit also assessed the attainment of the same.

b. Methodology

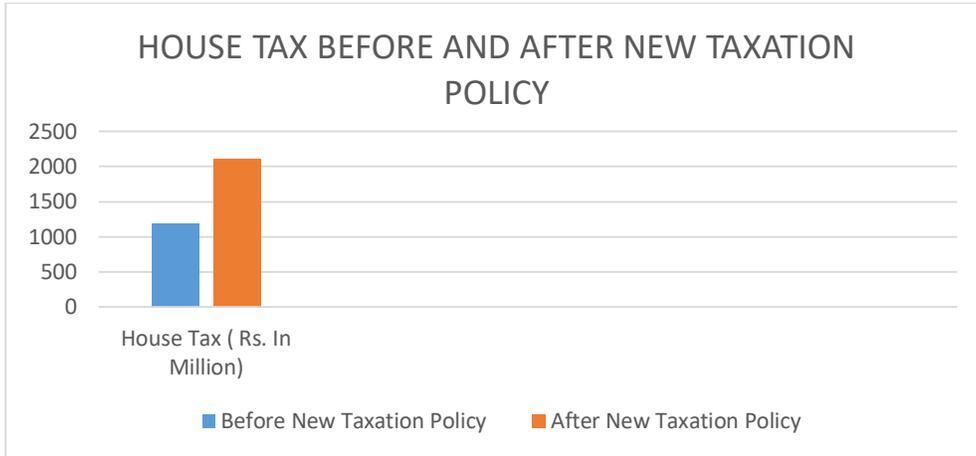
The audit compared and analyzed the data pertaining to property valuation, tax calculation and tax assessment before and after the implementation of the policy. In addition, observation and analysis of the public complaints and court cases besides, oral discussion with the management/general public visiting the respective Cantonment Boards were made to find out the impact of the intervention. In order to make a comparative analysis of the statistical data relating to cost of land and cost of construction, research was made through internet and some data was obtained from official website of Pakistan Bureau of Statistics (<https://www.pbs.gov.pk/>).

5.6 Findings:

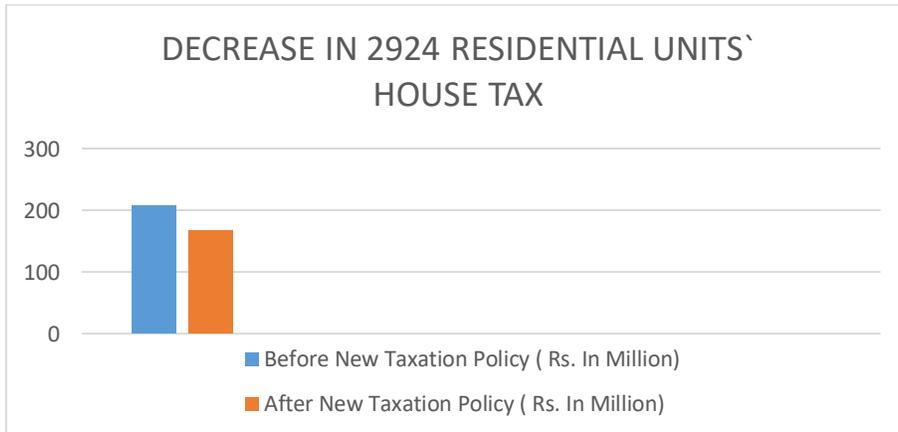
5.6.1 Cantonment Board Clifton:

In Cantonment Board Clifton, there were total of 45,623 units, out of which there was increase of tax on 42,699 units whereas, 2,924 units showed decline in tax after the

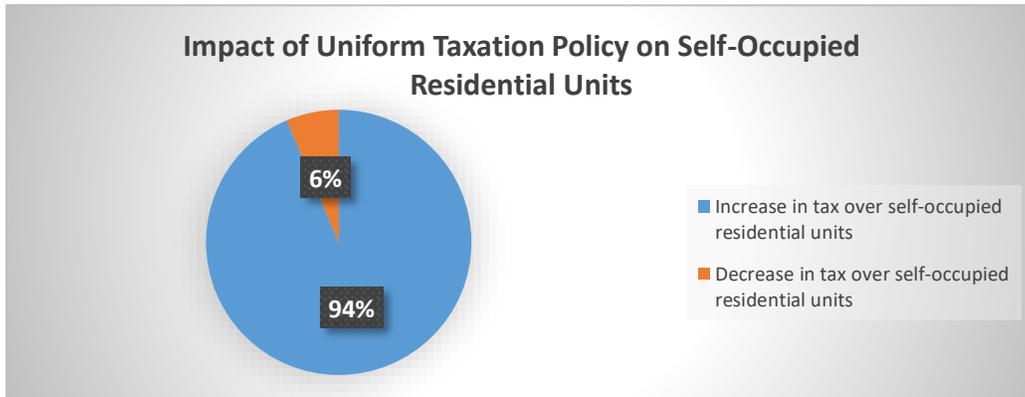
implementation of the new policy. 42,699 units` Annual Rental Value (ARV) stood at Rs.15,633 million, but before the policy implementation the ARV was Rs.9,563 million resulting in an increase of Rs.7,734 million. Likewise, the House Tax at the rate of 12.5% stood at Rs.2,121 million, but before the implementation of the uniform policy it was Rs.1,196 million, resulting in an increase of Rs. 925.00 million in House Tax collection, as shown below:



On the contrary, Rs.1,332 million ARV was calculated against the 2,924 units, which showed decline in the tax after the implementation of the uniform tax policy that remained at Rs.166.500 million, but before the policy the same was Rs.208.000 million, registering a decrease of Rs.41.500 million as shown below:



During the impact audit of Cantonment Board Clifton for the year 2022-23, it was observed that CBC revised assessment of all self-occupied residential properties on the basis of new uniform taxation policy without analyzing and separating the under-assessed units. Resultantly, the volume of tax on 94% residential units was increased. The assessment should have been made against the under-assessed taxable units and not the already fairly assessed units, but 'one size fit for all' approach was applied. As a result, rather than getting relief by virtue of new taxation policy, tax volume increased against the residents of the Clifton Cantonment Board as shown below:



The audit observed that the new method used for obtaining Annual Rental Value for calculation of House tax has doubled the tax vis-à-vis before the uniform tax policy. This can be understood from the increase of Rs. 925 million in House Tax i.e. before the policy it was Rs.1,196 million and after implementation, the same stood at Rs.2,121 million on all the self-occupied units. Further, no depreciation in cost of structure was allowed on properties constructed in the last five years, which is unfair and unjustified as the houses constructed during 2017 had low cost of land and construction, which cannot be compared with the current market price even after rebate. Further, the cost of construction may also vary on quality of construction like the best, standard and ordinary. The latest cost of land after rebate is not equal to previous cost of land. Similarly, cost of construction @ Rs.2500/sq ft is not equal to previous years cost of construction. Further, according to para (iii) of CBR No.3.2 dated 26-09-22, basic concept for the revision of assessment/ARV was to reassess the under-assessed taxable units and not to increase tax against the already fairly assessed units, but uniform tax policy was applied on all the self-occupied houses/flats, which was unjustified.

It was observed from CBR No.3.2 proceeding (vi) dated 26.09.2022 that the CBC partially and unfairly implemented uniform taxation policy, resulting in increased tax

burden on the residents of the apartments besides, non-uniformity in the implementation of the uniform taxation policy.

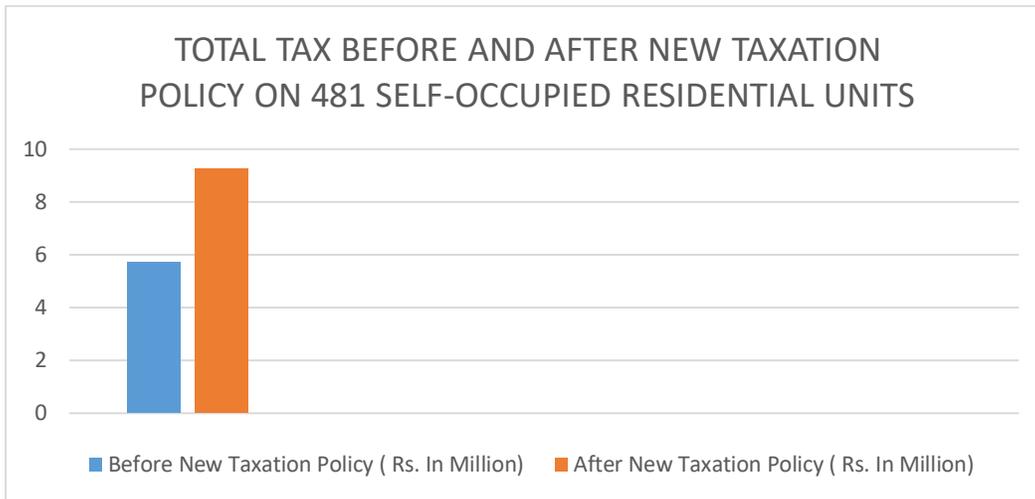
The formula used for calculation of depreciation of cost of structure is also unjustified, unfair and against the spirit of the policy objectives.

5.6.2 Karachi Cantonment Board

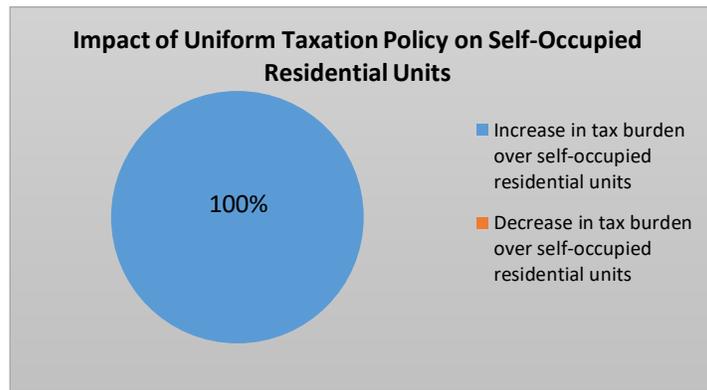
In Karachi Cantonment, the policy was implemented on 481 self-occupied flats of Askari-II & III only. The Annual Rental Value (ARV) of the said units after the implementation of the uniform taxation stood at Rs.48.647 million with an increase of Rs.18.558 million. The House Tax after implementation of the new taxation policy stood at Rs.7.297 million, resulting in an increase of Rs.2.783 million as under:



In Karachi Cantonment, the Annual Rental Value (ARV) of 481 self-occupied residential units was Rs.30.089 million and house Tax at the rate of 15% of ARV was Rs.4.513 million as shown under:



Audit observed that the new method used for obtaining Annual Rental Value ARV i.e., 25% depreciation on flats constructed more than 30 years back was unjustified. The new taxation policy was implemented on 481 self-occupied flats of Askari-II & III only. During the audit, it was observed that after implementation of uniform house taxation policy, the amount/burden of taxation increased on all the said units. Hence, 100% residents of the self-occupied units suffered from increase in taxation burden as a result of uniform taxation policy.



During the analysis, it was observed that the Annual Rental Value (ARV) of the above mentioned units before implementation of Uniform House Taxation Policy was Rs.30.089 million whereas, after the implementation of the policy, the same stood at Rs.48.647 million. Hence, the ARV increased by Rs. 18.558 million. Accordingly, the house Tax at the rate of 15% of ARV was Rs. 4.513 million before uniform taxation and after implementation it stood at Rs.7.297 million, as a result there was an increase of

Rs.2.783 million house tax. In the policy, the rate of House Tax was 5% whereas, actually the residents were charged 15%, which is unjustified.

5.6.3 Cantonment Board Quetta

In Cantonment Board Quetta, no documentary evidence was available about the implementation of the new taxation policy. However, the house tax remained unchanged throughout the years.

During the audit of Cantonment Board Quetta for the Financial Year 2022-23, it was observed that the Board approved specific guidelines in CBR No. 5.6 dated 09.09.2022 and CBR No. 7.3 dated 31.10.2022 for implementation of the uniform tax policy. These guidelines were intended to address taxation issues within the cantonment area and ensure fair and equitable taxation for all the residents. However, the Board passed a resolution to consider and approve these guidelines therefore, a request was also made by HQ ML&C (Headquarters Military Lands and Cantonments) to reduce the house tax rate from 6% to 5% on the proposed ARV.

Audit observed that the property tax assessed on the final ARV was Rs.48.136 million, which remained consistently unchanged throughout the years. No exemption/rebate was granted over the course of three years. The 5% tax charged on Proposed ARV with no rebate and no depreciation resulted in net increase in tax amount by Rs.41.656 million and at 6% as recommended in the new policy, the same would result in an increase of Rs.59.614 million, which is unjust, unfair and against objectives of the policy.

During the analysis, it was noted that the proposed Annual Rental Value (ARV) for the years 2020-21 to 2022-23 remained constant at Rs.1,795.855 million, which indicates that there were no changes in the proposed ARV over this time frame. The final Annual Rental Value (ARV) approved by the CBR for the same years stood at Rs.320.909 million. This further confirms that there were no adjustments to the approved ARV during this period.

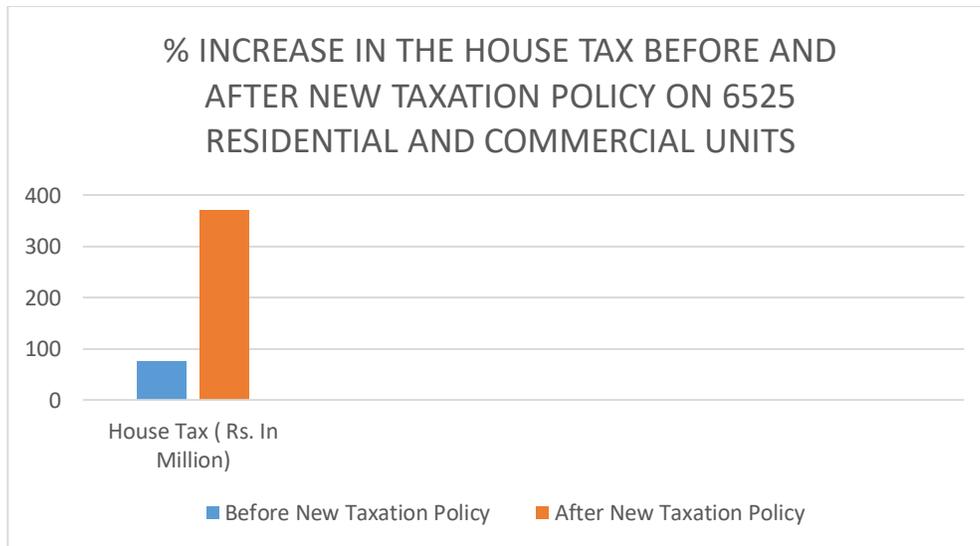
5.6.4 Cantonment Board Hyderabad

In Cantonment Board Hyderabad, the new policy was partially implemented. The assessment of 6526 units after partial implementation resulted in increased value of the House Tax from Rs.76.020 million to Rs.371.615 million i.e. 388.38% increase.

The Cantonment Board Hyderabad approved the implementation of Uniform House Tax policy. The residential as well as commercial (self-occupied/ rented) i.e. 6,526 units were assessed whereas, the policy was devised for self-occupied houses only. The separate data regarding commercial and residential units was neither maintained by the management nor provided to audit.

The new policy was partially implemented. The data pointed that 15% house tax was calculated at the ARV based on basis of both FBR and DC rates 2021 and cost of construction @ Rs.2500/sq ft. The data pertaining to the last year had no details of DC rates, which were applied from time to time for calculation of the ARV. However, tax @ 15% was calculated and was available on the record. A rebate of 73% was allowed on ARV.

The assessment of 6,526 units after partial implementation of new taxation policy increased the value of House Tax from Rs.76.020 million to Rs.371.615 million, resulting in an increase of 388.38%. This reveals that the implementation of new taxation policy increased tax burden on the residents of the Cantonment Boards as shown below:



5.7 Conclusion

In conclusion, house tax a major revenue source for Cantonment Boards (CBs), had become a focal point for scrutiny due to significant disparities in assessment practices across different regions. The audit, conducted in the aftermath of implementation of new uniform house tax policy shed light on the multifaceted impact of the policy across several

key areas, providing valuable insights into its effectiveness, challenges, and potential areas for improvement.

The findings revealed that there was a substantial increase in the tax burden on self-occupied residential units in certain instances, contradicting the anticipated relief for property owners. In the case of Cantonment Board Clifton, for example, the policy's implementation resulted in a notable rise in the total tax on self-occupied residential units, primarily due to the doubling of the Annual Rental Value (ARV) after the uniform taxation policy came into effect. The discrepancies and inconsistencies in applying the policy, particularly with regard to depreciation, rebate ratios, and the overall calculation of ARV, raised pertinent questions about the fairness and effectiveness of the policy in achieving its stated objectives.

Furthermore, in Cantonment Board Karachi, the policy was applied to only 481 units of self-occupied flats, showcasing a limited scope of implementation. Similarly, in Cantonment Board Quetta, the lack of documentary evidence and the unchanged property tax on the final ARV over the years raised concerns about the thoroughness of policy implementation.

An additional layer of complexity emerged in the evaluation of the impact on Cantonment Board Hyderabad, where the policy was partially implemented. The discrepancy between the percentage increase in tax and the corresponding increase in recovery highlighted potential shortcomings in the policy's impact on the tax-paying capacity and willingness of the general public.

The new policy became burdensome for the residents of the CBs. Instead of earning goodwill of public, it invited public complaints and constitutional petitions against CBs in the court of law. As Cantonment Boards play a pivotal role in generating revenue for local governance, it becomes imperative to revisit and refine the new taxation policy. Future revisions should prioritize a more comprehensive and elaborate approach, taking into account the varied nature of properties, ensuring transparency in the application of depreciation, and carefully evaluating rebate ratios. Moreover, the policy should be fine-tuned to avoid disproportionately burdening the public, ultimately fostering goodwill and respect within the cantonment communities.

CHAPTER-6

Audit of Donor Assistance for Flood Relief in Pakistan-2022

6.1 Overview

Between June and October, 2022, devastating floods in Pakistan resulted in 1,739 casualties and inflicted substantial economic losses totaling Rs. 3.2 trillion (\$14.9 billion). The floods were triggered by an unusual combination of intense monsoon rains and glacial melting, exacerbated by a preceding heatwave all indicative of the broader impacts of climate change. The aftermath prompted government estimates of reconstruction costs and economic damage, reaching \$30 billion or approximately 10% of the GDP.

A collaborative needs assessment, led by the Ministry of Planning, Development and Special Initiatives in conjunction with the Asian Development Bank (ADB), the European Union (EU), the United Nations agencies with technical facilitation by the United Nations Development Program (UNDP), and the World Bank, underscored damages surpassing \$14.9 billion, with economic losses estimated at \$15.2 billion. The projected requirements for rehabilitation and reconstruction in a resilient manner stood at a minimum of \$16.3 billion.

6.2 Details of Donor Support

Recognizing the magnitude of the disaster, Pakistan appealed to the international community and donor agencies for assistance, resulting in a donor conference held on 09.01.2023, in Geneva. Co-hosted by the Government of Pakistan with support from the United Nations, the conference yielded commitments exceeding \$9 billion, alongside substantial in-kind support.

Earlier, a conference held in Islamabad on 25.08.2022, saw international organizations and financial institutions pledging immediate aid exceeding \$500 million for flood victims.

6.3 Scope of the Audit

The audit, in line with ISSAI 5520 and ISSAI 5530, encompasses the entire post-disaster phase, addressing increased risks of fraud and corruption. It involves a thorough review of donor-funded programs, spanning from beneficiary identification to aid distribution. The Audit aims to evaluate accountability, transparency, and effectiveness in donor assistance for flood relief activities.

6.4 Objectives of the Audit

- i. Evaluate the adequacy of donor assistance for flood relief activities.
- ii. Assess the effectiveness and efficiency of donor assistance in achieving intended outcomes.
- iii. Identify weaknesses or gaps in the management and implementation of donor assistance.
- iv. Provide recommendations for enhancing the management and implementation of future donor assistance.

6.5 Audit Methodology

DGADS (North & South) conducted compliance audit of entities, which received grant/in-kind support. The trail of grant/in-kind support was checked in order to assess the distribution of donor assistance to the flood victims besides, utilization of the grant/in-kind support (like assault boats in the flood relief operations). Audit also checked receiving/disbursement vouchers of the donor assistance in various Units/Formations.

Risk Areas

- i. Inordinate delays
- ii. Unintended recipients
- iii. Undistributed funds/materials/aid
- iv. Fiduciary controls
- v. Fraud and corruption
- vi. Poor economy and efficiency
- vii. Lack of economy
- viii. Inflation
- ix. Inefficiency
- x. Ineffectiveness
- xi. Poor financial management
- xii. Unrecorded aid
- xiii. Damaged aid
- xiv. Unequal aid distribution
- xv. Environmental damage
- xvi. Assets ownership
- xvii. Double funding
- xviii. Information flows

6.6 Details of Grant/In-kind Support Received by the Army Formations

Based on data from the Director General Audit Climate Change & Environment, fifteen Army and one PAF Formations received in-kind support from NDMA, as well as a grant of Rs 220.910 million from the Kingdom of Bahrain. Additionally, in-kind support valued at \$ 150,000 was received from the UK in the form of eight (08) MK6 Assault Boats, outboard motors, oars, repair kits, and portable generators by two other Army Formations.

This audit aims to ensure transparency, effectiveness, and accountability in the utilization of donor assistance for flood relief, contributing to the ongoing efforts of rehabilitation and reconstruction in Pakistan.

AUDIT PARAS

6.7 Procurement related irregularities – Rs.24.232 million

6.7.1 Procurement of medical stores without tender – Rs. 18.533 million

According to PPRA Rule 12 (2), “All procurement opportunities over two million rupees should be advertised on the Authority’s website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.” According to Rule 14 of PPRA Rules, 2004, Exceptions: It shall be mandatory for all procuring agencies to advertise all procurement requirements exceeding prescribed financial limit which is applicable under sub-clause (i) of clause (b) of rule 42. However under following circumstances deviation from the requirement is permissible with the prior approval of the Authority, -(a) the proposed procurement is related to national security and its publication could jeopardize national security objectives; and (b) the proposed procurement advertisement or notice or publication of it, in any manner, relates to disclosure of information, which is proprietary in nature or falls within the definition of intellectual property which is available from a single source.

During audit of record pertaining to Donor Assistance for Flood Relief- 2022 of Army medical Formations for the financial year 2022-23, it was observed that medicine was procured for flood affected persons amounting to Rs 18.533 million without advertisement on authority’s website as well as in print media which is in violation of PPRA rules.

(Rs. in million)

Sr. No.	DP No.	Purchased Items	Amount
1.	DP-S-250/2023-24	Construction of NICU ward	10.00
2.	DP-S-237/2023-24	Medicines	4.51
3.	DP-S- 219/2023-24	Medicines	4.043
Total			18.553

Audit is of the view that procurement without tenders resulted in violation of PPRA Rules which indicated prevalence of weak internal controls within the organization.

The matter was pointed out by audit in November 2023 & December 2023. In the case of DP S-250, the management did not furnish the reply. In the case of DP S-219 & DP S-237, the management replied that procurement was made in emergency.

Reply was not tenable as no documentary evidence in support of reply for declaration of emergency notification proclaimed by Government of Pakistan was provided to Audit. Furthermore, the process of calling limited tender and procurement of medicines took more than a month whereas the open tendering procedure could be complied comfortably within 20 days.

The DAC in its meeting dated 29.12.2024 and 18.01.2024 directed the management in DP S-219 & S-250, to hold Fact Finding/Court of Inquiry for violation of the rules, fix responsibility against the person(s) at fault, the inquiry report after endorsement from PAO be provided to audit. DAC further directed that the irregularities be regularized from competent authority. DP S-237 was not discussed due to absence of the management. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-219, 235 & 250/2023-24

6.7.2 Irregular procurement of medicines with brand names – Rs. 5.699 Million

According to letter No.F.8-I/2019 DD (PS) Vol II dated 16th April, 2021 of DRAP, “Prescription of medicine by doctors in government and private sectors adds to economic burden of the country and also puts financial load on patients due to purchase of pricier brands, such practice is against the code of ethics for medical and dental practitioners”. Furthermore, according to Rule 10 of PPRA Rules 2004, “Specifications shall allow the widest possible competition and shall not favour any single contractor or supplier nor put

others at a disadvantage. Specifications shall be generic and shall not include references to brand names, model numbers, catalogue numbers or similar classifications.”

During audit of records pertaining to Donor Assistance for Flood Relief- 2022 of an Army Medical Formation for the Financial Year 2022-23, it was observed that medicines were purchased with brand names instead of generic names in violation of prescribed rules. Thus, the entire expenditure of Rs. 5.699 million stood as irregular.

Audit is of the view that due to procurement of medicines with specific brand names, chances of uneconomical procurement and favour to specific supplier cannot be ruled out.

The matter was pointed out by audit in December, 2023. The management replied that products were purchased in emergency as declared by the government on 25 August, 2022. The purchases were made on the availability of brands in outfit. Reply is not tenable as the products purchased on brand names were against the PPRA and DRAP rules.

The DAC in its meeting dated 18.01.2024, directed to hold Fact Finding Inquiry for violation of the rules, fix responsibility against the person(s) at fault, the inquiry report after endorsement from PAO be provided to audit for verification. No progress was reported till finalization of this report.

Audit recommends implementation of the DAC directives.

DP-S-239/2023-24

6.8 Un-authorized / Irregular payments – Rs. 81.708 million

6.8.1 Non-utilization of medicines received as donations – Rs. 33.522 million

According to Para-1.6(e) of TORs circulated by Auditor-General of Pakistan vide letter dated 26.04.2023 Audit will check complete trail of distribution of relief items by National Disaster Management Authority (NDMA).

During audit of a Military Hospital, it was observed that different medicines/medical store items were received from National Disaster Management Authority (NDMA) Islamabad as donations under donor assistance for flood relief, in January, 2023. However, it was observed that only 50% of these medicines were distributed without any plan among some military hospitals and medical units whereas, remaining 50% medicines valuing Rs.33.521 million were irregularly retained by the military hospital

and still lying in the stock unconsumed / un-distributed among the end users. Furthermore, audit noticed the following discrepancies / irregularities in this regard:

1. These medical store items were received very late from NDMA (January, 2023) which effected the donor aim of delivering medicines to the flood victims in a timely manner.
2. Distribution plan issued by Corps Headquarters vide letter dated 19.01.2023 bears no clear instructions/guidelines about the further consumption / utilization of these medical store items in flood effected areas. Therefore, medicines distributed so far by the military hospital among different military hospitals/medical units outside flood effected areas are irregular.
3. Furthermore, a large quantity of these medical items including the share of this military hospital were still lying un-distributed/un-consumed which resulted into un-necessary retention of medicines and blockage of donated items.

In view of above, it was proposed that justification of above irregularities be furnished to audit besides initiation of immediate measures to distribute the retained medical items among the end users victims in the flood effected areas.

When pointed out by audit, it was replied by the management that as per distribution plan received, concerned units have been asked to collect their share of medicines received from NDMA but many of them have not collected the same. Furthermore, authorities have been approached with the request to take necessary action against these units.

The reply furnished by the management was not tenable being not relevant. It was, therefore, proposed that matter may be taken up with higher authorities and obtains detailed para wise justification for the issues highlighted above. Furthermore, requisite action may be initiated for immediate distribution of medicines besides holding a board of inquiry.

The DAC in its meeting dated 05.01.2024 was apprised that the revised distribution is under way and will be finalized within 15 days. The DAC directed the management to get the distribution verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-N-289/2023-24

6.8.2 Irregular utilization of grant in aid & in-kind items other than flood victims – Rs. 15.716 million

According to Para 7.2 (B) of The International Standards of Supreme Audit International Organization of Supreme Audit Institutions, (ISSAI) 5520. “Disaster managers should conduct a needs assessment to ascertain the number of victims and determine their specific requirements. The definition of victims and the procedure for registering them should be clearly set out. Unintended recipients are people who are not entitled to receive aid. Inadequate demographic data may result in misleading information on victims and ultimately cause aid to be channeled away from needy individuals/communities”.

During audit of record pertaining to Donor Assistance for Flood Relief- 2022 of Army Medical Formations for the financial year 2022-23, it was observed that Grant-in-Aid amounting to Rs. 15.716 million allocated to various Formations for relief works in flood affected areas. However, these funds were diverted for purposes other than the intended relief efforts. Audit opines that the use of grant other than its original purpose was irregular. The details are as under:

(Rs in million)

S. No.	DP No.	Amount of Grant	Utilization
1.	DP-S-249/2023-24	10.146	Grant was utilized for construction of Neonatal ICU, waiting area and procurement of other Misc. items including Air-conditioners
2.	DP-S-218/2023-24	5.570	Distributed to individuals affected by terrorist attack in July-2023

Audit is of view the utilization of grant other than the purpose indicated prevalence of weak internal and financial controls within the Formation.

The matter was pointed out by audit in December, 2023. In case of DP S-249, the management did not furnish any reply. In case of DP S-218, the management replied that number of military and civilian casualties occurred in terrorist attack in Zhob, hence, grant amount was distributed to the Army Medical Formations on urgent basis. Reply was not tenable as utilization of grant for other than intended purpose was irregular.

DAC in its meeting dated 29.12.2024 and 18.01.2024, directed the management in DP S-218, to hold Fact Finding Inquiry for violation of the rules, fix responsibility against the person(s) at fault, and share the inquiry report with audit for verification after

endorsement from PAO. In case of DP S-249, DAC shifted the para to Medical Directorate for further correspondence. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-218 & 249/2023-24

6.8.3 Irregular sanction and award of work – Rs. 10.146 million

According to Rule 3 (I) Pakistan Engineering Council Bye Laws, 1987, “No engineering work shall be constructed except by a contractor or operator licensed as such by the Council.” Furthermore, according to clause 8 of Notice of Tender, “If tender of a contractor not enlisted with MES is accepted, he shall be required to deposit 5% of CA amount as security in the form as demanded by accepting officer”. According to Table A of para 25 of MES regulations 2021, the power of administrative sanction for new works of Rs 10 million rests with Corps commander and for renewals of upto Rs 12 million rests with QMG.

During audit of record pertaining to Donor Assistance for flood relief- 2022 of an Army Medical Formation for the Financial Year 2022-23, it was observed that a construction work totaling Rs. 10.146 million was awarded, wherein the following discrepancies were observed:

- i. The contractor/firm was not registered with the Pakistan Engineering Council (PEC) and Military Engineering Services (MES).
- ii. The contractor was registered in FBR as an importer and exporter, which did not match the necessary credentials for a construction work.
- iii. The contract was awarded without the mandatory collection of security deposit and bank guarantee.
- iv. The construction work was awarded with the sanction/approval of the commandant, which was beyond his financial powers.

Audit is of the view that award of civil work contract to unregistered contractors/ firm without sanction of competent authority stood as irregular besides, chances of uneconomical and substandard execution of work cannot be ruled out.

The matter was pointed out by Audit in December, 2023. The management did not provide any reply.

The DAC in its meeting dated 18.01.2024 directed to hold Court of Inquiry, fix responsibility against the person(s) at fault, and share the inquiry report with audit for verification after endorsement from PAO. No progress was reported till finalization of this report.

Audit recommends implementation of the DAC directives.

DP-S-252 & S-253/2023-24.

6.8.4 Non-utilization of grant and non-surrender of unspent balance - Rs.5.957 Million

According to Section 7.2 (C) of The International Standards of Supreme Audit Institutions, (ISSAI) 5520, “Funds/materials/aid financial and in-kind aid not distributed to the victims is of no use. Inappropriate human or organizational resources, a lack of information on the procedure for requesting and distributing aid and damaged infrastructure may cause aid to remain in storage. Another reason for non-distribution might be an in-appropriate needs assessment, resulting in the delivery of aid or materials that are unnecessary or unsuitable for the culture or circumstances of the affected population.” Furthermore, according to Para-95 of GFR Vol-I, all anticipated savings should be surrendered to Government immediately but not later than 31st March of each year. However, savings occurring from funds provided after 31st March shall be surrendered to Government immediately and no savings shall be held in reserve for possible future use.

During audit of record related to Donor Assistance for Flood Relief-2022 of an Army Formation for the Financial Year 2022-23, it was observed that an allocation of Rs.10 million was received for relief activities in flood-affected areas. Out of the allocated amount, only Rs. 4.043 million was utilized for relief activities, but the balance of Rs. 5.957 million was neither utilized nor surrendered.

Audit is of the opinion that non-utilization/non-surrender of the funds reflected weak internal controls and poor financial management within the entity.

The matter was pointed out by Audit in November 2023. The management replied that donor assistance was allocated for the establishment of free medical camps in flood affected areas in Balochistan. The management retained the fund for future unforeseen calamities in the province. Furthermore, the competent authority had been approached for facilitation for return of unspent funds. The same would be deposited back in given account / head when provided. The reply itself was an admissibility of the irregularity.

The DAC in its meeting dated 29.12.2024, directed the management to surrender the un-spent balance within one month and get it verified from audit. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives/fixation of responsibility on the person(s) at fault.

DP-S-217/ 2023-24

6.8.5 Irregular deposit of grant in non-public account -Rs. 5.000 million

According to Article 78 of Constitution of Pakistan, “1) All revenues received by the Federal Government, all loans raised by that Government and all moneys received by it in repayment of any loan, shall form part of a consolidated fund, to be known as the Federal Consolidated Fund. 2) All other moneys received by or on behalf of the Federal Government shall be credited to the Public Account of the Federation.” Furthermore, according to Para 6.1 of The International Standards of Supreme Audit International Organization of Supreme Audit Institutions, (ISSAI) 5520. “SAIs of both recipient and donor governments audit disaster-related aid which passes through public accounts. In many cases this can involve examining aid paid directly to operational agencies which are not part of government”.

During audit of record pertaining to Donor Assistance for flood relief-2022 of Army Medical Formation for the Financial Year 2022-23, it was observed that a cheque amounting to Rs.5.000 million was received by a Formation from Medical Directorate, which was deposited into non-public fund account instead of public account of the Formation.

Audit is of the view that the deposit of flood relief fund into non-public account creates doubt about the utilization of the fund for flood victims.

The matter was pointed out by audit in December, 2023. The management replied that that the donor grant, received as an open cheque, aligned with the explicit intent of the donor and was undertaken in full compliance with legal and regulatory requirements, despite not being in the public account. To prevent similar irregularities, protocols for handling open cheque grants are being instituted.

The DAC in its meeting dated 18th January 2024, directed to hold fact finding inquiry, fix responsibility against the person(s) at fault, and share the inquiry report with

audit for verification after endorsement from PAO. No progress was reported till finalization of this report.

Audit recommends implementation of the DAC directives.

DP-S-287/2023-24

6.8.6 Irregular cash payment to supplier– Rs. 5.000 million

According to Rule 36 (j) of Financial Regulation Volume–I, 1986, “All payments must be made by cheque.”

During audit of record pertaining to Donor Assistance for flood relief- 2022 of an Army Medical Formation for the Financial Year 2022-23, it was observed that amount Rs. 5 million was allocated by the Medical Directorate for flood relief activities. It was observed that this amount was utilized for the purchase of Medicines, Nutritional supplements, Surgical & Disposable items. However, the payment to suppliers was made in cash.

Audit is of the view that cash payments to suppliers were in violation of the prescribed rules which reflected weak internal controls within the entity.

The matter was pointed out by Audit in December 2023. The management replied that due to unforeseen and urgent circumstances arising from the flooding in Sindh, the decision was made to conduct cash transactions. The decision was made to secure the timely availability of critical and necessary medical supplies, all in the best public interest. The reply itself was an admission of irregularity.

The DAC in its meeting dated 18.01.2024 directed the management to hold Fact Finding Inquiry for violation of the rules, fix responsibility against the person(s) at fault, share the inquiry report with audit for verification after endorsement from PAO. No progress was reported till finalization of this report.

Audit recommends implementation of the DAC directives.

DP-S-255/2023-24

6.8.7 Lack of transparency in distribution of flood relief items Rs 5.000 million

According to Para 7.2 (B) of The International Standards of Supreme Audit Institutions, (ISSAI) 5520, “Disaster managers should conduct a needs assessment to

ascertain the number of victims and determine their specific requirements. The definition of victims and the procedure for registering them should be clearly set out. Unintended recipients are people who are not entitled to receive aid”. Moreover, according to Para 7.2 (H), of ISSAI “Disaster-related aid should be used efficiently (i.e. maximum success in meeting victims’ needs with aid received”. According to Para 7.2 (M) & (I) of The International Standards of Supreme Audit Institutions, (ISSAI) 5520. “when individuals or groups are favored in aid distribution at the expense of others, there is inequality which may result in disaster-related aid not reaching the population affected most acutely by disaster.

A. During the Audit of record pertaining to Donor Assistance for flood relief- 2022, of an Army Formation for the financial year 2022-23, it was observed that grant in aid and in-kind items were received from NDMA and distributed to flood victims. Following irregularities were observed:

- Distribution of in-kind items like cement packets were of no use at the time of flood. Such items could have been useful in Post disaster rehabilitation exercise.
- The distribution of 10 sleeping bags and 10 blankets to one person also reflects that the distribution was made without need assessment. Sometimes double quantity was issued to individuals, which puts a question mark on the distribution system. Sleeping bags and blankets if distributed to different individuals may have covered more families.

Audit is of the view that unequal distribution of grant indicated poor planning and weak internal controls within the Formation.

The matter was pointed out by audit in December 2023. The management replied that unit had taken engineer’s advice and it required minimum 10-12 cement bags to build one room hence, 12 No cement bags were given to head of family to rebuilt damaged/destroyed portion of house. Furthermore, a total of 2000 families were given blankets and sleeping bags. A total of 1335 families received three blankets each.

Reply was not tenable, as in the absence of proper record keeping of the procured medicines, receipts, and issuance to the flood-affected, the decisions made during the emergency response to the floods, were not justified.

The DAC in its meeting dated 18.01.2024, directed the management to reconcile the records of sleeping bags and blankets, with audit. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP S-325/2023-24

B. During the Audit of record pertaining to Donor Assistance for flood relief- 2022, of Army Formation for the financial year 2022-23, it was observed that grant in aid and in-kind items were received from NDMA and distributed to flood victims. Following irregularities were observed:

- Grant in Aid of Rs 5.00 million was spent for procurement of medicines, without technical & financial evaluation criteria.
- Procured medicines were not taken on charge and distribution of medicine was carried without any documentation.

Audit is of the view that unequal distribution of grant indicated poor planning and weak internal controls within the Formation.

The matter was pointed out by audit in January 2024. The management replied that every effort was made to ensure the most efficient and transparent utilization of resources, as evident by receipts and distribution vouchers. SOPs were not available from the authorities in prior. Procurement from the most reliable vendor was done because other vendors were unable to supply locally due to the roads and infrastructure destruction. Due to the huge patient load, the documentation of the distribution of medicines and verification of patients could not be maintained for each patient.

Reply was not tenable, as in the absence of proper record keeping of the procured medicines, receipts, and issuance to the flood-affected, the decisions made during the emergency response to the 2022 floods, could not be justified.

The DAC in its meeting dated 18.1.2024, directed the management to hold Fact Finding Inquiry for violation of the rules, fix responsibility against the person(s) at fault, share the inquiry report with audit for verification after endorsement from PAO. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-254/2023-24

6.8.8 Irregular adjustment of Internal Security POL - Rs. 1.367 million

According to Rule – 47 (c) of FR Vol-I 1986, “On no account shall money be spent simply because it is available.”

During audit of record pertaining to Donor Assistance for Flood Relief- 2022 of an Army Medical Formation for the Financial Year 2022-23, it was observed that on 26th August 2022, the Government of Pakistan, Ministry of Interior sent a letter to Army authorities requesting their assistance for Internal Security (IS) duty. Additionally, on 5th September, 2022, HQ had authorized the allocation of 5000 liters of IS POL (D-20) for Flood Relief Duty. On the contrary, claim for POL of the same quantity was made through contingent bills on 10th August, 2022, which stood as irregular. The detail is as under:

(Rs. in million)

Voucher No. & Date	D-20 Quantity in Liters	Rate per Litter	Countersigned By	Authorization letter	Amount
PHJ/MTBR/2023/00034 Date 10-Aug 2022	2478	Rs 273.36	DC Sibi	No. 206/A/Log-FOIF82 Dated 05 September 2022	0.677
PHJ/MTBR/2023/00034 Date 10-Aug 2022	2522	Rs 273.36	DC Naseerabad	No. 206/A/Log-FOIF82 Dated 05 September 2022	0.689
Total	5,000				1.366

Audit is of the view that the claim of POL before sanction stands irregular.

The matter was pointed out by Audit in October, 2023. The management did not furnish any reply.

The DAC in its meeting dated 18.01.2024 directed the management to provide relevant record to audit for verification within one month. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-256 /2023-24

6.8.9 Unjustified delay in receipt of medicines

According to Para 7.2 (A & B) of the International Standards of Supreme Audit Institutions, (ISSAI) 5520, “When a disaster occurs, the first priority is that aid be given promptly in order to save lives and meet victims’ needs. Delays in the collection and distribution of aid may be caused by unfamiliarity with the immediate disaster response

protocol, infrastructure damage or unsuitable human and organizational resources.” Disaster managers should conduct a needs assessment to ascertain the number of victims and determine their specific requirements. The definition of victims and the procedure for registering them should be clearly set out. Unintended recipients are people who are not entitled to receive aid. Inadequate demographic data may result in misleading information on victims and ultimately cause aid to be channeled away from needy individuals/communities.

During audit of record pertaining to Donor Assistance for Flood Relief- 2022 of the Army Formations for the Financial Year 2022-23, it was observed that in-kind grant including medicines were received by the Formations with a delay of 5 to 6 months after the disastrous floods. The details are given as under:

Sr. No.	DP No	Description of item	Time period of disaster	Date of issuance of grant from NDMA	Date of receiving and distributed	Remarks
1.	S-303/2023-24	Medicines	July-September 2022	29.12.2023	09.06.2023	6 months delay in receipt of medicines from NDMA and twelve months delay from disaster.
2.	S-324/2023-24 (A)	In-kind Items	July-September 2022	26.02.2023 & 28.02.2023	01-02-2023 & 02-03-2023	One month delay in receipt of in-kind items from NDMA and five to six months delay after disaster.

Audit is of the view that the abnormal delay in the delivery/distribution of the flood relief items reflected weak internal controls and negligence on part of the management.

The matter was pointed out by Audit in December, 2023. In case of DP S-303, the management replied that flood relief duties were terminated by this unit on 10th December, 2022, whereas medicines from NDMA were received by another unit on 29th December,

2022. The same was further distributed to this unit on 10th February 2023. So, there was no urgency to receive medicines for said duty. In case of DP S-324, the management replied that delay was never on part of this unit as items received never kept in stores as the items were distributed on the same day of receipt. Reply was not tenable as the delay in receiving and issuance of medicines was admitted by management.

The DAC in its meeting dated 18.01.2024, directed the management in DP S-303, to provide relevant record in evidence that medicines were distributed to flood victims to audit for verification within one month. In case of DP S-324, DAC directed the management that relevant record of the timely receiving and distribution of in-kind aid to flood victims be provided to audit for verification within one month. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-303 & 324/2023-24

6.8.10 Non-utilization of Assault Boat for flood relief activities

According to Para 7.2 (C) of The International Standards of Supreme Audit Institutions, (ISSAI) 5520, “funds/ materials/aid Financial and in-kind aid not distributed to the victims is of no use. Inappropriate human or organizational resources, a lack of information on the procedure for requesting and distributing aid and damaged infrastructure may cause aid to remain in storage. Another reason for non-distribution might be an in-appropriate needs assessment, resulting in the delivery of aid or materials that are unnecessary or unsuitable for the culture or circumstances of the affected population”. According to Para 7.2 (I). “Damaged aid during transportation items donated in-kind or bought using financial aid can become damaged or obsolete and no longer meet required standards for distribution, because of inappropriate storage or inadequate human and organizational resources to manage them.”

During audit of record pertaining to Donor Assistance for Flood Relief- 2022 of an Army Formation for the financial year 2022-23, it was observed that 04 Assault Boats and other accessories were received from NDMA on 18-09-2022. In this regard, the following shortcomings were noticed:

- i. Four Assault Boats and associated accessories received from NDMA on 18-09-2022 have not been utilized to date signifies a significant underutilization of donated assets. The non-utilization of these resources raises concerns about operational efficiency and the timely deployment of critical assets during disaster relief situations.

- ii. The boats and accessories left exposed to the open air without utilization have incurred avoidable deterioration. This lack of proper asset management and protection further compromises the operational readiness of these assets, potentially rendering them less effective or inoperable when needed.
- iii. The absence of any intimation to the concerned HQ regarding the non-utilization of the donated assets raises questions about communication protocols and accountability. Failure to inform the relevant authorities about the status of received resources hinders effective coordination and planning for relief efforts.
- iv. The receipt of damaged accessories without addressing the associated risks and without fulfilling the intended purpose of the grant indicates a lapse in risk management and a failure to meet the objectives of the assistance received.

Audit is of the view that non-utilization of boats indicated ineffectiveness, inefficiency, and poor planning & distribution mechanism within the Formation.

The matter was pointed out by Audit in January, 2024. The management replied that flood 2022 started in Pakistan from 15th June 2022 to 30th October, 2022. However, 04 assault boats were issued for rescue team to rescue the civilians. The same had been kept for future contingency as per instruction of HQ. Furthermore, broken accessories fans of OBMs (out boat motors) were already cracked/broken during handing/taking over with representative of NDMA. The same was mentioned in unit level issue/receipt voucher.

Reply was not tenable, as donor aid was not utilized for the purpose for which it was received.

The DAC in its meeting dated 18.01.2024, shifted the para to NDMA for further reply. No progress was reported till finalization of this report.

Audit recommends the matter may be inquired into and responsibility be fixed against person(s) at fault.

DP-S-326/2023-24

6.8.11 Improper maintenance of record

According to Para 6.5 of The International Standards of Supreme Audit Institutions, (ISSAI) 5520. Auditors can measure the effectiveness of disaster-related aid in terms of results, the most direct examination of which can be achieved by consulting the intended final beneficiaries of the aid. To do this SAIs can actively seek the input of the affected population by use of interviews and surveys and by consulting civil society organizations.

SAIs can consider sending auditors on-the-spot at an early stage of the emergency to record evidence of the way in which disaster-related aid was implemented from the point of view of the disaster victims. Furthermore, clause 8 stated that Reporting Recipients of disaster-related aid should report on the management and use of financial and in-kind contributions received. Furthermore, As per clause 1.10 of Audit Plan and Modus Operandi, tools for scrutiny of distribution of In-kind aid/ relief items to the flood affectees (a) verification of thumb impression of recipients of relief items through NADRA. (b) verification of distribution of relief items through physical visits by audit teams. (c) documents review of the respective department/ entities.

During audit of record pertaining to Donor Assistance for Flood Relief- 2022 of Army Formation for the financial year 2022-23 it was observed that grant in aid and in-kind items were received from NDMA however, record of distributed items was not properly maintained by Formations/ under command units while distribution of items. The following irregularities were observed by Audit:

- Medicines were issued to patients without proper recording of name, age, gender, identity card, contact number, receiving of medicines and diagnosis detail.
- Segregation of medicines procured from donor grant and utilization of unit medicines procured from public fund were not maintained.
- Utilization of boats including number of trips, area of rescue operations, logbook of boats, monthly return submitted to GHQ for trips and consumption of POL on form 20/30, number of rescued persons and detail of officials deployed were not maintained.
- While distribution of in-kind items no receiving of distributed items was maintained (i.e. thumb impression or receiving signature) of flood victims, which could prove that items were been received by the individuals/flood victims.
- Under Command Formation distributed the flood items as per size of family by issue. Hence, no evidence in support of family members was recorded which could prove that the receiver has collected the flood items on behalf of all family members.
- Under Command Formation distributed the flood items without proper survey of damage as survey report was not shared with audit.
- Most of the Under-Command Formations distributed the flood items without recording the NIC number and date of distribution of items.
- Formations also did not maintain the record of number of vehicles and troops deployed for flood relief.

The details of the above irregularities have been highlighted below:

S. No.	DP No	Nature of Grant	Remarks
1.	S-288/2023-24	Grant in-Aid Rs 5.00 million	Procurement of medicines

2.	S-327/2023-24	Grant in Aid	04 Army Assault Boats and other accessories
3.	S-322 B/2023-24	Grant in-Kind	Relief items

Audit is of the view that in absence of proper record keeping, Audit could not conduct the field survey and verify the distribution of items. Hence unfair and non-transparent distribution of items to victims cannot be ruled out. It indicated the prevalence of weak internal control and improper accounting procedures for relief related items.

The matter was pointed out by audit in December, 2023 & January, 2024. The management in DP S-288, replied that the medical camps were established in emergency situations to provide urgent relief to the flood victims. It was difficult to maintain the documentary records of flood victims in emergency and pressed situation. Post reports of established medical camps show details of patients attended, investigations performed and common diseases in the area, which was also shared with higher authorities. We assured that corrective measures were being taken to enhance our record keeping procedures. In case of DP S-327, the management replied that 4 Army Assault Boats were not received by this unit from NDMA, those boats were collected by another army medical unit which were utilized by them. After termination of flood duty that army medical unit deposited these boats with this unit on order of HQ. These boats were placed in unit store and have not been used by this unit as there was no duty / requirement in 2023. In case of DP S-322, the management replied that it was sudden incident so there was no planning and units moved overnight. All the villagers come up the road, the unit took CNIC card from those who had possession of cards, however tried to accommodate maximum victims, therefore ration and other items were handed over keeping in view the general condition of area. Deployment of troops on flood duties Formation is forwarded to Higher HQ.

The reply from the management was itself an admissibility of non-maintenance of record.

The DAC in its meeting dated 18.01.2024, directed the management of DP S-288, to hold Fact Finding Inquiry for violation of the rules, fix responsibility against the person at fault, the inquiry report after endorsement from PAO be provided to audit for verification. In case of DP S-322 & S-327, DAC directed the management to provide relevant record to audit for verification. No progress was reported till finalization of this report.

Audit recommends implementation of the DAC directives.

DP-S-288, 327 & 322/2023-24

6.9 Non-production of record – Rs.16.526 million

6.9.1 Untraceable record of grant in aid & in kind items of Donor Assistance Rs. 16.526 million

A. According to Para H of the International Standards of Supreme Audit International Organization of Supreme Audit Institutions, (ISSAI) 5530, “Weak controls and non-existent inventories may result in theft or the unauthorized use of assets against payment or for favor.” Furthermore, according to Para 7.2 (C) of The International Standards of Supreme Audit Institutions, (ISSAI) 5520, “Funds/ materials/aid Financial and in-kind aid not distributed to the victims is of no use.” In addition to this, according to Financial Regulations 1986 Vol: 1 Rule (6)(a), “Every officer should exercise the same vigilance in respect of expenditure incurred from Government revenue as a person of ordinary prudence would exercise in respect of the expenditure of his own money.”

During audit of record pertaining to Donor Assistance for Flood Relief-2022 of Army Formations for the Financial Year 2022-23, it was observed that a grant of Rs. 11.00 million was transferred/deposited to the Army Relief Fund by two civil society organizations, but details of the expenditure were not available. Furthermore, a claim of Rs. 5.525 million against 22,000 liters of IS POL (D-20) was submitted to the provincial government for Flood Relief Duty, but evidence or documentation indicating the expenditure for flood relief in 2022 was not provided. The details are as under:

(Rs in million)

Sr. No	DP No.	Remarks	Amount
1.	S-236/2023-24	Grant received from two organization of civil society, through cheque no. 127450648 dated 26-09-2022 & 11859088 dated 30-8-2022	11.00
2.	S-257/2023-24	Claim for 22,000 liter of IS POL was submitted to the Provincial government against the flood relief duty	5.526

Total	16.526
--------------	---------------

Audit is of the view that the non-availability of expenditure record pertaining to grant and non-providing justification for claim against IS POL in flood duties which creates doubt about the actual utilization of the grant/POL claimed.

The matter was pointed out by audit in December, 2023. In case of DP S-257, the management did not furnish the reply. The management of DP S-236, replied that funds deposited by civil society directly in Army Flood Relief Account and the office did not have access on such account. Reply of management is admissibility of irregularity for non-provision of record pertaining to grant in aid received from civil society organization and Provincial Government.

The DAC in its meeting dated 18.01.2024, shifted the DP S-257 to Budget Directorate for further response. DP S-236 was not discussed due to absence of management representative. No progress was reported till finalization of this report.

Audit recommends seeks justification in the matter.

DP-S-236 & 257/2023-24

B. During audit of record pertaining to Donor Assistance for Flood Relief- 2022 of Army Formations for the financial year 2022-23, it was observed that in-kind grant was issued by NDMA, but the same remained untraceable. The details are as under:

Sr. No.	DP No.	Remarks
1.	S-305/2023-24	Tab Reset (Paracetamol) 500 mg received from donor countries but neither distributed to flood victims nor issued to other Formations.
2.	S-238/2023-24	Formation received 623,756 units of in-kind items from NDMA out of allocated grant, 300,040 units was distributed, however record of 323,716 units was still not traceable.
3.	S-322-A/2023-24	Formation received 103950.14 units (208 vouchers of NDMA) of in-kind items from NDMA out of allocated grant 7,777.32 units (48 vouchers) were distributed, however record of 323,716 units (160 vouchers) was not traceable.
4.	S-324-B/2023-24	Formation received 125 tons of cement from NDMA, out of which only 62.5 tons was distributed and record of remaining 62.5 tons was not traceable.

Audit is of the view that the non-availability of expenditure pertaining to in-kind items which creates doubt about the actual utilization of the items.

The matter was pointed out by audit in December, 2023. In case of DP S-238, the management did not furnish the reply. In case of DP S-305, the management replied that distribution of medicine was made by Army Medical Formation but out of allocation some medicines including the objected items were further distributed to another Army Formation. In case of DP S-322, the management replied that in-kind items were received from different sources (i.e. NDMA & HQ) through 148 vouchers instead of 208 vouchers and same was provided to audit for verification and also been communicated to HQs. In case of DP S-324, the management replied that all received quantity of cement was distributed as per nominal roll items received and were never kept in stores. Reply is not tenable as no documentary evidence was provided for distribution of items.

The DAC in its meeting dated 18.01.2024, directed the management in DP S-305, S-322 & S-324, to provide relevant record of medicines/in-kind items, distributed to flood victims to audit for verification within one month. DP S-238, was not discussed due to absence of management representative. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-238, 305, 322 & 324/2023-24

6.9.2 Non-production of record pertaining to grant-in-kind items received through NDMA

A. As per Article 169 of Constitution of Pakistan 1973 – Functions and Powers of Auditor-General of Pakistan and Article 170 as amended vide 18th Amendment, “The audit of the accounts of the Federal and Provincial Government and the accounts of any authority or body established by, or under the control of, the Federal or Provincial Government shall be conducted by the Auditor-General, who shall determine the extent and nature of such audit.” Furthermore, under Clause 14(c)(3) of AGP Ordinance 2001, “Any person or authority hindering the auditorial functions of the Auditor-General regarding inspection of accounts shall be subject to disciplinary action under relevant Efficiency and Disciplinary Rules.”

During audit of Donor Assistance for Flood Relief- 2022 of two (02) Army Formations for the Financial Year 2022-23, the record related to in-kind items (receipts, utilization and onward distribution) received from the donor countries through NDMA was

not provided despite reminders and taking up the matter with the Ministry of Defence and Army Budget Directorate. The details are as under:

Sr. No.	DP No	Nature of grant
1.	DP-S-280/2023-24	In- Kind Items
2.	DP-S-281/2023-24	In- Kind Items

Audit is of the opinion that the non-production of the record reflected negligence on part of the management besides, it creates doubt on the utilization of the in-kind grant items for the flood victims.

The matter was pointed out by Audit in 2023. The management for DP-S-280/2023-24 replied that flood relief donation articles had not been received/ collected by this HQs from friendly countries. In case of DP-S-281/2023-24, the management replied that available documents were provided to audit and remaining documents would be produced. Both the replies were not tenable as the details of the articles handed over to the Formations by the NDMA were also shared yet no record was provided to Audit.

The DAC in its meeting dated 18.01.2024, in case of DP S-280, directed the management of the concerned Division to provide the details of in-kind grant received from NDMA and its further distribution/utilization, to audit for verification within one month. In case of DP S-281, DAC directed the management of concerned Corps to provide the details of in-kind grant received from NDMA and its further distribution/utilization, to audit for verification within one month. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

DP-S-280 & 281/2023-24

6.10 Recoverables / Overpayments – Rs.1.268 million

6.10.1 Non-recovery of Income Tax and Sales Tax on Services – Rs. 1.268 million

According to Income Tax Ordinance 2001 (withholding provisions), “Payment for goods, services and execution of contracts under Section 153(1)(C) Person(s) liable to deduct tax, Federal Government from whom resident person at the Rate 7.5% on Contract (by a person other than a company).” Furthermore, according to the Finance Act 2015,

“The tax will be deducted at source @ 15% from non-filers.” In-addition to this, according to Sindh Revenue Board Notification No. SRB-3-4/11/2019 dated 27-06-2019, “5% Sales Tax on Services shall be chargeable w.e.f 01-07-2019 on account of Construction Services in relation to Government Civil Works for which the expenditure is paid out of the expenditure budget of the Federal Government or the Provincial Government or the Local Government or the Cantonment Board.”

During audit of record pertaining to Donor Assistance for flood relief- 2022 of an Army Medical Formation for the Financial Year 2022-23, it was observed that payment amounting to Rs.10.146 million was paid to contractor against construction work and supply of air-conditioners without recovery of Sales Tax on Services @ 5% amounting to Rs.0.507 million and income tax @7.5% amounting to Rs.0.761 million as tabulated below:

Rs in million

Sr. No.	Particulars	PV No. / Date	Amount Paid	Provincial Sales Tax Due @ 5%	Income tax due @ 7.5%	Cheque No. & Date
1	Construction of Neonatal ICU ward	282 / 12-01-2023	2.306	0.115	0.173	00535144 12-01-23
		258 / 20-12-2022	2.306	0.115	0.173	00535130 20-12-22
		401 / 02-03-2023	2.306	0.115	0.173	00535184 01-03-23
		468 / 04-05-2023	1.500	0.075	0.112	00563750 04-05-23
2	Installation of partition, AC's and Misc. items in Neonatal ICU ward	259 / 20-12-2022	0.700	0.035	0.052	00535129 20-12-22
3	Construction of waiting area in Neonatal ICU ward	328 / 24-01-2023	1.027	0.051	0.077	00535146 24-01-23
Total			10,145,885	0.507	0.760	

Audit is of the view that due to the non-recovery of the taxes; the government was deprived of revenue which indicated weak internal controls within the organization.

The matter was pointed out by Audit in December 2023. The management did not furnish any reply.

The DAC in its meeting dated 18.01.2024 directed to hold Court of Inquiry, fix responsibility against the person(s) at fault, share the inquiry report with audit for verification after endorsement from PAO. No progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.



AUDIT REPORT
ON
THE ACCOUNTS OF
NHA, CDA, MCI, CAA, PAK. PWD,
ESTATE OFFICE,
PHAF, NCL, HEC,
SIDCL, GPA AND FBR

GOVERNMENT OF PAKISTAN

AUDIT YEAR 2023-24

AUDITOR-GENERAL OF PAKISTAN

DIRECTORATE GENERAL AUDIT FEDERAL (WORKS)

CHAPTER 1

PUBLIC FINANCIAL MANAGEMENT

1.1 Sectoral Analysis

Ministry of Planning, Development and Special Initiatives, under Rules of Business, 1973, is responsible for preparation of comprehensive National Plan for the economic and social development of the country and formulation of an annual development programme. The Ministry is also responsible for monitoring the implementation of all major development projects and programmes. The Public Sector Development Programme (PSDP) prepared by the Ministry is an important part of public sector investment, which channels domestic and foreign resources to implement the development programmes and projects prepared by the federal, provincial and local agencies. PSDP funds are released to the executing departments/organizations through Ministry of Finance.

PSDP allocations during last five years reflect mixed trend. These increased by 3.85 percent in the financial year 2019-20 as compared to 2018-19. It was followed by a declining trend in 2020-21 and 2021-22. It again increased by 43 percent in 2022-23 as depicted in the following histograms.

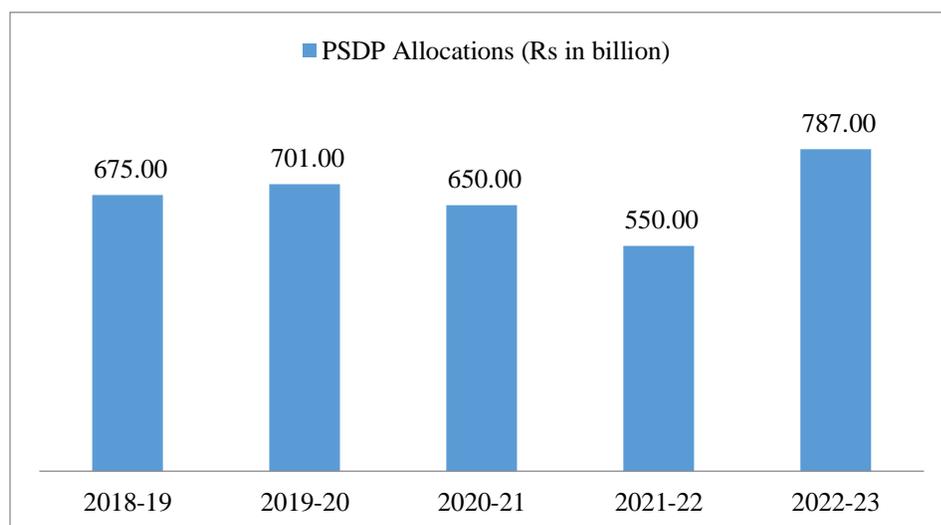


Figure: PSDP Allocations for last five years (Source: PSDP Archive and Year Books - Ministry of Planning, Development and Special Initiatives)

It is worth mentioning that original allocations for the year 2021-22 were Rs 900 billion, which were subsequently revised to Rs 550.00 billion. Moreover, original allocations for the year 2022-23 were Rs 800 billion, which were revised as Rs 787 billion.

Infrastructure development works of federal government are executed by specialized department, namely Pakistan Public Works Department, development authorities/agencies like National Highway Authority, Capital Development Authority, Civil Aviation Authority, Federal Government Employees Housing Authority, Pakistan Housing Authority Foundation, Higher Education Commission, Sindh Infrastructure Development Company Limited, Gwadar Port Authority, etc., and also by some ministries/departments concerned. The public sector autonomous organizations - such as CAA, CDA, FGEHA, PHAF, etc. – generate their own resources for implementing development programmes. However, CDA and CAA also receive PSDP funds for certain projects. NHA, though generates its own resources, it also receives Cash Development Loan (CDL) from federal government and foreign loans through PSDP of Ministry of Communications for execution of development projects.

The Directorate General of Audit Works (Federal), Islamabad is mandated to carry out audit of the Federal Government entities engaged in construction works, i.e., NHA, CDA, CAA, Pak PWD, FGEHA, NCL, PHAF, SIDCL, HEC (PSDP/Infrastructure development works executed by federally chartered universities/institutions), Ministry of PD&SI (Special Project Cell), Gwadar Port Authority (GPA) and Federal Board of Revenue (FBR). These entities received 30% (Rs 218.624 billion) of the total federal PSDP funds for financial year 2022-23 (Rs 731.662 billion). Out of it, Pak PWD got Rs 102.103 billion including funds for Sustainable Development Goals and NHA got Rs 94.168 billion, including Rs 20.117 billion for adjustment at source against Foreign Aid-Cash Development Loan.

There are two main sectors under the Audit jurisdiction of Directorate General of Audit Works (Federal), Islamabad as follows:

Communication and Transport which includes National Highway Authority in Road Infrastructure Sector and Civil Aviation Authority in Aviation Sector.

Housing & Physical Planning which includes Pakistan Public Works Department, Pakistan Housing Authority Foundation, Federal Government Employees Housing Authority and Capital Development Authority/Metropolitan Corporation Islamabad.

The development spending trend of the departments (including PSDP and self-generated financial resources) under auditorial jurisdiction of this office during last five years is as under:

Year-wise Development Expenditure of Departments

Department	Expenditure (Rs in billion)				
	2018-19	2019-20	2020-21	2021-22	2022-23
NHA	185.62	155.119	98.147	81.269	94.168
CAA	13.98	9.01	12.408	14.564	10.084
PPWD	3.09	5.52	24.397	21.532	102.103
PHAF	4.04	2.39	2.832	4.333	4.625
FGEHA	5.94	3.14	7.865	8.958	10.446
CDA/MCI	2.69	2.85	9.005	28.442	39.599
HEC	3.05	4.54	3.496	6.579	4.004
SIDCL	6.94	5.05	7.229	4.790	3.185
GPA	1.59	3.83	4.014	0.915	0.015
FBR	-	-	7.041	9.60	8.406
Total	226.94	191.449	176.434	180.982	276.635

Source: Expenditure statements/Financial statements for the years 2018-19 to 2022-23 of the departments concerned

The above table indicates that development expenditure of these departments has a downward trend after 2018-19 till 2020-21 and then a rising trend in 2021-22 and 2022-23.

Sector-wise analysis is as follows:

Communication and Transport

Road Infrastructure

Transport sector in general and road infrastructure in particular have an enduring effect on economic growth of Pakistan. NHA is responsible to plan promote, organize and implement construction, development, operation, repair and maintenance of 48 national highways, motorways, expressways and strategic roads (14,480 km)¹⁰ which is 5% of total national road network (263,775 km). It supports 80% of commercial traffic.

Pakistan Vision 2025 envisages increase in road density from around 260,000 km to 358,000 km. NHA has aspired to double the road density till 2025 by increasing the Public-Private Partnership (PPP). It has been seeking for interested local, as well as, foreign firms for investment. Sambrial-Kharian, Kharian-Rawalpindi and Sukkur-Hyderabad Sections of National Highways have been awarded by NHA on PPP mode.

Through Medium Term Budgetary Framework (Performance Based Budget 2022-23 to 2024-25), the Government of Pakistan set and assign medium term priorities for development and improvement of various sectors. As per MTBF, NHA is responsible for development of road infrastructure, its expansion and maintenance. NHA has planned to embark on various programmes for construction of new roads/bridges and improvement/rehabilitation of the existing infrastructure.

Through China-Pakistan Economic Corridor, NHA is connecting Khunjerab to Gwadar. Short term projects of eastern alignment include Construction of Karakorum Highway Havelian-Thakot Section (118 km) and Sukkur-Multan Section of Peshawar-Karachi Motorway (392 km). These sections had been completed by NHA through foreign loan. CPEC Western alignment project Dera Ismail Khan-Hakla (285 km) had been substantially completed through Federal Government funding and was open to traffic from 05.01.2022, as a key milestone.

¹⁰ Pakistan Economic Survey 2022-23

Among other CPEC projects, “Construction of Eastbay Expressway at Gwadar Port” (financed through China loan) had been completed by GPA as a part of modernization of port facilities under CPEC and maritime linkage. This project will connect Gwadar Port with hinterland through M-8 and Makran Coastal Highway. The project has been completed and inaugurated in June 2022.

Development portfolio of NHA

NHA development portfolio for the year 2022-23 is as under:

Description	No. of projects	Allocations (Rs in million)		
		Foreign	Local	Total
Ongoing Projects	64	21,500.000	64,788.281	86,288.281
New Projects	46	1,000.000	22,295.121	23,295.121
Sub-Total	110	22,500.000	87,083.402	109,583.402
BOT/PPP Projects	05	0	7,670.000	7,670.000
Grand Total	115	22,500	94,753.402	117,253.402

Source: NHA PSDP Utilization Status Report for the year 2022-23

PSDP budget was revised as Rs 98,641.878 million (Foreign Rs 22,500 million and Local Rs 76,141.880 million). Actual authorization/disbursement against the budgeted PSDP was Rs 94,167.500 million including local component of Rs 76,141.88 million and foreign component of Rs 18,025.621 million.

Overall utilization of PSDP funds was Rs 94,070.999 million, which includes local component of Rs 54,542.595 million, foreign component of Rs 18,025.621 million, CDL adjustment of Rs 20,117.853 million and BOT projects amounting to Rs 1,384.930 million.

There were 46 new schemes with original allocation of Rs 23,295.121 million, subsequently revised to Rs 12,745 million. Only two of the new schemes could be initiated physically and expenditure of Rs 3,281.320 million (25.74%) was incurred on civil works against new schemes. One out of 46 new projects involved foreign assistance, but the project could not be started. This indicates that new schemes could not be implemented as per planned targets. There were 64 ongoing projects but, no expenditure was incurred against 11 projects during the financial year 2022-23. As such, construction activity on ongoing projects was also not according to the planned targets.

Public-Private Partnership

Allocation in original PSDP for 2022-23, included five BOT projects for Rs 7,670.000 million as Viability Gap Funding (VGF). However, in only one project “Construction of Kharian-Rawalpindi Motorway” upfront VGF of Rs 1,369.00 million was released. In another project, “Construction of Sialkot (Sambrial)-Kharian Motorway”, awarded on 13.09.2021, the concessionaire M/s Sialkot-Kharian Infrastructure Management (SKIM) Pvt. Ltd did not achieve financial close as required within six months, despite release of Rs 4,000.00 million as VGF by NHA in June 2022. Another project “Construction of Hyderabad-Sukkur Motorway” could not be started despite execution of concession agreement in December 2022. As such, investment opportunities through PPP mode have not been exploited optimally by NHA as no activity could be undertaken against most of the PPP projects.

Maintenance of road network

As per performance indicator given in Medium Term Budgetary Framework (Performance Based Budget 2022-23 to 2024-25) road maintenance of 10,700 km was planned during 2022-23. Planned activities of current and previous years were not carried out accordingly which resulted in deterioration of road network. Annual Maintenance Plan (AMP) prepared by NHA has not been implemented efficiently.

Current year’s AMP (2022-23) was estimated at Rs 84,169.260 million but, no expenditure could be incurred. In addition to the current estimation, a sum of Rs 114,772.661 million was provided in AMP for previous year’s liabilities and only Rs 41,527.636 million were spent on road maintenance activities, which indicated poor performance of the maintenance units of NHA all over Pakistan. Delay in implementation of AMP results in difficulties for road commuters, including life threats, and higher economic cost due to inflation. Further, delay in execution causes deterioration of road network and resultant enhancement of the scope of work.

Revenue Collection

NHA has lawful authority to collect revenue for operation and maintenance of its road network. The collection broadly pertains to (i) Revenue from tolls and (ii) Revenue from commercialization of ROW. Medium term outcome, envisaged in MTBF 2022-25, includes improvement of socio-economic conditions of the people through development, expansion and maintenance integrated road network. This requires more funds for preservation and improvement of road network.

a. Toll Revenue

An analysis of toll collections shows that there was steady rise in 2020-21 and 2021-22, mainly due to increase in road network, however, it decreased during 2022-23. The decrease in toll revenue in the year 2022-23 is due to award of toll collection contract of Lahore-Abdul Hakeem, Multan-Sukkur, Pindi Bhattian-Multan, Islamabad-Peshawar, Hassan Abdal-Havelian and Hakla-D.I Khan Motorways on 32.5% O&M cost causing decrease in net toll income. Comparative analysis is shown in the following table:

NHA Toll Collection Analysis for the years 2015-16 to 2022-23

Year	Toll Collection (Rs in million)	Increase/(Decrease) (Rs in million)	Percentage Increase/ (decrease)
2015-16	15,563.00	---	---
2016-17	18,504.00	2,941.00	18.89 %
2017-18	19,191.00	687.00	3.71 %
2018-19	23,052.00	3,861.00	20.12 %
2019-20	25,573.00	2,521.00	10.94%
2020-21	29,657.00	4,084.00	15.96%
2021-22	35,063.00	5,406.00	18.23%

Year	Toll Collection (Rs in million)	Increase/(Decrease) (Rs in million)	Percentage Increase/ (decrease)
2022-23	33,399.37	(1,663.63)	(4.74%)

Source: Financial statements for the years 2015-16 to 2022-23

b. Revenue from commercialization of ROW

Revenue generation through commercialization of Right of Way (ROW)/rent shows a visible increase in 2020-21, decrease in 2021-22 and then again increase in 2022-23, though 25% less than the estimated receipt of Rs 3,193.39 million.

NHA Right of Way Income for the years 2015-16 to 2022-23

Years	Total (Rs in million)
2017-18	1,912.914
2018-19	1,910.758
2019-20	1,938.077
2020-21	3,644.000
2021-22	2,164.260
2022-23	2,372.320

Source: Financial statements and information provided by NHA for the years 2017-18 to 2022-23

Institutional sustainability

Due to inefficient revenue management, NHA is unable to generate matching resources to rehabilitate/maintain the existing road network, as well as, repay the cash development loan from Federal Government. Due to non-payment of cash development loan by NHA, Ministry of Finance has made deduction at source from releases of PSDP during 2022-23 (Rs 20,117.853 million i.e., 21.36% of total releases of Rs 94,167.500 million). This has adversely affected the cash flows for development projects, resulting in hampering of physical progress and subsequent throw forward to the next financial year with resultant cost overrun.

NHA is facing financial deficit with varying trend (operating income versus operating expenses) mainly due to depreciation expense in Income and Expenditure Account/financial statements. Detail is as under:

NHA Financial Deficit Analysis

(Rs in billion)

	2018-19	2019-20*	2020-21	2021-22*	2022-23**
Deficit after taxation	171.050	135.476	254.568	169.504	413.454

* Restated figures in the financial statements

** As per draft financial statements for the year 2022-23

Sharp increase in deficit for the year 2022-23 is mainly due to disclosure of “Finance Cost” on account of mark-up on long terms loans for Rs 153.159 billion, which was shown as “Nil” in the year 2021-22.

Non-current and current liabilities i.e., long term loans (Cash Development Loan) also have a rising trend:

NHA’s Non-Current and Current Liabilities Analysis

(Rs in billion)

	2018-19	2019-20*	2020-21	2021-22*	2022-23**
Local (GoP, Provincial Govt.)	890.127	1,012.360	1,112.887	1,170.016	1,244.124
Foreign Loan	667.405	723.158	733.292	781.238	853.730
Total	1,557.532	1,735.518	1,846.179	1,951.254	2,097.854
Mark-up on long term loans	621.424	709.029	841.263	841.263	1,061.319

* Restated figures in the financial statements

** As per draft financial statements for the year 2022-23

The Authority has current liability of re-payment of mature long term loans of Rs 481.016 billion and interest thereon amounting to Rs 1,061.319 billion.

Governance issues

From the PDPs issued to the Ministry of Communications, Audit observed partial or complete deviation from compliance processes i.e., non-conducting physical inspection of ongoing works at initial and middle stage, non-finalization of accounts, non-implementation of Annual Maintenance Plan, inefficient utilization of ROW for revenue generation, execution of below standard works, inability to manage debt servicing, inefficient axle load regime, inadequate implementation of PSDP and delay in award of works, non-adherence to PPRA/Planning Commission's guidelines, mis-management in EPC/turnkey contract implementation/non-adjustment of cost of un-executed works, execution of works over and above the approved PC-I, inadequate planning leading to a series of variation orders during execution, etc. (Paras 2.4.1, 2.4.2, 2.4.3, 2.4.5, 2.4.6, 2.4.7, 2.4.8, 2.4.9, 2.4.10, 2.4.13, 2.4.21, 2.4.23, 2.4.30, 2.4.32)

The analysis of observations revealed that major deviations are due to weak internal controls, non-adherence to contract spirit, late financial releases and improper planning, execution and monitoring.

The sector may witness improvement if internal controls are strengthened, proper planning, execution and monitoring is done diligently to ensure timelines and thus reduce cost overruns, escalation and change in scope during the execution.

Aviation Sector

As per Pakistan Vision 2025 a key objective related to the aviation sector, will be enhancement of the cargo and passenger infrastructure and handling capacity at important airports to meet the delivery needs of a modern global supply chain. Further, a revised civil aviation policy will be formulated.

National Aviation Policy stipulates separation of regulatory and service provision functions in CAA, promotion of import and export through air cargo villages and upgradation of airports. Pakistan Civil Aviation Ordinance, 2021 and Pakistan Airports Authority, Ordinance 2021 have been promulgated in line with National Aviation Policy. Air cargo villages were not established by CAA so far and adequacy of operation of air routes of politically and socially deprived locations was not determined so far.

On 31.12.2022, Government of Pakistan decided to outsource the operational management of the Jinnah International Airport Karachi, Allama Iqbal International Airport Lahore and Islamabad International Airport to international operators, in order to attract foreign investment. The same is at tendering stage.

Development portfolio

Annual Development Programme of CAA contained allocation of Rs 19,909.009 million for infrastructure development/upgradation of airports for the financial year 2022-23.

CAA has taken up the initiative of upgradation/extension of airports at Lahore, Faisalabad, Peshawar, Quetta and Karachi, as per Aviation Policy. Work at Peshawar has been completed and works at other stations, except Karachi, are in progress. Upgradation work at Karachi airport is at tendering stage. Another project “Construction of New Gwadar Airport”, is also one of the performance indicators towards compliance of International Civil Aviation Organization standards, which is under execution by CAA under China grant. Airport at Skardu has been upgraded. Development/construction of Green Field aerodrome for general aviation activities at Muridke, near Sheikhpura, has also been initiated as a substitute of Walton Aerodrome.

Revenue collection

CAA has a good stream of revenue on account of aeronautical and non-aeronautical activities. Analysis of revenue collections during last five years (shown below) indicates a steady rise except 2019-20, and 2020-21.

CAA's Revenue Collection Analysis

Type of Revenue	Amount realized (Rs in billion)				
	2018-19	2019-20	2020-21	2021-22	2022-23
Aeronautical	77.148	57.181	38.936	75.552	124.195
Non-Aeronautical	8.978	9.174	10.401	12.322	14.360
Total	86.126	66.355	49.337	87.874	138.555

Source: Financial Statements for the years 2018-19 to 2022-23

Due to the spread of Covid-19, reduction in passenger and air traffic, the aeronautical revenue of the Authority in 2020-21 (Rs 38.936 billion) decreased by 31% as compared to previous years realization of Rs 57.181 billion and by 49% as compared with actual aeronautical revenue realized during 2018-19 (Rs 77.148 billion), a Pre-Covid situation. However, during 2021-22 and 2022-23 it has raised tremendously.

Governance issues

Audit has observed that major issues in this sector have been non-realization of due revenue, especially from Pakistan International Airlines, non-maintenance of Measurement Books, encroachment of CAA land, mismanagement in award of concession/licenses, human resource issues, etc. (Paras 4.4.1, 4.4.5, 4.4.15, 4.4.17, 4.4.21, 4.4.51)

The analysis of the audit observations revealed that the deviations are due to weak internal controls and improper monitoring.

Housing and Physical Planning

As per Rules of Business 1973, Housing and Works Division is responsible for development of sites, construction, furnishing and maintenance of Federal Government buildings, except those under the Defense Division and Ministry of Foreign Affairs. Pak PWD, FGEHA, PHAF and Naya Pakistan Housing and Development Authority (NAPHDA) are the implementing arms of Housing and Works and Cabinet Division to discharge with the assigned responsibilities.

Pak PWD is responsible for construction and maintenance works (Buildings and Roads) of the Federal Government. The FGEHA is authorized to initiate, launch, sponsor and implement Housing Schemes for Federal Government Employees in major cities of Pakistan, to make and assist, as far as possible, each of them to have house at the time of retirement or earlier. PHAF is mandated to provide shelter and to reduce the housing shortfall in Pakistan.

CDA and MCI under the administrative control of Interior Division are responsible for development of new sectors, allotment and transfer of plots, maintenance of sectors, municipal services, provision of health and medical services in Islamabad and Federal Capital Territory, etc.

Governance Issues

Pak PWD incurred development expenditure of Rs 99,292.592 million during the financial year 2022-23. Audit observed through test check that 25 out of 55 Divisions incurred expenditure of Rs 26,770.528 million in June 2023, which constituted 70% of total expenditure. The disproportionate expenditure casts serious doubts on the credibility and physical execution of the development works in the closing month of the financial year. (Para 1.2.1)

CDA auctioned commercial plots in various sectors having different sizes. Audit observed that back-up record i.e., detailed calculations of average auction prices, calculation of GPI, market trend of prices/analysis, calculation of reserve price, etc., was not available in the record. Matters relating to private housing societies and construction activities for residential and commercial buildings have not been properly monitored. (Para 3.4.1, 3.4.57, 3.4.63, 3.4.65, 3.4.73)

1.2 Issues relating to Financial Attest Audit of Appropriation Accounts of Pakistan Public Works Department

Pakistan Public Works Department (Pak. PWD) maintains its accounts as a self-accounting entity. Directorate General of Audit Works (Federal), Islamabad conducted Financial Attest Audit of the Appropriation Accounts of Pak. PWD as per Section 7 of the Auditor-General's (Functions, Powers and Terms and Conditions of Service) Ordinance, 2001. The results of Financial Attest Audit were reported to the Department through Management Report. Audit para is as follows:

1.2.1 Financial indiscipline due to rush of expenditure - Rs 26,770.528 million

Rule 96 of General Financial Rules (Vol-I) provides that it is contrary to the interest of the State that money should be spent hastily or in an ill-considered manner merely because it is available or that the lapse of a grant could be avoided. In the public interest, grant that cannot be profitably utilized should be surrendered. The existence of likely saving should not be seized as an opportunity for introducing fresh items expenditure which might wait till next year. A rush of expenditure particularly in the closing months of the financial year will ordinarily be regarded as a breach of financial regularity.

Development expenditure of Rs 99,292.592 million was incurred against Grant No. 128 (Capital Outlay) during the financial year 2022-23. Audit observed that there was huge spending in the closing month of June 2023. An analysis of spending trend indicated that 25 out of 55 Divisions incurred expenditure of Rs 26,770.528 million in June 2023, which constituted 70% of total expenditure of Rs 38,239.825 million incurred by these Divisions (**Annexure-A**). The disproportionate expenditure casts serious doubts on the credibility and physical execution of works which require certain minimum time for curing and testing before payment. This hasty expenditure approach during the closing months led to financial mismanagement and indiscipline.

Audit maintains that rush of expenditure occurred due to weak financial management.

Audit pointed out the matter of hasty expenditure in November 2023, but the management did not reply.

The matter was discussed in DAC meeting held on 29.11.2023 wherein Department explained that payments were made in closing months due to late release of funds. Audit contended that it is a systemic

issue. DAC directed Director General Pak PWD to provide physical reports of the schemes to Audit for evaluation.

Audit recommends compliance of DAC directive regarding report on status of physical execution of the schemes.

(Para 04 of Management Letter)

CHAPTER 2

NATIONAL HIGHWAY AUTHORITY

(MINISTRY OF COMMUNICATIONS)

2.1 Introduction

A. National Highway Authority (NHA) was established in 1991 through an Act of Parliament. The purpose and functions of the Authority are to plan, promote, organise and implement programmes for construction, development, operation, repair and maintenance of national highways and strategic roads specially entrusted to it by the Federal Government or by a Provincial Government or any other authority concerned.

NHA is under the administrative control of Ministry of Communications (Communications Division). As per Schedule II of the Rules of Business, 1973, business assigned to Communications Division includes national policy, planning, research and international aspects of roads and road transport; national highways and strategic roads; National Highway Council and Authority; administration of the Central Road Fund and Fund for Roads of National Importance.

NHA has its headquarters at Islamabad with regional offices at Peshawar, Abbottabad, Burhan, Gilgit, Kallar Kahar, Mianwali, Lahore, Multan, Karachi, Sukkur, Quetta, Khuzdar and Gwadar.

B. Comments on Budget and Accounts (Variance Analysis)

Table below shows fund-wise position of budget allocation and actual expenditure (with reference to nature of fund) of NHA for the financial year 2022-23:

(Rs in million)

Type of Funds	Budget Allocation	Actual Releases	Expenditure
Non-Development	221,614.511	58,007.728	58,007.728
Maintenance Grants (GoP)	8,645.000	6,454.500	6,454.500
Road Maintenance Account	88,171.26	-	-
Provision against previous years AMP	114,772.661	41,527.636	41,527.636
Operating Expenditure (Pay & Allowances and Operational Expenditure)	10,025.592	10,025.592	10,025.592
Development	98,641.878	95,340.215	95,340.215
PSDP (Local)	76,141.88	76,141.88	76,141.88
Foreign Loans (Development)	22,500.000	18,025.620	18,025.620
Deposit Works (Shatiyal Thor Nullah Bypass)	-	1,172.717	1,172.717
Grand Total	320,256.389	153,347.944	153,347.944

Source: Utilization Reports/Expenditure statements provided by NHA

Operating income of NHA for the financial year 2022-23 is as under:

(Rs in million)

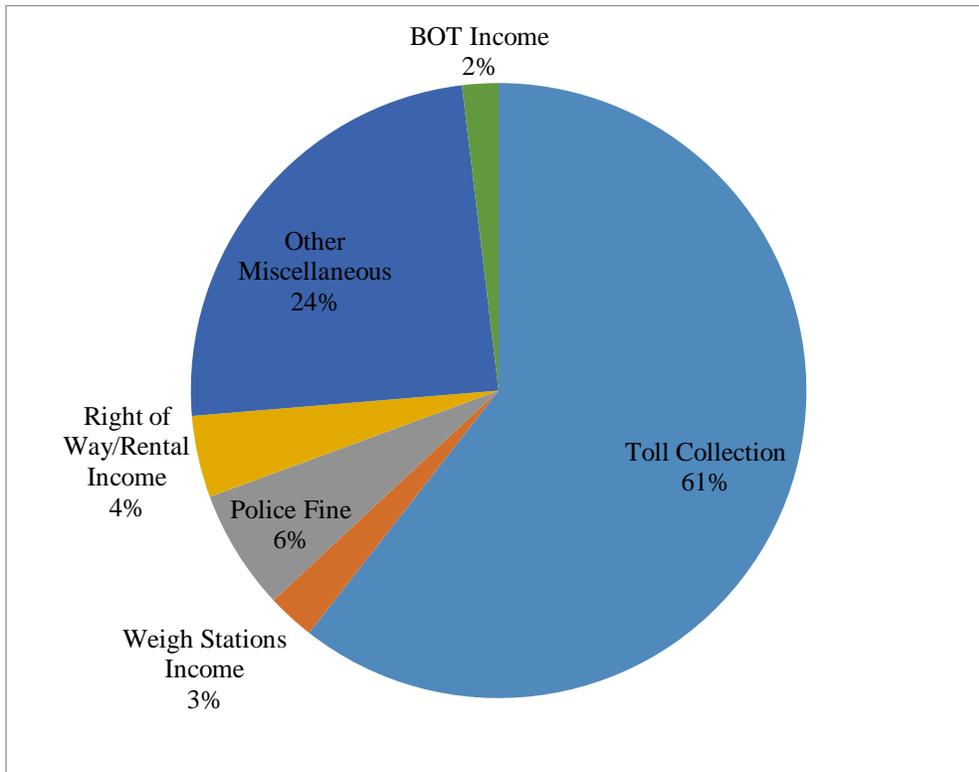
S. No	Head	Estimated Revenue	Actual Receipt Realized	Excess/ (Shortfall)	Percentage Excess/ (Shortfall)
1	Toll Collection	35,673.87	33,399.37	(2,274.50)	(6.38%)
2	Weigh Stations Income	1,058.98	1,377.06	318.08	30.04%
3	Police Fine	2,636.50	3,489.93	853.43	32.37%

S. No	Head	Estimated Revenue	Actual Receipt Realized	Excess/ (Shortfall)	Percentage Excess/ (Shortfall)
4	Right of Way/Rental Income	3,193.39	2,372.32	(821.07)	(25.71%)
5	Other Miscellaneous	7,000.00	13,463.60	6,463.60	92.34%
6	BOT Income	1,049.00	1,049.00	-	0.00%
Total		50,611.74	55,151.28	4,539.54	8.97%

Source: Income statement provided by NHA

Percentage of head-wise revenue collection of NHA for the year 2022-23 is given in the following pie chart:

Head-wise Percentage of Revenue



Comments on ‘Receipt and Expenditure Account’ of NHA for the financial year 2022-23 are as under:

NHA made provision of Rs 88,171.26 million for maintenance of roads in the budget estimates for the financial year 2022-23, but no releases were made during the year 2022-23 for the current year maintenance plan. The financial resources of Rs 41,527.636 million were utilized towards clearance of liabilities for the previous years.

NHA engaged M/s Baker Tilly Mehmoood Idrees Qamar, Chartered Accountants, Islamabad, for third party audit of the Financial Statements of NHA as at 30.06.2023 without concurrence of the Auditor-General of Pakistan as required. (DP. 422)

There exists no mechanism for assessment of annual revenue income in NHA. Therefore, overall increase in estimated revenue does not show the real achievement. However, Right of Way/Rental Income was estimated at Rs 3,193.39 million against which income of Rs 2,372.32 million was realized, leaving a short fall of Rs 821.07 million (25.71%).

C. Audit Profile of NHA

S. No.	Description	Total	Audited	Expenditure audited FY 2022-23 (Rs in million)	Revenue/ Receipts audited FY 2022-23 (Rs in million)
1	Formations	58	23	82,982.91	-
2	Assignment Accounts SDAs, RFAs (Excluding FAP)	132	132*	-	-
3	Foreign Aided Projects (FAP)**	08	08	19,998.97	-

* Three Assignment Accounts for Maintenance Grants for national highways, KKH Thakot Khunjerab Road, KKH Skardu Road, Torkham-Jalalabad Road and Mianwali Road and 129 Assignment Accounts for Cash Development Loan under PSDP (including 08 Assignment Accounts of foreign-aided projects). Expenditure audited shown against formations is inclusive of Assignment Accounts and own resources of NHA.

** Financial Attest Audit Reports submitted to Economic Affairs Division and Development Partners concerned. Significant audit observations have been included in this report. This figure includes PSDP/non-PSDP loans, grants and counterpart Government funds. This also includes two CPEC related projects involving expenditure of Rs 13,880.455 million.

Note: In addition to above, four formations audited during Phase II of 2022-23 involving expenditure of Rs 7,051.54 million and results incorporated in this report.

2.2 Classified summary of audit observations

Audit observations amounting to Rs 373,279.054 million are raised in this audit report. This amount also includes recoverable of Rs 20,550.846 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

Overview of audit observations

S. No.	Classification	Amount (Rs in million)
1	Irregularities	
A	Procurement/award related irregularities	37,634.030
B	Execution of works, contract agreement	209,010.672
C	Management of accounts with commercial banks	1,224.567
2	Value for money and service delivery issues	5,411.859
3	Revenue related issues	80,975.467
4	Others	39,022.459
Total		373,279.054

Note: Amount of audit observations exceeds audited outlays due to issues like award of works which involve future spending, amount covering multiple previous years of spending, multiple reckoning of monetary impact in different audit observations pertaining to same transaction, etc.

2.3 Brief comments on the status of compliance with PAC's directives

Compliance position with PAC's directives on previous Audit Reports relating to NHA is as under:

Year	Total Paras	Total No. of Paras Discussed	Compliance Made	Compliance Awaited	Percentage of compliance
1987-88	10	10	8	2	80
1989-90	3	3	2	1	66.67
1990-91	9	9	8	1	88.89
1991-92	31	31	25	6	80.65
1992-93	88	88	83	5	94.32

Year	Total Paras	Total No. of Paras Discussed	Compliance Made	Compliance Awaited	Percentage of compliance
1993-94	117	117	26	91	22.22
1994-95	38	38	34	4	89.47
1995-96	25	25	23	2	92
1996-97	45	45	42	03	93.33
1997-98	468	468	358	110	76.50
1998-99	177	177	154	23	87.01
1999-00	185	185	130	55	70.27
2000-01	244	244	213	31	86.58
	2 PAR	2 PAR	-	2 PAR	0
2001-02	70	70	43	27	61.43
2002-03	21	21	10	11	47.62
2003-04	50	50	36	14	72
2004-05	27	27	19	08	70.37
2005-06	30	30	25	05	83.33
2006-07	65	65	50	15	76.92
2007-08	36	36	13	23	36.11
2009-10	AR-71	71	40	31	56.34
2009-10	PAR-20	20	3	17	15
2008-09	SAR-120	4	-	4	0
2010-11	86	86	43	43	50
	16 PAR	16	1	15	6.25
	24 PAR	24	11	13	45.83
	36 PAR	36	18	18	50.00
2011-12	58	03	03	0	100

Year	Total Paras	Total No. of Paras Discussed	Compliance Made	Compliance Awaited	Percentage of compliance
2013-14	45	45	14	31	31.11
2014-15	60	16	7	9	11.67
2015-16	117	10	02	08	20.0
2016-17	205	33	15	18	45.45
2017-18	95	27	10	17	37.00
2018-19	77	41	9	32	21.95
2019-20	110	42	30	12	71.42

Note: Audit Reports for 2020-21, 2021-22 and 2022-23 were not discussed by PAC till the finalization of this Audit Report. Whereas Audit Reports for 1997-98, 2008-09 (Special Audit Report FY 2005-08), 2011-12, 2012-13, 2014-15, 2015-16, 2016-17, 2017-18, 2018-19 and 2019-20 were partially discussed.

2.4 AUDIT PARAS

2.4.1 Non-conducting of required physical inspection of projects valuing Rs 750,380.846 million

According to Paras 1 and 2 of Standard Operating Procedure (SOP) for inspection of ongoing construction works issued by NHA Inspection Wing dated 27.02.2014, in addition to construction supervision consultants, the Inspection Wing shall carry out inspections of all types of ongoing construction projects on achieving progress of works between 30 to 50 percent and 60 to 80 percent.

Audit observed that the Monitoring & Inspection Wing of NHA did not conduct inspections of the ongoing twenty-one (21) major construction Projects/Works valuing Rs 750,380.846 million (**Annexure-B**) in violation of the SOP.

Audit maintains that certain tests in case of projects involving construction of high embankment could only be made by M&I Wing of NHA during construction phase (between 30 to 50 percent and between 60 to 80 percent progress). As an instance (printed Para 2.5.3, Audit Report 2019-20), in Hassanabdal-Havelian Expressway (E-35) Project having completion cost of Rs 34,165.00 million, no such tests/inspections were carried out during execution. After construction of embankment, tests were carried out and, out of 56 field density tests, only 29 fulfilled the specification requirement. Less compaction and use of unsuitable soil in embankment was also reported in the inspection report of Director (Monitoring & Inspection Wing), NHA.

Audit pointed out the irregularity in April 2023. The Authority replied that construction supervision consultants were available at site all the time and M&I Wing conducted site inspections at the time of issuance of Taking-Over Certificates (TOCs) and Defect Liability Certificates (DLCs).

The reply was not accepted because, as pointed out, site inspections were required by M&I Wing during progress of the works which was not done.

The matter was discussed in DAC meeting held on 9-10 January, 2024 wherein NHA took the stance that the supervision of works during execution was under the ambit of supervisory consultants as per provisions of contract. Audit contended that NHA, being employer, failed to conduct site inspections during execution of projects as per approved SOP and there were instances that in the presence of supervisory consultants, defects were witnessed in the executed works worth billions of rupees which could have been avoided through continuous and timely monitoring. DAC directed NHA to make a strategy to strengthen M&I Wing and strictly adhere to the approved SOP for Monitoring and Inspection of ongoing projects and devise mechanism of coordination with project management to ensure field inspections during execution of works. DAC further directed

that M&I Wing shall provide project wise reports and certificates that all defects have been removed or otherwise recoveries effected. Final bills shall also be checked.

Audit recommends that implementation of SOP on the subject may be ensured and reports of M&I with implementation status thereof be shared with Audit.

(DP. 66 & 242)

2.4.2 Non-finalization of accounts of completed projects of Rs 102,088.204 million and non-conducting of inspections of completed maintenance works of Rs 27,788 million

Para 3.33 of Planning Commission's Project Management Guidelines, 2008 provides that project is considered to be completed/ closed when all the funds have been utilized and objectives achieved or abandoned due to various reasons. At this stage the project has to be closed formally. Further, Para 3.34 further provides that project closure involves handing over the deliverables to the concerned authorities.

Para 5.9.3 of SOP for Road Maintenance Account (RMA), NHA Code (Volume-II) provides that maintenance works shall commence from 1st July of every calendar year and be completed during the financial year (that is by 30th June of the next calendar year).

As per Paras 1 and 3(d) of SOP for Inspection of Maintenance Works (February 2014), Inspection Wing shall carry out inspection of maintenance works of all regions on completion of at least 50% work. Necessary tests would be carried out by General Manager (Inspection) and his team in line with contract agreements and specifications. Quality, quantities and condition of executed works as per approved estimates/ contract agreement would be checked by the Inspection Team.

A. Audit noted that eleven (11) projects/works amounting to Rs 102,088.204 million were completed during the years 2016 to 2023, as detailed below:

DP. No.	Package	Contract Cost (Rs in million)	TOC/ Completion Date
143	Lowari Tunnel Project	19,300.990	24.04.2018
183	02 Periodic Maintenance Works	495.954	06.03.2023 and 20.05.2023

DP. No.	Package	Contract Cost (Rs in million)	TOC/ Completion Date
417	Hakla to D. I. Khan Package - I Yarak - Rehmani Khel	13,257.000	28.07.2021
	Package-2B	7,250.000	04.11.2020
	Package-2C	7,137.853	23.01.2022
	Package-IV-Pindi Gheb to Tarap	21,386.222	01.01.2022
	Package-V Hakla to Pindi Gheb	16,886.803	01.01.2022
	National Highway Development Sector Investment Programme (NHDSIP), N-50 (Lot-I)	4,803.218	10.01.2020
	NHDSIP N-50 (Lot-II)	4,043.635	10.01.2020
	NHDSIP N-70 (Lot-I)	4,454.848	30.09.2019
	NHDSIP N-70 (Lot-II)	3,071.681	30.09.2019
	Total	102,088.204	

Audit observed that even after two to three years of completion, as indicated in the above table, NHA did not finalize the accounts of the said projects and PC-IV and PC-V had also not been prepared for submission to Planning Commission as required. Furthermore, Audit observed that assets - i.e., vehicles, office and residence furniture and fixtures, laboratory and survey equipment procured against these projects - had also not been taken on stock register as per contractual obligation.

B. Audit noted that Maintenance Units of Sindh, Northern Areas, Punjab, Khyber Pakhtunkhwa, Balochistan (North & South) and M-1 got executed 162 Periodic Maintenance works under Annual Maintenance Plans 2015-16, 2016-17, 2017-18, 2018-19, 2019-20 and 2020-21 with agreement cost of Rs 27,788 million through various contractors.

Audit observed that the final bills of substantially completed works and accounts of these works were not finalized despite lapse of four to five years after completion without any cogent reason. Further, no evidence in support of testing and inspection of works at 50% execution as per approved SOP by the M&I Wing of NHA was available on record.

This resulted in non-finalization of accounts of completed projects of Rs 102,088.204 million and non-conducting of Monitoring and Inspection reports of completed maintenance works amounting to Rs 27,788 million.

Audit pointed out the matter during July-August 2023. The Authority replied in case of Lowari Tunnel Project that DLC and Final Bill were delayed due to delay in approval of Revised PC-I and non-availability of funds. As regards D.I Khan-Hakla Motorway Project, NHA replied that additional work of service area emerged after completion of main road work and finalization of accounts was in process and also replied in respect of maintenance works, that works were being finalized. The Authority did not respond in NHDSIP Projects (N-50 and N-70).

The matter was discussed in DAC meeting held on 9-10 January, 2024 wherein DAC took notice of non-finalization of accounts of the completed works and directed early compliance. DAC further directed NHA to strictly adhere to the approved SOP and devise mechanism to ensure field inspections during execution of works.

Audit recommends finalization of accounts besides field inspections of maintenance works.

Note: The issue was reported earlier also in the Audit Reports for Audit Years 2021-22 and 2022-23 vide para numbers 2.4.7 (2021-22) and 2.4.6 (2022-23) having a financial impact of Rs 368,275.63 million. The recurrence of same irregularity is a matter of serious concern.

(DP 81, 143, 183 & 417)

2.4.3 Irregular carrying forward previous year's liabilities of Rs 65,779.166 million and non-procurement of works under AMP 2022-23 amounting to Rs 23,610.04 million

Para 5.9.3 of SOP for Road Maintenance Account (RMA), NHA Code (Volume-II) provides that maintenance works shall commence from 1st July of every calendar year and be completed during the financial year (that is by 30th June of the next calendar year).

A. Audit noted that the National Highway Executive Board (NHEB) in its 433rd meeting held on 23.05.2023 granted the approval of Annual Maintenance Plan (AMP) 2023-24 amounting to Rs 72,850.00 million, which also contained the liabilities from previous years amounting to Rs 52,861.74 million (region-wise actual liabilities of Rs 65,779.166 million). Audit further noted that NHEB directed General Manager (M&I) to conduct a fact-finding inquiry to know the reasons for delay in execution of previous AMPs.

Audit observed that liabilities of Rs 52,861.74 million carried forward from previous AMPs were due to non-award of works in the respective financial years. Delay in implementation of AMP

results in difficulties for road commuters, including life threats, and higher economic cost due to inflation. Further, delay in execution causes deterioration of road network and resultant enhancement of the scope of work.

This resulted in irregular carrying forward of previous years' liabilities of Rs 65,779.166 million, non-finalization of inquiry ordered by NHEB and non-procurement of works under AMP 2022-23 amounting to Rs 23,610.04 million.

Audit pointed out the irregularity in July-August 2023. The Authority replied that the accumulation of liabilities was due to delay in approval of AMPs, procurement and execution of works in the same financial year, therefore, the maintenance works approved under a particular AMP were generally executed/completed in subsequent AMPs. Thus, the payments were carried forward as a liability. Further, due to hyperinflation triggered since June 2021, progress on awarded works remained stalled which were resumed after inclusion of Price Adjustment Clause in the ongoing maintenance contracts in line with **Standard Procedure and Formula for Price Adjustment (Second Edition), May 2022, formulated by PEC** in collaboration with and under the guidance of Planning Commission of Pakistan and decision of the National Highway Council in its 38th meeting of 01.08.2022. The majority of Periodic Maintenance and Rehabilitation works of previous AMPs had now been completed whereas the execution of AMP 2022-23 and 2023-24 would be completed by June 2024 as per directions of NHEB in its 435th meeting. Moreover, fact-finding inquiry to know the reasons for delay in execution of previous AMPs was also in process.

Audit recommends that outcome of inquiry report ordered by the NHEB in the matter be shared with Audit to ascertain the actual time and cost overruns due to delay in award of works.

(DP. 87, 164)

B. Audit noted that NHEB in its 422nd meeting held on 20.01.2023 accorded the approval of AMP 2022-23 amounting to Rs 62,917.09 million in addition to liabilities carried forward from previous year amounting to Rs 47,388.114 million, whereas Rs 9,140.80 million was allocated for Periodic Maintenance (Functional Overlay), Rs 6,925.41 million for Periodic Maintenance (Structural Overlay) and Rs 7,543.83 million for Rehabilitation.

Scrutiny of accounts - i.e., progress reports of all regional maintenance offices maintained by the General Manager, RAMD, NHA HQ, Islamabad - revealed that all regional offices failed to procure works pertaining to Periodic Maintenance and Rehabilitation works up to 30.06.2023.

Audit observed that the works were required to be completed during the financial year till 30th June of the next calendar year but regional offices failed to procure works under the Annual Maintenance Plan 2022-23.

This state of affairs indicated that the Authority failed to implement the approved Annual Maintenance Plan due to which the objective of conservation and preservation of NHA road network and convenience of general public and road safety could not be achieved.

This resulted in non-procurement of works under Annual Maintenance Plan 2022-23 of Rs 23,610.04 million (Rs 9,140.80 million + Rs 6,925.41 million + Rs 7,543.83 million).

Audit pointed out non-procurement of works in July-August 2023. The Authority replied that subsequent to approval of AMP 2022-23, the procurement of works was commenced at regional/zonal office level and execution would be completed before 30.06.2024.

The matter was discussed in DAC meeting held on 9-10 January, 2024 wherein NHA responded that efforts were made to reduce the liabilities and ensure timely implementation of Annual Maintenance Plan in future. DAC directed NHA to share outcome of inquiry report ordered by the NHEB in the matter to ascertain the actual time and cost overruns due to delay in award of works/implementation of AMP.

Audit recommends early compliance of DAC's directives.

(DP. 88, 123, 231, 321 & 329)

2.4.4 Non-rectification of defects and non-effecting of recoveries pointed out by Monitoring & Inspection (M&I) Wing, NHA against contracts valuing Rs 45,762.491 million

According to Para 1 of SOP for issuance of Taking-Over Certificate (TOC) & Defect Liability Certificate (DLC) of NHA dated 12.12.2011, the Inspection Wing of NHA will carry out Inspection of Projects before issuance of Taking-Over Certificate (TOC) after Substantial Completion and before issuance of Defect Liability Certificate (DLC) at the end Defect Liability Period (DLP).

Audit noted that against ten (10) works valuing Rs 45,762.491 million, certain defects were pointed out by M&I Wing, NHA as per above-mentioned SOP during the years 2019-22 for rectification and recoveries against defective works as detailed in **Annexure-C**.

Audit observed that despite lapse of two to four years, the required rectifications/recoveries were not made by the project authorities.

Audit pointed out the matter in April 2023. The Authority replied that rectification of defects pointed out was in process and recoveries where due would be made in due course of time.

The reply was not accepted because delay of two to four years was witnessed in required implementation of the recommendations of M&I Wing.

The matter was discussed in DAC meeting held on 9-10 January, 2024 wherein NHA responded that implementation of M&I recommendations was in progress. Necessary recoveries would be made and defects would be rectified in due course of time. DAC directed NHA to ensure compliance and its verification from Audit.

Audit recommends that responsibility be fixed through an inquiry against those responsible for poor contract management besides early corrective action in the light of observations of M&I Wing NHA.

(DP. 70, 71, 73, 77, 139, 210, 201, 299, 325 & 326)

2.4.5 Non-recovery of NHA dues on account of toll income, etc. - Rs 26,402.496 million

As per Rule 6 of NHA Road Maintenance Account Rules, 2003, NHA shall ensure cost-effective, transparent, and accountable arrangements for the collection of the Road Maintenance Account revenues.

Audit noted during review of the Trial Balance and ledgers of RMA Section of NHA Headquarters for the financial year 2022-23 that an amount of Rs 26,402.496 million (including Rs 25,283.716 million receivable against toll income from 313 toll contractors) was receivable, as detailed below:

S. No.	Particulars	Amount (Rs in million)
1.	Toll Income Receivable	25,283.716
2.	Receivable from FBR on account of income tax deducted directly from NHA Bank Accounts	1,118.780
	Total	26,402.496

Audit pointed out non-recovery in August 2023. The Authority replied that efforts were being made for recoveries.

The matter was discussed in DAC meeting held on 9-10 January, 2024, wherein the Committee directed NHA to furnish to Ministry and Audit head-wise details of recoverables in tabular form with entity-wise aging of such dues, pre-covid and post-covid dues, dues status of the entity at the time of fresh award of concession, action against defaulters and efforts made for recovery. NHA may ensure early recovery of dues and its verification from Audit.

Audit recommends furnishing of details of outstanding amount with aging of receivables, complete inventory of amenities along with NHA Right of Way (RoW) Charges and efforts made for recovery.
(DP. 94)

2.4.6 Non-recovery of Right of Way (RoW) charges - Rs 17,755.540 million

As per Para 1 of NHA Regulatory Framework and Standard Operating Procedure for Preservation and Commercialization of Right of Way, 2002, NHA Act, 1991 empowers NHA to benefit from the commercial use of roads and bridges entrusted to it. The Authority shall be responsible for collecting/generating revenues from the issuance of licences for use of NHA land, NOCs for CNG, petrol pumps, etc.

During scrutiny of the accounts of Regional General Managers of NHA, Audit noted that certain owners of CNG filling stations, petrol pumps, housing societies and other business operators of commercial plazas and hotels were using Right of Way (ROW) of NHA without obtaining of NOCs (one time) and payment of annual fees. Thus, an amount of Rs 17,755.540 million was recoverable in the jurisdictions of following General Managers:

(Rs in million)

DP No.	Name of Region	Amount
120	G.M (Maint.) Punjab South, NHA Multan	13,646.092
149	G.M (Maint.) Punjab North, NHA Lahore	843.381
214	G.M (Maint.) Sindh South, NHA Karachi	3,059.867
251	G.M (Maint.) G.B, NHA Gilgit Baltistan	206.200
Total		17,755.540

This resulted in non-recovery of NHA dues on account of RoW charges of Rs 17,755.540 million.

Audit pointed out non-recovery in August 2023. The Authority replied in DP 214 and 251 that an amount of Rs 70.903 million

(Rs 60.789 million + Rs 10.114 million) had been recovered from the commercial amenity holders and further notices were served on defaulters/ amenity holders. In DP 149, the Authority replied that no revenue target was fixed and assigned to the maintenance unit for the financial year 2022-23. In DP 120, the Authority replied that the task of revenue collection through regularization of commercial amenities along NHA road was very difficult, time consuming and complicated due to lack of dedicated revenue staff, patrolling vehicles and machinery, and litigations/land issues.

The reply was not accepted because record in support of stated recovery of Rs 70.903 million was not gotten verified from Audit. Further, strenuous efforts were not on record to recover NHA dues.

The matter was discussed in DAC meeting held on 9-10 January, 2024 wherein the Committee directed NHA to furnish to Ministry and Audit head-wise details of recoverables in tabular form with entity-wise aging of such dues, pre-covid and post-covid dues, dues status of the entity at the time of fresh award of concession and action against defaulters and efforts made for recovery. NHA may ensure early recovery of dues and its verification from Audit. DAC further directed the concerned GMs to take up the case before Executive Board in the light of audit observation and share the decision with Audit.

Audit recommends furnishing of details of outstanding amount with aging of receivables, complete inventory of amenities along with NHA RoW charges, efforts made for recovery and NHA Executive Board meetings where receivables came under discussion. The matter of receivables may immediately be placed before NHA Executive Board in its next meeting for decisions and directions against defaulters.

(DP. 120,149,214&251)

2.4.7 Execution of sub-standard development works for Rs 34,165.00 million and loss of Rs 95.022 million on repair works

Design life of ten years of the pavement was provided in PC-I of the projects “Hassanabdal (Burhan)-Havelian Expressway E-35” and “Construction of Hakla on M-1 to D.I. Khan Expressway (M-14)”.

Audit noted that NHA awarded the following rehabilitation/de-patching works on newly constructed Motorways to various contractors:

DP. No.	Name of Work/Reference	Agreement Cost (Rs in million)
101	Rehabilitation de-patching at km 112-153 (M-14)	17.639
168	SM-E35-20-5002	49.686
	EM-(M-1)-2022-23/01	4.885
169	SM-E35-19-5001	9.213
	SM-E35-19-5004	6.115
	SM-E35-19-5002	7.484
	Total	95.022

Audit observed that motorway M-14 “Hakla-DI Khan” was opened for traffic in December 2021 and separate work of de-patching, over and above the project cost, was awarded within the Defect Liability Period. Further, removal of defective work was the responsibility of original contractor as the DLC was not yet issued and pavement life was just one year. Audit further observed that the pavement design life of the project costing Rs 34,165.00 million was 10 years. However, the pavement structure and embankment of the Expressway was settled/ damaged and large number of depressions/humps appeared at different locations just after two years of its completion due to sub-standard/ below specification execution of the original works. The damaged/settled portion was milled and asphaltic layers were laid in 2022 through Special/ Emergency Maintenance work under AMP, which is loss to the government exchequer. This resulted in execution of sub-standard original work for Rs 34,165.00 million and loss of Rs 95.022 million on repair works.

Audit maintains that the irregularity occurred due to weak contract management.

Audit pointed out the sub-standard development work and loss in September-October 2023. The Authority replied that the construction section of NHA had been informed about the said repair on emergency basis and deduction of said amount would be made from the final bill of the original contractor, M/s FWO, under intimation to Audit. Works were executed in hilly terrain involving huge cut and fill in addition to high embankment and no protection works was constructed in the project construction phase. Further, in response to Suo-Moto Action taken by Chief Justice (Peshawar High Court), Abbottabad Bench

for immediate rectification of the most critical settlement/depression at Hazara Motorway E-35, and upon directives of Chairman NHA, the senior management of NHA, including Member (EC) and General Manager (Maint.) for M-1, along with a team of experts, visited Hazara Motorway and identified the most critical locations/depressions/cavities that had recently appeared and directed to undertake works on emergency basis.

The management admitted that settlements of different dimensions and nature had appeared in monsoon season due to high embankment and penetration of rain/surface water under pavement structure and underlying embankment layers. The same were attended by NHA through the same contractor in the DLP.

DP 101 was discussed in DAC meeting held on 9-10 January, 2024 wherein NHA admitted recovery and committed that the same would be made in the final bill. DAC directed NHA to make the recovery and get it verified from Audit.

Audit recommends that an independent inquiry should be conducted into the matter for fixing responsibility and taking disciplinary action against the officers concerned. Recovery may also be made in the earliest and verified from Audit.

(DP. 101, 168 & 169)

2.4.8 Inability to repay the loans and consequent adjustment of development loan towards recovery of debt service charges - Rs 20,117.853 million

According to Chapter 11 of NHA Code, 1999, as revised in 2005 (Vol-I), the Annual Development Programme of the Authority is for the present being financed out of the Cash Development Loans (CDL) advanced every year by the Government of Pakistan, Foreign loans and Foreign relent loans and the Suppliers/Buyers' Credits obtained in accordance with the contract agreements signed by the Authority with various local/foreign firms for constructions of projects. Each loan has its own terms and conditions as to repayment and the rates of interest.

Further, while chalking out the Annual Development Programme, priority in respect of fund allocation shall be given to those ongoing projects which are nearing completion so that necessary funds for repayment of the loans and the interest accrued thereon could be generated through levy of tolls/other charges on these completed projects.

Audit noted that General Manager (B&A) NHA HQ Islamabad demanded funds under Grant No. 128 for Rs 76,141.878 million in PSDP (Local Component) in the budget allocation for the financial

year
2022-23.

Audit observed that NHA did not repay the matured liability of CDL which was piled up to the tune of Rs 387,567.619 million and interest thereon amounting to Rs 841,263.558 million on 30.06.2022. Consequently, Finance Division started deduction at source from the PSDP allocations and deducted an amount of Rs 20,117.853 million on account of recovery of foreign loans during the financial year 2022-23.

Audit maintains that reduction in the PSDP allocations would cause delay in completion of development projects and result in cost overruns.

Audit pointed out the matter in December 2023. The issue was also reported earlier in the Audit Report for Audit Year 2021-22 vide para number 2.4.3, having a financial impact of Rs 44,804.921 million. The Authority replied that funds were allocated for development projects as loan to NHA. However, NHA promptly took up the case with the Government for continuing treating development funds as budgetary grant in view of inadequate revenue generation from its assets. The issue was taken up by NHA repeatedly in the past and discussed at different relevant forum. ECC in its meeting held on 20.01.2021 approved the summary prepared by an ECC nominated committee under the chairmanship of Minister of Planning, Development and Special Initiatives. In the said summary, treatment/restructuring of debt is linked with the preparation of a commercially viable business plan for which a consultant firm through international competitive bidding was being hired by NHA.

The reply was not acceptable because the recovery of interest on CDL could not be adjusted against the PSDP development funds approved by the Parliament. The same was required to be paid to Government of Pakistan by generating revenue from the road network and optimum commercialization of Right of Way (RoW).

DAC meeting was not convened by PAO despite request made by Audit on 05.01.2024.

Audit recommends that NHA should enhance its revenue to enable itself in repayment of CDL at the earliest so that the precious development funds could be utilized towards development works. This will ensure timely completion of these projects ensuring early benefits to the road commuters.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2021-22 vide para number 2.4.3, having a financial impact of Rs 44,804.921 million. The recurrence of same irregularity is a matter of serious concern.

(DP. 421)

2.4.9 Loss due to less recovery on account of fine imposed on overload trucks/vehicles - Rs 16,745.203 million

As per Sr. No. 4 of Twelfth Schedule of the National Highways Safety Ordinance, 2000, as amended by the Ministry of Communications vide SRO No. 1418(I)/2019 dated 18.11.2019, the fine of moving violation in the category of “Carrying goods less than 15% in excess of permissible load” is Rs 10,000.

Audit noted during scrutiny of the accounts of General Manager (Finance) NHA HQ, Islamabad, pertaining to fine collection of eight (8) Weigh Stations installed at various locations on National Highway (N-5), North Region, Punjab, that an amount of Rs 1,086.166 million was collected on account of fine imposed on overloaded trucks/vehicles during the financial years 2021-22.

A scrutiny of Monthly Activity Report of the above-mentioned Weigh Stations, compiled by the Electronic Toll and Traffic Management (ETTM) Section for the year 2021-22, revealed that a total of 2.340 million trucks were weighed, the load of 0.557 million trucks was found within limits and remaining 1.783 million trucks were found overloaded. A fine @ Rs 10,000 was to be imposed on overloaded trucks which comes to Rs 17,831.370 million, but the record produced showed that a fine of Rs 1,086.166 million only was collected from the overloaded trucks. This resulted in loss of Rs 16,745.203 million due to less recovery on account of fine imposed on overload trucks/vehicles as calculated below:

Total number of overloaded trucks	= 1,783,137
Fine to be imposed on overload trucks @ Rs 10,000	= Rs 17,831,370,000
Fine imposed /collected	= Rs 1,086,166,601
Loss / less recovery	= Rs 16,745,203,399

Audit further observed that 18,671 trucks were carrying load more than 40 tons which was more than the design Axle Load of the Highways, meaning thereby that those overloaded trucks were damaging

the road network. However, no system seems to be in place to restrict these overloaded trucks to enter on the National Highways.

Audit pointed out the issue in June 2023, but the Authority did not reply.

The matter was discussed in DAC meeting held on 10.01.2024 wherein NHA was directed to reconcile the position at all toll plazas and submit detailed reply to Audit for evaluation.

Audit recommends investigation into the matter for fixing responsibility and recovery of loss from the concerned operators/officers responsible, besides providing Fine Register, Receipt Books duly numbered and counter signed by the authorized officer, and reconciliation of fine collection with RMA to Audit. Audit further recommends taking remedial measures to protect the road network from the overloaded trucks.

(Para 01 of PAR Revenue NHA, 2022-23)

2.4.10 Non-incurrence of expenditure on 45 development projects despite allocation of funds - Rs 13,454.306 million

As per Para 3.54(ii) of Planning Commission's Manual for Development Projects (December 2021), if the project does not start functioning within 12 months of its approval or does not achieve financial close, then it will be reconsidered by the approving forum. Further, as per para 7.06(ix and x), release of funds will be made as per financial phasing of approved PC-I. The sponsoring agency will ensure timely execution and completion of the project as per approved PC-I targets/objectives.

Audit noted during scrutiny of the accounts of General Manager Budget & Accounts (B&A), NHA, Islamabad for the financial year 2022-23, that NHA with the approval of Planning Commission and Finance Division got allocation of Rs 94,753.402 million (Revised to Rs 76,141.878 million) for 110 ongoing and new schemes in the PSDP.

Audit observed that no expenditure was incurred from the allocation of Rs 13,454.306 million on 45 projects out of 110 projects during the financial year 2022-23. This resulted in non-incurrence of expenditure from the allocation of development funds of Rs 13,454.306 million which refutes sanctity of PSDP for the financial year 2022-23.

Audit pointed out the non-incurrence of expenditure on projects despite allocation of funds in the PSDP for the financial year 2022-23 in December 2023, but the Authority did not reply.

DAC meeting was not convened by the PAO despite requests by Audit on 10.11.2023 and 05.01.2024.

Audit recommends that measures be taken to ensure that projects are conceived diligently keeping in view the financial resources to avoid unnecessary through-forward involving time and cost overruns.

(DP. 423)

2.4.11 Irregularities in award, execution and operation of Electronic Toll Collection System on Motorways - Rs 12,200 million

Rule 42(f) of the Public Procurement Rules, 2004 provides that a procuring agency may engage in direct contracting with state-owned entities such as professional, autonomous or semi-autonomous organizations or bodies of the Federal or Provincial Governments for the procurement of such works and services, including consultancy services, which are time sensitive and in public interest with certain conditions.

According to Scope of Services defined in the contract, the Operations and Management Contractor (OMC) shall be responsible to provide all manpower, tools/ plants/equipment, materials, technical support, maintenance services, and other assistance required to perform the duties and responsibilities assigned under the terms of the contract. The OMC shall operate and maintain the NHA's facilities in strict adherence to approved SOP. Failure to maintain the level of professional services and performance specified in the Contract and/or failure to continuously comply with the approved SOP may provide cause to impose penalties as per the provision of the contract.

Audit noted that the NHA awarded the work "Installation of Electronic Toll Collection System & Operations, Management and Maintenance of Toll Plazas and Collection of Toll Revenue along with Provision of Allied Services on the Motorways M-1, E-35, M-14, M-3, M-4 & M-5" to M/s Frontier Works Organization (FWO) vide acceptance letter dated 02.06.2022 at agreement cost of Rs 12,200 million with completion period of eight (08) months. The payment was made to contractor up to 4th invoice for Rs 7,319.617 million.

Audit observed the following irregularities in award, execution and operation of the OM&C:

NHA awarded the above-mentioned contract to M/s FWO under Rule 42(f) of the Public Procurement Rules but the requirement of determining price reasonability, with reference to analysis of rates, was not fulfilled.

The work was awarded for collection of revenue without adjustment of previous outstanding receivables from M/s FWO against the SOP of NHA.

Insurance policies required under clauses 18.1, 18.2 and 18.3 of condition of contract were not obtained.

Even though M/s FWO did not complete the work within stipulated completion period, NHA did not recover liquidated damages from the contractor.

NHA made payment against the schedule of payment without achieving relevant milestone by the contractor.

Contractor did not provide the manufacturer certificate, model, company, warranties, etc., of the imported item/accessories of the Electronic Toll Collection System.

Equipment/items were installed without carrying out inspection at site.

Existing parts of all sections were not used and also not properly handed/taken over by Authority from the contractor.

The lights installed on M-1 (other than interchanges) were out of order and the commuters were facing great difficulties while traveling at night time due to poor visibility (particularly in fog prone areas). These issues of non-illumination of lights on M-1 had also been highlighted by different fora, i.e., Pakistan Citizen Forum, Peshawar High Court, etc., however, the street lights issue was not resolved. Whereas, the OMC is getting its revenue share @ 32.5% of Toll Revenue but the allied services were not being provided as per contract. This was also communicated to GM Revenue of NHA HQ through various letters, but the OMC neither provided the services nor was penalized.

In the light of above discrepancies, audit observed that the Authority did not award or execute the work in accordance with the relevant rules and regulations. This resulted in irregular award and execution of works valuing Rs 12,200 million.

Audit pointed out the irregularities in August 2023. The Authority replied that NHA awarded the contract to M/s FWO with the approval of NHA Executive Board because M-Tag service was solely owned, marketed and implemented by FWO since 2016. Presently the customer-base of M-Tag was already more than 1.5 million. To avoid segregation plaza and queuing, NHA needed identical system compatible to the existing infrastructure, therefore, M-Tag was the best available tested solution. Other than M-Tag, NHA may face integration and operational/technical issues. Reconciliation with FWO is in process. After reconciliation, receivables from FWO would be adjusted, accordingly. The insurance coverage of equipment, installed under ETC contract in

accordance with clauses 18.1, 18.2 and 18.3, would be obtained from FWO. Delay in completion occurred by the contractor only due to unforeseeable circumstances, i.e., sudden change in policies owing to the deprived economic conditions. Hence, liquidity damages could not be imposed on M/s FWO. All the payments to M/s FWO were made upon achieving milestones and after verification by the Employer Representative. Necessary visits were conducted for inspection of sites. The payments were made based on inspection reports after evaluating the progress of works done. It is appraised that all motorways do not have any old ITS/ETC system except E-35, M-3 and M-5 motorways, therefore new system was required to be installed on M-1, M-14 and M-4 motorways. Furthermore, handing/ taking of old equipment between M/s FWO and NHA regional offices was in process. As regards non-provision of facilities, the Authority responded that various meetings had been conducted with OMC, i.e., M/s FWO, regarding provision of allied services on M-1 and E-35, wherein the OMC assured of the provision of allied services such as repair and maintenance of road lights, mechanized sweeping and improvement of electronic toll collection.

The reply was not accepted because the work was awarded without estimation; M/s FWO was already not paying NHA dues; insurance coverage along with proof of payment of premium and manufacturing guarantees of equipment were not produced to Audit; and handing/taking over of old toll equipment is also not forthcoming on record.

The matter was discussed in DAC meeting held on 9-10 January, 2024 wherein NHA reiterated its stance. DAC directed NHA to ensure compliance of audit observations and its verification from Audit. DAC further directed that the matter regarding amount due against FWO and amount due to FWO be pursued with FWO, reconcile claims and counterclaims and outcome be shared with Audit.

Audit recommends that responsibility be fixed through an inquiry against those responsible for poor contract management, besides early corrective actions.

(DP. 90, 91 & 172)

2.4.12 Non-recovery of rent from National Highways and Motorway Police - Rs 11,761.354 million

Para 43(3 & 4) of NHA Administrative Manual, 2002 provides that rent for vehicles, building and land will be charged with the approval of Chairman NHA.

NHA land records showed that land measuring 3.724 million square feet was in possession of National Highways and Motorway Police throughout Pakistan at different locations.

Audit observed that the Authority did not recover an amount of Rs 11,761.354 million from NH&MP on account of rent for utilization of NHA land, as detailed in **Annexure-D**.

Audit pointed out the matter during March-April 2019. The Authority replied that two meetings were held under the chairmanship of Member (Admn) NHA on 19.08.2016 and 07.06.2017 to discuss all outstanding issues, including the recovery of outstanding rent from NH&MP. In pursuance thereof, a sub-committee under GM (Audit) was constituted to submit an updated detail of the amount payable towards NH&MP under guidance of Member (Finance), NHA, in accordance with the decision of the National Highway Executive Board in its 110th meeting held on 24.04.2003. In the meanwhile, all further requests for the provision of NHA-owned premises were held in abeyance till necessary recovery from NH&MP.

DAC in its meeting held on 19.11.2019 directed that the Committee constituted under Member (Finance), NHA should submit its report within one month for further consideration by the Ministry of Communications. The compliance of DAC's directive was not made till the finalization of this report.

Audit recommends early compliance of DAC's directives.

(Para 12 of SAR Asset Management, 2018-19)

2.4.13 Irregular award of work to a contractor disqualified in technical evaluation - Rs 9,184.294 million

Rule 48 of the Public Procurement Rules, 2004 provides that Grievance Redressal Committee (GRC) shall investigate and decide upon complaint within ten days of its receipt. Further, Rule 30 provides that all bids shall be evaluated in accordance with the evaluation criteria and other terms and conditions set forth in the prescribed bidding documents, and, save as provided for in sub-clause (iv) of clause (c) of rule 36, no evaluation criteria shall be used for evaluation of bids that had not been specified in the bidding documents. Moreover, Rule 50 provides that any violation of these rules constitutes mis-procurement.

During scrutiny of record of P&CA Wing regarding procurement of contracts for the financial year 2022-23, Audit noted that PC-I of the project "Hoshab-Awaran-Khuzdar Section of M-8 Project; Section 2, Awaran-Naal (168 kilometer)" was approved by ECNEC in its meeting dated 26.05.2021

at a rationalized cost of Rs 32,244.82 million without Foreign Exchange Component (FEC). Procurement process for the work “Package-2B (kilometer 200 to kilometer 260)” was initiated in July 2021. The Technical and Financial Bids of the subject project were received on 31.08.2021.

During technical evaluation, bids of three bidders were evaluated and M/s SFGEC-HRK-SB (Joint Venture) (A Joint Venture of M/s Sichuan Province Geological Engineering Complex, M/s HRK & Company, and M/s Shah Builders) were disqualified with reference to criteria as per bidding documents. The disqualified bidder questioned the result and opted to submit his grievances to the Grievance Redressal Committee vide letter dated 28.10.2021. Grievance Redressal Committee vide letter dated 15.03.2022 decided that M/s SPGEC-HRK -SB (JV) were wrongly technically disqualified and their technical disqualification should be cancelled and their financial bid should be opened as per rules and guidelines.

Accordingly, financial bids of all three bidders were opened on 28.03.2022 and the work was awarded to the lowest bidder, i.e., M/s SFGEC-HRK-SB (Joint Venture) for Rs 9,184,294,222 vide acceptance letter dated 14.07.2022.

Audit observed the following:

As per Rule 48 of the Public Procurement Rules, 2004, GRC was required to decide upon the complaint within ten days of its receipt. In this case, Grievances Redressal Committee reviewed the complaint/grievance of disqualified bidder from 28.10.2021 to 15.03.2022. Further, any bidder or party not satisfied with the decision of the GRC, may file an appeal before the Authority (PPRA) within thirty days of communication of the decision but NHA did not appeal before PPRA.

The bidder was dis-qualified mainly due to past poor performance in projects namely “Construction of Additional Carriageway: Petaro-Sehwan (N-55) Section-I (64 km), Package-1C” and “Construction of Dera Murad Jamali Bypass (N-65)” but during review of disqualification process, other projects were taken for consideration instead of the above projects.

Furthermore, foreign firm was a lead partner in the JV as per JV agreement with 60% share but their human and equipment/ machinery resources were not depicted in their bid as well as in the contract agreement. Physical presence of the foreign firm during construction was, therefore, not confirmed.

This resulted in irregular award of works for Rs 9,184.294 million to a contractor validly disqualified in technical evaluation but qualified by GRC without considering relevant grounds of disqualification.

Audit pointed out the matter in October 2023. The Authority replied that the decision of GRC was approved by the Chairman NHA, hence it was not considered for appeal before PPRA.

The reply was not accepted because the bidder was disqualified mainly due to past poor performance in projects but during review of dis-qualification process other projects were taken for consideration. NHA did not appeal before PPRA against findings of the GRC. List of human resources and machinery/equipment of JV were also not produced.

Audit recommends fixing responsibility through fact finding inquiry besides corrective action including ensuring the physical existence of the foreign firm at site as per their share in the JV Agreement.

(DP. 413)

2.4.14 Incurring expenditure on road project without mutation of land in the name of NHA - Rs 8,464.229 million

Para 18 of Chapter 7 of NHA Code, 2005 (Land Acquisition) provides that the Land Acquisition Collector shall get the land transferred in favour of NHA through mutation.

As per approved PC-I for the project “Construction of 02 lanes Highway from Basima to Khuzdar (N-30)”, cost of land for the project was provided as Rs 2,995.00 million.

Audit noted that the work “Construction of two lanes Highway from Basima to Khuzdar (N-30)” was awarded to the contractor with agreement cost of Rs 11,749.280 million on 22.05.2019 with completion period of two years (730 days). The total value of work done paid to the contractor up to IPC No. 21 was Rs 8,464.229 million.

Audit observed that despite lapse of four years since start of the project, mutation of land in favour of NHA was not made. In the absence of mutation in the name of NHA, the expenditure incurred against the above project is at stake and may cause extra burden on exchequer due to claims of the land owners at later stage along with compound interest. This resulted in incurring of expenditure of Rs 8,464.229 million on road project without mutation of land.

Audit maintains that the incurring of expenditure without mutation was due to non-observance of land acquisition rules.

Audit pointed out the matter during September 2023. The Authority replied that NHA released Rs 1,000.00 million to Deputy Commissioner Khuzdar, the disbursement of payments to land affectees were under process. Once the same is completed, the mutation would be done in the name of NHA.

The reply was not accepted because the Authority called the tenders of the project without acquisition and mutation of land in the name of NHA.

DAC meeting was not convened by the PAO despite requests by Audit on 10.11.2023, 05.01.2024 and 24.01.2024.

Audit recommends early mutation of land in the name of Federal Government to safeguard financial interest of the government, besides probing the matter and fixing the responsibility against the officers concerned.

(DP. 314)

2.4.15 Non-adjustment/submission of vouched accounts of advances and non-mutation of land - Rs 6,932.147 million

Para 12 of Chapter 7 of NHA Code (Vol-I) provides that the funds credited to the Land Acquisition Collectors accounts shall be treated as an advance, the LAC shall be responsible for rendering complete accounts and supporting documents on quarterly basis to the accounts section concerned for settlement of advance.

Further, as per para 72 of Central Public Works Accounts Code, every payment for whatever purpose must be supported by a voucher setting forth full and clear particulars of the payment/claim.

Audit noted that in fourteen cases, NHA paid an advance of Rs 6,932.147 million to different government departments, i.e., LAC, MEPCO, SNGPL, MEPCO, GEPCO, QESCO, Irrigation and Forest Departments for acquisition of land and shifting of utilities. (**Annexure-E**)

Audit observed that the adjustment of the advance payments made on account of acquisition of land and other agencies through vouched accounts of disbursed amount along with necessary ownership documents was neither produced by the LACs/agencies nor NHA initiated any measures/efforts for adjustment against the advances. This resulted in non-adjustment/submission of vouched accounts of advances and non-mutation of land worth Rs 6,932.147 million

Audit holds that irregularity occurred due to weak internal controls.

Audit pointed out the matter in August-November 2023. The Authority replied in DP 06, 28, 154, 146, 191, 249, 292, 300, 305 and 361 that efforts were being made to obtain vouched accounts from the

concerned departments and efforts were also being made to get the land mutated in the name of NHA through revenue field staff concerned. In DP. 380, the Authority replied that reminder issued in June 2021 to Secretary Forest Department, Khyber Pakhtunkhwa for reimbursement of Rs 120.7 million. However, the Forest Department was reluctant to release the payment. This issue would be raised with the Forest Department at the highest level.

The replies were not accepted because non-adjustment of advances was against the procedure referred above. Moreover, NHA made payment of Rs 120.700 million in Dualization of Indus Highway (N-55) Package-I & II Sarai Gambila project (DP. 380) to Forest Department for removing of trees and this scope was already included in the civil contract and trees were also removed by the contractor. Therefore, payment was required to be recovered from the Forest Department.

The matter was discussed in DAC meeting held on 9-10 January, 2024 wherein the Committee directed NHA to provide evidence of deposit of amount in treasury, minutes of meetings with LAC, reconciliation statement to Audit for verification. DAC further directed NHA to pursue adjustment of advances/obtaining of vouched account from respective authorities and share the outcome with Audit.

Audit recommends compliance of DAC's directives.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2018-19, 2019-20, 2021-22 and 2022-23 vide para numbers 2.4.2 (2018-19), 2.5.23 (2019-20), 2.4.4 (2021-22), 2.4.5 and 2.4.120 (2022-23) having a financial impact of Rs 54,806.66 million. The recurrence of same irregularity is a matter of serious concern.

(DP. 06, 28, 154,146,191,249,292,300,305,361, 380 & 435)

2.4.16 Non-recovery of 4th & 5th instalment of Staggered Guaranteed Payment from the Concessionaire - Rs 5,133.382 million

Article 2.7(b) of Concession Agreement made between National Highway Authority and M/s Motorway Operations & Rehabilitation Engineering (Pvt.) Ltd. (MORE) for modernization and overlay of M-2 dated 23.04.2014, provides that the Parties agree that the Concessionaire shall pay to NHA an amount of Rs 9,000.000 million, as Staggered Guaranteed Payment, in five (5) equal installments of Rs 1,900.000 million each, within fifteen (15) days of the expiry of each of the fourth (4th) year of the concession period to the eighth (8th) year of the Concession period.

Audit observed that the Concessionaire M/s MORE was required to pay Rs 5,133.382 million on account of 4th & 5th instalment of Staggered Guaranteed Payment under the provisions of the Concession Agreement, due on completion of ninth year in April 2023, but the accounts of General Manager M-2 (BOT) Kallar Kahar showed nothing about the receipt of the 4th & 5th instalment. This resulted in non-recovery of 4th and 5th instalment of Staggered Guaranteed Payment of Rs 5,133.382 million from the Concessionaire M/s MORE.

Non-recovery of 4th & 5th instalment of Staggered Guaranteed Payment of Rs 5,133.382 million from the Concessionaire needs to be explained, besides effecting recovery of the same under verification to audit.

Audit pointed out the issue in August-September 2023. The Authority replied that NHA is consistently requesting to the Concessionaire for depositing of outstanding amounts with reference to 4th & 5th installments of Staggered Guaranteed Payment but the concessionaire did not respond.

DAC meeting was not convened by the PAO despite requests by Audit on 10.11.2023, 05.01.2024 and 24.01.2024.

Audit recommends early recovery of 4th & 5th instalment as required under the provision of the agreement with interest for delayed payment in terms of clause 29.20 of the concession agreement and its verification from Audit.

(DP. 332)

2.4.17 Non-execution of work by the lead JV Partner as per their major proportion - Rs 4,942.662 million

As per clause 1.4 of Joint Venture Agreement for Construction of Additional 2-lane Carriageway (N-55) Section-2 Ratodero to Shikarpur, the percentage of participation of Parties in the Joint Venture shall be 55% of M/s Top International Engineering Company (TIEC) and 45% of M/s Umer Jan & Company.

Clause 1.6.2 of Asian Development Bank (ADB) Guidelines (User Guide for Procurement of Works) states that Domestic Contractors and Joint Ventures between a Domestic Contractor(s) and its foreign partner(s) shall meet the minimum criteria for eligibility of the Domestic Preference Scheme

Domestic Contractor(s) and Firms will not subcontract to foreign contractors more than 50% of the total value of their work.

Audit noted that NHA awarded a work “Construction of Additional 2 lane Carriageway (N55) Section-2 Ratodero to Shikarpur” to M/s Top International Engineering Corporation China (TIEC)-Umar Jan & Co (JV) at agreement cost of Rs 4,942.662 million on 13.08.2020 with the commencement date as 10.02.2021 and time was allowed 730 days (24 month), and completion date was on 09.02.2023. The contractor was paid gross work done amount of Rs 548.355 million up to June 2023.

During scrutiny of the accounts relating to the above project, Audit observed that the project staff and equipment of lead partner firm in the JV, i.e., M/s TIEC was not deployed at project site as per their proportion decided in JV agreement.

Audit maintains that non-availability of JV lead partner at project site with its staff and equipment violated the sanctity of the bidding process. Besides, the JV partner with 45% obligations executed the work with local resources saving its overheads on expatriates. This resulted in non-execution of work of Rs 4,942.662 million by the lead JV Partner as per their major proportion.

Audit pointed out the irregularity in September 2023, but the management did not reply.

DAC meeting was not convened by the PAO despite requests by Audit on 10.11.2023, 05.01.2024 and 24.01.2024.

Audit recommends fixing responsibility against officers concerned, besides ensuring availability of equipment and personnel of JV partners as per JV agreement.

(DP. 388)

2.4.18 Non-recovery of risk and cost amount from the defaulting contractors - Rs 3,865.439 million

Clause 63.1 of the contract agreement states that the Employer (NHA) may, after giving 14 days’ notice to the contractor, enter upon the site of the works and terminate the employment of the contractor without thereby releasing the contractor from any of his obligations or liabilities under the contract, or affecting the rights and authorities conferred on the Employer or the Engineer by the contract, and may himself complete the works or may employ any other contractor to complete the works.

Audit noted that NHA awarded three (3) construction works for Rs 9,796.260 million, as detailed below. The contractors failed to complete the works and NHA resorted to execute left over works

on risk and cost basis. The cost of these incomplete works exceeded the original cost for Rs 3,865.439 million, as calculated below:

(Rs in million)

DP No.	Name of Project/Work	Original Agreement Cost (& date)	Work done	Leftover work	Cost of award of balance work	Risk and Cost Amount
1	2	3	4	5 (3-4)	6	7 (6-5)
308	Construction of Lodhran-Multan section	6,886.097 (03.06.2021)	564.112	6,321.985	8,755.278	2,433.293
405	Construction of Additional Carriageway from Petaro to Sehwan N-55	1,794.319 (19.11.2019)	12.353	1,781.966	3,019.849	1,237.883
414	Conversion of Gwadar Ratodero Road M-8 Package-III	1,115.844 (02.10.2004)	338.792	777.052	971.315	194.263
	Total	9,796.260	915.257	8,881.003	12,746.442	3,865.439

Audit observed that NHA did not recover the risk and cost amount from the defaulting contractors. This resulted in non-recovery of risk and cost amount of Rs 3,865.439 million.

Audit pointed out the recovery in September-October 2022. The Authority replied that in case of DP-308, re-tendering of subject project was about to complete and date for submission of new bids for balance work at the risk and cost of contractor was on 04.12.2023. Moreover, an amount of risk and cost cannot be calculated until or unless the balance work was completed by the new contractor keeping in view the quantities provided in original BOQ.

The reply was not accepted because efforts made by NHA towards encashment of guarantees and forfeiture of retention money of the defaulting contractors were not shared with Audit.

DAC meeting was not convened by the PAO despite requests by Audit on 10.11.2023, 05.01.2024 and 24.01.2024.

Audit recommends fixing responsibility through fact finding inquiry, recovery of extra cost besides early completion of balance works.

(DP. 308, 405 & 414)

2.4.19 Irregular award of work without observing contractual obligations - Rs 3,650.00 million

Clause 32.1 of Instructions to Bidder (IB) stipulates that the successful bidder shall furnish to the Employer a Performance Security in the form and the amount stipulated in the Bidding Data Sheet and the Conditions of Contract within a period of 28 days after the receipt of Letter of Acceptance. Further, IB 32.2 provides that failure of the successful bidder to comply with the requirements of IB.32.1 or IB.33 or IB.35 shall constitute sufficient grounds for the annulment of the award and forfeiture of the Bid Security.

Audit noted that NHA awarded the work “Construction of Rawalpindi-Kahuta Road including 4 Lane Bridge over Sihala Railway Pass, Sihala Bypass & Kahuta Bypass Package-II” to M/s SMADB-Shah Rukh JV vide acceptance letter dated 25.04.2018 at contract cost of Rs 3,650.000 million. The commencement date of the work was 17.08.2022. Total up to date expenditure was Rs 598.050 million on account of work done and Rs 493.137 million on account of price escalation.

Audit observed that the contractor did not furnish the required performance security/bond within 28 days after receipt of acceptance letter. Contractor submitted performance bond valid from 13.06.2022 to 12.12.2024 after fifty months. The contract agreement was signed on 21.07.2022 whereas the formal agreement between the Employer and successful bidder was to be executed within 14 days of the receipt of the contract agreement. The award of work was not annulled due to default in submission of required performance security as required. Audit further observed that the award of work to M/s SMADB-Shah Rukh JV was also questioned by Joint Secretary (MoC) in 296th NHA Executive Board meeting held on 01.03.2018 due to inquiry with reference to performance of the contractor. The observation of the JS (MoC) was, however not addressed while awarding work.

Due to delay in issuance of commencement letter price of input items were increased extraordinarily from 100% to 250% which resulted in loss to the government in shape of price escalation. The present status/work progress of Package-I was also not shared with Audit.

This resulted in irregular award of work without observing contractual obligations for Rs 3,650.00 million

Audit pointed out the matter in January 2024 but the Authority did not reply.

DAC meeting was not convened by the PAO despite request by Audit on 05.01.2024.

Audit recommends recovery of loss sustained by the Authority due to late issuance of commencement letter in respect of escalated cost, recovery of financial charges for the period of default in submission of performance security.

(DP. 445)

2.4.20 Irregular payment of Mobilization Advance against conditional bank guarantee - Rs 3,385.080 million

Clause 14.2, Section 8 (Part A Contract Data), General Conditions of Contract, provides that the Employer shall make an advance payment @ 10% of accepted contract amount payable in currencies and proportions in which the accepted contract amount is payable provided that the contractor delivers the corresponding irrevocable/unconditional Bank Guarantee for advance payment to the Employer in a timely manner. The total advance payment, the number and timing of installments (if more than one) and the applicable currencies and proportions shall be stated in the Contract Data.

Audit noted during review of the accounts that project “Construction of Additional Carriageway on Indus Highway (N-55) from Shikarpur-Rajanpur (221 km) under Central Asia Regional Economic Cooperation Corridor Development Investment Programme Tranche-II” was financed through ADB Loan No. 4099-PAK which was signed on 22.12.2021 with effective date 21.03.2022 and to be closed on 31.12.2025.

During scrutiny of the record of the above project for the year 2022-23, Audit observed that Bank Guarantees provided by the contractors, as detailed in the table below, from Askari Bank Limited and Industrial & Commercial Bank of China (ICBC) which were valid up to 18.01.2024

respectively, were conditional in violation of contract provisions and following paragraph was included in the Bank Guarantees:

“It is a condition for any claim and payment under this guarantee to be made that the advance payment referred to above must have been received by the contractor on their account numbers”.

(Rs in million)

Lot	Section	Name of contractor	Date of Contract	Contract Cost	Payment of Mob. Advance
Lot-1	Shikarpur-Kandhkot	M/s Zahir Khan & Brothers (ZKB)	20.12.2022	8,848.101	884.810
Lot-2	Shikarpur-Rajanpur	M/s China Civil Eng. Cons. Co. (CCECC) & M/s ZKB	22.12.2021	33,850.870	1,127.580
Lot-3	Kashmore-Rojhan	M/s ZKB	20.12.2022	6,414.199	641.420
Lot-4	Rojhan-Rajanpur	M/s ZKB	20.12.2022	7,312.770	731.278
Total				56,425.94	3,385.088

Audit maintains that conditional bank guarantee and payment there against it was against the provisions of contract.

Audit pointed out the irregular payment of mobilization advance against conditional bank guarantee in December 2023, but the Authority did not reply.

DAC meeting was not convened by the PAO despite requests by Audit on 10.11.2023, 05.01.2024 and 24.01.2024.

Audit recommends fixing responsibility besides justification.

(DP. 419& 384)

2.4.21 Non-initiation of disciplinary action as per directions of Ministry of Planning, Development & Special Initiatives for delay in commencement of project - Rs 3,383.879 million

As per Ministry of Communications letter dated 02.11.2017, PC-I of the project, “Four Lane Bridge Across River Indus Linking Layyah with Taunsa including Two Lane Approach Roads and River Training Works, Package-II (Layyah Side Approach Roads km 0+000 to km 08+233 and Taunsa Side Approach Roads km 09+983 to km 24+556)”, was approved by the ECNEC in its meeting held on 06.10.2017 for Rs 9,775.600 million in which implementation period of the project was given for 36 months.

Audit noted that the Package-II was awarded to the contractor on 10.06.2021 with agreement cost of Rs 3,833.878 million and completion period was of two years. The total value of work done paid to the contractor up to IPC No.2 was Rs 215.287 million and EPC-I for Rs 29.983 million.

Audit observed that PC-I of the said project was approved by the ECNEC on 06.10.2017 in which implementation period was given as three years. The said project was divided into two packages for timely completion of the project and to avoid extra cost on account of variation in prices. Therefore, Package-I (main bridge work) was awarded in 2017 which was completed in 2020, however the Authority awarded Package-II work in June 2021 and commencement letter was issued in January 2022. As per para D 4(d) Director General (Monitoring) Ministry of Planning letter dated 15.11.2022, NHA was required to investigate the matter and fix responsibility for inordinate delay of 4.5 years in procurement/commencement of the project but the same was not done till to date. Furthermore, Audit observed that as per minutes of 2nd reconciliation meeting held on 27.04.2023 under the chairmanship of Member (Engg. Coord) NHA, vide para No. 7, it was told that the contractor showed their intention to do the work subject to revision of Factor-C according to current scenario. It was recommended vide para 8 of said letter, that current contractor would be requested to complete the balance work, Factor-C would be revised, and savings of the PC-I of Rs 7,075 million would be provided for this contract. This resulted in non-initiation of disciplinary action

as per directions of Ministry of Planning, Development & Special Initiatives for delay in commencement of project valuing Rs 3,383.879 million.

Audit is of the view that the late award of work, and its commencement may result in cost overrun in future.

Audit pointed out the matter in August/September 2023. The management replied that the Planning Section of NHA is responsible for the preparation and approval of PC-I, while the Design Section is tasked with detailed design and Technical Sanction approve. Only after the receiving of Technical sanction along with Tender Documents from the Design Section, the Procurement and Contract Administration (P&CA) Section initiate the procurement process for specific projects. In the case of the project in question, Technical Sanction and Tender Documents were received in the P&CA Section on 22.12.2020. The Invitation for Bids (IFB) and bidding Documents were issued on 20.01.2021, and bids were received by 01.03.2021. Letter of Acceptance was issued on 10.01.2021. The date for issuance of the commencement letter was 13.01.2022. The time elapsed between the issuance of the IFB and Contract Documents represents the average duration required for a procurement process to reach maturity.

The reply was not accepted because not tenable. The Authority was trying to shifting of responsibility for abnormal delay in implementation of project as per PC-I approved by the ECNEC.

Audit is of the view that the late award and commencement of work caused slow progress of the work which would ultimately result in cost overrun in future and that utilization of savings of PC-I was due to poor management.

DAC meeting was not convened by PAO despite requests made by Audit on 07.11.2023, 10.11.2023, 17.11.2023, 05.01.2024 and 24.01.2024.

Audit recommends that matter be investigated for fixing responsibility for delay.

(DP. 295)

2.4.22 Non-encashment of performance bond/guarantees of defaulting contractors - Rs 3,193.055 million

Clause 15 of General Conditions of Contract provides that if the contractor fails to carry out any obligations under the contract, the Engineer may, by notice, require the contractor to make good the failure and to remedy it within a specified time. The Engineer shall be entitled to terminate the

Contract if the contractor fails to comply with Sub-Clause 4.2 or with a notice under Sub-Clause 15.1, abandons the works or otherwise demonstrates the intention not to continue performance of his obligations.

Audit noted that in 11 works, the contractors did not complete the assigned works and defaulted in the performance of their contractual obligations.

Audit observed that NHA did not take penal action and performance security of defaulted contractors was not forfeited/encashed. This resulted in non-forfeiture/ non-encashment of performance securities and mobilization guarantees/ retention money for Rs 3,193.055 million **(Annexure-F)**.

Audit maintains that the irregularity of non-encashment of performance and mobilization guarantees/retention money of defaulting contractors was due to weak contract management.

Audit pointed out the matter in September-October 2023. The Authority replied that in case of DP 304, prompt action was initiated to en-cash performance security provided by the United Insurance Company of Pakistan. But on non-encashment of performance security, case/petition for recovery of performance security amount was filed at Insurance Tribunal Multan and case was still underway. In DP 303, that 20% of Bank Guarantee, i.e., Rs 137,721,954 had already been got encashed from concerned bank after winning the case from Civil Court Islamabad and Islamabad High Court. Moreover, 80% Bank Guarantee was under stay order from Islamabad High Court and next date of hearing was 12.10.2023, but due to paucity of time, case could not be heard by the Court and re-listed on 28.11.2023. Honourable Court further directed the both parties to submit the name of Arbitrators (03 names by each party) to the Court on 11.12.2023, so that Arbitration process may be started. In case of DP 293, the contractor could not be paid timely due to lack of funds. Under such scenario it was not possible to take any action against the contractor. Further, Guarantee will expire on 07.10.2023 in case of expiry the same would be encashed in favor of NHA. In case of DP 287, The Civil Court has granted stay order against encashment of performance security and other adverse actions. The Employer has filed an appeal in Islamabad High Court for vacation of stay order which was fixed for hearing on 20.12.2023. Therefore, the encashment of performance security and other adverse actions would be taken after decision of Court Case and audit would be informed accordingly. In DP 412, the Authority did not reply. In case of DP-140, Performance Guarantee by the contractor was valid up to 31.10.2024. In case of DP 406, Failure to fulfill any of the above requirements as contained in the Letter of Intent (LOI) or Letter of Start (LOS) within the time specified, as the case may be, may, result in the forfeiture of the Bidder's Bid Security. Whether Bid Security is forfeited or not NHA may, at its discretion, withdraw the LOI or LOS, as the case may be, either invite the Bidder scoring next highest to the successful Bidder in the evaluation carried out by the NHA to negotiate, or terminate the Bidding Process

without accepting any Proposal. In case of DP 218, case was referred for opinion of black listing is forwarded to the Dispute Resolution Committee (DRC) and legal opinion from legal wing. In case of DP 128 and 116, process of encashment of the performance guarantee was initiated by concerned authorities. In case of DP 156, the contractor did not mobilize at site since the issuance of letter of commencement due to steep hike in material & commodity price and non-availability of price escalation clause in contract documents. Eventually, the contract was terminated after approval of Member Central Zone and no punitive action was taken against the contractor.

The reply was not accepted because the work which was required to be completed in one year up to the year 2019 was not completed even in the year 2023. Penal action was not taken against the contractor.

The matter was discussed in DAC meeting held on 9-10 January, 2024. In DP 116, DAC ordered inquiry and nominated Director General (PM&E), MoC to inquire the matter, fix responsibility and recommend measures for recovery from contractor and share the report with Audit within 15 days. In DP 140 and 156, DAC directed the concerned GM that chronology showing timelines of default of the contractor, notices issued, initiation of court case may be shared with Audit along with supporting record. DAC further directed that case be pursued actively for early decision keeping in view the expiry of performance guarantee.

DAC meeting was not convened by PAO in other cases despite requests made by Audit on 07.11.2023, 10.11.2023, 17.11.2023, 05.01.2024 and 24.01.2024.

Audit recommends fact finding inquiry for abnormal delay in completion of work besides early encashment of performance security.

(DP. 304,303,293,287,412,140,406,218,128,116 &156)

2.4.23 Non-recovery of the cost of less executed work - Rs 3,094.699 million

Clause 13 of the contract agreement provides that the contractor may, at any time, submit to the Engineer a written proposal which (in the Contractor's opinion) will, if adopted, (i) accelerate completion, (ii) reduce the cost to the Employer of executing, maintaining or operating the Works, (iii) improve the efficiency or value to the Employer of the completed Works, or (iv) otherwise be of benefit to the Employer. The proposal shall be prepared at the cost of the Contractor.

Audit noted that contract of "Improvement, Up-gradation and Widening of Jaglot-Skardu Road" was awarded to M/s Frontier Works Organization on 20.06.2017 for Rs 31,000 million on EPC basis (42.86% above PC-I cost of Rs 21,699.970 million) in consideration of survey, investigation, design, execution, completion, maintenance and defects liability of the works as prescribed in the Contract Documents with a commencement date of 29.06.2017 and completion date of 28.06.2020.

The contractor was paid an amount of Rs 23,656.023 million up to IPC 11. Audit further noted that the provision of Plum concrete type wall and RCC type wall in the contract agreement was for 100 km and 26 km respectively and stone masonry type wall was not provided in the contract agreement.

Audit observed that the contractor executed stone masonry type wall, Plum type wall and RCC type wall for 65.1 km, 59.4 km and 1.5 km respectively. Due to execution of low cost item without provision in the contract agreement, the contractor saved amount of Rs 3,094.699 million (Rs 10,044.62 million – Rs 6,949.92 million), as detailed below:

(Rs in million)

S No	Wall type	Length as per Contract	Length as per Detailed Design	Cost Per km	Cost as per agreement	Total Cost as per design
1	Stone Masonry	0	65.1	43.168	-	2,810.246
2	Plum Concrete	100	59.4	66.383	6,638.315	3,943.159
3	RCC	26	1.5	131.011	3,406.306	196.517
Total					10,044.621	6,949.922

Audit maintains that the execution of stone masonry walls and less execution of RCC and Plum concrete wall was due to weak internal controls.

Audit pointed out the non-recovery of the cost of less executed work in September 2023. The Authority replied that major payments against retaining and breast walls were prudently withheld in IPC-11. The resolution of this proposal is currently under process, indicating a proactive approach to ensure transparency and adherence to due process.

DAC meeting was not convened by PAO despite requests made by Audit on 07.11.2023, 10.11.2023, 17.11.2023, 05.01.2024 and 24.01.2024.

Audit recommends fixing responsibility against those responsible for failure in getting the work executed as per provisions of the contract besides recovery of the amount saved by the contractor due to deviation in the scope of work.

(DP. 245&247)

2.4.24 Non-imposition and recovery of liquidated damages due to delay in completion of works - Rs 3,035.938 million

Clause 47.1 of the contract agreement provides that liquidated damages @ 0.1% of contract price for each day of delay in completion of the work subject to maximum of 10% of contract price was to be charged for delay in completion of the work within stipulated period.

Audit noted that in eight (08) cases/works, the contractors delayed in completion of works but NHA did not impose and recover liquidated damages from the defaulting contractors (**Annexure-G**).

This resulted in non-recovery of liquidated damages due to non-completion of work as per schedule for Rs 3,035.938 million.

Audit maintains that the irregularity occurred due to weak contract management.

Audit pointed out the non-imposition/recovery of liquidated damages in August-September 2023. The management replied that the works delayed due to various impediments particularly natural catastrophe beyond human control and EOTs are under process for approval. In DP 233, it was replied that the Engineer imposed liquidated damages due to delay in completion and same would be recovered from the contractors.

The replies were not accepted because documentary evidences in support of replies were not produced to Audit.

DP 98 was discussed in DAC meeting held on 9-10 January, 2024 wherein the management explained that EOT was granted up to December 2023. Audit contended that very purpose of the distribution of work in packages was timely completion. Further, the hindering factors like relocation of utilities and funding constraints were to be addressed in timely manner which was not done. Delay also results in price escalation. DAC directed NHA to provide detailed justification of EOT, clearly identifying employer's and contractor's responsibility, to Audit for evaluation.

Audit recommends recovery of liquidated damages from the contractors who could not complete the works within stipulated time period.

(DP. 98, 173, 233, 238, 246, 359, 372 & 428)

2.4.25 Wasteful expenditure due to non-utilization of executed bridges/works - Rs 3,011.859 million

Para 2.1 of Planning Commission's Guidelines for Project Management, 2008 provides that policy of the Government of Pakistan is to efficiently utilize natural and economic resources of the country for socio-economic welfare of the people. This objective may be achieved only when development projects are planned and executed with vigilant management. Objective of development planning is to have projects implemented for the benefit and social uplift of the society. For achievement of stipulated targets and tangible returns, it is imperative to entrust management and supervision of the project during implementation stage to capable and competent persons of required qualifications, experience and caliber.

Audit noted that the NHA awarded three works to various contractors during the years 2017-21, as detailed below:

(Rs in million)

DP. No.	Name of Project/Work	Contractor Date of award/ Stipulated Date of Completion	Contract Cost	Expenditure
301	Four Lane Bridge Across River Indus Linking Layyah with Taunsa Including Two Lane Approach Roads and River Training Works, Package-I (Major Bridge on River Indus)	M/s SHE-HRL JV 08.11.2017/ 07.11.2019	2,689.980	2,699.817
298	Four Lane Bridge Across River Indus Linking	M/s KNK – JV	3,833.878	245.270

DP. No.	Name of Project/Work	Contractor Date of award/ Stipulated Date of Completion	Contract Cost	Expenditure
	Layyah with Taunsa Including Two Lane Approach Roads and River Training Works, Package-II (Layyah Side Approach Roads km 0+000 to km 08+233 and Taunsa Side Approach Roads km 09+983 to km 24+556)	10.06.2021/ 09.06.2023		
288	Widening and Strengthening of National Highway (N-70) (Rakhi Gajj-Bewata) (East West Road Improvement Project), Package-II - From km 19+500 to km 32+650	M/s KAC- UCC JV 29.11.2021/ 28.11.2023	1,110.000	66.772
Total				3,011.859

Audit observed that PC-I of the project “Four Lane Bridge across River Indus Linking Layyah with Taunsa Including Two Lane Approach Roads and River Training Works” was approved by the ECNEC on 06.10.2017 for Rs 9,775.600 million, in which implementation period was given for three years. The said project was divided into two packages for timely completion of the project and to avoid extra on account of variation in prices in this connection. Package-I (Main Bridge work) was awarded in 2017 which was completed in 2020. Package-II (Approach Roads) was awarded in June 2021, i.e., three and half years after

approval of PC-I. Audit further observed that the contractor of the package-II served the termination notice to the employer (NHA) on 15.03.2023 and the work of the project was executed at site only 10.07% against estimated progress of work of 71.40% up to July 2023 which was 61.33% below from the target. No construction activity was underway at this stage.

Furthermore, Audit observed that the work “Widening and Strengthening of National Highway (N-70) (Rakhi Gajj-Bewata) (East West Road Improvement Project), Package-II was awarded for Rs 1,110.00 million on 29.11.2021. The Authority made payment to contractor of Rs 66.772 million up to IPC No.2 till September 2023. Due to slow progress of the work, Member Central Zone NHA Lahore terminated the said contract on 28.08.2023 under contract clause 63.1 with the direction that under contract sub-clause 63.3, termination of contract would be at contractor’s risk and cost. This resulted in wasteful expenditure due to non-execution of work at site of Rs 3,011.859 million. The said facts showed ill planning of the management which caused wasteful expenditure of Rs 3,011.859 million

Audit holds that wasteful expenditure was due to poor management of the Authority and weak internal controls.

Audit pointed out wasteful expenditure in August-September 2023. In case of DP 301, the Authority replied that Package-I, construction of bridge had been completed in its original time and Package-II was started in January 2022. Unfortunately, contractor was not paid Mobilization Advance and IPCs in time. Therefore, the contractor served termination notice due to non-payments. Bridge is in its shining condition and no wasteful expenditure has been made. In case of DP 298, that IPC No.2 was certified and approved on 14.01.2023. The contractor could not get payment for this and escalation in due time as per contract. Ultimately contractor served Notice of Termination due to non-payment against work done/escalation in time. In case of DP-288, the contractor achieved about 9% progress till August 2023 against 90% planned progress. The Engineer of the project certified the default of Contractor under clause 63.1 due to very slow progress of work. As the payment made to the contractor against actual executed work (most of the work is roadway excavation) was not wasteful. Accordingly, the Member (Engr-Coord) NHA HQ accorded approval for the above mentioned estimates, therefore, necessary payments were made to contractor under above mentioned projects from RMA Administrative expenses budget.

The reply was not accepted as the PC-I was approved keeping in view all factors towards the project with implementation period of 24 months. Further, the Authority did not take up the matter with Federal Government-Ministry of Planning and Development/ Government of Punjab and Khyber Pakhtunkhwa regarding construction of approach roads. Moreover, revision of PC-I was still under process.

DAC meeting was not convened by PAO despite requests made by Audit on 07.11.2023, 10.11.2023, 17.11.2023, 05.01.2024 and 24.01.2024.

Audit recommends investigation into the matter at appropriate level for taking necessary action against the responsible.

(DP. 301, 298, 288)

2.4.26 Inconvenience to DI Khan-Hakla Motorway commuters due to non-construction of service areas - Rs 2,400.00 million

The Project “Construction of 292 km Hakla to D.I. Khan Motorway” is being financed by Government of Pakistan through PSDP. Global PC-I of the project is approved by ECNEC on the 07.11.2016 at the cost of Rs 110,208 million. The amended cost of PC-I is Rs 123,570.004 million. As per PC-I, four Service Areas and one NHA Building were provided for Rs 2,400.00 million.

Audit noted that an expenditure of Rs 104,972.145 million was booked against the project up to June 2023 and the project was operational since January 2022 (Package 01 Taking Over Certificate (TOC) was issued on 28.07.2021, Package 2A TOC on 12.12.2020, Package 2 II B TOC on 04.11.2020, Package 2C TOC on 23.01.2022, and Package III TOC on 27.03.2021).

Audit observed that four Service Areas were not complete as yet. The road commuters are facing inconvenience due to non-construction of these service areas.

Audit maintains that the irregularity occurred due to weak internal and financial control and weak project management. This resulted in inconvenience to DI Khan-Hakla Motorway commuters due to non-construction of service areas against the provisions of approved PC-I for Rs 2400.00 million.

Audit pointed out the matter in October 2023. The Authority replied that originally these Service areas were not included in the Motorway Construction Contracts. Following was the status on all four proposed service areas:

Pindi Gheb Service area: No works were executed as the local land affectees filed writ petition in Lahore High Court Rawalpindi Bench and the matter was sub-judice.

Jand Service area: Basic facilities like Filling Stations, Mosques, Washrooms, Tuck Shops and Tyre shops were fully operational on both sides of Motorway.

Indus River/Essa Khel Service area: Works were in progress.

Pahar Pur Service area: Basic facilities like Filling Stations, Mosques, Washrooms, Tuck Shops and Tyre shops were fully operational on both sides of Motorway.

As such the road commuters on Hakla-D.I. Khan Motorway were not facing any inconvenience due to non-construction of Service areas.

The reply was not acceptable because NHA did not provide documentary evidence regarding construction and operationalization of service areas in support of reply. It was almost three years after operationalization of motorway but service areas were still not in place.

DAC meeting was not convened by PAO despite requests made by Audit on 07.11.2023, 10.11.2023, 17.11.2023, 05.01.2024 and 24.01.2024.

Audit recommends fixing responsibility for poor planning and contract management which caused inconvenience to motorway commuters.

(DP. 212)

2.4.27 Irregular award of work with imbalanced rates of items of work - Rs 2,285.757 million

As per clause 28.4 of the bidding documents, if the bid of the successful bidder is seriously unbalanced in relation to the Employer's estimate of the cost of work to be performed under the Contract, the Employer may require the bidder to produce detailed price analysis for any or all items of the Bill of Quantities to demonstrate the internal consistency of those prices with the construction methods and schedule proposed.

ECNEC in its meeting dated 04.06.2021 approved PC-I of the project "Dualization of Khuzdar-Kuchlak Section of National Highway (N-25), having length 330.52 kilometers for Rs 81,582.19 million with implementation period of 39 months.

A. The work "Dualization of Khuzdar-Kuchlak Section of National Highway (N-25) Section-III (km 102+00 - km 171+900)" was awarded to M/s ZIEC-PTA JV for agreement cost of Rs 10,583.568 million dated 09.12.2022, i.e., 19.50% below Engineer Estimate of Rs 13,147.830 million.

M/s ZIEC-PTA JV quoted rate against item of work "Stone Masonry Dressed Coursed with Mortar" as Rs 750.65 per Cu.m against and PC-I/Engineer Estimate rate of Rs 5,842 per Cu.m. During bid evaluation, GM P&CA Wing asked the bidder to submit analysis of rate for all the items of BOQ.

Audit observed that the bidder did not submit the analysis of the above item despite the huge difference of estimated and quoted cost of Rs 1,370.693 million, only against this item, as under:

Sub-Head	EE Quantity (Cu.m)	Quoted Rate (Rs per Cu.m)	Rate as per Estimate (Rs per Cu.m)	Difference (Rs)	Amount (Rs)
Slab Culverts	269,220	750.65	5,842	5,091.35	1,370,693,247

B. The work “Dualization of Khuzdar - Kuchlak Section of National Highway (N-25) Section-IV (km 171+900 - km 241+200)” awarded to M/s ZIEC-PTA JV on for agreement cost of Rs 11,324,194,850 on 10.02.2023, i.e., 19.28% below Engineer Estimate of Rs 14,029,776,519.

M/s ZIEC-PTA JV quoted rate against item of work “Reinforcement as per AASHTO M-31 Grade-60” as Rs 50,000 per ton against and PC-I/Engineer Estimate rate of Rs 119,692.59 per ton. During bid evaluation GM P&CA Wing asked the bidder to submit analysis of rate for all the items of BOQ.

Audit observed that the bidder did not submit the analysis of the above item despite the huge difference of estimated and quoted cost of Rs 915.064 million, only against this item as under:

Sub-Head	EE Quantity Ton	Quoted Rate (Rs per ton)	Rate as per Estimate (Rs per ton)	Difference (Rs per ton)	Amount (Rs)
Box Culverts	13,130	50,000	119,692.59	69,692.59	915,063,707

Non-responsiveness of the bidders warranted rejection of bids because no justification for such deviation in rates was given by the bidders as required by GM P&CA Wing. The award of works was with a delay of one and a half year after approval of PC-I and chances were there that sub head Slab and Box Culverts and its items quantities were not as per site requirement and the contractor was able to get the award of work with such imbalanced rates. Estimate of the work was not updated. This caused irregular award of works with imbalanced rates for an amount of Rs 2,285.757 million (Rs 1,370.693 million + Rs 915.064 million).

Audit pointed out the matter in October 2023. The Authority replied that non-provision of rate analysis for a certain item was not any irregularity. Furthermore, Rule 40 of the Public Procurement

Rules, 2004 prohibits the employer from any negotiations with successful bidder regarding their price bid. Contractors were not bound by the Engineer Estimate when submitting their bids.

The reply was not acceptable. The bidder did not furnish rate analysis of particular items as pointed out by Audit. The bid was not cancelled due to non-compliance of tender conditions and work was awarded with imbalanced rate.

DAC meeting was not convened by the PAO despite requests by Audit on 05.01.2024 and 24.01.2024.

Audit recommends fixing responsibility through fact finding inquiry besides recovery of the amount involved in imbalanced rates. Mechanism for procurements of high value contracts may be improved and tenders must be called only against estimates/costs based on updated drawings/design prepared after site surveys.

(DP. 404&416)

2.4.28 Award of additional work without fresh tenders - Rs 2,280.001 million

Rule 12(2) of the Public Procurement Rules, 2004 states that all procurement opportunities over two million rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu. Rule 42 I (iv) of ibid rules provides that a procuring agency shall only engage in direct contracting if the repeat orders do not exceed fifteen percent (15%) of the original agreement. According to Rule 50, any violation of these rules constitutes mis-procurement.

Audit noted that the Authority awarded the work "Construction of Shatial-Thur Nullah Bypass (Relocation of KKH) including link road to existing KKH" to M/s HAKAS Pvt. Ltd. vide acceptance letter dated 22.06.2012 at an agreed amount of Rs 3,518.133 million with commencement date of 23.09.2012 and completion date of 22.09.2012. EOT-04 was approved up to 31.03.2023. PC-I of the project was approved by ECNEC on 20.08.2009 for Rs 3,844.431 million. Up to date payments against total work done of Rs 4,071.833 million vide IPC-31 and escalation amounting to Rs 1,213.574 million vide EPC-31 were paid up to June 2023. Variation Order No.03 amounting to Rs 5,789.468 million was approved by NHA Executive Board in its 370th meeting dated 02.10.2021.

Audit observed that the scope of the work was enhanced due to inclusion of two link roads having length of 7.7 km with cost impact of Rs 2,280.001 million. The contract amount was enhanced beyond permissible limit of 15% of the already awarded work but the authority awarded additional work to existing contractor without calling tenders in violation of the Public Procurement Rules.

This resulted in award of additional work without calling for tenders amounting to Rs 2,280.001 million.

Audit pointed out the award of additional work without fresh tenders in September 2023. The Authority replied that being deposit work, payment was made by WAPDA from Basha Dam PC-I which was approved for Rs 57 billion including re-alignment of KKH for Basha Dam. Therefore, there was no need for fresh tender for such small quantum of additional link road.

The reply was not accepted because additional work was awarded without calling for tenders in violation of rules.

DAC meeting was not convened by PAO despite requests made by Audit on 07.11.2023, 10.11.2023, 17.11.2023, 05.01.2024 and 24.01.2024.

Audit recommends fixing responsibility against those responsible for violation of rules besides taking concrete steps to avoid recurrence of such irregularity in future.

(DP. 254)

2.4.29 Loss of revenue due to delay in completion of work - Rs 1,932.00 million

Rule 30(3) of the Public Procurement Rules, 2004 provides that a bid once opened in accordance with the prescribed procedure shall be subject to only those rules, regulations and policies that are in force at the time of issue of notice for invitation of bids.

Clause 27 of contract agreement for Automatic Vehicle Classification system (detail of shipment/goods supply) states that the contractor shall provide bill of lading, sea waybill, an inland waterway document, an air way bill, etc., in support of imported equipment to NHA.

Audit noted during scrutiny of Road Maintenance Account that the General Manager (Revenue) awarded two (2) contracts and made payments of Rs 1,178.486 million, as detailed below:

(Rs in million)

S. No.	Name and date of award of work	Contractor	Contract Amount	Payments up to June 2022
1	Package-I (44 lanes 05 plaza), awarded on 17.06.2019	M/s Whale Cloud Tollink (JV)	986.326	642.983
2	Package-II (44 lanes 05 plaza) awarded on 17.06.2019	M/s Sh. Iqbal Akhtar & Co	883.140	535.503
Total				1,178.486

Audit observed the following irregularities:

The works were awarded in June 2019 and the completion period of both packages was six (06) months whereas forty-two (42) months have been lapsed but the contractors failed to complete the works.

The status of old material retrieved from dismantling of old ETTM system amounting to Rs 500 million was also not forthcoming on record.

Due to non-completion of work within specified time period, the authority sustained loss of revenue amounting to Rs 1,932.00 million.

(Rs in million)

Expected annual increase due to installation of ETTM system (after excluding 4% O&M charges)	542.35
--	--------

Per month increase	46.00
For fourteen (42) months 01.01.2020 to 28.06.2023 (42 months x 46)	1,932.00

Audit pointed out the irregularities in September-October 2022. The Authority replied that considering the 2020-21 as base year, the revenue collected after installation new ETTM system on Toll Plazas falls under Package-I&II has been increased by 14% and 12% for financial year 2021-22 and 2022-23, respectively. Stock taking for the old ETTM equipment has been done and is available at site and NHA HQ stores.

The reply was not accepted because the contractors did not complete the work within original/revised completion period, i.e., 15.09.2021, the authority suffered huge loss of revenue due to non-completion of work. The accounts and disposal of replaced tolling system was not got verified.

The matter was discussed in DAC meeting held on 9-10 January, 2024 wherein DAC directed to conduct fact-finding inquiry through Member (Finance), NHA. DAC further directed that M&I Wing shall submit report within one month.

Audit recommends fixing responsibility through fact-finding inquiry besides recovery.

(DP. 82)

2.4.30 Irregular award of work at higher cost above PC-I and also above previous lowest bid - Rs 1,883.451 million

Para 4.05 of Manual for Development Projects issued by Planning Commission (December 2021) states that, for smooth implementation of projects, the following guidelines may be adhered to: (i) While making the decisions to include projects in the PSDP, the PAOs should prioritize existing projects instead of suggesting new projects; (ii) If the cost of the project exceeds 15% of the approved budget at the time the contract is being awarded, PC-I would be revised immediately and should be submitted for approval of the competent forum.

The NHA Executive Board in its 425th meeting dated 10.03.2023 approved the award of work for “Construction of 6-lane Overhead Bridge at Imamia Colony Railway Crossing Shahdara” to the lowest evaluated bidder M/s National Logistics Corporation Engineers (NLC Engineers) at

evaluated bid price of Rs 3,379.453 million, which was 125.90% above the Engineer's Estimate of Rs 1,496.001 million based on CSR 2014 and 37.48% above the Engineer's Estimate of Rs 2,458.135 million based on CSR 2022 subject to approval of Revised PC-I.

The NHA Executive Board in its 435th meeting dated 08.06.2023, recommended the 2nd Revised PC-I for "Conversion of 6-lane overhead bridge to 8-lane bridge at Imamia Colony Railway Crossing Shahdara (Revised) and conversion of the existing 4 lanes N-5 from Shahdara More to Imamia Colony and 6 lanes N-5 from Imamia Colony to Kala Shah Kaku into 8-lanes to accommodate Metro Bus facility" at a cost of Rs 18,682.953 million for approval of ECNEC.

Audit noted that GM P&CA NHA HQ Islamabad invited bids on 20.02.2018 for "Construction of 6-Lane Overhead Bridge at Imamia Colony Railway Crossing, Shahdara" and the lowest bid of Rs 1,296.701 million was quoted by M/s HCS-AKB (JV). There is no further clue in the record produced about the fate of this tendering process.

Audit further noted that, for the same work, tender was again invited in August 2022 and the work was awarded to the lowest bidder M/s NLC at a contract cost of Rs 3,379.452 million. The fresh tendering process did not contain information about the previous tendering.

Audit observed that the project was awarded at higher rates above PC-I cost of Rs 1,883.451 million (Rs 3,379.452 million - Rs 1,496.001 million) and above previous lowest bid of the year 2018 for Rs 2,082.751 million (Rs 3,379.452 million - Rs 1,296.701 million), and that the work was not awarded to the lowest bidder M/s HCB-AKB (JV) at their evaluated bid price of Rs 1,296.701 million which was 25.24% below the engineers estimate of Rs 1,734.520 million in 2018. Audit further observed that the same work was awarded to the lowest bidder M/s NLC at their evaluated bid price of Rs 3,379.452 million which is 125.90% above the engineer estimate of Rs 1,496.000 million in 2022. This resulted in loss to the authority due to non-award of contract to the lowest evaluated bidder in 2018 of Rs 2,082.751 million (lowest bid quoted in 2018 (Rs 1,296.701 million) - lowest bidder quoted cost in 2022 (Rs 3,379.452 million)).

Audit maintains that award of work at higher rates without revision of PC-I and non-finalization of earlier tendering process caused higher cost of Rs 2,082.751 million.

Audit pointed out the matter in October 2023. The Authority replied that original tendering process was annulled in 2018 and fresh procurement was initiated in 2022 when allocation was made in PSDP 2021-22.

The reply was not accepted because justification was not furnished for fresh tendering in the year 2021-22 and non-finalization of tendering process of 2018-19 despite availability of funds in 2018-19 as admitted in reply. Award of work at higher rates and non-finalization of earlier tendering process caused higher cost of Rs 2,082.751 million.

DAC meeting was not convened by the PAO despite requests by Audit on 05.01.2024 and 24.01.2024.

Audit recommends inquiry for fixing responsibility besides recovery.

(DP. 410)

2.4.31 Poor contract management and non-recovery of risk and cost amount from the defaulting contractor - Rs 1,854.679 million

Clause 63.1 of the contract agreement stipulates that the Employer (NHA) may, after giving 14 days' notice to the contractor, enter upon the site and the works and terminate the employment of the contractor without thereby releasing the contractor from any of his obligations or liabilities under the contract, or affecting the rights and authorities conferred on the Employer or the Engineer by the contract, and may himself complete the works or may employ any other contractor to complete the works.

As per Special Stipulations No. 12 (Appendix-A to bid) of the contract agreement, minimum amount of interim payment certificate (running bills) was fixed as 2.5% of contract price as stated in Letter of Acceptance which comes to Rs 31.088 million (Rs 1,243.516 million x 2.5%).

During scrutiny of the accounts of General Manager, RAMD NHA, Islamabad for the year 2021-22, Audit noted that the work "Conversion of 2-Lane Lai & Sawan bridges to 4-Lane bridges" was awarded to M/s A.K Communication on 28.02.2017 for Rs 1,243.516 million with completion period of 2 years up to February 2019. The contractor did not complete the work even within the extended time which ended on 21.01.2022. Consequently, the contract was terminated on 18.04.2022 by the Chairman NHA under clause 63.1 of contract agreement.

Audit observed the following irregularities:

Penalty was not imposed on the contractor for delay in completion of work and NHA had to bear extra cost of Rs 496.969 million on account of price escalation, consultancy fee and payments against general items. Payment of Rs 802.158 million was made to defaulting contractor till April 2022 against contract amount of Rs 1,243.516 million. NHA awarded the balance work to M/s FWO at contract cost Rs 1,799,067,967 on 21.10.2022 with completion period of one year. An amount of Rs 1,854.679 million (Rs 1,243.516 million – Rs 802.158 million = Rs 441.358 million – (Rs 1,799.068 million+ Rs 496.969 million) was recoverable as risk and cost from the defaulting contractor which was not recovered.

Performance security of the defaulter contractor of Rs 124.352 million valid up to 15.03.2023 was not en-cashed.

During execution of work, the project consultants pointed out defective works of Rs 60.515 million. But the deductions were not made from the running payments.

The contractor's claims/PCs were less than specified limit of Rs 31.088 million (2.5%). But the Authority paid the 21st and 22nd PCs to contractor for Rs 20.085 million and Rs 28.918 million during the year 2021-22. This resulted in undue financial assistance of Rs 48.003 million to contractor due to payment of PCs less than the contract provision.

Survey, lab equipment and vehicles worth Rs 26.138 million procured through the defaulting contractor were not taken over and accounted for.

The enhanced consultancy cost of consultancy services amounting to Rs 77.979 million was also recoverable from defaulting contractor.

Audit maintains that the irregularities were due to weak internal controls.

Audit pointed out the matter in September-October 2022. The Authority replied that the contractor went to the Court in the matters of encashment of performance security, termination, forfeiture of retention money and award of balance work on risk and cost. The matter was sub-judice.

The matter was discussed in DAC meeting held on 9-10 January, 2024 wherein NHA responded that the work was delayed due to site issues including shifting of utilities. Audit contended that the completion of work was delayed despite extra-contractual favours to the contractor. DAC decided that a Fact Finding Inquiry be conducted in all paras relating to Sawan Bridge and report thereon

be submitted to Audit and Ministry. DAC further directed NHA to pursue court case, provide date wise penal actions taken against the contractor and ensure timely completion of work.

Audit recommends fixing responsibility through fact finding inquiry, recovery of extra cost besides early completion of work.

(DP. 22, 23, 24, 25, 26, 35, 86, 89 & 408)

2.4.32 Excess payment due to deviation from the approved provisions - Rs 1,849.583 million

Para 56 of Chapter 2 of NHA Code (Vol-I) provides that technical sanction means the order of the competent authority sanctioning a properly detailed estimate of the cost of a work of construction or repair proposed to be carried out by the Authority. Sanction accorded to the execution of a work by an officer of any other department is regarded merely as an Administrative Approval of the work. Technical Sanction is a guarantee that the proposal is structurally sound and that the estimates are accurately calculated and based on adequate data. It shall be issued on the basis of detailed estimates for the project as a whole, after Administrative Approval is accorded.

Audit noted that in NHA awarded eight (08) works to the various contractors at agreed cost Rs 16,626.228 million during the year 2022-23 (**Annexure-H**)

Audit observed that NHA addition/deletion some items of work from approved scope through variation orders which clearly indicates that engineer's estimate of said project was not structurally sound and not accurately calculated allowing contractor to execute the work at site on his own will, and not according to approved scope of work. Audit is of the view that Authority compromised on quality of work provided in the original contract and undue favour was extended to the contractor. This resulted in excess payment due to deviation from the approved provisions through Variation Order in violation of TS estimate amounting to Rs 1,890.388 million.

Audit maintains that the irregularity occurred due to poor planning and weak internal controls/contract management.

Audit pointed out irregularity in September-October 2023. The Authority replied that in case of DP 148, the excess quantities over the provisions in contract agreement were paid provisionally on account of under process variation order. In case of DP 145, scope of projects usually changes during execution of project keeping in view the site conditions. In case of DP 370, the variation

order No.2 is under process and the payments on account of legitimate expenditures under BOQ – Bill 7 (General Items) became indispensable for the continuation of these services. In case of DPs 268 & 281, the work has been executed as per site requirement under the supervision of renowned supervisory consultant M/s PEAS Consulting Engineers Pvt. Ltd. The section of road remained inundated in flood water for more than two months during super flood 2022 due to which the said section becomes more deteriorated. The Re-appropriation and reach extension was duly approved by the concerned Member (EC).

The reply was not accepted because payments of deviated scope of work in excess of contract provisions were made without approval of the competent forum. It also shows that the design/estimate was not prepared after site surveys.

DPs 145 and 148 were discussed in DAC meeting held on 9-10 January, 2024 wherein DAC ordered inquiry and nominated Director General (PM&E), MoC and General Manager (M&I) as a co-opt member to inquire into the matter (imposition of penalty against design consultant) and submit a report within 15 days. Report may also be shared with Audit. Compliance of DAC's directive was not made till the finalization of this report.

DAC meeting was not convened by the PAO in other cases despite requests made by Audit on 07.11.2023, 10.11.2023, 17.11.2023, 05.01.2024 and 24.01.2024.

Audit recommends fixing responsibility against those responsible for poor estimation and weak contract management besides recovery of the amount involved.

(DP. 148,145, 370, 268, 281)

**2.4.33 Irregular closure of the projects without revision of PC-I -
Rs 1,747.20 million and unjustified execution of works -
Rs 143.294 million**

Planning Division letter No. 20(1) DA/PC/79-Vol.XIV dated 22.06.1980 provides that if the total estimated cost, as sanctioned increases by a margin of 15% or more or if any significant variation in the nature/scope of the project has been made, irrespective of whether or not it involves an increased outlay, the approval of the ECNEC/ competent authority shall be obtained in the same manner as in the case of the original scheme without delay.

Audit noted that Authority awarded/executed three (03) works under Project “Rehabilitation of NHA Highways Network damaged due to unprecedented monsoon rains & flash floods 2010” at a contract cost of Rs 1,747.20 million to various contractors as detail below:

(Rs in million)

Section Name	Name of Contractor	Contract Cost	Gross work done
Package-2 Lot-01 Bahrain to Kalam 08 Bridges	M/s Sachal Engineering works Pvt. Ltd.	504.809	75.569
Package-2 Lot-02 Bahrain to Kalam 04 Bridges	M/s Sachal Engineering works Pvt Ltd	348.033	23.926
Package-2 Bahrain to Kalam 12 Bridges	M/s Sheikh Abdul Razzaq & Co	894.358	43.799
Total		1,747.2	143.294

Audit observed the followings discrepancies:

The works were terminated despite the facts that the BOQ rates/ contract cost were at lower side and necessity of bridges is still intact, the same will be constructed at higher rates through new contracts.

Execution was started without proper hydrology study to safe public money resultantly expenditure of Rs 143.294 million incurred for construction of bridges gone waste due to flood.

The payment for work done for Rs143.294 million was made after flood, i.e., August 2022 without availability of proof regarding physical execution at site duly supported by test reports, check request, etc.

Audit is of the view that the deviation from approved scope of the work without getting approval from competent forum, i.e., ECNEC was irregular and execution of works amounting to Rs 143.294 million without proper estimation is unjustified.

Audit pointed out the irregular closure of the projects without revision of PC-I in October 2023, but the Authority did not reply.

DAC meeting was not convened by the PAO despite request by Audit on 05.01.2024.

Audit recommends that matter be investigated for fixing responsibility and action against persons at fault.

(DP. 441)

2.4.34 Unauthentic payment on account of price escalation - Rs 1,711.655 million

Para 1 of Part-I(C) of Standard Procedure and Formula for Price Adjustment states that the billed amount of the work for each calendar month will be obtained from the contractor. In case the billed amount is for more than one month, the amount of the bill shall be segregated for actual work done in each month.

Clause SP(C)-60.1 of the Contract provides that the contractor will supply to the Employer's representative six copies of the monthly statement along with two copies of detailed measurements, quality control tests and cross sections with calculations, and any other documents or information which form the basis of payment.

Audit noted that the NHA awarded/executed 08 works through different contractors at agreed cost of Rs 28,580.878 million and made payment of Rs 1,711.655 million on account of price adjustment during contract period, as detailed below:

(Rs in million)

Name of Project	Contractor Name	Original Contract Cost	Escalation Paid
Chitral-Ayun-Bumborate Road Project (Package-I)	M/s HRK-MQC-SB (JV)	1,260.262	139.787
Chitral-Ayun-Bumborate Road Project (Package-II)	M/s MQC-HRK-SAPNA (JV)	1,756.459	167.889

Name of Project	Contractor Name	Original Contract Cost	Escalation Paid
Chitral-Booni-Mastuj-Shandoor Road Project (Package-1)	M/s Umer Jan & Co	2,668.317	139.644
Chitral-Booni-Mastuj-Shandoor Road Project (Package-2)	M/s Umer Jan & Co	2,829.340	96.045
Chitral-Booni-Mastuj-Shandoor Road Project (Package-3)	M/s Umer Jan & Co	2,546.316	110.603
Nokundi Mashkhel Road Project	M/s KAC-NIC-RA (JV)	5,726.085	287.941
Rawalpindi Kahuta Road Project (Package-II)	M/s SMADB-Shahrukh-(JV)	4,296.035	493.138
Jhaljao Bela Road Project	M/s JHCEC-ABD (JV)	7,498.064	276.608
Total		28,580.878	1,711.655

Audit observed that the Authority made payment to the contractor on account of Price adjustments (average basis) by dividing the whole quantum of work on the number of months for which the IPC relates instead of actual work done executed during the month (calculated on the basis of check requests) as required under PEC procedure/agreement. This resulted in unauthentic payment made to contracts on account of Price adjustments/escalation for Rs 1,711.655 million.

Audit pointed out the unauthentic payment made on account of price escalation in December 2023, but the Authority did not reply.

DAC meeting was not convened by the PAO despite request by Audit on 05.01.2024.

Audit recommends price escalation may be calculated on the basis of actual work done on monthly basis.

(DP. 425)

**2.4.35 Non-obtaining of additional performance guarantees -
Rs 1,586.566 million**

Clause 10.1 of Special Provisions of the Contract provides that:

Minimum performance security shall be of an amount equal to 10% of the contract price stated in letter of acceptance.

Performance security of an amount equal to 10% of the contract price stated in letter of acceptance (LOA) shall be at the option of the bidder, be in the form of any of the following options, only if the quoted/evaluated bid price is up to 10% below of Engineer Estimate.

Bank Guarantee from any Schedule bank in Pakistan or

Bank Guarantee from a bank located outside Pakistan duly counter guaranteed by schedule bank in Pakistan or

An insurance company having at least AA rating from PACRA/JCR (Available on NHA's approved panel)

However, if quoted bid price is beyond 10% below the engineer's estimate, the bidder shall have to provide additional performance security in the shape of Bank Guarantee only for the balance lower percentage beyond 10% below the EE.

A. Audit noted that the Authority awarded the work "Dualization of Khuzdar-Kuchlak Section N-25 Section-I" to M/s SMADB-Shahrukh-MBC (JV) vide acceptance letter dated 07.12.2021 at agreed cost of Rs 8,786.787 million and Section-II" to M/s Umer Jan & Co, - NPI Construction & Engineering (JV) on 25.03.2022 at agreed cost of Rs 9,271.096 million against estimated cost of Rs 10,869.046 million.

Audit further noted that the Authority (in Section-I) obtained performance security for Rs 878.679 million issued by the insurance company (No. 101/LHR/PB-02/01/2022 dated 05.01.2022), i.e., 10% of contract cost and additional performance guarantee for Rs 171.911 million from Dubai Islamic Bank (No. 179GTEL213650001 dated 03.12.2021) and also obtained 10% performance security for Rs 927.109 million dated 29.03.2022 issued by the insurance company No. 101/LHR/PB-24/03/2022 and additional performance guarantee for Rs 24.019 million dated 13.4.2022 No MD22103276740054 from the Bank of Khyber (Section-II).

Audit observed that in Section-I, the contractor quoted bid 22.33% below the estimated rates and submitted performance guarantee of Rs 1,050.589 million (Rs 878.679 million + Rs 171.911 million) instead of Rs 1,962.089 million as required under the special stipulations of the contract

agreement to safeguard the interest of the government. In Section-II, the contractor quoted bid 14.70% below the estimated rates and submitted performance guarantee of Rs 951.128 million instead of Rs 1,362.851 million as required under the special stipulations of the contract agreement to safeguard the interest of the government.

This resulted in insufficient additional performance guarantee of Rs 1,323.07 million (Rs 911.499 million + Rs 411.571 million).

(DP. 350, 353)

B. Audit noted that NHA awarded the work “Rehabilitation and Up-gradation of Jhal Jao-Awaran Road (54.80 km)” to the contractor on 25.04.2022 at agreed cost of Rs 5,146.410 million which was 15.12% below the Engineering Estimate cost of Rs 6,062.993 million. The work was started on 16.06.2022 and was required to be completed within 24 months, i.e., 15.06.2024. The total value of work done up to IPC No. 4 was Rs 1,023.872 million. Audit further noted that authority obtained performance security @ 10% of contract price amounting to Rs 514.641 million.

Audit observed that contractor quoted 15.12% below rates, therefore according to above contract clause, 5.12% additional performance security in shape of bank guarantee was required to be obtained from the contractor which was not obtained. This resulted in non-obtaining of additional performance security in shape of bank guarantee acceptance of below estimated rates valuing Rs 263.496 million (Rs 5,146.410 despite @ 5.12%).

Audit pointed out the matter during August & September 2023. The Authority replied that the 10% Performance Guarantee in shape of Insurance Guarantee amounting to Rs 514.641 million issued by AA Rated Insurance Company has been given the afore mentioned amount is 10% of the “accepted Contract Price” Rs 5,146,410,630 payable in consideration of execution, completion, maintenance and defect liability of the works as prescribed by the contract document. Similarly, the additional Performance Guarantee in the shape of Bank Guarantee amounting to Rs 16 million issued by Habib Bank Limited has been given.

The reply was not accepted because NHA obtained additional performance guarantee of only Rs 16.00 million instead of Rs 263.496 million.

Audit maintains that the irregularity occurred due to weak internal controls and inefficient oversight mechanisms.

DAC meeting was not convened by PAO despite requests made by Audit on 17.11.2023, 05.01.2024 and 24.01.2024.

Audit recommends that additional performance security in shape of bank guarantee needs to be obtained from the contractor otherwise premium saved by the contractor may be recovered.

(DP. 309)

2.4.36 Irregular and unauthentic payment on account of Intelligent Transport System - Rs 1,565.580 million

Clause 5 of the contract agreement provides that, Provisional Sums included in the contract shall be expended in whole or in part at the direction and discretion of the Employer. The Contractor will only receive payment in respect of Provisional Sums if he has been instructed by the Employer to utilize such sums. As per clause 13.5, contractor's overhead charges and profit shall be 12% of the cost. Further, the contractor shall, when required by the Employer, produce quotations, invoices, vouchers and accounts or receipts in substantiation.

Para 208 of Central Public Works Accounts Code (CPWA) states that, payments for all work done are made on the basis of measurements recorded in the Measurement Book (Form 23) in accordance with the rules in Para 209 of CPWA Code. The Measurement Books should, therefore, be considered as very important accounting record. Para 209(b) states that all measurements should be neatly taken down in a Measurement Book.

Para 5.14.2 of Financial Manual of NHA provides that while processing contractor's claims on account of work done it may be checked that all the measurements have been properly recorded in the Measurement Book.

Intelligent Transport System (ITS) was to be provided by the contractor under contract clause relating to provisional sums for Rs 1,490.000 million. "Statement at completion" of the project "Construction of Havelian-Thakot", showing up to date value of all work done and all financial aspects of the project, was prepared on 12.03.2021, duly signed by the NHA and the contractor as per requirement of the clause 14.10 of the contract. Record relating to ITS showed that the contractor was paid against items of ITS, as detailed below:

Payment date	IPC No.	Amount (Rs)
08.11.2019	36	700,914,843
09.12.2019	37	91,289,413
18.12.2019	38	271,332,344
07.04.2019	39	90,566,976
29.06.2020	40	372,775,225
03.05.2021	41	38,701,105
Total		1,565,579,906

Audit observed the following:

Details of equipment procured and installed with dimensions of civil works was not recorded in the Measurement Books. The authenticity of quality and quantity of works under ITS was not confirmed.

Valuation/Analysis of rates of the items under ITS along with defined scope of materials, equipment, etc., to be provided, as required under clause 13.5, were not available in the record produced.

Import documents of ITS equipment with bill of lading, warranties, test reports, etc., were not available in the record.

Amount approved for ITS equipment was Rs 1,490.000 million, whereas payment of Rs 1,565.580 million was made, resulting in excess expenditure of Rs 75.580 million.

Monitoring & Inspection (M&I) Wing of NHA got inspected the installed IT equipment/system through Director MIS/ITS NHA, who raised following functional and operational issues/shortcomings:

The centralized dashboard/platform of ITS had not been provided, i.e., data obtained through different components of ITS (incident detection, speed detection, emergency telephones, video surveillance, tolling, weighing, etc.) was not integrated and could not be processed with a single click.

Highway Monitoring Platform provided under ITS, was not user friendly as Live Video preview was not available. Besides, traffic flow information data was not accurate. Alarms for offline equipment were activated with a delay of five (5) minutes. Further, the fault alarm was not sorted at the top.

The software for the Emergency Telephone System is unable to handle more than one calls at a time. Further, it lacks in recording of incoming/outgoing calls.

Network Management System (NMS) Software was not available for Optical Fiber Cable and Field equipment of ITS.

This resulted in irregular and un-authentic payment on account of Intelligent Transport System for Rs 1,565.580 million.

Audit pointed out the matter in October 2023. The management replied that specifics of all Intelligent Transportation System equipment and related works were confirmed in line with the approved design. These details were fixed in the Bill of Quantities (BOQ), and they were attached to each Interim Payment Certificate (IPC). The contractor provided warranties and performance certificates for the ITS equipment. The total amount allocated against provisional sums was Rs 1,565.58 million, with Rs 1,490 million designated for ITS and Rs 75.58 million for Landscaping and Horticulture. The problems that were Contractor's responsibility were rectified in time.

The reply was not accepted because details of equipment procured and installed with dimensions of civil works were not recorded in the Measurement Books. Analysis of rates of the items under ITS were not prepared in the absence of which the authenticity of rates paid could not be ascertained. Import documents of ITS equipment procured with bill of lading, warranties, and test reports were not produced in support of reply. Rectification of defects as pointed out by M&I report were not made.

DAC meeting was not convened by PAO despite requests made by Audit on 10.11.2023, 17.11.2023, 05.01.2024 and 24.01.2024.

Audit recommends fixing responsibility through fact-finding inquiry besides recovery.

(DP. 277)

2.4.37 Excess payment of price variation beyond PC-I provision -
Rs 1,544.00 million

Paras 9.1 and 9.2 of Manual for Development Projects (Revised 2019), issued by the Planning Commission of Pakistan provide that, after the approval of the project, the executing agency is required to implement the project according to the provisions of PC-I.

A. PC-I of the project “Central Asia Regional Economic Corridor Development Investment Programme Tranche-I” was approved by the Executive Committee of National Engineering Council (ECNEC) containing a provision of the Rs 814.100 million on account of price escalation.

Audit noted during review of the accounts that NHA awarded a work “Petaro-Sehwan (128 km)-Ratodero-Shikarpur (44 km)-Peshawar-Dara Adam Khel (36 km) on Indus Highway (N-55)” which was financed through ADB Loan Agreement No. 3574-Pak (Tranche-I) signed on 18.12.2017 with effective date as 17.02.2018 and to be closed on 31.12.2022.

Audit observed that a payment of Rs 2,030.351 million was made to the contractors on account of price escalation against a provision of Rs 814.100 million in PC-I. This resulted in excess payment of Rs 1,216.251 million to the contractor, which constitutes 149.39% of the provision.

Audit maintains that excess payment occurred due to non-observance of instructions of Planning Commission.

Audit pointed out the irregularity during September 2023. The Authority replied that the overall cost of the PC-I was not exceeded. Furthermore, revised PC-I covering the escalation payment, had been submitted for approval of competent forum.

The reply was not accepted because payments beyond PC-I provisions were made without revision of PC-I.

Audit recommends fixing responsibility against those responsible for excess expenditure on account of price adjustment besides corrective action.

(DP. 397)

B. PC-I of the project “Construction of Rawalpindi-Kahuta road including 4 lane bridge over Sihala Railway pass Sihala bypass & Kahuta bypass was approved by ECNEC in its meeting held on 11.05.2022 for total cost of Rs 13,012.13 million having provision for escalation amounting to Rs 165.130 million.

Audit noted that NHA awarded the work “Construction of Rawalpindi-Kahuta road including 4 lane bridge over Sihala railway pass Sihala bypass & Kahuta bypass Package-II” to M/s SMADB-Shah Rukh JV vide acceptance letter dated 25.04.2018 at contract cost of Rs 3,650.000 million with commencement date as 17.08.2022. Total up to date expenditure was Rs 598.050 million on account of work done and Rs 493.137 million on account of escalation.

Audit observed that the Authority allowed payment on account of price variation amounting to Rs 493.138 million against PC-I provision of Rs 165.130 million without approval from competent forum (ECNEC). This resulted in payment of price variation beyond PC-I provision amounting to Rs 328.008 million (Rs 493.138 million - Rs 165.130 million).

DAC meeting was not convened by the PAO despite request by Audit on 05.01.2024.

Audit recommends early regularization of excess paid escalation cost.

(DP. 443)

2.4.38 Irregular finalization of the project despite incomplete works - Rs 1,323.362 million

Planning Division letter No. 20(1) DA/PC/79-Vol.XIV dated 22.06.1980 provides that if the total estimated cost, as sanctioned increases by a margin of 15% or more or if any significant variation in the nature/scope of the project has been made, irrespective of whether or not it involves an increased outlay, the approval of the ECNEC/ competent authority shall be obtained in the same manner as in the case of the original scheme without delay.

Audit noted that NHA awarded a contract for Rehabilitation and Improvement of Existing Carriageway from Dara Adam Khel to Peshawar (Section-3) km 0+000 to km 34+350 (34.350 km) on N-55 to M/s Nasrullah Jan Inamullah Khan & Co. in joint venture with Karcon Pvt. Ltd. for an agreement cost of Rs 1,834.318 million on 06.07.2018. The work was commenced on 26.11.2018 which was completed in 18 months up to 25.05.2020. The contractor was paid for Rs 1,323.362 million up to IPC-16.

Audit also noted that the contractor executed the work amounting to Rs 1,323.362 million against the contract cost of Rs 1,834.318 million, i.e., 72.144% within stipulated completion period, on completion of 72% work, the contractor applied for issuance of TOC as per condition of contract.

Audit observed that the contractor failed to complete the work within stipulated period, but the Authority did not impose liquidated damages. The rates of items increased due to economic crisis and it was beneficial for contractor to finalize the contract at 72% physical progress.

Audit further observed that the work was being finalized despite the facts the BOQ rates/contract cost were at lower side and necessity of remaining work/portion was still intact. It would be constructed at higher rates through new contracts.

Audit is of the view that the deviation from approved scope of the work without getting approval from competent forum, i.e., ECNEC is irregular and non-execution of work amounting to Rs 510.956 million without proper estimation was unjustified.

Audit pointed out the irregular finalization of the project without approval of competent authority and non-execution of work due to poor estimation in December 2023, but the Authority did not reply.

DAC meeting was not convened by the PAO despite request by Audit on 05.01.2024.

Audit recommends justification besides fixing responsibility against the person(s) responsible.

(DP. 429)

2.4.39 Unauthentic expenditure on various head of accounts from Imprest Account - Rs 1,224.567 million

As per paras 3.49 and 5.51 of Chapter 3 of NHA Financial Manual, imprest is a standing advance of a fixed sum of money given to an officer to enable him to make certain classes of disbursements as part of day-to-day management of the Authority's Affairs. Imprest shall be used in accordance with the rules and restrictions notified by the Authority from time to time.

The estimate represents carefully budgeted cost of execution of the work including all accessory and consequential services calculated as accurately as is possible at the time of its preparation.

Audit noted that expenditure of Rs 1,224.567 million (Rs 1,156.746 million and Rs 67.821 million) was incurred from imprest account against various

heads of account, i.e., purchase of stationery, POL, hiring of project staff, other administration expenses, etc.

Audit observed the following discrepancies:

Expenditure was incurred without approval of technical sanction estimate.

Procedure and agreement regarding hiring of staff for interim arrangement is not available.

Mechanism of handling of receipts books, i.e., number of books prints, custody of books and folio of used books is not shared with Audit.

Expenditure for purchase of stationery and other consumable items was made without obtaining three quotations from GST registered firms and without obtaining sales tax invoices.

Detail of toll plaza, weigh stations, police fine collection vans operated by NHA through interim arrangements, i.e., period of interim arrangement, revenue generated through each plaza, weigh station and police fine collection was not shared with Audit.

Audit maintains that incurring of expenditure without observing rules and procedures resulted in to unauthentic expenditure of Rs 1,224.567 million.

Audit pointed out unauthentic expenditure in July-August 2023. The Authority replied that the expenditure was incurred on departmental collection arrangement in the event of an emergency arising from the premature termination of contract or due to suspension of the toll collection by the contractor. GMs (Region) have been requested to provide details of expenditure incurred and revenue collected departmentally as interim arrangement.

The reply was not accepted because huge amount was spent on account of imprest without transparent record. The details/mechanism for hiring of interim arrangement staff, receipts books, etc., were not shared with Audit.

The matter was discussed in DAC meeting held on 9-10 January, 2024 wherein the Committee directed NHA to review the system for improvement, recover all imprest and discontinue unnecessary imprest accounts.

Audit recommends compliance of DAC's directive.

(DP. 92)

2.4.40 Unauthentic payments for abandoned projects in violation NHA SOP - Rs 882.207 million

Following is the SOP regarding payment of final bills:

The PD/Coordinator shall ensure that the internal & external auditors have audited the project before the final bills are forwarded for approval;

Copy of Audit report and points settled by the Audit authorities shall be attached with final bill for scrutiny and pre audit by Account section;

After verification from Audit an undertaking will be furnished by the Contractor in prescribed format duly vetted by Director Legal; and

Approval of chairman to the payment will then be obtained by Operation wing as this is to be done on case-to-case basis.

Audit noted that the Authority made payment amounting to Rs 882.207 million for 10 works to various contractors, as detailed below:

S. No.	Project Name	Contractor	Amount (Rs)
1	Nowshera- Chitral Project	M/s Muhammad Ikram & Co	165,470,714
2	Takht Bhai Flyover	M/s RMC Construction	23,460,144
3	Sangla Hills Interchange	Techno Time Construction	31,279,504
4	Dualization of Sukkur Bypass	M/s Associated Consulting	11,983,704
5	Dualization of Sukkur Bypass	M/s Rakhshani Builders	35,081,794
6	Bridge over River Indus	M/s A.K.K Construction	13,305,932
7	Bridge over River Indus	M/s Ch Abdul Latif & Sons	36,275,395
8	Rehabilitation of Kambar- Shadadkot	M/s RMS Construction	37,763,827
9	Rehabilitation of Larkana- Naseerabad	M/s Osmani & Co	40,770,014

S. No.	Project Name	Contractor	Amount (Rs)
10	Hoshab-Nag-Basima-Surab	M/s FWO	486,815,980
Total			882,207,008

Audit observed that NHA made payment for abandoned projects to the Contractor on account of final bills, release of withheld amount and to clear liabilities without observing the SOP circulated by the competent authority in this context.

Audit further observed that payment was made without getting clearance from Monitoring & Inspection Qing of NHA regarding rectification of defects pointed out by the M& I at the time of inspection carried out for issuance of TOC and DLC, and also without seeking NOC from the regional maintenance units/offices to make sure that no major maintenance activity was performed on these projects within validity period of design life. Therefore, the payment made to the contractors for Rs 882.207 million was considered unauthentic.

Audit pointed out the unauthentic payment for abandoned projects in December 2023, but the Authority did not reply.

DAC meeting was not convened by the PAO despite request by Audit on 05.01.2024.

Audit recommends that payments against abandoned projects may be investigated.

(DP. 436)

2.4.41 Non-recovery of outstanding dues against NOCs, leases and **advertisement contracts - Rs 858.140 million**

Para 7 of Appendix I of Chapter IV of Regulatory Framework and Standard Operating Procedure for Preservation and Commercial use of RoW 2002, in case the owner of commercial entity/amenity or any Government/Semi Government agency owning the utility fails to pay the lease or ground or approach rental charges or fee in due course of time, the owner shall be charged surcharge at the rates given as under:

1 month after due date	Surcharge of 10% of ground rental charges
2 month after due date	Surcharge of 20% of ground rental charges
3 month after due date	Surcharge of 30% of ground rental charges
More than 90 days	In case the Lessee does not abide by the provisions contained herein or any dues are outstanding against him for more than 90 days, the Lessor may exercise right to terminate the Agreement forthwith and to seize / retain his articles, goods, materials, etc., and remove, sell or dispose-off the same in such manner as the Lessor may deem fit without being liable to pay any expenses incurred in connection with such retention, removal or disposal.

A. Audit observed that NHA did not take action against defaulters of levy of surcharge and seizing of leases/withdrawal of NOCs as per its rules and procedure referred above and dues of Rs 793.089 million were outstanding against various Oil Manufacturing Companies on account of annual fees up to the dates of audit, as detailed below:

(Amount in Rs)

Region	No of NOCs	Total Dues	Paid Amount	Outstanding
Punjab	578	918,678,538	294,930,396	624,008,142
Khyber Pakhtunkhwa	208	203,429,759	67,914,105	135,515,654
Sindh	75	62,615,538	28,965,766	33,564,772
Total	861	1,184,723,835	391,810,267	793,088,568

Audit further observed that an amount of Rs 28.605 million was outstanding against twenty (20) lessees on account of lease fee/Annual Ground Rent up to the dates of audit.

Audit pointed out the matter in April-June 2018. The Authority did not reply despite repeated verbal and written reminders on 29.05.2018, 25.06.2018, 29.06.2018 and 13.07.2018.

B. Audit observed that NHA did not take action against defaulter concessionaires/licencees against which an amount of Rs 36.446 million was outstanding recoverable on account of Advertisement/Promotional displays, as detailed below:

(Amount in Rs)

S No.	Description	Name of firm	Outstanding amount
1	Corridor Management Contractor(CMC)	M/s Evolve (Channi Goth-Multan)	665,298
2		M/s Evolve (Sahiwal-Lahore)	2,934,438
3		M/s Awan-e-Azam (Multan-Sahiwal)	3,599,736
4		Sh. Iqbal Akhtar (Chenab, Jhelum Teraki)	3,450,497
5		M/s SS Tameerat (Mandra Sangjani Qutbal)	5,975,506
6		M/s Progressive (Attock-Peshawar)	6,710,880
7		M/s SS Tameerat (Harro-Noshera)	3,232,848
8	Mini Service Area	M/s 6T3 (km 04 N/S Bound M-1)	2,325,166
9	Bus Bays	M/s Ahmed & Co. (Eminabad N-5)	7,551,246
Total			36,445,615

Audit pointed out non-recovery in April-June 2018. The Authority replied that the above mentioned CMC's operation of service areas and bus bays were under litigation and NHA had filed recovery suits against some of the CMCs, however, Mini Service Area at Hakla was an ongoing project and operator has been remitting NHA revenue. Most of the above operators were in court, therefore, the matter is sub judice.

The reply was not accepted because evidence of cases being sub judice was not shared with Audit. Moreover, no action was taken by NHA against defaulter of NHA dues.

DAC meeting was not convened by PAO despite requests made by Audit on 31.10.2018, 28.02.2019, 19.11.2021 and 11.01.2024.

Audit recommends recovery of outstanding amount besides fixing of responsibility against the officers concerned.

(Para 19, 40 & 41 of PAR RoW)

2.4.42 Provision of excess quantities of earth work than PC-I involving extra expenditure - Rs 766.250 million

Paras 6.11 of Planning Commission’s Manual for Development Projects (Revised 2019) provides that the physical and financial scope of a project, as determined and defined in the project document (PC-I), is appraised and scrutinized by the agencies concerned before submitting it for approval of the CDWP or ECNEC. Once approved, the executing agency is required to implement the project in accordance with the PC-I provisions. It has no authority to change and modify any approved parameter of the project on its own. If the sponsoring agency feels that the project could not be implemented in accordance with the approved parameters, a revised PC-I be submitted for approval of the competent forum immediately. No expenditure may be undertaken beyond the approved scope and cost of the project, and if done, it would be considered as illegitimate expenditure.

ECNEC in its meeting dated 04.06.2021 approved PC-I of the project “Dualization of Khuzdar - Kuchlak Section of National Highway (N-25) Length 330.52 kilometer for Rs 81,582.19 million with implementation of 39 months. The work “Dualization of Khuzdar - Kuchlak Section of National Highway (N-25) Section-III (km 102+00 - km 171+900)” was awarded to M/s ZIEC-PTA JV for agreement cost of Rs 10,583.567 million on 09.12.2022, i.e., 19.50% below Engineer’s Estimate of Rs 13,147.830 million.

Audit observed that the item of work “Formation of Embankment from Borrow Excavation in common material” was taken for excess quantity than PC-I provision in the Engineer’s Estimate/BOQ. The lowest bidder quoted extra ordinary high rate for this item and due to this increase in quantity, the project cost was increased to Rs 766.250 million against this item as under:

PC-I Cu.m.	Quantity	Engineer’s Estimate Quantity Cu.m.	Difference Cu.m.	Rate agreed Rs per Cu.m.	Amount Rs
185,500		613,000	427,500	1,250	766,250,000

Audit pointed out the matter in October 2023. The Authority replied that P&CA Section had no input regarding quantities mentioned in the BOQ. The BOQ as provided by the Design Section of NHA was made a part of the bidding documents and shared with the contractors who then quoted their prices accordingly. The matter was forwarded to the Design Section for an appropriate reply.

The reply was not accepted because against the PC-I quantity of earth work of 185,500 Cu.m., a quantity of 613,000 Cu.m. was provided in engineer estimate/tender documents, which was not commented in reply by NHA. Due to this increase in quantity, the project cost was increased to Rs 766.250 million against this item. This also depicted poor designing/planning by NHA.

DAC meeting was not convened by the PAO despite requests by Audit on 05.01.2024 and 24.01.2024.

Audit recommends fixing responsibility through fact finding inquiry besides recovery of the amount involved in imbalanced rates and excess quantities.

(DP. 409)

2.4.43 Irregular release of retention money to the contractor - Rs 688.318 million

Clause 14.9 of the contract agreement provided that when the Taking-Over Certificate has been issued for the works, and the works have passed all specified tests (including the tests after Completion, if any), the first half of the retention money shall be paid to the contractor. If a Taking-over Certificate is issued for a Section, the relevant percentage of the first half of the retention money shall be paid when the section passes all tests.

A. Audit noted that the work “Construction of Motorway from Hakla (on M-1) to Yarak D.I. Khan Motorway Package-I Yarik to Rehmani Khel (55 km)” was awarded to M/s National Logistics Corporation (NLC) at agreed cost of Rs 13,257.000 million on 09.06.2016. The contract cost was revised in VO No. 02 in April 2021 to Rs 12,909.744 million against which gross work done amounting to Rs 11,076.860 million till IPC No. 16 dated 10.10.2022. The Project was commenced in 2016 and substantially completed on 28.05.2021. DLC was to be issued on 27.08.2022 but yet not issued. Date of commencement of work was 01.09.2016 with stipulated date of completion as 31.08.2018. Extension of time from 01.09.2018 to 31.05.2021 was granted. Total price adjustment EPC 07 of Rs 716.625 million (Up to IPC No. 16) was paid to the contractor so far. Audit further noted that 1st half retention money for Rs 331.425 million was paid to the contractor dated 13.10.2022.

Audit observed that M&I inspection for TOC was conducted on 27.09.2021 to 01.10.2021. As per observation in the inspection report, trimming/dressing of side slopes, cleaning of construction material debris, dressing of ROW area and clearance of site was balance mostly. Highway Lights were not installed yet. Weighing equipment was provided but not installed. Sealant was not filled in the joints of Rigid Pavement. Some sanitary fitting and door locks were sub-standard and slope of wash room of “Abdul Kel” Toll Plaza Building (R/S) has been found defective. Settlement was observed in the platform of “Abdul Kel” Toll Plaza Building (R/S). Writing on canopy was defective. Cores of asphalt were taken from one hundred and eleven (111) locations of main

carriageway @ 1.0 km and eight (8) locations of Loops/Ramps. Thickness of thirteen (13) cores of main carriageway and one (1) core of Ramp of Abdul Khel has been found less.

In view of the above, the contractor was not eligible for release of security deposit/retention money. But 1st half retention money for Rs 331.425 million was paid to the contractor dated 13.10.2022 without authorization.

B. Similarly in other work “Construction of Motorway Burhan Hakla (on M-1) to D.I. Khan Motorway Package-2-C (6.54 km including Indus Bridge) Rehmani Khel to Kot Ballian to M/S SKB-KMK JV at agreed cost of Rs 7,137.853 million vide acceptance letter dated 15.09.2017, despite non-closing of accounts and non-issuance of defect liability certificate, retention money has been released to the contractor for Rs 356.892 million.

This resulted in irregular release of retention money to the contractors for Rs 688.317 million (Rs 331,425,000 + Rs 356,892,585).

Audit maintains that the irregularities occurred due to weak internal controls.

Audit pointed out the matter in October 2023. The Authority replied that retention money was released under the contract and no irregularity, violation of contract or non-adherence to rules occurred in this regard.

The reply was not acceptable because retention money was released in Package-01 despite defective execution of works and left over works as pointed out. In Package-02 C, retention money was released despite non-closing of accounts and non-issuance of defect liability certificate.

DAC meeting was not convened by PAO despite requests made by Audit on 07.11.2023, 10.11.2023, 17.11.2023, 05.01.2024 and 24.01.2024.

Audit recommends fixing responsibility through fact finding inquiry besides recovery of Rs 688.318 million.

(DP. 197)

2.4.44 Duplicate payment against bridges - Rs 652.575 million

Clause 1.2 of construction work items of employer’s requirements states that the work includes construction of bridges (including balance work of five bridges).

As per Point 15 of Minutes of Clarification Meeting dated 14.03.2017 for the project Improvement and Widening of Jaglot Skardu (S-I) road 164km on EPC/Turnkey mode, proposed structures given in Alternate Proposal under “Project Salient Features” are the least requirement as envisaged by the Contractor, however any increase as per site requirement would be executed by the Contractor without any extra cost to the Employer. Detail Design for these would be submitted along with design approval submissions as per standard practice.

Audit noted that contract of Improvement, Upgradation and Widening of Jaglot-Skardu Road (EPC/Turnkey) was awarded to M/s Frontier Works Organization (FWO) on 20.06.2017 for lump sum

Rs 31,000 million (42.86% above PC-I EPC Cost of Rs 21,699.970 million) in consideration of survey, investigation, design, execution, completion, maintenance and defects liability of the works as prescribed in the contract documents with a commencement date of 29.06.2017 and completion date of 28.06.2020. The contractor was paid an amount of Rs 23,656.023 million up to 11th IPC.

Audit also noted that the Authority had awarded the separate work “Replacement of old bridges with permanent bridges” (Steel equipment Bridges & RCC Bridges) on Gilgit - Skardu Roads S-I (BR-2015-16-GB-003) vide agreement dated 18.10.2016 at agreed cost of Rs 726.666 million (Acceptance dated 07.09.2016). The contractor could not complete the work as evident from the letter written by “The Engineer” dated 28.09.2017 till signing of agreement for the work “Widening/ Improvement of Jaglot Skardu Road”, but the Authority made payment Rs 652.576 million to the contractor from June 2018 to June 2023.

Audit maintains that the contractor was paid against replacement of old bridges with permanent bridges work for Rs 652.575 million despite the fact that this cost was also included and paid in the subsequently awarded contract at the site to the same contractor. This resulted in duplicate payment of Rs 652.575 million.

Audit pointed out the duplicate payment due to non-execution of balance work in September 2023. The Authority replied that the payment of Rs 652.575 million is not associated with the current contract under the “Improvement, Upgradation and Widening of Jaglot-Skardu Road (JSR)”. This payment pertains to the earlier contract for the “Replacement of Old Bridges” and it was made subsequent to the completion of work on the five bridges.

The reply was not acceptable because the contractor was responsible to complete the balance work of already awarded five bridges under the provision of contract.

DAC meeting was not convened by PAO despite requests made by Audit on 07.11.2023, 10.11.2023, 17.11.2023, 05.01.2024 and 24.01.2024.

Audit recommends recovery of the overpaid amount of Rs 652.575 million.

(DP. 248)

2.4.45 Payment for amicable settlement claim without adjustment of defective work cost - Rs 550.000 million

Approved PC-I of the project, "Hassanabdal (Burhan)-Havelian Expressway E-35 (56.7 km) for Rs 34,165.00 million depicted that the Pavement Design Life of the expressway was provided as ten (10) years.

Audit noted that the project Hassanabdal (Burhan)-Havelian Expressway E-35 (56.7 km) for Rs 34,165.00 million was completed in 2021. The Authority made payment of Rs 550.00 million on account of amicable settlement to the contractors during the financial year 2022-23 as detailed below:

Package	Description	Contractor	Amount paid (Rs)
Package-I	Construction of road Burhan to Jarikas	M/s CGGC-GRC JV	200,000,000
Package-III	Construction of road Sarai Saleh to Simlaila	M/s Limak-ZKB (JV)	258,806,970
			91,193,030
Total			550,000,000

Audit also noted that the Authority allocated an amount of Rs 931.76 million in Annual Maintenance Plan 2022-23 for three (03) works of functional overlay from km 0+000 to 57+000 on E-35.

Audit observed that the Authority while processing the amicable settlement with the contractor did not claim the cost of rectification of damaged surface of constructed expressway.

Audit maintains that the execution of major repair works by the employer at his own cost after three to four years of taking over by the Authority within the design life of the pavement structure was recoverable from the contractor.

Audit pointed out the payment for amicable settlement claim without adjustment of defective work cost in December 2023, but the Authority did not reply.

DAC meeting was not convened by the PAO despite request by Audit on 05.01.2024.

Audit recommends early recovery besides taking disciplinary action against defaulters.

(DP. 426)

2.4.46 Non-recovery of mobilization advance despite expiry of contract period - Rs 424.971 million

Clauses 14.2 and 14.2(b) of Section 8 of Particular Conditions of Contract stipulates mobilization advance @ 10% of the accepted contract amount payable in two equal installments in the currencies in which accepted contract amount is payable. Further, repayment amortization of advance payment was provided @ 17%. Deduction shall be made from the each interim payment certificates in the currencies provided in acceptance letter.

Audit noted that the contractors were paid mobilization advance for Rs 1,248.54 million for construction and rehabilitation works. The detail of contracts given as under:

(Rs in million)

Name of Work	Date of Completion	Mob. Advance Paid	Outstanding Mob.
GM NHA West Mianwali	30.06.2023	1,158.468	378.010

GM Maintenance NHA Peshawar	05.07.2023	90.072	46.961
Total		1,248.540	424.971

Audit observed that authorities paid an amount of Rs 1,248.54 million on account of mobilization advance against bank guarantee. The advance was required to be fully recovered, two months before the date of completion. But contrary to the agreement clauses, NHA recovered only Rs 823.569 million on account of mobilization advance leaving a balance of Rs 424.971 due from the contractors. This resulted in non-recovery of Mobilization Advance amounting to Rs 424.971 million.

Audit maintains that non-recovery of mobilization advance and interest thereon occurred due to weak financial controls and weak contract management.

Audit pointed out the recovery in August/September 2023. The Authority replied that in case of DP 99, the contractor has already applied for 2nd extension of time due to the justified impediments, i.e., (i) unpredicted rainfalls, (ii) acute shortage of fuel supply due to abnormal price hike, (iii) prolongation of non-removal of existing trees, and (iv) reassessment of increase in quantum of work, and cases of their respective EOT-2 were duly worked out by the project consultants and recommended by The Engineer, and accordingly forwarded for approval of the competent authority which are currently under process of scrutiny and approval of the competent authority, which will obviously be approved for the updated 2nd revised completion date, i.e., 31.12.2023. In case of DP 105, the authority replied the remaining advance would be recovered from the next IPC of the Contractor.

The reply was not acceptable. The stipulated dates of completion in all three contracts had expired but the recovery of mobilization advance was yet not made in full as required under the provisions of the contract.

The matter was discussed in DAC meeting held on 9-10 January, 2024 wherein DAC directed NHA to make recovery in DP 105 and also to disallow price escalation. In DP 99, NHA explained that recovery has been made in two out of four cases. DAC directed to pursue recovery.

Audit recommends that recovery may be made at the earliest with financial charges. Besides, the guarantee may be got rectified. Responsibility for acceptance of incorrect/defective guarantees and payments may be fixed, besides recovery of interest on mobilization advance for the period till rectification may be made now.

2.4.47 Undue financial benefit to the contractors due to non-procurement of vehicles - Rs 415.284 million

Special Provision Clause 708.3 provides that on failure of the contractor to provide and of the services under this clause or even otherwise notwithstanding anything contained in any other clauses of the contract Documents, the “Engineer” shall have the authority to nominate/ sublet to any other agency on recommendation of the Resident Engineer for the Supply of services under this clause, the payment for which shall be made through this contract direct to the nominated agency out of Provisional Sum provided in the contract or hire the good road worth vehicles and recover the cost with 100% penalty charges from contractor’s IPC.

Audit noted that the procurement of vehicles through contractors was provided in twelve (12) contracts at agreed rates which were on much lower side as compared to the market rates.

Audit observed that despite provisions in the contract vehicles were not procured which caused benefit to the contractors of Rs 415.284 million because the quoted rates against each type of vehicle by the contractor were much cheaper than the market prices. This resulted in benefit to the contractor of Rs 415.284 million, as detailed below.

(Rs in Million)

S. No	Name of work	Market Rate	Contract Amount	Difference / Benefit
1	Dualization of Quetta Western Bypass	40.000	13.615	26.384
2	Construction of Ziarat Mor - Kach Harnai Sanjavi Road Package-I (Zairat Mor-Kach Harnai Road 107.2 km)	92.000	31.000	61.000

S. No	Name of work	Market Rate	Contract Amount	Difference / Benefit
3	Construction of Ziarat Mor - Kach Harnai Sanjavi Road Package-II (Harnai-Sanjavi Road 50.784 km)	92.000	31.000	61.000
4	Dualization of Kuchlak-Zhob Section of N-50 Package-IV	16.000	6.600	9.400
5	Dualization of Zhob-Kuchlak of Section N-50 Package-V	36.000	12.000	24.000
6	Peshawar Northern Bypass Package-II	63.000	31.500	31.500
7	Dualization of Khuzdar - Kuchlak Section I&II	130.000	65.000	65.000
8	Construction of road from Nokundi-Mashkhel-Taftan-Quetta Road	111.000	55.500	55.500
9	Dara Murad Jamali Bypass N-65	68.000	34.000	34.000
10	Const. of Hoshab – Awaran – Khuzdar Section to (Awaran - Nall)	35.400	17.700	17.700

S. No	Name of work	Market Rate	Contract Amount	Difference / Benefit
11	Construction of Rawalpindi Kahuta Road (P-II)	30.000	14.200	15.800
12	Rehabilitation and Up-gradation of Jhal Jao – Awaran Road	50.000	36.000	14.000
	Total	683.400	297.915	415.284

Audit pointed out the matter in September-October 2023. The Authority replied in DPs 188, 232 and 351 that Government of Pakistan put a ban on purchasing of new vehicles which was implemented strictly in all departments of Federal Government. Due to ban by the Government of Pakistan, the contractor was unable to purchase new vehicles as per contract. In DP 239 and 311, the Authority replied that the Finance Division granted approval for purchase of project vehicles on 28.03.2022. The Contractor was accordingly requested to provide project vehicles as the ban imposed had been relaxed; however, despite repeated requests, the Contractor did not comply with the instructions regarding provision of the vehicles. As a result, NHA is purchasing the remaining vehicles at the risk and cost of the Contractor. The requisite amount of Rs 30 million has been withheld from the Contractor's IPC for purchase of vehicles and would be directly paid to the Toyota Motors. In DP 285, the Authority replied that ban on purchase of vehicles imposed by Government vide Finance Division's Finance Division, however after lapse of almost a year's time, purchase was allowed by Finance Division but contractor failed to purchase contract vehicles due to price hikes. In DP 444, the Authority replied that till then price of automobile touched sky high rates and contractor failed to purchase despite repeated requests. As a result, NHA raised a mechanism of purchasing the remaining vehicles at the risk and cost of the contractor; which is under process through a committee and final amount would be recouped from the contractor.

The replies were not acceptable because project vehicles were essential for smooth completion of the projects. The contractors quoted extra ordinary below rates of vehicles then prevailing market price therefore it was difficult for them to purchase the vehicles at current market price. The authority may recover the cost difference of vehicles (current market rate – quoted rate) from the contractors.

DAC meeting was not convened by PAO despite requests made by Audit on 07.11.2023, 10.11.2023, 17.11.2023, 05.01.2024 and 24.01.2024.

Audit recommends that recovery of cost differential of vehicles be made from the contractor.

(DP. 188, 232, 239, 285,311, 351, 362 & 444)

2.4.48 Overpayment of price escalation due to allowing incorrect application of rates - Rs 348.988 million

Clause 70.1 of the contract agreement states that there shall be added to or deducted from the contract price such sums in respect of rise or fall in the cost of labour and/or materials or any other matters affecting the cost of execution of the work as may be determined in accordance with Part-II of the conditions.

Further according to Appendix C, the prices of specified material shall be as of actually prevailing on the date falling on 28 days prior to latest date of submission of Bids and shall be obtained be from the respective source and to apply as well as current rate also.

A. Audit noted that NHA awarded the work “Construction of Rawalpindi-Kahuta Road including 4 lane bridge over Sihala railway pass Sihala bypass & Kahuta bypass Package-II” to M/s SMADB-Shah Rukh JV vide acceptance letter dated 25.04.2018 at contract cost of Rs 3,650.000 million with commencement date 17.08.2022. Total up to date expenditure was Rs 598.050 million on account of work done and Rs 493.137 million on account of escalation.

Audit observed that the Authority calculated and paid price escalation in EPC No 1 to 3 for IPC No 1 to 3 work done without taking into consideration the actual consumption of specified materials in the work done. Audit further observed that escalation was allowed on bitumen, steel and cement which was not consumed in IPC-1 to 3 but the escalation was calculated and paid to the contractor which was a violation of said PEC price adjustment procedure.

B. Audit noted that the NHA executed various road infrastructure projects during the year 2022-23 and made payments to the contractors against their running bills.

Audit observed that the Authority calculated and paid price escalation on work done without taking into consideration the actual consumption of specified materials in the work done. Audit further observed that escalation was allowed on bitumen which was not consumed in IPC but the escalation was calculated and paid to the contractor which was a violation of said PEC price adjustment procedure.

This resulted in overpayment of Rs 348.988 million on account of price escalation due to calculation of bitumen, steel and cement without usage in IPC at site, incorrect application of

weightages, unauthentic application of source and incorrect application of current rates.
(Annexure-I)

Audit pointed out the overpayment in September-October 2023. The Authority replied in case of DP 377 that the “C” factor of various adjustable items is calculated on the basis of quantities of BOQ of whole project at the time of tendering. In every IPC, the ‘C’ factor cannot be changed on the basis of BOQ items executed in that IPC. In case of DPs 367 and 368, the said two Contracts were awarded as per bona fide SOP. The Projects Authorities are bound to evaluate the works in accordance with the rates stated in Appendix D to Bid. In case of DPs 373 and 297, the Price Adjustment on account of bitumen, like other construction items specified in Appendix C to Bid, was paid strictly in accordance with Clause 70.1 of PCC, Part II of contract agreement. In case of DPs 347 and 446, NHA did not reply.

The reply was not accepted because price adjustment was allowed on items in violation of prescribed procedure for formula of price adjustment. Further, incorrect higher current rate of specified material and source of rate was applied.

DAC meeting was not convened by the PAO despite requests by Audit on 05.01.2024 and 24.01.2024.

Audit recommends early recovery of overpaid amount.

(DP. 377,368,367,373,297, 347& 446)

2.4.49 Irregular leases of land without considering market rates - Rs 324.520 million

Rule 13(1)(b) of the National Highways and Strategic Roads (Control) Rules, 1998 provides that the licences, leases and agreements for the construction or use by a private person or works of a private nature by any other agency for public works/utilities on land which is the property of government shall be leased out on ground rental charges @ 7% (minimum) or prescribed by the Authority (with the approval of Board), of the land value assessed and notified by District Revenue Officers or any other prescribed authority for this purpose.

As per item 10(2)(xiii) of Table 1-I of Chapter 1 of NHA Code (Vol-I), competent authority/forum for approval of lease of government land, is as under:

Executive Board: above Rs 20 million in each case for lease period

Chairman: up to Rs 20 million in each case for lease period

Member (Ops) up to Rs 5.00 million in each case for lease period

As assessed by NHA, the market rate of land at the location of M-9 near Karachi was Rs 22,000 per square yard.

A. Audit noted that Member (Operations) NHA Headquarters, Islamabad leased out its land to various lessees for thirty years to erect, commission, operate and maintain the petrol pumps/ CNG stations, as detailed below:

Area	Location	Lessee	Date of lease
8 Kanal 5-1/2 Marla	km 27+200 – 27+300 at M-9 Karachi	Mr. Mushtaq Ali Jatoi	30.03.2004
9 Kanal 4 Marla	km 18+700 at M-9 Karachi	Mr. Amir Mehmood Khan (Asad Petroleum)	07.04.2006
05 Kanal 15 Marla	km 14+700 at M-9 Karachi	M/s Khazan Associates	15.10.2003

Audit observed that the above NHA land was leased out at District Revenue Authority's rate of Rs 1,600 per square yard, whereas market rate in these areas was Rs 22,000 per square yard. The evidence for the notified rate of Rs 1,600 per square yard was not available in the record. Moreover, approval of NHA Executive Board was not obtained as required.

Lease of NHA land at lesser ground rent resulted in loss of revenue of Rs 221.396 million to NHA **(Annexure-J)**.

B. Audit further noted that on the request/application of Mr. M. Iqbal Waheed, the lease of plot measuring 16 kanals 10 marlas (measured after site visit and as per application) was approved by Member (Ops) NHA on 16.08.2003. District Officer Revenue's prescribed land rates of Rs 48,355 per marla (Rs 1,600 per square yard, i.e., 30.22 square yard per marla) were considered for calculation of Annual Ground Rent (AGR). AGR was assessed Rs 1,117,001 per annum which was equal to 7% of the assessed value of land (as per DOR rates).

Audit further noted that revised approval for lease of less land, i.e., 10 kanals 19 marlas was granted by Member (Ops) on 20.11.2003 and the rates were reduced for Restaurant from 7% to 5% of the assessed value of land.

As per clause 4.2.1 of lease agreement, the lessee was required to pay Rs 605,405 per annum with date of start being six months after signing of agreement. The period of lease was 30 years which was extendable subject to the mutual consent of both the parties.

Audit observed the following:

Lease was approved irregularly by Member Ops NHA instead of Chairman/Executive Board.

Lease was awarded without open competitive bidding/auction.

Revised approval for lease was granted wherein not only land measurement was reduced but also the rates were reduced from 7% to 5% of the assessed value of land. Recovery of lease rent for lesser land resulted in less recovery of Rs 7.124 million.

Lease was awarded on the assessed value as per DOR rates without any documentary evidence instead of market rates, which were on much higher side as compared to DOR rates. District Revenue Officer's land rates of Rs 48,355 per marla (Rs 1,600 per square yard) were considered for calculation of Annual Ground Rent (AGR). Market rate was Rs 22,000 per square yard, i.e., Rs 664,881 per marla. NHA has made an ambiguous policy on leasing issue. Charging rent on the DOR/Lesser rates as compared to market rates is also against the principles of financial propriety. This resulted in loss of revenue of Rs 103.124 million.

Dues were not deposited by the lessee as per schedule. Instead of making required annual payment of rent, after 2009 the lessee deposited amount of Rs 5,750,379 in December 2015. No surcharge was recovered and no penal action was initiated by NHA.

Audit pointed out the loss in April-June 2018. The Authority replied that the then General Manager (Operations) proposed that power to grant leases may be delegated to Member (Operations). NHA called expression of interest in September 2002. The rate revision in respect of lease cases was not done up to June 2016. However, since July 2016, the excess passage rates in respect of lease cases were being collected as per revised rates.

The reply was not accepted because documentary evidence for delegation of powers regarding lease of NHA land to Member (Operations) and press advertisement was not produced. No justification for assessment of value of land at lesser rates was furnished in reply.

DAC meeting was not convened by PAO despite requests made by Audit on 31.10.2018, 28.02.2019, 19.11.2021 and 11.01.2024.

Audit recommends investigation and fixing of responsibility against the person(s) responsible.

(Paras 25, 33 & 45 of PAR RoW 2017-18)

2.4.50 Irregular provision of vehicles in the tender documents in violation of Austerity Measures - Rs 288.260 million

According to Office Memorandum regarding “Austerity Measures for Financial year 2020-21” issued by the Government of Pakistan Finance Division (Expenditure Wing) vide No. 7(1)Exp.IV/2016-430 dated 06.08.2020, there shall be complete ban on purchase of all types of vehicles (excluding motorcycles) both for current as well as development expenditure during the financial year 2020-21.

Audit noted that GM P&CA NHA HQ Islamabad invited bids for nine (09) Works during the financial years 2022-23 and awarded the works to the lowest bidders at contracts cost of Rs 64,770.725 million.

Audit observed that NHA while preparing Engineering Estimates included provisions of sixty (60) vehicles (Toyota Double Cabin Revo, Toyota Double Cabin, Toyota Single Cabin, Suzuki Jeeps and Suzuki Bolan) in the Engineering Estimates of nine (09) contracts under Bill No 07: General Items in violation of the Austerity Measures enforced by the Finance Division (Expenditure Wing), Government of Pakistan by imposing complete ban on purchase of all types of vehicles (excluding motorcycles) both for current as well as development expenditure during the financial year 2020-21. This resulted in provisions of sixty (60) vehicles of different types valuing Rs 288.260 million (**Annexure-K**) in the Engineering Estimates and BOQ of the contracts, in violation of Austerity Measures.

Audit pointed out the matter in October 2023. The Authority replied that P&CA Wing put the vehicles in the tendering process as per provisions of approved PC-I. Project management authorities were responsible for purchase as per austerity measures of the government.

The reply was not accepted because approval of vehicles in the PC-I was to be linked with austerity measures of the Federal Government at the time of procurement process.

DAC meeting was not convened by the PAO despite requests by Audit on 05.01.2024 and 24.01.2024.

Audit recommends fixing responsibility through fact-finding inquiry, besides latest position of actual procurement of vehicles with cost during project execution may be apprised.

(DP. 411)

2.4.51 Overpayments to the contractors due to unjustified execution, incorrect measurements and application of higher rates, etc. - Rs 260.511 million

Para 71 of Chapter 2 of NHA Code (Vol-I) provides that in a case where such excess has the effect of exceeding the maximum monetary limit of the original sanctioning authority, the variation order shall be submitted for the approval of the authority within whose power the project as amended falls. No work shall be carried out and no expenditure shall be incurred until fresh approval from the concerned authority has been obtained for the revised cost.

Audit observed that different formations of NHA in 23 cases made payment for excessive and inadmissible items which caused overpayments to the contractors for Rs 260.511 million (**Annexure-L**).

Audit maintains that the excess payments were due to weak financial controls.

Audit pointed out the matter during July-November 2023. The Authority replied that all the payments were made as per site requirements and admissible as per contract provisions.

The reply was not accepted because deviations from the approved provisions depicted poor planning and estimation which caused financial favour to the contractors.

DP 95 was discussed in DAC meeting held on 9-10 January, 2024, wherein it was apprised that there was ten packages, and variation orders against 8 works had been obtained. DAC directed to provide detailed justification and approval of variation orders.

Audit recommends fixing responsibility against officers concerned besides recovery.

(DP. 95, 250, 136, 170, 177, 155, 152, & 395)

2.4.52 Unjustified payment of Price Escalation – Rs 228.001 million

Appendix C to Bid envisages 42% variable portion for high-speed diesel, labour, steel and cement with weightages of 10%, 7%, 9% and 16% respectively.

Audit noted that NHA awarded the Contract Lowari Tunnel Project, South Access Road-2 (469)-01 Improvement, Widening and Construction of South Access Road Package-II from Link Access Road of South Portal to Qualandi (km 1+103.844 to km 8.492.96) 7.389 km of Lowari Tunnel Project to M/s Sambu-Nishan (JV) at agreed cost of Rs 2,031.321 million. However, the contract price was reduced with revised contract cost of Rs 2,018 million. Total value of work done was Rs 1,710.926 million up to 15th IPC. Total price adjustment paid up to ECP No.15 for Rs 228.001 million.

Audit observed that General Manager, Lowari Tunnel, NHA paid total price escalation amounting to Rs 228.001 million to the contractor up to EPC No.15. This payment was not justified on following grounds:

Current rate for steel Grade-40 were applied whereas in Appendix-C, Grade-60 steel was provided.

Rates for Steel related to Mangora City were applied while the rates for labour related to Mardan district. This rate of different cities for these elements were against the provision of clause 70 of the contract agreement.

The ECNEC, while approving 3rd revised PC-I in September 2022 approved total implementation period of 19 years 2 months commencing from June 2004 and thereafter NHA was directed to submit PC-IV. Hence the time stood expired in June 2023 while the project is still in complete. Therefore, no escalation beyond original completion time of 24 months was permissible.

The amount of revised works varied in earth work pertaining to disposal of surplus of material was also included in value of work done for price escalation whereas this was required to be excluded being its valuation on current market rate.

This resulted in unjustified payment of Rs 228.001 million

Audit pointed out the matter in August 2023, but the Authority did not reply.

The matter was discussed in DAC meeting held on 9-10 January, 2024 wherein the Committee directed that inquiry may be conducted and report be shared with Audit.

Audit recommends compliance of DAC's directive regarding inquiry.

(DP. 134)

2.4.53 Award of work at higher rates without revision of PC-I - Rs 218.996 million

Para 4.05 of Planning Commission's Manual for Development Projects (December 2021) provides that, for smooth implementation of projects, the following guidelines may be adhered to: while making the decisions to include projects in the PSDP, the PAOs should prioritize existing projects instead of suggesting new projects; if the cost of the project exceeds 15% of the approved budget at the time the contract is being awarded, PC-I would be revised immediately and should be submitted for approval of the competent forum.

During scrutiny of record of P&CA Wing regarding procurement of contracts for the financial year 2022-23, Audit noted that PC-I of the project "Construction Bridge on River Ravi at Syedwala" was approved at a revised cost of Rs 1,437.00 million by CDWP in its meeting held on 29.03.2018, including the work as part of this project "Construction of 2.25 km Missing Link Road on Okara Side to connect Rai Mansab Ali Khan Kharal Bridge Approach Road with existing Provincial Highway Network".

Financial bid of single qualified bidder for the work was opened on 05.07.2022. M/s KNK Pvt. Ltd. quoted Rs 218.995 million against engineer's estimated cost based on NHA CSR 2014 of Rs 151.376 million. The tender evaluation committee recommended annulment of tendering process due to single bid and high rates. The NHA Executive Board in its 403rd meeting dated 27.07.2023 approved the award of work to the successful bidder. NHA awarded the work to M/s KNK Pvt. Ltd. Through acceptance letter dated 26.12.2022 for Rs 218.995 million, i.e., 44.67 % above engineer's estimated cost based on NHA CSR 2014 of Rs 151.376 million.

Audit observed that the work was awarded at higher rates to the contractor without revision of PC-I and with a delay of six months. This resulted in irregular award of work without revision of PC-I for Rs 218.996 million.

Audit pointed out the matter in October 2023. The Authority replied that revision of PC-I was not required as the cost of awarded/ approved work, i.e., Rs 218.996 million was (231 million) less than the cost of work approved in PC-I, i.e., Rs 450 million.

The reply was not accepted because revised PC-I of the main project including the component under observation was approved for Rs 1,437 million by CDWP on 29.03.2018. NHA was defending higher rates by comparison with NHA SR 2022 which was not justified.

DAC meeting was not convened by the PAO despite requests by Audit on 05.01.2024 and 24.01.2024.

Audit recommends inquiry for fixing responsibility besides recovery of higher rates.

(DP. 415)

2.4.54 Unjustified provision/execution of DST as crack relief layer - Rs 207.818 million

As provided in NHA Specification 304.3.9, to ensure chipping retention when surface dressing on a very hard surface, a pad coat consisting of the application of an initial binder spray followed by 6 mm of chipping will be applied. After stabilizing the pad coat under traffic, the appropriate surface dressing will be applied. Further, NHA General Specification 304.1 regarding surface treatment and seal coat provides that, the work shall consist of one or more applications of asphaltic material and one or more covers of aggregates or an application of asphaltic material without aggregates applied in accordance with these specifications and in conformity with the lines and width shown on the typical cross-sections or as established by the Engineer.

As per directions of the Departmental Accounts Committee, on the similar issue, dated 12-13.01.2021, the NHA may provide the approval of change in the SOP of RAMD or otherwise make recovery from the contractor.

Audit noted that the NHA awarded eleven (11) Periodic Maintenance/Structural Overlay works to various contractors at contract cost of Rs 2,863.242 million, as detailed below:

(Rs in million)

DP No.	Name of Project/Work	No of Works	Agreement Cost	Overpayment
348	General Manger Balochistan South NHA Khuzdar	3	407.488	64.953
230	Contract No. PM-2020-21- BN-11	1	95.217	47.594
111	General Manger Maintenance (Khyber Pakhtunkhwa) NHA Peshawar	3	843.754	45.843
157	General Manager (RAMD), NHA	2	655.651	26.638
176	General Manager (Northern Areas) Abbottabad	1	554.844	12.937
263	GM (Maintenance), Sindh- North, Sukkur	1	306.288	9.853
Total		11	2,863.242	207.818

Audit observed that the Authority executed and paid item of DST as a crack relief layer in the bottom of the road surface without provision of such methodology in the NHA Specifications. This resulted in unjustified provision/execution of DST as crack relief layer of Rs 207.818 million.

Audit pointed out the matter in August/September 2023. The Authority replied that due to heavy axle loads and localized failure, severe alligator cracks, fatigue & shrinkages were occurred Highway. During estimation, the field formation suggested to execute Double Surface Treatment (DST) as crack relief layer to address the severe alligator cracks, fatigue and shrinkage which developed beyond the existing asphaltic concrete of Base course at said sections of the road.

The reply was not accepted because NHA General Specifications, 1998 for execution of works did not support this mode of execution.

The matter was discussed in DAC meeting held on 9-10 January, 2024 wherein the Committee directed the concerned GM to provide Technical Inspection Reports to Audit on 10.01.2024. DAC further directed that SOP may be reviewed and appropriate provisions be made in line with specifications. Compliance of DAC's directive was not made till the finalization of this report.

Audit recommends fixing responsibility through fact-finding inquiry besides recovery.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2021-22 and 2022-23 vide para numbers 2.4.41 (2021-22) and 2.4.60 (2022-23), having a financial impact of Rs 561.333 million. The recurrence of same irregularity is a matter of serious concern.

(DP. 348, 230,111,157,176 & 263)

2.4.55 Loss due to award of work to the second lowest bidder -
Rs 192.210 million

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

Audit noted that NHA awarded the above work to Mr. Niaz Ahmed, Authorized Representative of M/s Aitmaad Builders & Developers vide acceptance letter dated 09.12.2022 for Rs 3,019.849 million.

Audit observed that:

The bid submitted by the lowest bidder M/s Umer Jan & Co was Rs 2,827.639 million and M/s Aitmaad Builders was 2nd lowest having bid cost of Rs 3,019.849 million.

As per announcement of bid financial evaluation report, the procurement process was annulled and bid security was withdrawn by the bidder. On revival, however the bidder did not provide bid security hence first lowest evaluated bidder could not be considered for award of works

Audit maintains that the bidding process was annulled by the Authority without any cogent reasons and, on revival, the work was awarded to the 2nd lowest at higher rates which resulted in loss of Rs 192.210 million (Rs 3,019.849 million – Rs 2,827.639 million).

Audit pointed out the loss in December 2023, but the Authority did not reply.

DAC meeting was not convened by the PAO despite request by Audit on 05.01.2024.

Audit recommends fixing responsibility through fact-finding inquiry for delay in award of work.

(DP. 420)

2.4.56 Unjustified payment of interest on account of delayed payment - Rs 181.672 million

Clause 60.10 of Conditions of Contract, Part II, provides that the amount due to the Contractor under any Interim Payment Certificate issued by the Engineer pursuant to this Clause, or to any other terms of the Contract, shall , subject to Clause 47, be paid by the Employer to the Contractor within 42 days after such Interim Payment Certificate has been jointly verified by Employer and Contractor, or, in the case of the Final Certificate referred to in Sub Clause 60.8, within 60 days after such Final Payment Certificate has been jointly verified by Employer and Contractor. In the event of the failure of the Employer to make payment within the times stated, the Employer shall pay to the Contractor compensation at the 28 days rate of KIBOR (Karachi Inter-Bank Offered Rate+2% per annum for local currency and LIBOR (London Inter-Bank Offered Rate) +1% for foreign currency, upon all sums unpaid from the date by which the same should have been paid.

Audit noted that NHA awarded the Contract “Lowari Tunnel Project, South Access Road-2 (469)-01, Improvement, Widening and Construction of South Access Road Package-II from Link Access Road of South Portal to Qualandi (km 1+103.844 to km 8.492.96) 7.389 km of Lowari Tunnel Project” to M/s Sambu-Nishan (JV) at agreement cost of Rs 2,031.321 million. However, the contract price was reduced with revised contract cost Rs 2,018.136 million. Total value of work done up to 15th IPC was Rs 1,710.926 million and price adjustment paid up to EPC No.15 for Rs 228.001 million.

Audit observed that General Manager LTP NHA paid an amount of Rs 181.672 million to the contractor on account of interest on delayed payment vide Voucher No.19(C) dated 23.06.2023 as evident from party ledgers. The payment was unjustified because:

As per above clause, the 42 days' time for payment was to be reckoned from the date of verification of IPC by the Employer, i.e., concerned Member. The clause was therefore to be invoked only if delay occurred beyond 42 days after concurrence/ verification of IPC by the concerned Member. But in this case, time was counted from the date of submission of IPC by the Consultant to the Project Director.

Clause 60.10 was subject to clause 47 of the contract. Therefore, percentage of work done was required to be compared with the approved work programme to ascertain the progress of work. As per clause 60.2, the minimum amount of monthly IPC was 2.5 % of the contract amount. As per record the progress was too slow and stipulated time for completion had lapsed.

No fact finding inquiry was conducted to know the reasons for delay whether willful or otherwise. This resulted in unjustified payment of Rs 181.672 million.

Audit pointed out the matter in August 2023. The Authority replied that NHA Executive Board recommended the PC-I (3rd Revised) for approval of CDWP/ECNEC in its 323rd Board meeting dated 01.08.2019. Same remained under process at relevant platforms and was approved by ECNEC on 07.10.2022, i.e., the approval took 1,163 days (more than 03 years). Due to delay in approval of revised PC-I, NHA was unable to make payments within due course of time. Whereas, according to Item No. 13 of Appendix-A to Bid through addendum No. 1, amount due to the Contractor is to be paid within 42 days after IPC has been jointly verified by the Employer and the Contractor.

Furthermore, Clause 47 of CoC refers to the liquidated damages which is only applicable when the works are not completed within prescribed time period. However, the project was completed and taken over by the NHA as per the work program.

In light of above clarification, it is submitted that, the interest was caused due to delay in payment to the contractor, which is attributed to delay in approval of revised PC-I. The same was beyond control of NHA.

The reply was not accepted because IPC wise details of processing and payments with reference to budget allocations, etc., were not shared in support of reply. Moreover, no fact finding inquiry was conducted. Audit recommends recovery.

The matter was discussed in DAC meeting held on 9-10 January, 2024 wherein the Committee directed NHA to provide detail of liabilities, justification thereof and efforts for revision of PC-I to Audit for verification.

Audit recommends compliance of DAC's directive.

(DP. 132)

2.4.57 Non-deduction of trimming charges from the formation of embankment - Rs 167.805 million

Item 108.3 provides that no surplus material shall be permitted to be left at the toe of embankment or at the top of cut sections. Side slopes shall be neatly trimmed to the lines and slopes shown on the Drawings or as directed by the Engineer and the finished work shall be left in a neat and acceptable condition. In order to prevent erosion of the slopes the Contractor shall compact the trimmed slopes to the required density prior to laying top soil or as directed by the Engineer.

Audit noted that NHA got executed different works during the year 2023-24 as detailed below:

DP No.	Name of the Formation	Name of Project	Agreement Cost (Rs in million)	Non-Deduction 5% of Earth work
236	G.M Construction NHA Quetta and Dera Murad Jamali Bypass on N-65	Construction of road from Nokundi to Mashkhel (102 km) on Taftan Quetta road	5,726.085	67.649
283	GM Maintenance Balochistan, West Makran, NHA, Gwadar including projects i) Construction of Hoshab-Awaran-	Construction of Hoshab – Awaran – Khuzdar Section of M-8 Project, Hoshab – Awaran Section (146 km) Package –IA	7,334.384	72.104

DP No.	Name of the Formation	Name of Project	Agreement Cost (Rs in million)	Non-Deduction 5% of Earth work
	Khuzdar Section of M-8 Project, Section 02, ii) Awaran-Nall M-8			
352	General Manager Balochistan South, NHA, Khuzdar	Dualization of Khuzdar-Kuchlak Section N-25 Section-I	8,786.787	12.777
354	General Manager Balochistan South, NHA, Khuzdar	Dualization of Khuzdar-Kuchlak Section N-25 Section-II	9,271.096	15.275
Total			31,118.352	167.805

Audit observed that an item 108-c, “formation of embankment from borrow in common material”, was got executed and paid to the contractors, whereas, the embankment slopes were untrimmed and protection work was yet to be executed. As such due to non-execution of the said component, certain percentage 5% of the item rate was required to be withheld but full rate was allowed for payment. This resulted in non-deduction of trimming charges of Rs 167. 805 million

Audit pointed out the issue in August-October 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite requests made by Audit on 10.11.2023, 17.11.2023, 05.01.2024 and 24.01.2024.

Audit recommends fixing responsibility for non-deduction of trimming element besides physical inspection of sites of work to ensure quality of executed works.

(DP. 236,283,352&354)

2.4.58 Undue financial assistance of JV firm due to payment of mobilization advance in conflict of NHEB decision - Rs 158.194 million

Clause 60.11 of contract agreement provides that, an interest-free Mobilization Advance up to 10% of the Contract Price stated in the Letter of Acceptance shall be paid by the Employer to the Contractor in two equal parts upon submission by the Contractor of a Mobilization Advance Guarantee.

As per amendments of confirmed minutes of NHA Executive Board 289th meeting dated 30.11.2017, the Board directed the Member concerned/Project Director (in zone) that before releasing the remaining 2nd half of mobilization advance, field staff of the project will submit a certificate to the Member concerned verifying thereby that JV contractors have physically mobilized their resources at site proportionate to their share in JV agreement.

Audit noted that a work “Construction of Four Lane Bridge Across River Indus Linking Layyah with Taunsa Including Two Lane Approach Roads and River Training Works, Package-II (Layyah Side Approach Roads km 0+000 to km 08+233 and Taunsa Side Approach Roads km 09+983 to km 24+556)” was awarded on 10.06.2021 with agreement cost of Rs 3,833.878 million and completion period of two years. The total value of work done paid to the contractor up to IPC No.2 was Rs 215.287 million and EPC-I for Rs 29.983 million.

Audit observed that the authority made payment of 2nd part of mobilization advance of Rs 158.194 million on 20.03.2023. It was astonishing to mention that the contractor issued notice for termination of the contract to employer on 15.03.2023 whereas the NHA made payment of 2nd part of mobilization advance to JV firm on 20.03.2023. Audit further observed that as per Project Director letter dated 25.08.2022 the progress of the contractor in past 7 months was very poor and not as per plan. Instead of taking action against the contractor as per contract provision for poor performance, the authority obliged the JV firm and 2nd part of mobilization advance was paid in violation of quoted rules. This resulted in undue financial assistance of JV firm due to payment of mobilization advance in conflict of NHEB decision of Rs 158.194 million

Audit pointed out non-encashment of mobilization guarantee in August & September 2023. The Authority replied that the Supervisory Consultants certified the 2nd Part 50% amount of 10% Mobilization Advance in two parts, i.e., 60% & 40% on 22.06.2022 and 13.08.2022 amounting to Rs 114,116,359 and Rs 76,077,572 respectively under Clause 60.11 a(2) of PCOC Part-II. After certification the payment should be done within 42 days as per Clause 60.10 stated in Appendix-A to Bid (Special Stipulations). Unfortunately, payment could not be made before 20.03.2023 due to lack of funds in NHA Finance Wing. The contractor M/s KNK-JV was physically Mobilized at site on commencement date of project. The Firms in Joint Venture (JV) mobilized their Manpower as well as Construction Equipment. The Engineer verified the resources before certification of 2nd part of Mobilization Advance and then issued the Certificate.

The reply was not accepted. The Authority made payment of mobilization advance after five days of issuing of termination notice by the contractor to employer which was not justifiable.

DAC meeting was not convened by PAO despite requests made by Audit on 10.11.2023, 17.11.2023, 05.01.2024 and 24.01.2024.

Audit recommends thorough investigation and fixing responsibility against the persons at fault.

(DP. 294)

2.4.59 Non-encashment of performance security and non-recovery of Mobilization Advance from the defaulting contractor - Rs 156.804 million

Clause 15 of General Conditions of Contract provides that if the contractor fails to carry out any obligation under the contract, the Engineer may by notice require the contractor to make good the failure and to remedy it within a specified. As per sub-clause 10.1 of contract agreement, the contractor shall provide a Performance security equal to 10 percent of the Contract Price in the form of Bank Guarantee from any scheduled Bank in Pakistan or from a Bank located outside Pakistan duly counter-guaranteed by a scheduled bank in Pakistan or an insurance Company having at least AA rating from PACRA/JCR.

Clause 60.2 of contract agreement provides that, minimum amount of interim payment certificates (Running bills) was 15% of contract price or Rs 50 million, whichever, is minimum.

As per contract agreement, forms for Mobilization Advance Guarantee shall remain valid up to the aforesaid date (till final adjustment of advance) and shall be null and void after the aforesaid date or earlier if the advance made to the contractor is fully adjusted against payments from interim payment certificates of the contractor provided that the Guarantor agrees that the aforesaid period of validity shall be deemed to be extended if on the above mentioned date the advance payment is not fully adjusted.

Audit noted that GM Maintenance (Punjab South), NHA Multan awarded three Periodic Maintenance Works (Structural Overlay) Contract Nos. RH-2020-21-PS-01, PS-02 and PS-03 to M/s PMCC (Pvt) Ltd. (JV) on 22.04.2022 at agreed cost of Rs 920.473 million and completion period of six months dated 20.10.2022. The total value of work done paid to the contractor up to 30.06.2023 was Rs 272.898 million. In this connection following audit points needs to be attended:

The stipulated date for completion of said works were October 2022 and January 2023, but contractor could achieve only 14.24% to 48% progress of works against 100% up to October 2022 and January 2023, respectively. More than eight months have lapsed since the contractor demobilized from the sites of said three works but the Authority did not take any action against the

contractor towards encashment of the performance security, resulting in non-forfeiture of the retention money of Rs 105.692 million (Rs 92.047 million + Retention money Rs 13.645 million).

An amount of Rs 92.047 million was paid to the contractor against said three (03) works in which Rs 40.934 million was adjusted and balance of Rs 51.112 million not recover so far whereas the performance guarantee against these advances has also expired.

As per contract clause, the minimum limit for interim payment certificate of the contract was 15% of contract price or Rs 50.00 million but in all three works an amount of Rs 272.898 million was paid to the contractor and all these IPCs were paid below from the specified limit of the contract agreement.

In the light of above irregularities, Audit observed that the contractor did not complete the works within stipulated time period and the contractor also demobilized from the site but the Authority did not take any action against the contractor as per contract. Audit is of the view that the Authority was required to terminate the contract, encash the performance security and forfeit the retention money, but the same was not done. The amount of mobilization advance was also not recovered according to agreement clause which is the serious irregularity on the part of authority. This resulted in non-encashment of performance security and non-recovery of Mobilization Advance from the defaulting contractor amounting to Rs 156.804 million.

Audit pointed out the matter in August 2023. The Authority replied in all three cases that the Performance Security of the Contractor is valid up to 27.03.2024 and 22.05.2024 and bank guarantee was also valid up to 25.11.2023. The payment made to the contractor below from the specified limit due to maintaining the cash flow of the contractor due to price hikes during the execution period. Moreover, the contractor is working on the site and progress is lagging than planned progress for which actions as per COC in process.

The reply was not acceptable because contractor failed to complete the work within stipulated period, i.e., October 2022 and January 2023 and after achieving the progress of works up to 14.24%, 29.27% and 47.88% was demobilized from the site so far but the Authority did not take any action against the contractor according to contract agreement which caused mobilization advance guarantee was expired on 25.11.2023 and Rs 51.112 million are still recoverable.

The matter was discussed in DAC meeting held on 9-10 January, 2024 wherein DAC directed that the matter may be inquired through DG M&I, Ministry of Communications for fixing responsibility and report be shared with Ministry and Audit within one month.

Audit recommends early compliance of DAC's directives besides verification of compliance from Audit.

(DP 114, 117 & 118)

2.4.60 Inclusion of United Insurance Company in NHA approved panel without recovery - Rs 124.351 million

Rule 23 of GFR (Vol-I) states that every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

Audit noted that NHA delisted the M/s United Insurance Company from its approved insurance panel due to reasons known to the Authority vide circular No 325 dated 06.06.2022. Audit also noted that NHA again approved the re-enlistment of the insurance company on the condition that the company shall submit Rs 10.00 million as a token out of total liability of Rs 124.351 million and the company shall submit an undertaking that it will submit the remaining amount after finalization of actual loss incurred by NHA due to default of the contractors vide letter dated 20.07.2022.

Audit observed that firm was re-enlisted in approved panel after 05 days without fulfillment of employer requirements, the rapid inclusion and deletion of insurance company in NHA approved panel creating confusion/doubts for field offices regarding acceptance of insurance policy/ performance bond issued by United Insurance Company. This resulted in inclusion of United Insurance Company in NHA approved panel without recovery of Rs 124.351 million.

Audit further observed that insurance bond issued by the United Insurance issued for works widening and strengthening of N-70 (Rakhi-Gajj-Bewata) Package-II for Rs 222.000 million and in PM Works (South-Zone) NHA, Karachi were not encashed due to defaults of contractors.

Audit maintains that delisting of M/s United Insurance is a chronic issue and it was delisted by NHA on 09.12.2020 and 06.06.2022 due to default of the insurance company as referred above. However, while relisting on the panel, the recovery/claim of NHA was not ensured and undue

favour of Rs 124.351 million was granted.

Audit pointed out the matter in December 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite request made by Audit on 05.01.2024.

Audit recommends early recovery besides taking disciplinary action against defaulters.

(DP. 427)

2.4.61 Irregular expenditure without provision in PC-I and in violation of approved SOP - Rs 84.747 million

Para 53 of CPWD Code provides that there are four main stages in the project for a central work, namely, Administrative Approval, Expenditure Sanction, Technical Sanction and the Appropriation or re-Appropriation of funds. Para 57 provides that “Appropriation or re-Appropriation represents the allotment of a particular sum of money to meet expenditure on a specified object: it is operative only for the financial year for which it is made”.

Rule 12 of GFR (Vol-I) provides that a controlling officer must see not only that the total expenditure is kept within the limits of the authorized appropriation but also that the funds allotted to spending units are expended in the public interest and upon objects for which the money was provided. In order to maintain a proper control, he should arrange to be kept informed not only of what has actually been spent from an appropriation but also what commitments and liabilities were and will be incurred against it.

PC-I of the project “Construction of Ziarat Mor-Kach Harnai Sanjavi” was approved by ECNEC in its meeting held on 07.03.2018 for Rs 8,379.075 million.

Audit noted that the Authority awarded the work “Construction of Ziarat Mor – Kach Harnai Sanjavi” Package-I & II to M/s Umer Jan & Co at contract cost of Rs 2,404.339 million (Package-I) and 2,551.684 million (Package-II) vide acceptance letter No 257 & 256 dated 22.04.2021 respectively. Up-to-date payment expenditure in respect of Package-I&II is Rs 458.816 million and Rs 207.788 million respectively.

Audit observed that the authority made payment on account of flood damages under item 106 of the BOQ @ 360 per Cu.m. for Rs 84.747 million (Rs 70.773 million + Rs 13.974 million) to M/s Umar Jan & Co against project Zairat Mor – Sanjavi from the funds related to the Project “Construction of Zairat Mor – Kach Harnai Sanjavi” despite the fact that there was no provision of the work in the approved PC-I by ECNEC.

Audit maintains that the payment of the flood damages was required to be made from RMA accounts as per approved SOP issued by the NHA HQ Islamabad vide letter dated 16.03.2022. This resulted in irregular expenditure of Rs 84.747 million without provision in PC-I and in violation of SOP.

Audit pointed out the matter in December 2023, but the Authority did not reply.

DAC meeting was not convened by the PAO despite request by Audit on 05.01.2024.

Audit recommends fixing responsibility for irregular expenditure without provision in PC-I and in violation of approved SOP.

(DP. 432)

2.4.62 Loss to authority due to allowing excess weight of Motorcyclist ramps for pedestrian bridge - Rs 63.024 million

Para 56 of Chapter 2 of NHA Code (Vol-I) provides that Technical Sanction is a guarantee that the proposal is structurally sound and the estimates are accurately calculated and based on adequate data. It shall be issued on the basis of detailed estimates for the project as a whole, after administrative approval is accorded. Technical Sanction ensures that:

In assessment of the project cost, utmost economy has been observed consistent with good workmanship and good materials.

The estimate represents carefully budgeted cost of execution of the work including all accessory and consequential services calculated as accurately as is possible at the time of its preparation.

Audit noted that the General Manager, Maintenance (Punjab North), NHA Lahore accepted the financial bid of two works, i.e., “Construction of additional motorcyclist Ramp work km 1346-1347 on N-5 (bus stop) Ghakhar vide contract No. BC-PN-21-05-03 and km 1346-1347 on N-5 (Mandi stop) Ghakhar vide contract No. BC-PN-21-05-02” on 17.04.2023 with bid amount of Rs 72.493 million and Rs 68.310 million respectively with completion period of four (04) months. In this connection, Audit further noted that:

In the Engineering Estimate/BOQ of both works, the weight of additional motorcyclist ramps was provided as 93 tons for each work which was based on incorrect calculations.

The same nature of work was already executed in 2018-19 vide contract No.HS-PN-16-05-06 for provision of additional motorcyclist ramps with existing pedestrian steel overhead bridge at km 1,397+300 (NBC/SBC) on GT Road N-5 in which weight of additional motorcyclist ramps was designed and calculated for 39.760 tons, but in both the above-mentioned works, the weight of steel for same nature work at same road (N-5) was calculated as 93 Tons for each work which was at very higher side and based on incorrect calculations.

The drawings were also not approved by the structure expert of the NHA Headquarter.

The both works were awarded to same contractor with 106.36% and 119% above from the CSR NHA 2022 which was at very higher side.

The contract No. BC-PN-21-05-02 was awarded to the contractor but other work contract No. BC-PN-21-05-03 was not awarded due to non-fulfillment of codal formalities, i.e., performance guarantee and insurance coverage so far but the Authority did not take any action against the contractor towards encashment of bid security.

Cost of dismantled steel stairs was also not credited to the work.

In the light of above discrepancies, Audit observed that the calculation of additional motorcyclist ramps was not accurately calculated because in same area the same nature of work was also executed in which weight of motorcyclist ramp was calculated as 39.760 ton and same weight was required to be calculated and paid to the contractor. Audit further observed that the work was awarded at rates that were 106.36% and 119% above from the CSR 2022 of NHA but the Authority did not obtain rate analysis which caused acceptance of bid at higher rates and allowed excess weight of motorcyclist ramp due to incorrect calculations. This resulted in loss to the Authority due to allowing excess weight of Motorcyclist ramps amounting to Rs 63.024 million.

S. No.	Location	Weight calculated (Ton)	Actual weight (Ton)	Excess weight (Ton)	Rate accepted (Rs per ton)	Amount (Rs)
1	Mandi Stop	93	39.760	53.300	273,894.4 + 106.36% above	31,054,082
2	Bus Stop	93	39.760	53.300	273,894.4 + 119% above	31,970,871
Total						63,024,953

Audit pointed out overpayment in August 2022. The Authority replied that contract No. BC-PN-21-05-02 has already been awarded @106.36% above the Engineer's Estimate, whereas other contract No. BC-PN-21-05-03 is under process and not finalized yet. It is true that contractor quoted bid @ 119% above. The contractor was called for rate analysis. After reviewing the same, the procurement will be finalized and will be informed to Audit Authorities accordingly.

Reply was not accepted because estimates were based on incorrect calculations which caused 58 tons excess weight for each contract and the bid was accepted at very higher side without obtaining the rate analysis from the contractor.

Audit holds that irregularity was due to weak financial and internal controls.

The matter was discussed in DAC meeting held on 9-10 January, 2024 wherein Audit contended that weight for ramp was extraordinarily high as compared with other similar structure. DAC directed NHA to examine the analysis of weight and cost in the light of audit contention and detailed justification be shared with Audit.

Audit recommends that recovery of excess weight may be recovered from the contractor and, in the other contract, the bid security may be forfeited and disciplinary action be taken against the officers concerned.

(DP 150)

2.4.63 Extension in contract period and non-recovery - Rs 42.832 million

Rule 12(2) of the Public Procurement Rules 2004 states that all procurement opportunities over two million rupees should be advertised on the Authority's website as well as in other print media, principally at least two national dailies, one in English and the other in Urdu. Rule 42(c)(iv) provides that a procuring agency shall only engage in direct contracting if the repeat orders do not exceed fifteen percent (15%) of the original agreement.

Rule 3(2) of NHA Roads Maintenance Account Rules, 2003 provides that all revenues from road users accruing to the NHA, from the tolls on roads and bridges, net of collection costs, shall be expeditiously transferred into the Roads Maintenance Account.

Audit noted the NHA awarded contract for operation and maintenance of Bus Bays-Package-V (different locations at N-5 Rawalpindi) to M/s Niazi Construction Company on 04.08.2011 at monthly net guaranteed revenue of Rs 563,583 for three years, extendable for another one year, subject to satisfactory performance of the operator.

Audit observed that an amount of Rs 1.691 million was recovered against due amount of Rs 44.523 million from August 2011 to February 2018 as detailed below:

(Amount in Rs)

Months	Per Month Guaranteed Revenue	Total Amount due	Amount Recovered	Non-recovery
79	563,583	44,523,057	1,690,760	42,832,297

This resulted in non-recovery of NHA dues of Rs 42.832 million from the Bus Bay Operator.

Audit further observed that the Bus Bays were not put to tender after expiry of the contract period on 03.08.2014. The contract period was extended up to February 2018. This resulted in irregular extension of contract period in violation of the Public Procurement Rules referred above.

Audit pointed out the matter in April-June 2018. The Authority did not reply.

DAC meeting was not convened by PAO despite requests made by Audit on 31.10.2018, 28.02.2019, 19.11.2021 and 11.01.2024.

Audit recommends corrective measures and recovery at the earliest.

(Para 20 of PAR RoW 2017-18)

2.4.64 Award of hoarding concessions at lesser rates - Rs 30.409 million

Rule 4 of the Public Procurement Rules, 2004 states that procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical. Further, Rule 29 provides that procuring agencies shall formulate an appropriate evaluation criterion listing all the relevant information against which a bid is to be evaluated.

A. Audit noted that NHA invited bids for “Advertisement/Promotional displays on Toll Plaza (Chenab, Jhelum, Terraki & Islamabad-Muzaffarabad Dual Carriageway) North/South Bound on NHA Network”, “Mandra Sangjani and Qutbal” and advertisement rights on road section Attock to Torkham, Lachi to Peshawar and Kohat to Khushal Garh during the year 2017 and 2018.

Audit observed that NHA did not fix reserve price and awarded the Concessions at lesser rates than the previous rates for the same sites. This resulted in loss of revenue of Rs 30.409 million, as detailed below:

(Amount in Rs)

Name of Concession	Awarded at licence fee	Previous fee plus 10%	Difference per month	Duration of contract (Months)	Amount
Advertisement/ Promotional displays on Toll Plaza (Chenab, Jhelum, Terraki & IMDCW) North/South Bound on NHA Network	291,000	865,151	574,151	24	13,779,624

Name of Concession	Awarded at licence fee	Previous fee plus 10%	Difference per month	Duration of contract (Months)	Amount
Advertisement/ Promotional displays on section pertaining to jurisdiction of DD Maintenance Peshawar (Attock to Torkham, Lachi to Peshawar and Kohat to Khushal Garh) North and South bound on NHA Network	255,000	559,240	304,240	24	7,301,760
Advertisement/ Promotional displays on Toll Plaza (Mandra, Sangjani & Qutbal) North/South Bound on NHA Network Package-2	255,786	644,417	388,631	24	9,327,144
Total					30,408,528

Audit pointed out the matter in April-June 2018. The Authority replied that NHA conducted open competitive bidding in accordance with the Public Procurement Rules and NHA Code. The Authority has to award the concessions to the highest bidders in terms of guaranteed revenue to the Authority. NHA offers the package based on net guaranteed revenue to the Authority and the bidders are advised prior to bidding to visit the concession site and assess the business potential of the concession site at their own. Furthermore, since the fixtures/structures of the billboards are the property of private entrepreneurs therefore, NHA can't fix/assess their reserve/base price at the time of tendering.

The reply was not tenable because the previous concession was the baseline/reserve price was already available for the Authority and the next concession should have been awarded on higher rates.

B. Audit noted that National Highway Authority invited bids for "Advertisement/Promotional displays on 17 Sections/Packages at National Highways" on 26.11.2015. In response bidders were prequalified and financial bids were opened. Financial bids against four packages were as follows:

(Amount in Rs)

S No	Name of Concession	First highest offer	Second highest offer
1	Phulgran Toll plaza to Lower Topa	6,120,000 (M/s Gillani)	2,700,000 (M/s Sahar)
2	Chan da Qila to Kharian	18,660,000 (M/s Gillani)	9,999,996 (M/s Ejaz)
3	Lahore to Chan da Qila	11,220,000 (M/s Gillani)	7,199,988 (M/s Ejaz)

The award of contract was held up by the Lahore High Court Rawalpindi Bench till the decision of writ petition No. 1109/2016. The honorable Court dismissed the petition on 19.12.2016. NHA requested the bidders to extend the bid validity. Other bidders enhanced their bid validity but M/s Gillani refused to extend the bid validity.

NHA re-tendered the above four concessions and out of four, three concessions were awarded to Concessionaires for two years below the bid of M/s Gillani and in case of Phulgran to Lower Topa the accepted bid was even below the second lowest bid.

Audit observed that the bids were called without fixing reserve price. Even after the base rates of above concessions were arrived through the bids of M/s Gillani, the aspect was not considered in re-tendering and the Concessions were awarded at lesser rates. This resulted in irregular award of concessions at lesser rates involving loss of Rs 12.963 million, as follows:

(Amount in Rs)

S. No.	Name of Concession	Offer of M/s Gillani (per year)	Awarded at (Rs per year)	Award date and period	Loss
1	Phulgran Toll plaza to Lower Topa	6,120,000	2,400,000	1.3.2018 to 28.2.2020	3,720,000 x 2 = 7,440,000
2	Chan da Qila to Kharian	18,660,000	17,012,016	11.12.2017 to 10.12.2019	1,647,984 x 2 = 3,295,968

S. No.	Name of Concession	Offer of M/s Gillani (per year)	Awarded at (Rs per year)	Award date and period	Loss
3	Lahore to Chan da Qila	11,220,000	10,100,004	11.12.2017 to 10.12.2019	1,119,996 x 2= 2,226,672
Total					12,962,640

Audit pointed out the matter in April-June 2018. The Authority replied that M/s Gillani Advertisers did not re-validate their bid securities at their discretion in accordance with the condition of the RFP. Therefore, the remaining Sections were re-advertised and accordingly the same were awarded to the highest interested bidders in accordance with the Public Procurement Rules. NHA did not determine a base rate or reserve price for any Section of National Highway as the hoarding boards were solely the proprietorship of private entrepreneurs. They have the discretion to remove their hoarding boards anytime without any prior intimation or notice. Moreover, NHA carries out encroachment removal operations from time to time wherein a number of boards are being removed which are in conflict with Highway Safety standards or encroaching upon road structure.

The reply was not tenable because the baseline/reserve price was already available for the Authority under which M/s Gillani offered their rates against the concessions keeping in view the business potential of the sites/concessions. Acceptance of lesser rates despite availability of a benchmark caused loss of revenue to the Authority.

DAC meeting was not convened by PAO despite requests made by Audit on 31.10.2018, 28.02.2019, 19.11.2021 and 11.01.2024.

Audit recommends fixing of responsibility against the responsible besides making good the loss.

(Paras 3 & 7 of PAR RoW 2017-18)

2.4.65 Irregularities in the Public Private Partnership (PPP)/Build, Operate and Transfer (BOT) Basis Projects

Hyderabad - Sukkur Motorway (M-6)

Rule 48 of the Public Procurement Rules, 2004 provides that Grievance Redressal Committee shall investigate and decide upon the complaint within ten days of its receipt. Any bidder or party not satisfied with the decision of the GRC, may file an appeal before the Authority (PPRA) within thirty days of communication of the decision. The decision of the Authority shall be considered as final. Further, Rule 30 provides that all bids shall be evaluated in accordance with the evaluation criteria and other terms and conditions set forth in the prescribed bidding documents, and, save as provided for in sub-clause (iv) of clause (c) of rule 36, no evaluation criteria shall be used for evaluation of bids that had not been specified in the bidding documents. Lastly, Rule 50 provides that any violation of these rules constitutes mis-procurement.

Public Private Partnership Authority (P3A) Board, in its meeting held on 16.02.2022, accorded approval of the project (Hyderabad-Sukkur Motorway) and Letter of Intent (LOI) was issued to M/s Techno-CMC-ACC Consortium on 21.02.2022. Letter of support (LOS) was issued on 28.02.2022. NHA Executive Board in its 412th meeting dated 19.10.2022 approved PPP Agreement entered on 02.12.2022 for Rs 307,393.999 million.

Audit observed the following:

During bid evaluation, M/s TECHNO-CMC-ACC Consortium was disqualified due to following main reasons:

Lack of specific Construction Experience of Constructor(s). Experience certificate was for upgradation of state highway instead required motorway/ expressway.

Copies of Financial Statements of CMC provided not attested by the concerned (Italian) Embassy.

M/s Kreston Hyder Bhimji & Company, Chartered Accountant evaluated that the Company have 49% share in JV which have already incurred losses for the years 2018 and 2019. The amount of loss is Rs 265,921 million during 2018 and Rs 5,463 million during 2019. In the year 2020 the company's profit Rs 275,811 million which was mainly other income of Rs 37,514 million and debt relief of Rs 255,033 million. These sources of income were not a regular feature. Keeping in view the ratio analysis, it was assessed that the company is not consistent in its profitability even the company's Gross Profit is negative in the year 2019 and 2020. Despite the above short comings pointed out by M/s Kreston Hyder Bhimji & Company, Chartered Accountant, the process of evaluation was reversed by the Grievances Redressal Committee and the request of M/s TECHNO-CMC-ACC Consortium was accepted.

Grievances Redressal Committee kept reviewing the complaint/ grievance of M/s TECHNO-CMC-ACC Consortium from 30.12.2021 to 26.01.2022 (28 days) and announced results on 26.01.2022 instead of 10 days required for the purpose. Despite the facts mentioned above, the NHA did not appeal before PPRA for re-consideration of GRC decision.

As per Letter of Support (LOS), the Concessionaire was required to initiate incorporation of the Project Company and submit within twenty-one (21) days of issuance of LOS, Certificate of Incorporation of the Project Company issued by Securities and Exchange Commission of Pakistan (SECP); Memorandum of Association of the Project Company; and Articles of Association of the Project Company and Valid status and documents in respect of branch office of M/s CMC in Pakistan prior to signing of PPP Agreement. The same were not found in the record produced which may be provided now.

As per RFP, Financial Proposal Form-B, the bidder was to quote break-up of the construction cost as per the design carried out by the bidder but the bidder quoted Rs 265,265 million as lump sum cost.

As per RFP, Financial Proposal Form-B, the bidder included Rs 500 million on account of purchase of NH&MP vehicles and equipment. Being a separate government entity NH&MP expenditure on vehicles and equipment is required to be met out of specific budget allocations for NH&MP. Inclusion of such sub-head in the Concession Agreement is therefore, unjustified.

Total project cost of Rs 307,394 million included Rs 460.400 million as PPP Fee @ 0.15 % of Cost which was to be paid by the Concessionaire to P3Authority, however there was no evidence on record that the payment of Rs 460.400 million was made by the Concessionaire to P3Authority.

As per RFP, Financial Proposal Form-B, the bidder quoted cost of Rs 5,026.690 million for Intelligent Transportation System (ITS) as Provisional Sum separately without justification.

Audit recommends that responsibility be fixed through fact finding inquiry besides corrective action in the light of audit observations.

(DP. 01)

Sialkot (Sambrial)-Kharian Motorway Project

Clause 4.4.1 of PPP agreement with M/s Frontier Works Organization (FWO)-Sultan Mahmood and Company (SMC), Joint Venture for “BOT of the Sialkot (Sambrial)-Kharian Motorway” awarded to M/s Sialkot Kharian Infrastructure Management (SKIM) Pvt on 13.09.2021 for Rs 27,326.540 million, provides that the Concessionaire shall achieve Financial Close within such time as stated in this Agreement, procure funding by the Sponsors of the Sponsors Funding Amount to finance the Estimated Project Cost.

As per para 2.2 of Letter of Support dated 25.06.2021, GOP/NHA's Financial Support: The Government of Pakistan (GOP)/ NHA shall provide Financial Support/viability gap funding (VGF) of Rs 4,000.000 million in the form of Equity ("Class B" equity shares) having no dividend and voting rights. The upfront VGF shall be provided, through an escrow arrangement.

Audit observed that:

Financial close was required to be achieved within six months of effective date (signing of the PPP agreement) but the same was not achieved so far. Before achievement of financial close, the concessionaire was required to obtain term finance sheets and financial arrangements. Moreover, bid security received in the shape of bank guarantee dated 29.04.2021 for Rs 100.00 million expired on 19.12.2022.

Scheduled project completion time is September 2024 but the concessionaire executed only the work Rs 1,320 million, i.e., 5.15% against the planned physical progress of 43.56% for Rs 11,928 million up to October 2022.

The financial model was based on the construction cost of the project of Rs 22,500 million but break-up of the construction cost was not obtained to substantiate the total cost of the construction of project.

The NHA did not obtain the required insurance coverage the charges of which were included by the concessionaire in its financial model. Non-obtaining of insurance coverage ultimately resulted in undue favour to the concessionaire.

The concessionaire did not provide project implementation programme, its revision, detail design approvals, and variation to the approved detailed design by the concessionaire as required under clause 8.1 to 10.6 of concession agreement.

Facilities including fully equipped lab, furnished office and accommodation of independent engineer as office for NHA representative and project staff, transportation facilities including (1) double cabin 4x4 with A/c (2) two Toyota corolla (GLI) 1300cc or equivalent, (3) one single cabin with air conditioner and (4) one Suzuki Jimny Jeep (or equivalent) along with running/maintenance, fuel and driver's cost was not provided by the concessionaire as required under clause 25.

Consultancy agreement for "Feasibility Study and Preliminary Design for Sambrial Kharian Motorway Project on BOT basis under Public Private Partnership" was signed by the Authority with M/s Prime Engineering and Testing Consultants (Pvt.) Ltd. in JV with M/s Finite Engineering (Pvt) Ltd and M/s Concept Engineering Services at an agreed cost of Rs 11.427 million. Audit observed that no action

was taken against the design consultants as required under clause 3.1 of the agreement for submission of Model Hydraulic Study for main bridge without consideration of the site condition and without consulting Irrigation Research Institute (IRI) of Punjab Irrigation Department. The material deviation, i.e., realignment of 50% of the road structure/route occurred as observed from the progress reports of the project on account of non-conducting of model study/consultation with IRI.

Audit pointed out the matter in March 2023. The Authority replied that:

Hyderabad - Sukkur Motorway (M-6)

NHA's Grievance Redressal Committee (GRC) was a higher formation to review and investigate the evaluation done by the Bid Evaluation Committee and decide upon the complaint by any bidder. The GRC decided upon the case and took approval of its decision from the top management. Once the GRC gave its decision the Bid Evaluation Committee applied the said decision for smooth and timely implementation of procurement process. As per PPP (BOT) project, all the risks for increase in quantities & cost lies upon Concessionaire part, therefore, back up calculation of the quantities were not required. As per RFP, Financial Proposal Form-B, the bidder quoted cost of Rs 5,026.690 million for Intelligent Transportation System (ITS) as Lump Sum amount and not as Provisional Sum. All the risks related to increase in cost for ITS installations over the period of time lies upon Concessionaire's part. The process for appointment of Independent Engineer, as given in section 5.3 of PPP Agreement, has been initiated accordingly after signing of the agreement on 02.12.2022 which was in process.

Sialkot (Sambrial)-Kharian Motorway Project

As per PPP (BOT) project, all the risks for increase in quantities & cost lies upon Concessionaire part, therefore, back up calculation of the quantities were not required. Pursuant to Sub-clause 5.6 of PPP Agreement, the NHA and the Concessionaire 'M/s SKIM' mutually appointed the Independent Auditor, and accordingly the agreement was signed on prior to Financial Close, i.e., on 14.06.2022. Financial close has not been achieved as yet due to issues with the finalization of design with respect to Revised Alignment due to hydraulic model study by Irrigation Research Institute, EIA & Hydrology reports, etc. Insurance policies regarding contractor's all risk policy (CAR), third party and cash in transit insurance would be provided by the concessionaire accordingly as per agreement. As per the PPP agreement, the concessionaire was bound to conduct Hydraulic Model Study for River Chenab. Accordingly, Concessionaire M/s SKIM Pvt. Ltd. has taken up the matter with Chief Engineer IRI and subsequently carried out the Hydraulic Model Study. Later Joint Committee of Irrigation Department prepared a report on 29.04.2022, wherein

they have rejected the original proposed Bridge location over river Chenab. NHA had thoroughly contested with irrigation Department to adopt the original alignment of the proposed bridge over River Chenab. However the proposal was turned down by IRI. Keeping in view the above, CDWP was requested to grant in principle approval. CDWP allowed NHA to proceed with the changed alignment with the direction to submit the revised PC-I with the firmed up scope & cost as per the changed alignment for processing through CDWP/ECNEC.

The reply was not accepted because:

Hyderabad-Sukkur Motorway (M-6)

NHA did not appeal before PPRA for re-consideration of GRC decision despite having solid reasons. As per RFP the bidder was to quote break-up of the construction cost but the bidder quoted Rs 265,265 million as lump sum cost. Independent Engineer was not appointed as required.

Sialkot (Sambrial)-Kharian Motorway Project

Financial close was not achieved and bid security received in the shape of bank guarantee also expired on 19.12.2022. The progress of work was slow. Break-up of the construction cost was not obtained to substantiate the total cost of the construction of project. NHA did not obtain performance bond. The record of appointment of Independent Auditor and their submitted audit reports were not shared with Audit. The material deviations in the design were witnessed which depicted poor consultancy but no action was taken against the design consultants.

The matter was discussed in DAC meeting held on 9-10 January, 2024 wherein both projects were discussed in detail, as under:

Hyderabad - Sukkur Motorway (M-6)

NHA explained that the decision by the Grievances Redressal Committee was made after hearing both parties, i.e., NHA and the bidder and decided accordingly. Audit contended that the issues highlighted by the bid evaluation committee including private Chartered Accountants and NESPAK proved correct when after signing of PPP agreement, the JV firm failed to achieve financial close even after time extension and now NHA issued notice of termination. DAC directed NHA to share the proceedings of bid evaluation and grievances redressal committee and present status of the project with audit. DAC further directed NHA to share preliminary design basing cost estimates of the bidder, with Ministry and Audit within fifteen days.

Sialkot (Sambrial)-Kharian Motorway Project

NHA explained that the contractor could not achieve financial close due to site issues and necessary documents/guarantees would be obtained in due course of time. DAC directed NHA to share the details of variations with justification to Audit. DAC further directed NHA obtain required insurances and guarantees and share preliminary design basing cost estimates of the bidder, with Ministry and Audit within fifteen days.

Audit recommends compliance of DAC's directives.

(DP. 04, 05, 10, 11, 12, 13, 15)

2.4.66 Non-obtaining of insurances and insurances without premium payment receipts

Clause 21.1 of the contract agreement for the works, contractors were required to insure works, equipment and liabilities for death or injury to any person. As per Clause 25.3, in case of failure to do so the employer may effect and keep in force any such insurance, and pay any premium as may be necessary for that purpose and from time to time deduct the amount so paid from any moneys due or to become due to the contractor. The amount to be insured is contract amount plus 15%.

During scrutiny of the accounting record of NHA for the financial year 2022-23, Audit observed that NHA did not obtain insurances for Rs 55,028.877 million in seven cases, as detailed below:

(Rs in million)

S. No.	DP. No.	Name of Formation	Subject of Draft Para	No. of Projects/works	Amount
	349	General Manager Balochistan South, NHA, Khuzdar	Non-obtaining of insurance of work	02	20,767.554
	431	General Manager Budget and Accounts, NHA HQ	Non-obtaining of insurance of works	05	34,261.323
Total				07	55,028.877

Audit further observed that premium payment receipts were also not obtained to ensure the correctness of the insurances. This resulted in non-provision of insurance cover for Rs 55,028.877 million.

Audit holds that non-obtaining of insurance cover and non-recovery of premium was due to non-adherence to the contractual clauses and poor internal control systems.

Audit pointed out the non-adherence in September 2022. The Authority replied that insurances and premium receipts would be obtained and produced for verification.

DAC meeting was not convened by the PAO despite requests by Audit on 05.01.2024 and 24.01.2024.

Audit recommends immediate obtaining of insurances and recovery of insurance premium for the period of default.

(DP. 349&431)

2.4.67 Unjustified extra procurement of land and non-recovery of rent or cost of land

Chapter 07 of NHA Code (Vol-I) provides irrespective of the method to be ultimately adopted for acquisition of the land, the Project Director of each project for which the land is to be acquired, shall prepare detailed project design /drawings and define the public purpose of acquisition with full justification. He shall forward them along with complete details of the land coming in the ROW of the Authority, to the officer in charge of the Land Management Section/Wing located at the station, who shall in turn forward them for further necessary action as per this procedure to the Land Acquisition Collector/Officer concerned. The design/drawings must be comprehensive, covering all details of the project and entire land required for the project. The Project Director/Consultant shall demarcate the alignment in co-ordination with the Land Acquisition Collector and his staff. To ensure accurate acquisition of required strip of land, the permanent survey mark/pucca burjis shall be fixed.

The land records of NHA showed that a total land of 1400 kanals and 02 marlas was procured at different locations of in Khyber Pakhtunkhwa and Punjab.

Audit observed that 880 kanals and 01 marla land of NHA in Khyber Pakhtunkhwa was under unauthorized occupation of public, whereas 122 kanals and 02 marlas land was lying vacant/unutilized.

Audit further observed that since completion of the M-2 in the year 1997-98, different lands, measuring 398 kanals and 19 marlas were under the possession of M/s FWO. Audit also revealed that neither land nor cost of land was recovered from M/s FWO.

This state of affairs indicates that the land was purchased without actual requirements at the cost of public exchequer and there was no internal control mechanism in place to safeguard NHA assets. No record relating to need assessment of procurement and approval of competent forum for such procurement was available in the record produced to Audit.

The matter was discussed in DAC meeting held on 19.11.2019, wherein against 1002 kanal 10 marla land, DAC directed Member (Admn) NHA to submit report within one month after physical verification of the status of land. The report should also give proposal for future utilization of the land. As regards 398 kanal 19 marla, DAC directed General Manager (M-2), NHA to submit report within one month. The compliance of DAC's directive was not made till the finalization of this report.

Audit recommends early compliance of DAC's directives.

(Paras 16&17 of SAR Asset Management/2018-19)

2.4.68 Mis-management in award and execution of leases on NHA RoW land

As per item 10(2)(xiii) of Table 1-I of Chapter-1 of NHA Code (Vol-I), competent authority/forum for approval of lease of government land, is as under:

Executive Board above Rs 20 million in each case for lease period

Chairman up to Rs 20 million in each case for lease period

Member (Ops) up to Rs 5.00 million in each case for lease period

As per instructions contained in Ministry of Communications letter dated 24.06.2004 regarding allotment of land, the future allotment of NHA land for above purpose be stopped till the new SOP in operation. The new SOP will be devised which will have legal cover as per law. The sites available for future allotment be identified after survey which will be disposed of through an open auction and wider publicity.

A. Audit noted that Mr. Babar Zaman, MD ACE-One International Corporation, Rawalpindi submitted an application dated 10.06.2004 for the plot measuring 20x80 ft opposite to Ayub National Park Rawalpindi for establishment of CNG petrol Pump. Lease agreement was signed on 08.03.2006 at Annual Ground Rent of Rs 474,950.

The Lessee vide applications dated 06.12.2006 and 30.10.2009 requested for alternate site due to construction of service road/expansion of road. The Chairman NHA in June 2010 approved change of site from Ayub Park to Jhangi Syedan and lease on revised location was signed on 26.08.2010. In June 2013 the lessee requested for transfer of lease rights from the name of Mr. Akmal Abbasi to Mr. Sohail Abbasi, Raja Shahid Ahmed and Mr. Javed Khan which was approved by Chairman NHA and addendum was signed on 18.07.2013.

Audit observed that:

Change of site from Ayub Park to Jhangi Sayedan (Rawalpindi) was not justified and it was done to favour the Lessee without open auction in violation of Ministry of Communications directives referred above.

Lease for original site Opposite Ayub Park was approved by Member Operations instead by Chairman NHA.

Assessment of rates of land were without any documentary evidence.

B. Audit noted that lease of 110 kanals and 05 marlas land located on North Bound Carriageway on Lahore Bypass near River Ravi was granted to M/s A&M Consortium Lahore for thirty years at Annual Ground Rent of Rs 3,080,000 on 07.01.2003. Annual Ground Rent was to be increase after every three years @ 8.71% of the bid value. Lease agreement was registered on 02.12.2005 and effective date of payments was reckoned as 03.12.2006 (after one year grace period).

Audit observed the following:

Lease was approved irregularly by Member (Operations) NHA instead by Chairman/NHA Executive Board.

M/s A&M Consortium incorporated a company named Magic River Services as intimated vide letter dated 29.11.2004 after more than one year without approval from NHA.

M/s Magic River applied for approval of three advertisement sign boards of 30x90 ft size on 25.08.2006. As per NHA record NOC was issued by NHA in May 2007. Audit observed that as per NHA record the said sign boards were being used by the Lessee on commercial basis. NHA, however, did not recover the dues on account of advertisement Bill Boards for the financial years 2007-08 till December 2015 (till M-2 was handed over to M/s MORE). This resulted in non-recovery of Rs 29.678 million.

As per financial proposal of M/s A&M Consortium, works worth Rs 150 million were to be done by the Consortium in Phase-I on site development and commercial development and Rs 3,000.000 million (US\$30 million) in Phase-II on acquisition and development of 100-150 acres of land. Audit observed that the Lessee did not fulfill the obligations of development works but no action was taken by NHA regarding termination of the lease and imposition/recovery of damages as per clause 12 of the lease agreement.

C. Audit noted that lease agreement of Land on Plot Size 68 x 616 ft (07 Kanals and 14 Marlas) situated at ROW on SBC, in village Sara-e-Kharbooza N-5 was signed on 16.05.2006 with M/s Abdul Rehman Khan Abbasi on Annual Ground Rent of Rs 192,500 plus Rs 75,000 Approach Rental Charges.

Audit further noted that National Highway Authority leased out a piece of land measuring 04 Kanals and 10 Marlas to Mr. Younas Raza for establishment of Filling and CNG station at km 1552 between Tarnol and Motorway Interchange (South Bound) N-5 for a period of thirty (30) years at Annual Ground Rent of Rs 126,000 plus Annual Approach Rental Charges Rs 75,000. The lease was signed on 22.03.2006.

Audit observed that the above leases were awarded without open auction in violation of Ministry of Communications directives referred above. Moreover, the Lease was approved by Member Operations instead by Chairman NHA as required. Assessment of rates of land was without any documentary evidence.

Audit pointed out the matter in April-June 2018. The Authority did not reply.

DAC meeting was not convened by PAO despite requests made by Audit on 31.10.2018, 28.02.2019, 19.11.2021 and 11.01.2024.

Audit recommends fixing of responsibility besides recovery of the amount involved.

(Paras 27, 28, 29 & 34 of PAR RoW 2017-18)

2.4.69 Misplaced and unaccounted vehicles

Chapter 2 of NHA Administrative Manual 2002 provides that management of the NHA motor transport is the responsibility of the Admn Wing. However, all officials who use the facility and have custody of allotted vehicles are responsible for its safety and upkeep. Further, Paras 3.21 to 3.27 provide that all entitled officers allotted NHA vehicles, field staff of contractors and consultants deployed on projects and other authorized users shall be fully responsible both for safe custody and proper upkeep of the vehicles placed at their disposal.

Para 88(vi) of the NHA Code provides that no project vehicle shall be purchased unless there is a provision thereof in the PC-I of that project. Whenever such a vehicle is purchased by NHA, the procedure in paras (i) to (v) shall be followed.

A. 195 vehicles unaccounted for

Audit noted that as per audited financial statements of NHA for the years 2016 and 2017, NHA owned the following vehicles/ motorcycles:

Particulars	Cost as on 30.06.2017 (Net after depreciation)	Cost as on 30.06.2016 (Net after depreciation)
748 Vehicles	Rs 111.800 million	Rs 91.450 million

Audit further noted that NHA disclosed 748 vehicles as their assets in the financial statements for the year ended 30.06.2017. Audit demanded the current status and number of vehicles with NHA and up to 2019 and found that there were 1,417 vehicles on the strength of NHA after exclusion of all auctioned vehicles.

Audit observed during scrutiny of detail of vehicles (detail of 748 vehicles, auctioned vehicles and latest available 1,417 vehicles) that 195 vehicles and 05 motorcycles valuing Rs 72.181 million were (**Annexure-M**) neither auctioned after 30.06.2017 nor were available among 1,417 vehicles.

This resulted in the misplacement of vehicles/motorcycles worth Rs 72.181 million.

Audit pointed out the matter during March-April 2019. The Authority replied that the Transport Section tried to account for all the vehicles owned by NHA on the basis of information provided by Regional/Project offices and incorporated into VMIS system. The vehicles standing at serial No. 54 to 58 of the annexure pertained to HQ/ NHIP.

The reply was not tenable because in its reply the Authority provided the status of only three vehicles out of 195. The status provided by the Authority shows that the vehicles at S No. 54, 55 & 58 of the annexure were stolen during 2009 and 2012. No details, i.e., FIR, inquiry findings and recovery of loss were provided in support of the reply. Interim reply has been furnished which does not depict the availability status of all pointed out vehicles.

The matter was discussed in DAC meeting held on 19.11.2019, wherein DAC directed GM (Estab.) & GM (Finance), NHA to reconcile the number of vehicles mentioned in audit para and to get the record verified from Audit within one month. The compliance of DAC's directive was not made till the finalization of this report.

Audit recommends early compliance of DAC's directives

B. Missing of 119 vehicles out of NHA vehicles fleet

Audit noted that different preliminary inquiries were conducted and the inquiry committees pointed out discrepancies about physical existence of some vehicles in the years 2015 and 2016.

Audit observed that 119 (**Annexure-N**) vehicles were not found in NHA records even after consulting previous three years' auctions record and updated list of 1,417. Moreover, no action was taken by NHA on the outcome of these preliminary inquiries. Missing 119 NHA-owned vehicles resulted in loss of millions of rupees to public exchequer.

Audit pointed out the matter during March-April 2019. The Authority replied that out of 119 vehicles, 55 vehicles were up to 1996 Model and most of them had already been auctioned. However out of 119 vehicles, 29 vehicles were traced out from the available record.

The reply was not tenable because no supporting document regarding the auction of vehicles as replied was made available to Audit. Moreover, out of 119 numbers, against 29 vehicles the Authority replied that five vehicles (S No. 13, 15, 17, 24 & 29 of the annexure) were stolen/missing but the related record of FIRs and recovery of loss/ findings of inquiries were not produced in support of reply.

C. 93 vehicles at M-2 and M-3 unaccounted for

Deputy Director (Admn) M-2/M-3 vide his letter dated 20.07.2000 intimated NHA Headquarters about the status of 164 NHA vehicles.

Audit observed that out of the above, 93 vehicles (**Annexure-O**) were not accounted for and disposal of these was not available after checking auctions record for the years 2015-16, 2016-17, 2017-18 and 2018-19 and list of presently available 1,417 vehicles. This resulted in loss worth millions of rupees to the public exchequer.

Audit pointed out the matter during March-April 2019. The Authority replied that almost all the vehicles were up-to 1993 model and NHA auctioned them. After checking old record available at transport section, status of 16 vehicles was traced out. The status of remaining vehicles will be shared by General Manager (M-2/M-3).

The reply was not tenable because the Authority provided status of only sixteen (16) vehicles out of 93 as pointed out by Audit. The status provided by the Authority showed that 14 vehicles were auctioned, one stolen and one available in NHA HQ. However, no supporting documents against such vehicles were provided to ascertain the factual position.

The matter was discussed in DAC meeting held on 19.11.2019, wherein DAC directed Member (Admn), NHA to inquire the matter and submit the report to Ministry and Audit within one month. The compliance of DAC's directive was not made till the finalization of this report.

Audit recommends early compliance of DAC's directives

D. Unjustified attachment of 25 vehicles with M/s FWO

As per record of the Motor Transport Section of NHA, there were 1,417 vehicles of different categories.

Audit observed that out of 1,417 vehicles, 25 vehicles were allotted/shown attached with M/s Frontier Works Organization (**Annexure-P**) without any plausible justification on record.

Audit pointed out the matter during March-April 2019. The Authority did not reply.

The matter was discussed in the DAC meeting held on 19.11.2019, wherein DAC directed Member (Admn), NHA to inquire about the matter regarding the remaining 25 vehicles deployed with FWO, and submit report to Ministry and Audit within one month. The compliance of DAC's directive was not made till the finalization of this report.

Audit recommends early compliance of DAC's directives

E. Irregular procurement of vehicles - Rs 239.435 million

As per Clause 22 of Article VI of the contract agreement between NADRA and NHA for development, installation, commissioning, operation and maintenance of e-toll system and collection of toll revenue through e-toll system on Motorways M-1, M-2 & M-3 by NADRA dated 09.01.2009, all revenue collected by NADRA shall be remitted to NHA's bank account on the next working day of such collection.

Audit observed that NHA made an amendment to contract in February 2013 and authorized M/s NADRA to incur total capital expenditure of Rs 110.73 million which was a clear violation of agreed terms. M/s NADRA purchased 12 vehicles and two motorcycles involving Rs 10.040 million whereas, for the remaining amount no record was available. NHA Executive Board in 263rd meeting held on 14.04.2016 approved handing over of the E-tag operation on M-1 & M-3 to M/s FWO which was made on 30.06.2016. But NADRA did not handed over the vehicles and other

assets. Audit further observed that an amount of Rs 597.186 million was outstanding against NADRA till June 2016.

Audit pointed out the matter during March-April 2019. The Authority replied that as the original contract also provides for capital expenditure, the authorization to M/s NADRA to incur capital expenditure vide Amendment-1 was not a favour to the contract. Regarding outstanding amount of Rs 597.186 million, the matter was being actively pursued with NADRA at the level of Chairman, NHA. The matter has also been referred to Ministry of Communications to take up the matter with Ministry of Interior for solution.

DAC in its meeting held on 19.11.2019 pended the para and directed Director (Roads), MOC to submit the latest status. The compliance of DAC's directive was not made till the finalization of this report.

Audit recommends early compliance of DAC's directives.

(Paras 34, 36, 37, 38 & 39 of SAR Asset Management/2018-19)

2.4.70 Non-carrying out International Roughness Index (IRI) test and non-rectification of potholes, cracks in Islamabad-Lahore Motorway (M-2)

According to Article 4 of Concession Agreement signed between NHA and Motorway Operations and Rehabilitation Engineering Company (Pvt.) Ltd. (MORE) on 23.04.2014 for overlay and modernization of M-2, the Concessionaire shall ensure improvement of riding quality and reinstatement of the structural strength of motorway during the course of rehabilitation to extend the life of motorway by at least 10 years. According to Schedule-M 'O&M Requirements' of the Concession agreement, the concessionaire will keep the road smooth, safe adequate skid resistance, and durable by filling the potholes causing a threat to safety. There will be no potholes greater than 100 sq. mm area and 25 mm deep, no unsealed (non-structural) cracks larger than 2 to 6 mm on 95% of road length. Tolerance for structural cracks would be nil.

Audit observed that the condition of the motorway was not as per required standards as evident from the site visit report Sector Commander of National Highways and Motorway Police. There were a lot of potholes, cracks, bulges, choking of drainage system on the Motorway M-2. The concessionaire executed substandard repair and maintenance works under functional, structural overlay and rehabilitation works. The General Manager (M-2) also reported about the damaged surface of motorway, missing guardrail and iron fence and non-execution of asphalt work as per roughness survey inspection but concessionaire did not take corrective measures. This resulted in non-execution of repair maintenance works and non-conducting IRI tests.

Audit pointed out the issue in September 2023. The Authority replied that the Concessionaire started overlay activities in January 2015 and substantially completed the overlay works on 26.08.2016. Since then, all the operation and maintenance activities on Motorway M-2 were the concessionaire's obligation. The Concessionaire furnished the IRI reports. The Concessionaire was informed wherever the OM&M of the Motorway was required as per reports received from NH&MP and NHA field formation. In year 2022, major rehabilitation works were undertaken from Thokar Niaz Baig Interchange to Ravi Toll Plaza and Salt Range in addition to other patch works.

The reply was not accepted because the compliance of provisions of concession agreement was not verified through Independent Engineer and Independent Auditor.

DAC meeting was not convened by the PAO despite requests by Audit on 10.11.2023, 05.01.2024 and 24.01.2024.

Audit recommends provision of compliance report of concession agreement to Audit for scrutiny.

(DP. 340 & 341)

CHAPTER 3

CAPITAL DEVELOPMENT AUTHORITY/METROPOLITAN CORPORATION
(MINISTRY OF INTERIOR) **ISLAMABAD**

3.1 Introduction

A. Capital Development Authority

Capital Development Authority (CDA), established under the CDA Ordinance, 1960 is governed by an Executive Board, constituted by the Federal Government.

Financial Advisor/Member (Finance), CDA is in charge of the Finance/Accounts Wing and is responsible for preparation of budget and allocation/distribution of funds to different Divisions/Formations.

Major resources of receipts of CDA include:

Revenue generated from the sale of plots, municipal receipts, sanitation receipts, environmental/horticulture receipts, property tax, water charges, conservancy charges, interest/markup, commercial receipts (rent from shopping centers, bus stands), etc.,
Grant-in-aid from the Federal Government for development purposes through the Public Sector Development Programme,
Grant-in-aid from the Federal Government for maintenance of specified government buildings (Maintenance Grant).

The main functions of the Authority are:

Acquisition of land and development of residential sectors;
Sale of plots and recovery of their cost;
Maintenance of federally-owned government buildings;
Construction of federally financed government offices and residential accommodation;
Management of Parliament Lodges.

Metropolitan Corporation Islamabad

Metropolitan Corporation for Islamabad Capital Territory is the local government, constituted under Section 9 of The Capital Territory Local Government Act, 2015. Twenty-three (23) Directorates of CDA were placed under the administrative control of the Mayor of Metropolitan Corporation Islamabad (MCI) along with all rights, assets and liabilities. However, due to administrative reasons, financial arrangements are still under CDA and practical distribution of work is yet to be finalized.

MCI is responsible for performing the following functions in Islamabad:

Regulate affixing of sign-boards and advertisements;

Provide, manage, operate, maintain and improve the municipal infrastructure and services, sewage treatment and disposal, and storm water drainage.

Sanitation and solid waste collection and sanitary disposal;

Roads and streets;

Street lighting;

Playgrounds, open space graveyards and arboriculture;

Slaughter houses;

Collect approved taxes, fees, tolls, charged fines and penalties;

Regulate markets and issue licenses, permits, grant permissions and impose penalties for violation thereof as and where applicable.

As per Schedule-II of Rules of Business 1973, CDA and MCI are under the administrative control of Ministry of Interior (Interior Division).

B. Comments on Budget and Accounts (Variance Analysis)

Comments on Receipt and Expenditure Account for the financial year 2022-23 are as under:

(a) Expenditure:

Budget allocation and expenditure for the financial year 2022-23 is shown in the table below:

(Rs in million)

S. No.	Particulars	Budget Estimates	Release/ Receipts	Expenditure
A	Development	30,235.28	34,273.25	39,599.403
(i)	PSDP (Federal Government)	5,650.000	3,784.539	3,768.622
(ii)	Self-Financing Account (CDA Own Source)	24,585.280	30,488.711	35,830.781
B	Non-Development	6,956.315	15,456.319	28,537.079
(i)	Maintenance Grant (Federal Government)	2,646.315	2,572.637	3,338.858
(ii)	Revenue Account (CDA Own Source)	4,310.00	12,883.682	25,198.221
C	Debt & Deposits (Including deposit works)	-	7,490.279	6,748.036
	Total (A+B+C)	37,191.595	49,729.569	68,136.484

Source: Consolidated and Compiled Monthly Account for June 2023 and Grant and Expenditure Report of Treasury Division CDA.

Comments on 'Receipt and Expenditure Account' of CDA for the year 2022-23 are as under:

CDA did not prepare and submit to the Federal Government, a certified Balance Sheet together with the Financial Statements of the Authority in violation of the provisions of the CDA Ordinance 1960.

Funds of Rs 2,572.637 million were received against the Maintenance Grant, during the year 2022-23. Expenditure of Rs 3,338.858 million was incurred with an excess of Rs 766.22 million (29.78%).

(b) Receipts:

The receipts of CDA from its own resources are as follows:

Description	2022-23 (Rs in million)
Estimated Receipts	24,585.280
Actual Receipts	30,488.711
(Shortfall)/Excess	5,903.43
(Shortfall)/Excess in %age	24.01%

In addition to the above, MCI receipts for the year 2022-23 were as under:

Description	Receipt (Rs in million)
Municipal Receipts	994.970
Environment Receipt	16.153
Property Tax Residential	1,307.562
Property Tax Commercial	888.936
Water and Conservancy Charges	866.184
Total	4,073.805

Source: Information provided by CDA/MCI

MCI did not prepare estimates of receipts for the year 2022-23. Therefore, efficiency towards achievement of revenue targets could not be ascertained and commented on.

C. Audit Profile of CDA & MCI

S. No.	Description	Total	Audited	Expenditure audited FY 2022-23 (Rs in million)	Revenue/ Receipts audited FY 2022-23 (Rs in million)
1	Formations	56	15	44,286.73	-
2	Assignment Accounts				
i	PSDP	05	05	3,768.621	
ii	Maintenance Grant	08	08	3,338.858	

Note: Expenditure audited indicated against formations is inclusive of assignment accounts. In addition to the above, eleven formations audited during Phase-II of 2022-23 involving expenditure of Rs 3,287.052 million and revenue of Rs 4,187.876 and results incorporated in this report.

3.2 Classified summary of audit observations

Audit observations amounting to Rs 155,772.969 million were raised in this audit report. This amount also includes recoveries of Rs 6,688.363 million, as pointed out by the Audit. The summary of the audit observations classified by nature is as under:

Overview of audit observations

S. No.	Classification	Amount (Rs in million)
1	Bogus/fraudulent allotment of plots	1,000.000
2	Irregularities	
A	HR related irregularities	568.082
B	Procurement/award related irregularities	46,405.320

S. No.	Classification	Amount (Rs in million)
C	Execution of works, contract agreement	38,422.221
D	Management of accounts in commercial banks	43,210.700
E	Revenue management	19,071.743
3	Value for money and service delivery issues	-
4	Others	7,094.903
Total		155,772.969

Note: Amount of audit observations exceeds the amount audited due to non-budgetary issues like award of works which involves future spending, amount covering multiple previous years of spending, multiple reckoning of monetary impact in different audit observations pertaining to the same transaction, etc.

3.3 Brief comments on the status of compliance with PAC's directives

Compliance position of PAC's directives on Audit Reports relating to CDA is as under:

Year	Audit Paras		Compliance		
	Total	Discussed	Made	Awaited	percentage
1988-89	07	07	04	03	57.14
1989-90	04	04	04	-	100
1990-91	21	21	21	-	100
	SAR-9	9	8	1	88.89
1991-92	17	17	12	05	70.59
1992-93	37	37	37	-	100
1993-94	57	57	07	50	12.28
1994-95	15	15	09	06	60

Year	Audit Paras		Compliance		
	Total	Discussed	Made	Awaited	percentage
1995-96	28	28	01	27	3.57
1996-97	32	32	27	5	84.38
	SAR	05	05	-	100
	PAR	01	-	01	-
1997-98	312	312	214	98	68.58
1998-99	79	79	63	16	79.75
	2 SAR	2 SAR	1 SAR	1 SAR	50.00
1999-00	86	86	57	29	66.28
	1 SAR	1 SAR	1 SAR	-	100
	2 PAR	2 PAR	2 PAR	2 PAR	-
2000-01	73	73	58	15	79.45
	184-SAR	184	108	76	58.69
2001-02	45	45	42	03	93.33
2002-03	14	14	10	04	71.43
2003-04	27	27	16	11	59.26
	22 SAR	22	19	03	86.36
	05 PAR	05	04	01	80.0
2004-05	29	29	18	11	62.06
2005-06	57	57	44	13	77.19
2006-07	39	39	19	20	48.72
2007-08	33	33	17	16	51.52
2009-10	54	54	39	15	72.22
2005-08 (2009-10)	94 SAR	94	54	40	57.45
2010-11	77	77	22	55	22.57

Year	Audit Paras		Compliance		
	Total	Discussed	Made	Awaited	percentage
	36 PAR	36	36	00	100
	18 PAR	18	18	0	100
29 PAR	29	0	29	0	
2011-12	59	59	09	50	20.34
2012-13	87	87	6	81	6.89
2013-14	53	53	13	40	24.53
2014-15	42	33	10	17	30.30
2015-16	64	12	08	04	66.67
2016-17	127	86	43	43	50.0
2017-18	69	60	33	27	50.82
2018-19	35	20	03	17	15.00
2019-20	48	48	17	31	35.42
2021-22	70	1	0	1	-

Note 1: Audit Reports for 1985-86, 1987-88, 2020-21 and 2022-23 and five Special Audit Reports for the year 2017-18 were not discussed by PAC till the finalization of this Audit Report.

Note 2: In DAC meeting held on 19.01.2024, Audit highlighted the issue of non-verification of record in respect of most of the Proposed Draft paras despite issuance of verification schedule. Partial record was provided in some cases and replies were without any supporting documents. Audit is of the view that the management of CDA is not taking the Audit Paras seriously despite issuance of numerous directives by DAC in its earlier meetings.

The chairperson DAC showed displeasure on the non-serious attitude of CDA management and directed that proper attention should be given to the compliance of Audit/DAC recommendations, record verification from Audit be carried out by well conversant senior management and complete record shall be provided to Audit for convening of fruitful DAC meetings. Such laxity will not be tolerated in the future and disciplinary action will be taken against the officer concerned.

3.4 AUDIT PARAS

Capital Development Authority

3.4.1 Non-transparent process of auction of commercial plots - Rs 37,822.260 million

As per criteria approved by the CDA Board dated 03.06.2011, the bids received in the open auction/competition were required to be presented before the CDA Board. Further, such bids were to be presented by the Finance Wing before the CDA Board including the information of (i) Previous sale price (ii) General Price Index (GPI) (iii) Market trend, in order to facilitate the Board in accepting or rejecting bids.

During scrutiny of the record of Director Estate Management-II, CDA, Audit noted that results of auctions dated 4&5.08.2021 were approved by the CDA Board in its 8th meeting dated 26.08.2021. As approved by the CDA Board, twenty-nine (29) commercial plots were offered for auction in various sectors having different sizes and land uses as per terms & conditions laid down in Auction Brochure. Bids against twenty-three (23) plots with a bid price of Rs 37,822.260 million were accepted whereas five (05) plots were deferred for future auction due to lack of interest by bidders/competitors and one (01) plot was withdrawn due to legal complications.

Audit observed the following irregularities:

Back-up record/detailed calculations of average auction prices, calculation of GPI, market trend of prices/analysis, calculation of reserve price, etc., not available on record. It was not clear how the reserve price had been arrived at by the Authority.

Details or any information about five (05) deferred plots and legal complications of one (01) plot are also not available in files or Board directives.

Decision of the CDA Board regarding the change of criteria from highest sales price to average sale price of the year could not be termed as a prudent decision being against the “market trend criteria”.

Pay orders received from intending bidders for issuance of Token/auction brochures, were not deposited in a bank. Further, authenticity of pay orders was not checked by the issuing bank. As such possibility of fake pay orders could not be ruled out because pay orders were even received at the time of bidding.

Audit maintains that acceptance of auction bids without detailed calculations of previous sale prices, calculation of GPI and analysis of market trend resulted in a non-transparent process of auction of commercial plots for Rs 37,822.260 million.

Audit holds that the irregularity occurred due to weak internal and financial controls.

Audit pointed out the irregularities during March 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite multiple requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends for an investigation into the matter for fixing responsibility against those who are responsible, justification for the change in criteria for a base price, and provision of data of calculation of base prices. Besides, verification of pay orders of all participants of auction from the concerned banks was also not available on record which needs to be explained.

Note: The issue was reported earlier also in the Audit Reports for Audit Years 2019-20, 2021-22 and 2022-23 vide para numbers 3.5.17 (2019-20), 3.4.5 (2021-22), 3.4.4 (2022-23) having a financial impact of Rs 7,654.57 million. The recurrence of same irregularity is a matter of serious concern.

(DP. 216)

3.4.2 Unjustified retention of heavy closing balances with DDOs - Rs 1,583.254 million and non-verification/non-reconciliation of cash balance - Rs 30,712.395 million

As per para 257 of Procedure Manual part-III CDA (Accounting Procedure), cash accounts should be positively closed on 30th June every year. Further, Para 20 states that after verification of the cash balance, the bank balance should also be verified. A statement of accounts should be obtained monthly from the bank within three days of the closing of the Cash Book and a reconciliation statement should be prepared before the submission of the monthly account to the Accounts Directorate. The reconciliation statement should be copied out in the cash book over the signatures of the Disbursing Officer after the closing entries of the month. According to the CDA Procedure Manual, money realized, whether in cash or through cheque, should be deposited by DDOs immediately in the bank account of the Authority.

During audit scrutiny of the Final Consolidated Accounts of the Accounts Directorate, CDA for financial year 2021-22, Audit noted that an amount of Rs 1,583.254 million was shown as a balance with DDOs of CDA as of 30.06.2022.

Audit observed that CDA Divisions retained a heavy closing balance with DDOs for Rs 1,583.254 million. It is further added that these balances were increasing during the last three financial years, as detailed below:

S. No.	Financial year	Balance with DDOs (Rs in million)	Increased amount (Rs in million)
1	2019-20	249.688	-
2	2020-21	1,384.14	1,134.452
3	2021-22	1,583.254	199.114

Furthermore, an amount of Rs 30,712.395 million was shown as cash and cash equivalent balances of CDA as on 30.06.2022, as detailed below:

Bank balance

(including Treasury bills) Rs 29,129.141 million

Balance with D.D.Os Rs 1,583.254 million

Total Rs 30,712.395 million

A bank balance of Rs 30,712.395 million was posted without providing detailed reconciled figures in each Bank Account. As a result, the cash balance was found unauthenticated in the absence of reconciled figures against each bank account. The audit team was provided with the important documents such as Division-wise break-up of DDOs balance, DDO-wise detail of cash book closing, justification for retention of these balances by each DDO, period of retention of these balances, status of interest accrued.

Audit pointed out the issue in June 2023, but the Authority did not respond.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023. However, DAC meetings on similar paras were held on 31.12.2020 and 28.11.2022 wherein the management was directed to submit reconciled figure by DDOs alongwith justification for retained balances to Audit for verification.

Audit recommends that disciplinary action may be taken for this irregularity against the person(s) at fault, besides enforcing strict financial discipline to minimize the balances with DDOs in future.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2019-20 vide para number 3.5.4 having a financial impact of Rs 9,227.851 million. The recurrence of same irregularity is a matter of serious concern.

(DP. 226)

3.4.3 Unauthentic quality of road works without conducting required quality control tests - Rs 15,194.139 million

Capital Development Authority prepared PC-Is/TS Estimates of different road works based on NHA General Specifications 1998 and NHA CSRs. NHA General Specifications of works stipulate different quality control tests at various stages of execution starting from earth works to Asphaltic layers i.e., soil classification tests, earth/embankment compaction tests, California Bearing Ratio (CBR) tests, moisture tests, concrete strength tests, aggregate base and sub-base compaction and quality assurance tests, crushing test, abrasion test, impact test, soundness test, shape test, specific gravity and water absorption test, bitumen adhesion test, Job Mix Formula (JMF) approvals, Bitumen procurement from authorized source evidence, bitumen quality tests, core thickness tests, asphaltic layers thickness tests, steel strength tests, International Roughness Index (IRI) test.

Further, standard bidding documents prescribed by the Pakistan Engineering Council are mandatory to be used by all procuring agencies, as per clause 3 of the Public Procurement Regulations, 2008. As per standard contract provisions (clause 37.2), the Engineer shall be entitled, during manufacture, fabrication or preparation to inspect and test the materials and plant to be supplied under the Contract. If materials or Plants are being manufactured, fabricated or prepared in workshops or places other than those of the contractor, the Contractor shall obtain permission for the Engineer to carry out such inspection and testing in those workshops or places. Such inspection or testing shall not release the contractor from any obligation under the Contract. The Engineer may delegate the inspection and testing of materials or Plants to an independent inspector.

As such the contractor is bound to ensure that the materials to be used shall conform to specifications and testing procedures as indicated in the relevant specifications. Samples of materials for laboratory tests and their subsequent approval shall be utilized according to these references.

During scrutiny of the record of different formation of CDA for the year 2023-24, Audit noted that CDA awarded and executed major road works/projects and incurred expenditure of Rs 15,194.139 million (**Annexure-Q**).

Audit observed that the employer/CDA did not conduct required quality control tests at various stages of execution starting from earth works to asphaltic layers i.e., soil classification tests, earth/embankment compaction tests, CBR tests, moisture tests, concrete strength tests, aggregate sub base, base compaction and quality assurance tests, crushing test, abrasion test, impact test, soundness test, shape test, specific gravity and water absorption test, bitumen adhesion test, JMF approvals, Bitumen procurement from authorized source evidence, bitumen quality tests, core thickness tests, asphaltic layers thickness tests, steel strength tests, IRI test.

In the absence of the above quality control testing, the quality of road works was compromised the number of depressions/undulations and settlements of road structure were witnessed especially in the newly constructed Margallah Avenue, Bharakahu Bypass and IJP road. This resulted in sub-standard road works execution without conducting third-party required quality control tests for Rs 15,194.139 million. This is further substantiated by the fact that CDA has faced backlash for substandard road quality inaugurated projects as there has been a trend of road damages (IJP Road) shortly after their inauguration in the capital city. Poor quality of constructed roads reflects inadequate construction work and a potential threat to public safety.

Audit maintains that in the absence of required quality tests during execution and after completion of the works, the quality of the executed road works was compromised at the cost of public exchequer.

Audit pointed out the issue in August 2023 and January 2024. The Authority replied in respect of Margallah Avenue Project that a sum of Rs 110 million against work done of asphalt was held and not paid to the Contractor. The Contractor was not yet mobilized at site and TOC has not been issued so far. IRI survey would be conducted before TOC and shared with Audit. Regarding other projects, the Authority stated that all the requisite quality tests were performed during execution. However, due to a lack of traffic management and enforcement of lane discipline by traffic police, minor issues were observed. These issues will be rectified during the Defect Liability Period.

The reply was not accepted because tests conducted during the execution of work were not verified. As admitted in reply, these projects were facing structural issues despite incurring billions of rupees even in the Defect Liability Period. The quality of the executed work has therefore proven compromised. The International Roughness Index (IRI) survey of the completed road projects was not conducted without which smoothness and riding quality of the road surface cannot be assured. Moreover, source of bitumen, Job Mix Formula (JMF) and penetration/ compaction tests of bitumen used in asphaltic work were also not produced for evaluation of the genuineness and purity of specified material.

The matter was discussed in DAC meeting held on 31.01.2024 wherein DAC directed CDA to provide information along with supporting record on the following format to Audit for evaluation:

Name of Work	Cost	Item of work	Date of Measurements in MB	Nature of Tests performed
1	2	3	4	5

Date of submission of sample with evidence	Date of Lab Test Report	JMF approval status with date	Date of execution of bituminous item	Lab test report with covering letter
6	7	8	9	10

Audit recommends compliance of DAC's directive. Further, IRI survey may be conducted and shared with Audit.

(DP. 114&325)

3.4.4 Mis-procurement due to award of work at higher rates through direct contracting - Rs 7,488.943 million

Rule 42 (f) of the Public Procurement Rules, 2004 (Inserted vide S.R.O No. 834(I)/2021 dated 28.06.2021) provides that a procuring agency may engage in direct contracting with state owned entities such as professional, autonomous or semi-autonomous organizations or bodies of the Federal or Provincial Governments for the procurement of such works and services, including consultancy services, which are time sensitive and in the public interest, subject to the conditions that the organization or the body shall accomplish the work or the services including consultancy services, exclusively through its own resources without involving private sector as a partner or in the form of a joint venture or as a sub-contractor. The

procuring agency shall devise a mechanism for determining price reasonability to ensure that the prices offered by the state owned entities are reasonable for award of the contract. Rule 50 of Public Procurement Rules provides that any unauthorized breach of these rules shall amount to mis-procurement.

Clause-30 of Special Provisions/Condition of the contract provides that the contractor shall be responsible for providing asphaltic road diversions at site and shall ensure proper traffic safety, information & warning signs including lightning etc. No separate payment will be made against these arrangements.

Audit noted that Director Road (North) CDA, Islamabad awarded a contract “Construction of Bharakahu Bypass Islamabad” on Design and Built basis to M/s NLC Islamabad at agreed cost of Rs 6,515.079 million through direct contract under rule 42(f) on 22.09.2022 without open competition with stipulated completion period of four (04) months. The contractor was paid 5th running bill for Rs 544,916,848. The up to date progress of the work was 80% in June 2023.

Audit observed the following:

A premium of 15.81% on NHA CSR 2022 was allowed in September, 2022 without determining price reasonability as the NHA CSR 2022 represents the prevailing market rates/prices including contractor's Overheads, Profits resulting in loss of Rs 828.107 million (Rs 5,237,870,744 x 15.81%). Thus, the agency has not devised a mechanism for determining price reasonability to ensure that the prices offered by the state owned entities were reasonable.

The work was awarded without open competition on the plea of a time-sensitive project with the completion period four (04) months. However, the project was not completed within the stipulated period even after the grant of a time extension of 214 days.

The contractor has not provided proper asphalted traffic diversions, the cost of which was included in the bid cost of the contractor, for the safety of traffic and work, due to which a fatal incident occurred during construction causing loss of human lives and structure. The cost of asphaltic diversion was neither determined nor recovered from the contractor.

Two fatal incidents occurred during the execution of the project. There were two casualties of workers also but no FIR was registered. In 2nd incident five girders fell just after launching on the Transom.

The design of the project was also not vetted by the third party.

The SOP as per construction procedures was not followed. Incidents raised questions about the poor performance of the supervisory consultant. However, the supervisory consultant was not penalized for poor performance.

Audit further noted that Director Works CDA, Islamabad awarded a contract for “Construction of Boundary Wall & Allied Works in Diplomatic Enclave, Islamabad” to National Logistics Corporation (NLC) at an agreement cost of Rs 973,864,055 which was 106.94% above on MES 2021 and 21.55% above on non-scheduled items against the NIT Cost of Rs 549,844,144 on 03.04.2023. The work started on 06.04.2023 which was required to be completed within six (06) months i.e., on 05.10.2023.

Audit observed that above mentioned work was awarded to a single firm i.e., NLC without advertisement and open competition. A review of the record indicated that the said work was awarded on the basis of urgent issues. Moreover, the Authority neither compared the rates with the same nature of work/contract nor adopted the preferable option of retendering for healthy competition in violation of the Public Procurement Rules.

This resulted in mis-procurement due to award of works for Rs 7,488.943 million (Rs 6,515.079 million+ Rs 973.864 million) at higher rates through direct contracting without open tendering.

Audit pointed out mis-procurement in July-August 2023. The Authority replied (DP.110) that the project was to be completed in four months as directed by PM Directives. So the bids were called from state owned organizations under Rule 42 (f) and awarded to M/s NLC. The rate of 15.81% above NHA CSR-2022 quoted by M/s NLC was found reasonable keeping in view the price hike. There was no available option for the diversion of main/heavy traffic on Murree Road. The incidents happened due to external reasons and there was no negligence of supervisory consultants. In DP. 260, the Authority did not reply.

The reply was not accepted because the work was awarded at 15.81% above the NHA CSR 2022 in September 2022. The contractor was also exempted from 7.5% Income Tax thus the contractor was actually awarded at 23.31% above the estimate without adjudging the reasonability of rates the asphaltic diversion was neither provided nor the cost thereof was determined and deducted from the contractor. An unrealistic time frame was provided to justify the time limit case for application of 42(f). Recommendations of inquiry against the fatal incidents be implemented and outcome be shared with Audit.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 20.09.2023, 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends for inquiring the matter for fixing responsibility against those who are responsible, for award of work at higher rates. Furthermore all escalations, if any, paid after the four months be recovered from the contractor.

Note: The issue was reported earlier also in the Audit Reports for Audit Years 2021-22 and 2022-23 vide para numbers 3.4.1 (2021-22) 3.4.3, 3.4.10, 3.4.1, 3.4.19 and 3.4.27 (2022-23) having a financial impact of Rs 41,462.63 million. The recurrence of same irregularity is a matter of serious concern.

(DP. 110&260)

3.4.5 Unauthentic payment made to the contractor without evidence of the executed works - Rs 6,570.887 million

According to Rule-I of CDA Procedure Manual Part-II, every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public funds as a person of ordinary prudence would exercise in respect of expenditure of his own money.

Audit noted that Director, Special Project Directorate CDA awarded the project “Development of Low Cost Housing Scheme at Farash Town” for construction of 3960 apartments to M/s FWO through direct contracting at lump sum cost of Rs 14,776.00 million (EPC basis) on 13.07.2021 with completion period of 24 months. The total value of work done up to 12th running bill was Rs 6,570.887 million.

The following irregularities were noticed:

The project was initially awarded for 3,960 apartments and payment milestones were set according to 3,960 apartments. Later on, scope of work was reduced to 2,400 apartments but payment was made to the contractor without revision of payment milestone.

Payment was made to the contractor without verifying the execution activities according to payment milestone.

Details of material purchased and consumed were also not on record despite 92% payment on account of material and design. It shows that advance payment was made to the contractor without execution of work at site.

Material test reports were also not available to Audit.

Detail measurements of execution activities were not recorded in the Measurement Book. Monthly progress reports were not available in office record.

In the light of above discrepancies and without observance of the contract clauses, the payment made to the contractor of Rs 6,570.887 million stands unauthentic.

Audit maintains that unauthentic payment was made due to weak internal financial controls, and non-implementation of rules.

Audit pointed out unauthentic payment during July and August 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 20.09.2023, 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends that Authority may explain the point wise justification along-with supporting documents besides fixing the responsibility against the responsible(s).

(DP. 161)

3.4.6 Irregular payment of mobilization advance without required bank guarantees - Rs 3,555.982 million

As per contract clause 14.2 and 60.12, the Employer shall make an advance payment, as an interest-free loan for mobilization and design, when the Contractor submits a guarantee in accordance with this Sub-Clause including the details stated in the Particular Coalitions. The Contractor shall ensure that the guarantee is valid and enforceable until the advance payment has been repaid, but its amount may be progressively reduced by the amount repaid by the Contractor. If the terms of the guarantee specify its expiry date, and the advance payment was not repaid by the date 28 days prior to the expiry date, the Contractor shall extend the validity of the guarantee until the advance payment has been repaid.

During scrutiny of the accounts record of different projects for the year 2023-24, Audit noted that mobilization advance of Rs 3,555.982 million was paid to the contractors as detailed below:

(Rs in million)

Name of Formation	Name of Project	Name of Contractor	Amount
Director, Special Project Directorate CDA	Development of low cost housing scheme Farash Town	M/s FWO	1,839.400
Director, Special Project Directorate CDA	Construction of Nilore Height (G+9)	M/s FWO	1450.000
Director, Works, CDA	Construction of Parking Plaza Near Savor Food, Blue Area	M/s NLC	191.822
Director Roads South, CDA	Construction of Flyover at Sihala Railway Line, Islamabad	M/s FWO	74.760
Total			3,555.982

Audit observed that mobilization advance was paid without securing bank guarantee as required. This resulted in irregular payment of mobilization advance without required bank guarantees for Rs 3,555.982 million.

Audit pointed out the matter in July-September 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite requests made by Audit.

Audit recommends fixing responsibility through fact finding inquiry for violation of contract provisions besides recovery.

(DP. 108, 154, 157, 163&266)

3.4.7 Unauthentic expenditure on pension payments - Rs 3,549.280 million

As per para 379 of CDA Procedure Manual, accounts of all transactions, whether relating to cash or stores, are to be maintained in the prescribed manner in each case so that the Authority may know at any time its exact financial position, its assets and liabilities. Further, Pension Rules and Orders 2018 provide a compendium of various regulations and documentation for pension matters. Documentation includes Service Register, Register for Pension Payment Order, Register of Certificates and other database.

During Audit scrutiny of the accounts record of Director Accounts (Pension Section) CDA for the financial year 2021-22, Audit observed that a huge amount of pension payments for Rs 3,469.20 million was made to different banks for payments against 8,645 pensioners during 2021-22 and Rs 3,549.280 million was booked under this head. Audit observed that the details of pensioners on the following pattern were not available in the CDA record:

Name of retired employee/spouse/siblings
Date of retirement/death
Personnel Number/PPO Number
Account Number/Bank/whether joint account
Month- wise history of Pension payments
Inquiries/FIA/Court cases
Life Certificate obtained/not obtained
Revisions in the pension rates
CNIC Number
Non-Separation/non-marriage certificate from widow(if widow pension)
Type/kind of pension
Name of formation from where retired
Cases of undrawn pension (if any)
NOCs/Permissions granted for re-employment (if any)

Audit maintains that pension payments against unreliable data without backup details can cause misappropriation.

Unauthentic expenditure of 3,549.280 was made on pension payments.

Audit pointed out the issue in June 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends maintaining of comprehensive pension payments record to authenticate the expenditure on pension payment besides comprehensive internal Audit may be conducted on the matter and report be shared with Audit.

(DP. 223)

3.4.8 Creation of huge liability of electricity bills of Rs 2,481.831 million and unauthentic/irregular payment of electricity bills - Rs 1,325.834 million

PAC Sub-Committee in its meeting held 17.07.2019 while discussing para 2.4.6 of Audit Report 2017-18 of CDA, directed PAO to take up the matter regarding excess billing against CDA by IESCO with the Power Division for its early resolution. Chief Engineer IESCO was directed to install the meters for street lights. If they failed, the CDA would not deposit the electricity bills of street lights, if the IESCO disconnects the electricity of CDA offices, the case should be registered against the CEO of IESCO.

Audit observed the following:

Treasury Division, CDA Islamabad, made payments against bills raised by Production-I&II Divisions CDA of Rs 758,140,769 for the financial year 2021-22, on account of electricity charges of tube wells. The payments were made against unmetered bill claims without measuring/ reconciliation of actual consumption of electricity in violation of clear directions of PAC. Out of Rs 758,140,769 an amount of Rs 18,517,148 related to IESCO Rawalpindi City/Cantt. Details of tube wells installed in Rawalpindi /Cantt area was not forthcoming from the record of Treasury Division.

Audit observed that Director (E/M)/Deputy Director Street Lights, CDA Islamabad paid an amount of Rs 349.00 million to IESCO on 26.06.2023 as an interim payment from August 2021 to June 2023 against unmetered bill claims for the year 2021-22 without reconciliation of actual

consumption of electricity. An amount of Rs 190.354 million up till June 2021 and Rs 3.082 million in June 2023 was paid to IESCO as advance payment for installation of 643 energy meters and 191 transformers.

There was a payable amount to IESCO of Rs 2,481.831 million during the FY 2022-23 out of which Rs 218.693 million caused accumulation of arrears.

This resulted in creation of a huge liability of electricity bills for Rs 2,481.831 million and unauthentic/irregular payment of electricity bills of Rs 1,325.834 million (Rs 758.141 million + Rs 349.000 million +Rs 218.693 million) without analyzing actual consumption. Moreover, the advance for installation of 643 energy meters and 191 transformers was not yet adjusted.

Audit holds that creation of liability was due to weak financial and internal controls.

Audit pointed out the irregularity in May and August 2023. The Authority replied that payment of un-metered electricity bills was stopped on the direction of PAC. Outstanding dues for an amount of Rs 1,787.557 million was payable against un-metered bills. In a meeting between IESCO and CDA it was mutually decided that payment of outstanding dues of Rs 1,787.557 million from July 2019 to June 2023 will be made. IESCO was being pursued for the installation of energy meters and transformers on street light circuits.

The reply was not accepted because payment of electricity without actual consumption was against PAC's directions. Additionally, installation of energy meters and transformers on street light circuits was not being pursued.

DP. 22 was discussed in DAC meeting held on 9-10 January, 2024. Audit contended that payments against unmetered bills is a chronic issue which needs to be resolved in the light of PAC directive dated 17.07.2019 to safeguard the financial interest of the Authority. The management apprised that all payments against Water Supply electricity were made as per actual consumption of electricity. Proper record of electricity consumption had been maintained and reconciliation with IESCO management was carried out on regular basis. DAC directed CDA to get the record i.e., total electricity meters for water distribution, list of burnt meters with dates and their billing, consumption trend in last two years from Audit within seven days.

DAC meeting was not convened by PAO in other cases despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends that reconciliation be carried out regarding electricity consumption in the light of load adjustment and other reduction factors as pointed out by Audit. Efforts may be made to get the electricity meters installed and matter also be taken up with Ministry of Water and Power. Those responsible for not actively following up on the installation of meters despite making payments should be held accountable.

Note: The issue was reported earlier also in the Audit Reports for Audit Years 2017-18 and 2022-23 vide para numbers 2.4.6 (2017-18) 3.4.14, and 3.4.62 (2022-23) having a financial impact of Rs 8,767.17 million. The recurrence of same irregularity is a matter of serious concern.

(DP. 22, 138, 141 &143)

Non-imposition of penalty due to delayed completion and non-recovery from the sponsor of the schemes - Rs 2,310.384 million

According to clause 10(d) of Modalities and Procedures framed under Islamabad Capital Territory (Zoning) Regulation, 1992, the completion period of six year is prescribed for a housing society of above 400 Acres of land and only one year extension is permissible after expiry of 6 years. Extension in completion period can be granted up to 6 years and fee would be Rs 2,000 per kanal for 1st year with an increase of Rs 1,000 and for 6th year Rs 8,000 penalty per kanal per year for subsequent years' extensions.

As per clause 10 of Modalities and Procedures framed under ICT (Zoning) Regulation, 1992 development works of the scheme be completed within the time of:

- 3 years for scheme covering an area of up to 100 acres
- 4 years for scheme covering an area between 101 acres to 200 acres
- 5 years for scheme covering an area between 201 to 400 acres and
- 6 years for scheme covering an area of more than 400 acres.

Clause 22 (I & II) "Default in Completion of Scheme" states that (i) the CDA shall assume control of the scheme in case it is satisfied that the sponsors are incapable of completing the scheme after expiry of the extended period of completion. (ii) In the event of CDA assuming control of the scheme, it shall sell the plots mortgaged with it in the scheme privately, through public auction or private contract in order to accumulate funds for the completion of the remaining development works in the scheme to the extent of the amount received from such sale.

Audit noted that Directorate of Housing Societies CDA approved layout plan of fifty (50) housing schemes/societies in Sector E-11, Zone-II and Zone-V and, and NOC was issued to twenty four (24) housing schemes during the period mentioned against each. The projects were required to be completed in 3 to 6 years. The sponsor was liable to complete the housing scheme as per the terms & conditions of layout plan. The sponsors shall mobilize their resources to start implementing the scheme within six months after issuance of the letter of approval of engineering designs and detailed specification by the CDA.

Audit observed that schemes were not completed within due time as completion certificates were not issued from the year 2001 to 2021. The sponsor of the schemes did not complete the housing schemes within the stipulated period but penalty for delay in completion of the works for Rs 1,710.434 million (**Annexure-R**) was not imposed on the sponsors of the schemes. CDA was required to resort to the second option given in the procedure to assume control of the schemes for completion of the remaining development works. But the Authority neither penalized sponsors for delay in completion nor took over the control of schemes. The sponsors of the schemes did not deposit Rs 599.950 million (worked out by CDA as per **Annexure-S**) on account of scrutiny fees, penalty charges, extension charges, and ROW charges.

This resulted in non-imposition of penalty of Rs 2,310.384 million (Rs 1,710.434 million + Rs 599.950 million) for delayed completion of the housing societies and non-recovery from the sponsors of the schemes.

Audit holds that the loss occurred due to inadequate oversight mechanism and weak internal and financial controls.

Audit pointed out the recovery in February & March 2023, but the Authority did not reply.

The matter was discussed in DAC meeting held on 23.01.2024. The management apprised that NOCs were issued after payment of scrutiny fee and approval of LOPs. The management of societies started development works and requested for extension. Penalties for deviations from LOPs were imposed and recovered accordingly. 25% of the saleable area has been mortgaged with CDA. CDA Regulations 2020 allows revision in LOPs and protects amenities plots. Audit contended that deviations from LOPs were not approved by the competent authority and construction works were started without NOC. Moreover, the management of societies failed to develop the societies within the stipulated period.

DAC directed CDA that complete record including approval of changes in LOPs, detail of land mortgaged, deviations from LOPs, penalties imposed/recovered on prescribed format be provided to Audit within seven days, as under:

Name of society	LOP area	Area required to be mortgaged	Area mortgaged	NOC status	Expansion
-----------------	----------	-------------------------------	----------------	------------	-----------

Status of approval of expansion	Violation	Notices	Penalties imposed	Recovery made
---------------------------------	-----------	---------	-------------------	---------------

Audit recommends compliance of DAC's directive.

(DP. 75 & 70)

Non-payment of loan (principal + interest) due to financial indiscipline - Rs 1,917.087 million

According to Article-II of the loan agreement (PK-P-25) for Metropolitan Water Supply Project (Simly) under Japanese Project loan signed between the Government of Pakistan and the Overseas Economic Cooperation Fund of Japan on 30.03.1989 regarding repayment and interest, Section-I of the Article provides that the borrower shall repay the principal of the loan to Fund in accordance with the Amortization Schedule set forth in Schedule-3. Section 2 of the Article provides that the Borrower shall pay interest to the Fund semi-annually at the rate of two and half percent (2.5%) per annum on the principal disbursed and outstanding. The Borrower shall pay to the Fund on 20th March of each year the interest that has accrued up to 19th March of that year from 20th September of the preceding year and on 20th September of each year the interest has accrued up to 19th September 19 from 20th March of that year.

Audit noted that Deputy Director Zone-A, W&S (Development) Directorate MCI Islamabad paid an amount of Rs 50.00 million on account of principal amount of loan (PK-P25) vide CV # 07 & 09 and got reconciled with Accounts Officer Economic Affairs Division Government of Pakistan.

Audit observed that W&S Development Directorate, MCI, Islamabad has not paid the outstanding amount of principal and interest accrued for Rs 1,917.087 million against Loan agreement (PK-P-25) for Metropolitan Water Supply Project (Simly) signed between the Government of Pakistan and the Overseas Economic Cooperation Fund of Japan on 30.03.1989. This resulted in non-payment of outstanding amount of Rs 1,917.087 million.

Non-payment of installments of loan was due to financial indiscipline, which resulted in creation of pending liabilities and pilling up of interest.

Audit pointed out the issue in August 2023. The Authority replied that W&S Zone-A Division always paid the installment on time, as and when funds were allocated to this Division. The remaining liability amounting to Rs 1917.087 million would be paid as soon as the funds are allocated. Moreover, CDA is regularly depositing payment in State Bank of Pakistan.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends steps may be taken to obtain the required amount of budget from the federal government for repayment of the principal amount of loan with interest to donor without further delay as per the loan agreement executed by the Government of Pakistan.

(DP. 208)

3.4.11 Non-conducting the classification of soil/rock from Geological Survey of Pakistan (GSP) Department - Rs 1,719.558 million

Rule-01(i) of CDA Procedure Manual Part-II, financial procedure provides that every officer authorized to incur expenditure from public funds is expected to exercise same vigilance in respect of expenditure from public funds as person of ordinary prudence shall exercise in respect of his own money.

Audit noted that CDA, Islamabad, awarded three (03) works to different contractors amounting to Rs 4,587.072 million in May & June 2022 as under:

(Rs in million)

Name of work	Acceptance letter date	Agreement Amount	Payment against earth works
Development of Infrastructure Work of	24.06.2022	1,425.063	426.501

Name of work	Acceptance letter date	Agreement Amount	Payment against earth works
Sector I-15/2 Islamabad			
Development of Sector C-14, Islamabad	10.05.2022	1,574.960	1,293.057
Development of Sector C-15, Islamabad	22.06.2022	1,587.049	
Total		4,587.072	1,719.558

A payment of Rs 1,719.558 million was made against different earth work items against the above works. Audit observed that in BOQ/ agreement of said works various quantities pertaining to roadway excavation in common material, median rock material, hard rock material, excavate surplus median rock material and excavate surplus hard rock material, etc., was given on tentative basis.

Audit further observed that Authority did not conduct the classification of soil/rock from the department of Geological Survey of Pakistan (GSP) before execution of said item. Audit is of the view that the aim of classification of soil/rock is the assessment of exact quantities of different soil/rock for applying the proper rates but the Authority classified quantity of these items of work without conducting the soil/rock classification which caused extraordinary variation made between the BOQ and paid Quantities. This resulted in unjustified payment due to non-conducting the classification of soil/rock from GSP Department for Rs 1,719.558 million.

Audit pointed out the matter in November 2023. The Authority replied that the estimate was framed after getting Soil/Rock classification from the Geology & Hydrology lab, CDA.

The reply was not accepted because proper classification of rock from the GSP was not conducted, which led to inaccurate evaluation of quantities. , The estimate was based on the tentative quantities and a test report, and comprehensive rock classification was not produced to Audit.

DAC meeting was not convened by PAO despite request made by Audit on 21.12.2023.

Audit recommends soil classification as per actual from authorized source and recovery of due amount from the contractor.

(DP. 316)

3.4.12 Undue financial burden due to unjustified inclusion of 1938 kanal 9 marla excess land - Rs 1,618.230 million

According to CDA Land Acquisition and Rehabilitation Policy 2007 (Land Sharing Basis), (CDA Land Acquisition and Rehabilitation Regulation 2007 vide SRO 304 (1)/2008 dated 06.03.2008) land will be acquired on land sharing basis, meaning a developed plot of one (01) kanal will be allotted to the affectees/land owner for every four (04) kanals of land acquired from him in the same sector.

According to award announced by Deputy Commissioner CDA on 25.02.2008 under the Directive No. 1337 of CDA Board, land measuring 14944 Kanal 09 Marla was to be acquired.

Audit noted that Director Land & Rehabilitation CDA acquired the land 14,944 Kanals 9 Marla showing in the award from affectees of Sarai Madhu, Sarai Kharbooza, Sangjani and Shah Allah Ditta Tehsil & District Islamabad for Sectors C-13, C-14, C-15 & C-16 @ Rs 835,000 per Kanal was fixed for compensation to the affectees.

Audit observed that instead of acquiring 13,006 Kanals, Deputy Commissioner CDA announced land award for 14944 Kanals 09 Marla. This resulted in an undue burden to the Authority's exchequer due to unjustified inclusion of 1,938 Kanal 9 Marlas excessive land beyond the schedule of specification for Rs 1,618.230 million (14,944 Kanals 09 Marla -13,006 Kanals x Rs 835,000 per Kanal).

Audit pointed out the matter in June 2023. The Authority replied that the land was acquired as per land award after comparing the land of the villages with field books. No benefit under the Rehabilitation Policy would be granted to anyone.

The reply was not accepted because CDA could not justify the use of excess land beyond the schedule of specification which caused extra expenditure.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends investigation into the matter and fixing responsibility.

(DP. 84)

3.4.13 Non-recoupment of funds allocated by CDA from its own sources through bridge financing on PSDP project - Rs 1,468.906 million

According to Expenditure Sanction issued by Finance Wing, CDA, concerned Directorate is responsible to correspond with respective Ministry for reimbursement of total cost of the project "Construction/Establishment of 93-No District Courts in Sector G-11/4, Mauve Area Islamabad". According to PC-I of the project, the project was to be funded by Ministry of Law & Justice being the sponsoring ministry through Access to Justice Program.

Audit noted that Director (Works), CDA, Islamabad awarded a contract for "Construction/Establishment of 93 District Courts in Sector G-11/4 Mauve Area Islamabad" to M/s FWO at an agreed cost of Rs 1,473.033 million on 03.09.2021 with a completion period of six (06) months. The contractor was allowed the first extension of time (EOT) from 03.03.2022 to 31.08.2022 and 2nd EOT from 01.09.2022 to 30.11.2022. The contractor was last paid 8th running bill for Rs 1,468,906,850 in June 2023.

Audit observed that CDA was executing the work from Self Finance account, whereas the project was to be funded by the Ministry of Law & Justice through Access to Justice Program. The expenditure of Rs 1,468.906 million incurred up to June 2023 on the work from the CDA Self Finance Account was not recouped by the Ministry of Law & Justice. This resulted in non-recoupment of funds of Rs 1,468.906 million spent by CDA through bridge financing on the PSDP project.

Audit pointed out the irregularity in November 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends fixing responsibility through fact finding inquiry besides corrective action.

(DP. 261)

3.4.14 Non-imposition and recovery of liquidated damages due to delay in completion of works - Rs 1,549.728 million

According to clause-47.1 and clause 7.2 of the contract agreements, liquidated damages @ 0.1% of the contract price for each day of delay in completion of the work subject to a maximum of 10% of the contract price was to be charged for delay in completion of the work within stipulated period. According to Clause 8.7 of the agreement for the work “Development of low cost housing scheme Farash Town”, if the contractor fails to complete the work within the stipulated time, he shall render himself liable to pay liquidated damages equal to 0.0125% of the contract price for each day of delay in completion of the works subject to maximum of 1% of contract price.

Audit noted that in 09 cases/works the contractors delayed completion of works but CDA did not impose and recover liquidated damages from the defaulting contractors (**Annexure-T**).

This resulted in non-recovery of liquidated damages due to non-completion of work as per schedule for Rs 1,549.728 million.

Audit maintains that the irregularity occurred due to weak contract management.

Audit pointed out the non-imposition/recovery of liquidated damages in July-August 2023. The Authority replied (DP. 111) that the works progress was badly affected due to various reasons that were beyond the control of the contractors therefore the employer accorded the extension of time as per conditions of the contract.

The reply was not accepted as the reasons that caused delay such as shifting of utilities, cutting of trees and possession of land were already in the knowledge of the Authority as the costs of the same were included in the engineering estimates.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends imposition and recovery of liquidated damages as per contract provisions.

(DP. 111, 160, 240, 262&263)

3.4.15 Overpayment due to duplicity in activity components - Rs 1,348.338 million

According to Rule-I of CDA Procedure Manual Part-II, every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public funds as a person of ordinary prudence would exercise in respect of expenditure of his own money.

Audit noted that Director, Special Project Directorate CDA awarded the project “Development of low cost housing scheme Farash Town” construction of 3960 apartments to M/s FWO through direct contracting at lump sum cost of Rs 14,776.00 million (EPC basis) on 13.07.2021 for construction of 3960 apartments with a completion period of 24 months. The total value of work done up to 12th running bill was Rs 6,570.887 million. Later on, CDA placed another proposal before its board to curtail the approved scope from already approved contract from 3960 apartments to 2400 apartments and to start another project titled “Construction of Nilore Heights (G+9)” comprising 1876 apartments with revised specification and design. CDA Board approved the proposal on 31.03.2022 and another EPC mode contract at a cost of Rs 16,854.234 million was awarded to M/s FWO on 11.04.2022 with a completion period of two years and cost of revised PC-I was approved for Rs 31,984.57 million.

Audit observed that both agreements were executed on EPC basis and payment made to the contractor on milestone basis and payment schedule was given in each agreement. One time activity components like security, design, geo-tech investigation, etc., were included in payment milestone schedule of both agreements instead of one agreement. Payment against overlapped activities in both projects caused overpayment to the contractor amounting to Rs 1,348.338 million, as detailed below:

(Amount in Rs)

Description (Activity)	Milestone Weightage (Low cost flats Farash Town 3960 flats)	Milestone Weightage (Nilore Heights 1876 flats)	Suspected Overpayment due to activity repeated in Nilore heights agreement
One Time Security	1.50%	1.50%	252,813,511
GEO Technical Investigation	1.50%	1.50%	252,813,511
Master Planning	1.75%	1.75%	294,949,097
Detail design infrastructure	1.25%	1.25%	210,677,926
Detail design Apartments	1%	1%	168,542,341
Detail design of external electrical & Grid station	1%	1%	168,542,341
Total			1,348,338,727

Audit pointed out the overpayment during July and August 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends that cost of one time activities repeated in both agreements needs to be adjusted and payments be made to the contractor in Nilore Heights project by excluding the cost of said components which were already paid in Low Cost Farash Town Flats agreement and fix the responsibility against the responsible(s) who did not evaluate the payment milestone with required activities.

(DP. 159)

3.4.16 Loss to Authority due to suspected allotments of 43 plots in different sectors - Rs 1,000.00 million

Rule 55 of CDA Procedure Manual (Part-II) provides that every Government officer should realize fully and clearly that he would be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

Audit noted that the Land and Rehabilitation Directorate, CDA allotted forty-three (43) plots in different sectors of Islamabad. Audit observed that the allotment of two of these plots was referred to FIA on 20.04.2023 for inquiry regarding of double allotment and backdated allotment of plots. It showed that allotments of 41 missing files and two under inquiry with FIA, were not carried out while observing proper procedure. In response to the requisition No.03 dated 01.06.2023 for production of the files, it was reported that 41 files were not available in the record room. Only two files of plot No. 275 Sector 1/11-1 and plot No. 1403 Sector I/11-2 were produced to Audit.

This resulted in loss of Rs 1,000 million to Authority due to suspected allotments of 43 plots in different sectors.

Audit pointed out irregularity during June 2023. The Authority replied that allotments of 43 plots in question were already under investigation by CDA and were referred to FIA.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends appropriate action against the responsible officers/officials and recovery of loss.

(DP. 86)

3.4.17 Mis-management in land compensation payments - Rs 858.752 million

According to the Section-28 of the CDA Ordinance 1960, compensation for acquired land was required to be determined keeping in view market value of land, damage caused by reason of dis-possession besides the value of land so determined including 15% compulsory acquisition charges.

As per the approved Procedure for Land Acquisition payments to the Affectees, the Admin Approval and Expenditure Sanction (A.A & E.E) is thus obtained of the total expenditure involved from the Chairman. CDA under item No. 42 of Delegation of Financial & Admin Power wherein Chairman, CDA is empowered to sanction the expenditure under head "Acquisition of Land" after completion of pre-payment Audit, the Accounts Officer Payment makes the payment to affectees. Each affectee is handed over his cheques after his identification by the Numberdar and taking over possession of his Land/BUP as the case may be. A Surrender Certificate is kept on record by Accounts Officer Payment Land Directorate CDA.

During scrutiny of the record of Director Land Rehabilitation CDA, Audit observed that:

Funds amounting to Rs 1,300.00 million on account of disbursement/payment to land affectees were allocated and released to Land & Rehabilitation Directorate CDA, Islamabad out of which an amount of Rs 858.752 million was utilized/spent up to 30.06.2022 leaving unspent balance of Rs 441.247 million. (DP. 83)

For Sectors H-16 and I-17, a committee constituted by the Deputy Commissioner recommended the market price of land as Rs 700,000 per kanal plus 15% compulsory acquisition charges (Rs 805,000 per Kanal). Audit observed that at the time of announcement of awards, the Deputy Commissioner, CDA, allowed land compensation @ Rs 830,000 per kanal instead of applicable rate of Rs 805,000 per kanal. Similarly in other case, CDA acquired 14,944 Kanals of land for sector

C-13, C-14, C-15 and C-16 of various villages. Deputy Commissioner CDA allotted land compensation @ Rs 835,000 per Kanal instead of Rs 833,750 per Kanal as determined by the committee. Due to allowing extra compensation without justification, the Authority sustained a loss of Rs 420.585 million.(DP. 87)

CDA made payment of Rs 858.752 million on account of land compensation to the affectees of Sectors H-16 and I-17 (Mauza Noon) during the financial year 2021-22. Audit observed that Land Surrender Certificates and copy of CNIC of the affectees were not found placed in the accounts

record. Form-II (Register Haqdaran) was not properly maintained. Bank reconciliation against payments was also not prepared.(DP. 88)

Allotment register/Red entry register were not properly maintained. In some cases, record entries of plots were tampered with by cutting/fluid without recording any reason and authentication. The complete record was not computerized, which increased the risk of double allotments and backdated allotments of plots. Creation and entries of new plots without revision/approval of the layout plan. Backdated allotment entries of plots were entered without balloting. No Authorized Officer was deployed to verify the Red Entry Register, Allotment Register, and Embossed Register. The handing/taking over charge of dealing assistants and store keepers were not properly maintained, which caused misplacement 695 files pertaining to various sectors are missing and up-to- date status of missing files was not share with Audit due to improper maintenance of record. Many new files were reconstructed without approval of the competent authority. Monthly inspection was not done by the Authority.(DP. 94)

Audit pointed out the irregularities in June 2023. The management replied that in many cases payments to the land affectees were delayed due to incomplete documents and non-furnishing of claims. Further, record of acquittance was with FIA for inquiry. The payment record would be verified from Audit once it's received back from FIA. The Land Directorate record was being computerized, and all measures were being taken to minimize the chances of bogus/duplicate/backdated allotments.

The reply was not accepted because it was not backed up with any documentary evidence.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends provision of required record to Audit for scrutiny besides sharing outcome of FIA inquiry.

(DP. 83, 87, 88&94)

3.4.18 Unjustified payment on account of price adjustment without backup calculations and beyond the provision of PC-I - Rs 840.917 million

The PC-I of the Project “Rehabilitation and Widening of IJP Road Islamabad” was approved for Rs 6,739.00 million (rationalized) and a sum of Rs 139.695 million was provided for price escalation with construction period of two years.

Part-1 Sub-Part B.1 of the PEC Standard Procedure and Formula for Price Adjustment, 2009 states that in determining the weightages, the following procedure shall be adopted:

Base Data Price alone of an element based on market rate shall be considered excluding the cost of construction/installation, overheads and profit. Engineer’s Estimate shall be prepared for the complete project. Appropriate Rate Analysis of the Engineer’s estimate shall be made to determine the cost of the basic elements. Each cost element shall be divided by the total amount of the Engineer’s Estimate to determine various weightages.

Audit noted that CDA awarded a work “Rehabilitation and Widening of IJP Road Islamabad to M/s NLC with agreement amount of Rs 4,953.110 million on 12.08.2021 with a completion period of eighteen (18) months. The total value of work done up to 8th running bill paid to the contractor was Rs 4,153.960 million and price escalation paid up to EPC-06 was Rs 980.612 million.

Audit observed that the weightages of Factor “c” were provided in the contract without back up calculations. The column of Factor “C” was filled on the basis of tentative weightages instead of to be filled according to the PEC Standard Procedure and Formula for Price Adjustment, and beyond the PC-I provision. This resulted in unjustified payment on account of price adjustment without backup calculations and beyond the provision of PC-I, amounting to Rs 840.917 million.

Audit pointed out unjustified payment during November 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite request made by Audit on 21.12.2023.

Audit recommends that overpayment may be recovered from the contractor besides fix the responsibility against the person at fault.

(DP. 314)

3.4.19 Wasteful expenditure due to non-completion of work despite lapse of 10 years since stipulated time period for completion - Rs 823.651 million

Para 2.1 of Planning Commission's Guidelines for Project Management (August 2008) provides that policy of the Government of Pakistan is to efficiently utilize natural and economic resources of the country for socio-economic welfare of the people. This objective may be achieved only when development projects are planned and executed with vigilant management. Objective of development planning is to have projects implemented for the benefit and social uplift of the society. For achievement of stipulated targets and tangible returns, it is imperative to entrust management and supervision of the project during implementation stage to capable and competent persons of required qualifications, experience and caliber.

Audit noted that Deputy Director, Works Directorate (Division-I), CDA Islamabad awarded the work "Construction of Additional (104) Family Suites for the Members of the Parliament Including Servant Quarters Block for 500 Persons" Islamabad at agreement cost Rs 2,728.451 million to M/s Habib Rafique Pvt. Ltd. Work was commenced on 23.05.2011 and to be complete on 19.11.2013 (910 days). 3rd Extension in time was granted up to 30.06.2018. Physical progress was 52% and financial progress was 51%.

Audit observed that project could not be completed up to June 2023 despite incurring an expenditure of Rs 823.651 million. Due to this negligence and in-capabilities, government's interest was not safeguarded, envisioned benefits could not be achieved, and parliamentarian gets deprived from housing facilities. This resulted in a wasteful expenditure of for Rs 823.651 million due to non-completion of work despite the lapse of ten (10) years since the stipulated time period for completion.

Audit pointed out the irregularity in November 2023. The issue was also pointed out in October 2017. The Authority replied that the matter was sub-judice and CDA was also defending its stance during arbitration for the inordinate delay caused by the contractor. The issue was discussed in DAC meeting held on 30.09.2020 wherein the management apprised the forum that the appointment of a new consultant was in progress. Arbitration was decided in favour of the contractor which was challenged by CDA. In a follow-up DAC meeting held on 17.06.2021, the management apprised that a consultant was hired and joint measurement had been made. Tenders for the completion of balance work will be floated in the next financial year. The case with the previous contractor was also sub-judice in the Supreme Court of Pakistan. No further progress was reported.

DAC directed the management to vigorously pursue the case and complete the work without further delay

DAC meeting was not convened by PAO despite requests made by Audit on 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends fixing responsibility through fact finding inquiry besides corrective action.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2017-18 vide para number 2.4.34. The recurrence of same irregularity is a matter of serious concern.

(DP. 259)

3.4.20 Overpayment to contractor beyond the approved millstone payment schedule - Rs 738.800 million

As per schedule of payment of the project “Development of low cost housing scheme Farash Town for construction of 3960 apartments” awarded on EPC mode to M/s FWO for Rs 14,776.00 million, payment of item No. 1 (Mobilization, design and engineering procurement and delivery) was to be made for Rs 1,300.288 million.

Audit noted that Director, Special Project Directorate CDA awarded the project “Development of low cost housing scheme Farash Town for construction of 3960 apartments” to M/s FWO through direct contracting at a lump sum cost of Rs 14,776.00 million (EPC basis) on 13.07.2021 with a completion period of 24 months. The total value of work done up to 12th running bill was Rs 6,570.887 million.

Audit observed that the Authority made payment to the contractor against item No.1 for Rs 2,039.088 million by taking the 15% weightage of payment milestone instead of payment was required to be made for Rs 1,300.288 million by taking the weightage of 10% as approved in the contract agreement. Non-observing the contract clause has resulted in overpayment to the contractor for Rs 738.800 million (Rs 2,039.088 million – Rs 1,300.288 million).

Audit maintains that overpayment made to the contractor due to weak internal and financial controls.

Audit pointed out overpayment during July and August 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends fixing responsibility against those responsible besides recovery.

(DP. 153)

3.4.21 Non-recovery of Annual Ground Rent (AGR) of Rs 181.506 million and lease money of Rs 13,600 million

As per point 06 of chapter mode of payment of auction broacher, Annual Ground Rent (AGR) shall be payable without demand, in advance, in the first month of every year, at the prescribed rate. The rate of AGR in respect of all the plots shall be increased by 15% after every three years or as determined by the CDA Board from time to time.

During scrutiny of record of different formations of CDA during the year 2023-24, Audit observed as under:

Audit observed that Town Planning Wing CDA allotted 10 Acres (895 x 490) towards south of the Low Cost Housing at Farash Town project site on a temporary basis for the establishment of site offices and material storage sheds vide letter dated 15.06.2021. Audit further observed that CDA did not obtain annual ground rent against an additional 10 acres land from the contractor amounting to Rs 40.00 million (10 acres x 2 years x 20.00 million per year approximately).

CDA leased out 7,344 Kanals (918 Acres) land of Sector I-17 vide offer letter dated 09.08.2018 to National University of Medical Sciences (NUMS) on lease hold rights basis for a period of 33 years extendable for two subsequent terms of 33 years each for the establishment of a Medical City against payment of Rs 13.600 billion. Audit observed that despite the lapse of 4 years and 11 months, Authority could not recover the outstanding dues on account of annual ground rent of Rs 131.072 million (4,443,120 square yards x Rs 6 per square yard per annum x 4.11 years) and Rs 13,600 million lease money.

As per Estate Management-II record, the CDA Board in its 8th meeting dated 16.08.2021, accepted 22 bids out of 29 commercial plots for Rs 37,822.260 million offered by the highest bidders in the auction held on 4-5.08.2021. Audit observed that an amount of Rs 10.434 million on account of AGR was not recovered.

Audit further observed that plots were being auctioned at current market prices but AGR rates of the year 2014 were being applied which were very low. Audit maintains that AGR may be assessed and enhanced as per prevailing market rates.

This resulted in non-recovery of AGR of Rs 181.506 million and lease money of Rs 13,600 million.

Audit pointed out the loss to the Authority during March-June 2023. The Authority replied that the management of NUMS was requested to pay the required premium through letters. In this case, only Rs 318 million was received as the cost of land (DP. 82 and 91). In other cases, the Authority did not reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends improvement in timely collection of Annual Ground Rent/lease money, imposing charges on delayed payments, revision of AGR rates as per prevailing market rates besides strengthening the internal controls.

(DP. 82, 91, 165&213)

3.4.22 Irregular allotment of 53 plots against shamlati land without determination of ownership/share of land by the land revenue department - Rs 570.00 million

According to CDA Land Acquisition and Rehabilitation Regulation 2007 (Land Sharing Basis), land will be acquired on land sharing basis, meaning a developed plot of one (01) kanal will be allotted to the affectee/land owner for every four (04) kanals of land acquired from him in the same sector.

As per Letter dated 10.03.2023, land falling in village Shah Allah Ditta was acquired for Sectors C-13, D-13 and E-13 in the year 2008. Share of shamlati land of villages Jhangi Syedan, Shah Allah Ditta, Bhekar Fateh Buksh & Dharaik Mohri was not determined amongst the land owners. Due to non-

determination of share of Shamlati land, CDA rehabilitation benefit could not be released to the land owners.

Audit noted that Director Land & Rehabilitation Directorate CDA, Islamabad allotted fifty-three (53) plots measuring one Kanal in sector D-13 under Khewat No.683 (Shamlati Land) in village Shah Allah Ditta as detailed below:

S. No.	Name	Khawat No.	Area of Shamlati Land (Kanal)	No. of plots allotted	Year
1	Nadeem Bashir	683	196	49	2019
2	Inam Ullah	683	16	4	2015
Total			212	53	

Audit observed that total 765 Kanals land fell under shamlati land of said Mouza and as per letter No.443 dated 10.03.2023 the ownership of all 765 Kanals shamlati land was not determined by the Land Revenue Department so far while Authority allotted fifty-three 53 plots worth Rs 570.00 million against the said shamlati land which was the serious irregularity on the part of the Authority management. This resulted in irregular allotment of 53 plots against shamlati land without determination of ownership/share of land by the land revenue department.

Audit pointed out irregularity during June 2023. The Authority replied that most of the shamlati land was sold out by the land owners before the acquisition which was mutated in the land revenue record in the name of purchasers.

The reply was not accepted because the record of mutation of shamlati land before the acquisition of the land in question duly certified by the concerned revenue offices was not produced in support of reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends provision of the record of mutation of shamlati land before acquisition of the land in question duly certified by the concerned revenue offices besides detail of land compensation paid against shamlati land.

(DP. 85)

3.4.23 Irregular/unauthorized award of additional works through variation orders without open tendering - Rs 491.224 million

Rule 20 of Public Procurement Rules, 2004 regarding principal method of procurement provides that save as otherwise provided hereinafter, the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

The Inter-Departmental Committee (IDC) of the Public Accounts Committee (PAC) in its meeting dated 17.07.2001 decided that the management is not empowered to award a new work as additional work to an existing contractor without calling open tenders. It only allows minor adjustments in the already awarded work so as to complete it in all respects.

Audit noted that Director Road North CDA, Islamabad awarded a work Grade Separation Facility at Intersection of 7th Avenue with Khayaban-e-Suherwardy and Srinagar Highway and Underpass to M/s National Logistics Corporation (NLC) on 09.08.2021 with the agreement cost of Rs 1,696.321 million against the PC-I cost of Rs 2132.41 million approved by DWP on 27.10.2020 and T.S estimate was approved for Rs 1,615.59 million. At time of 364 days was allowed for the completion of the work. The revised contract as per VO-2 was Rs 2,149.024 million. The contractor was last paid 4th running bill for Rs 347.632 million in November 2022 with up-to-date payment of Rs 2,000.516 million including an escalation of Rs 210.034 million.

Audit observed that during execution the scope of work was enhanced, and additional works of Rs 491.224 million including Green Line Metro Bus Terminal & Stops with cost impact of Rs 123.417 million, electrical works for Rs 177.704 million, Gantry signs for Rs 44.918 million, embankment, service roads, etc., for Rs 120.976 million and environment & land scape for Rs 50.00 million was awarded through variation order (VO-2) which was 28.95% of the original contract cost of Rs 1,696.321 million without open tendering which was over and above 15% of the contract. This resulted in irregular/ unauthorized award of additional works through enhancement/VOs for Rs 491.224 million without open tendering.

Audit maintains that additional works were awarded through variation order due to violations of Public Procurement Rules and PAC directives.

Audit pointed out irregularity in July-August 2022. The Authority replied that the variation order in the aforementioned project occurred due to an increase in the scope of work during the project execution. Some additional works, like Green Line Metro Bus Terminals and Stops, additional protection work, concrete shoulder, and Service Road were awarded through variation order after approval of the Employer under Clause 51 of Conditions of Contract.

The Authority has admitted that additional works, not part of this work, were included later on through variation order and awarded without competition in violation of the Procurement Rules and decision of IDC of PAC.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends investigation into the matter and fixation of responsibility for violation of procurement rules.

(DP. 115)

3.4.24 Non-recovery of secured advance of Rs 2.55 million, non-recovery of liquidated damages Rs 58.264 million and unexecuted balance work - Rs 417.977 million

As per contract clause 63.1, if the Contractor fails to perform the contract, the Employer may, after giving 14 days' notice to the Contractor, enter upon the Site and the Works and terminate the employment of the Contractor without thereby releasing the Contractor from any of his obligations or liabilities under the Contract, or affecting the rights and authorities conferred on the Employer or the Engineer by the Contract, and may himself complete the Works or may employ any other contractor to complete the Works.

Deputy Director Roads-South, Division-III, CDA Islamabad, Audit noted that a work, "Development of Sector E-12, construction of road network, water supply and sanitary sewerage system of Sub-Sector E-12/3, Islamabad." was awarded to M/s Mumtaz & Co. Moro Construction Solution (JV) dated 25.12.2020. The Work was awarded at agreed cost of Rs 309.861 million

against TS cost of Rs 371.404 million. The work started on 25.12.2020. Total value of work done up to IPC 03 was paid for Rs 66,224,594 dated 27.06.2023.

Audit further noted that a work, “Development of Sector E-12, construction of road network, water supply and sanitary sewerage system of Sub-Sector E-12/3, Islamabad.” was awarded to M/s Muntaz & Co. Moro Construction Solution (JV) dated 25.12.2020. The Work was awarded at agreed cost of Rs 272,778,747 against TS cost of Rs 330.924 million. The work started on 25.12.2020. Total value of work done up to IPC 05 was paid for Rs 98,438,416 dated 17.05.2023.

Audit observed that:

Secured advance of Rs 2,500,000 was outstanding / recoverable from the contractor against the work of Sector E-12/2.

Liquidated damages of Rs 58,263,989 as detailed below for delay in completion of works were not recovered.

The scope of work of Rs 417,976,884 as detailed below was still incomplete and no efforts have been made to award unexecuted works at risk and cost of the contractor.

(Amount in Rs)

Name of Work	Contract Amount	Balance work to be executed	10% LD
Development of Sector E-12, Construction of Road Network, Water Supply and Sanitary Sewerage System of Sub-Sector E-12/3, Islamabad. Ag	309,861,147	243,636,553	30,986,115
Development of Sector E-12, Construction of Road Network, Water Supply and Sanitary Sewerage System of Sub-Sector E-12/2, Islamabad	272,778,747	174,340,331	27,277,875
Total	582,639,894	417,976,884	58,263,989

Audit pointed out the matter in July 2023. The Authority replied that the amount of secured advance amounting to Rs 2.55 million would be recovered from any payment due to the contractor and would be verified to the Audit. The case for Liquidated Damages was under process and upon approval, finalization would be taken as per provision of the contract agreement. The case for award of unexecuted balance work was under approval and action will be taken accordingly and will be verified to the Audit.

Audit stance was admitted in reply. Audit further observed that despite the default by the contractor, payments were made even in May and June 2023.

The matter was discussed in DAC meeting held on 31.01.2024 wherein DAC directed CDA to make recovery from the defaulting contractor on risk and cost basis and get the outcome verified from Audit.

Audit recommends compliance of DAC's directive.

(DP. 104)

3.4.25 Unjustified expenditure on account of salaries of maintenance (Regular -P Staff) - Rs 410.102 million

As per Para 2.03 of Central Public Works Department (CPWD) Code, 'the engagement of work charged establishment shall be subject to the rules laid down by the Government. The work charged staff shall not be engaged on any work unless provided for in the estimate as a separate sub-head of the estimate for that work. Para 10 of CPWD Code provides that work charged establishment includes such establishment as is employed upon the actual execution, as distinct from the general supervision, of a specific work or of sub-works of a specific project or upon the subordinate supervision of departmental labour, stores and machinery in connection with such a work or sub-works.

A. Deputy Director, Road & Market Maintenance (South/North), CDA Islamabad, incurred an expenditure of Rs 225.326 million on salaries of maintenance staff/Regular (P) staff during financial year 2022-23.

Audit observed that maintenance staff /Regular (P) were posted against different projects four to fifteen years ago. They were drawing pay and allowances continuously without assignment of any

duty, as the repair work was being done through contracts. In estimates, no provision was made for contingent paid staff and they are being paid from regular budget.

B. Audit further noted that Director Parliament Lodges and Hostels, CDA Islamabad incurred an expenditure of Rs 184.776 million during the year 2022-23 on account of pay & allowances of the establishment who were deployed for day-to-day repair & maintenance works to keep the government owned buildings/houses.

Audit observed that the said Directorate did not utilize the services of departmental maintenance staff and carried out maintenance works through contractors during the year and incurred an expenditure of Rs 160.579 million against maintenance works.

This resulted in unjustified expenditure of Rs 410.102 million (Rs 225.326 million + Rs 184.776 million) on account of salaries of maintenance staff without utilization of their services.

Audit pointed out the irregularity in August 2023. The Authority replied that Regular-P staff is performing duties i.e., up-keeping of all sectorial areas (Sector F,G,H & I) of Islamabad for cleaning of grating chambers, removing of debris from shoulders, fixing and re-fixing of kerb stones, patch work by utilizing departmental AM plant throughout in Islamabad, opening of blockage in pipe lines & cleaning and maintenance of sign boards. Against the staff at Parliament Lodges and Hostels, CDA did not reply.

The reply was not accepted because CDA was paying their pay and allowances continuously from the regular budget instead of R&M budget as per rules. Further, these employees were appointed on a daily basis in different projects which have been regularized without codal formalities.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends rationalizing the deployment of maintenance staff as per actual requirement of the directorate besides regularization of the expenditure.

(DP. 118&178)

3.4.26 Wasteful expenditure due to incomplete abandoned works - Rs 358.240 million

Rule 55 of CDA Procedure Manual (Part-II) provides that every Government officer should realize fully and clearly that he would be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

During scrutiny of the accounts record of Director Sector Development CDA, Audit noted the following:

The work "Construction of Major Roads Work Sector I-12" was awarded to M/s Zafar & Co on 09.03.2015 for Rs 248.48 million which was revised to Rs 402.618 million. The stipulated date for completion was 08.12.2015 but the contractor could not complete the work within time period. The work was suspended on 23.11.2015 by the order of Member Engineering CDA due to abnormal changes occurred in NSL of major roads and quantities of earth work were abnormally increased due to incorrect survey and defective estimation. The total payment made to the contractor so far was Rs 298.684 million. Six (06) years has been lapsed but work was still abandoned and account of the contractor was not finalized by the Authority. Even, joint measurement of executed work by the contractor was also not made till to date. Markaz road, which was constructed by the contractor, was totally damaged due to dumping huge quantity of garbage by the Sanitation Directorate, of CDA.

The work "Construction of Service Roads Work Sector I-12" was awarded to M/s Zafar & Co for Rs 189.686 million. The commencement date of the said work was 12.01.2021 and date for completion was 11.01.2022 (12 months). The mobilization advance and secured advance amounting

Rs 59.556 million was paid to the contractor without acceptance of contract agreement which resulted in suspension of work since March, 2021. The contractor executed some work at site which was not measured because no contractor IPC was generated so far. Design of culverts was changed without prior approval from the competent authority. Variation order was prepared and submitted which was not approved due to non-approval of contract agreement by the competent authority. The recovery of mobilization advance and secured advance was not made from the contractor and bank guarantees submitted by the contractor against these advances were also expired and Authority failed to timely en-cash from the concerned banks.

Authority did not take any action against the contractor as well as against the Officers/Officials responsible and the consultant who conducted the incorrect survey. Thus, the purpose of the execution of work approved under PC-I/Administrative Approval could not be achieved resulting in the wasteful expenditure amounting to Rs 358.240 million (Rs 298.684 million + Rs 59.556 million).

Audit pointed out the matter during November 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite request made by Audit on 21.12.2023.

Audit recommends probe the matter and fixing the responsibility against person(s) at fault besides recovery of the amount involved from source at fault.

(DP. 321)

3.4.27 Loss due to imprudent investment - Rs 352.808 million

According to para 4 of the Finance Division O.M No.F.4 (1)/2002-BR.II dated 02.07.2003, corporate entities which receive support from the budgetary allocation are excluded from the policy (investments). Capital Development Authority being a corporate body receives budgetary grants from Government of Pakistan and thus is not authorized to invest funds in stock market.

During scrutiny of accounts record of Treasury Division, CDA Islamabad, for the year 2021-22, Audit noted that CDA made an investment in purchasing shares of banks/companies for a sum of Rs 448.723 million in 2008 to 2010, as detailed in **Annexure-U**. The Authority, instead of resorting to a safe investment of bank deposits obtaining a competitive mark-up rate preferred to assume high risk due to significant fluctuations in the stock market index. Therefore, such investment in shares should have been avoided to ensure mark up at a confirmed rate of interest.

Audit is of the view that the Management imprudently made investments in equity market due to weak financial controls.

This resulted in loss due to imprudent investment Rs 352,807,545 (Rs 448,723,015 – Rs 95,915,470).

Audit pointed out the matter in May 2023. The Authority replied that Treasury Division CDA had made investments of Rs 448.723 million in shares in 2008 to 2010. At that time, the price of shares was high and it was prudent to make such investment. However, due to declined economic situation of country, as well as capital market, the price of these shares decreased with the passage of time. However, CDA has maintained the quantity of these shares, which can be verified from the report of Centrally Deposit Investment (CDI).

The reply was not accepted because Management had made non-productive decisions by making investment in above portfolios and resultantly sustained losses. The Management failed to safeguard the asset by making investment vigilantly. Physical existence of shares was also not forthcoming from the record.

The matter was discussed in DAC meeting held on 19.01.2024. The management apprised that due to declined economic situation of country as well as capital market, the price of these shares went downward with the passage of time. However, CDA has maintained the quantity of these shares which can be verified from the report of Centrally Deposit Investment (CDI). The matter is under investigation by NAB. DAC pended the para till the outcome of NAB investigation and directed the management that the matter shall be taken up in the upcoming CDA Board meeting and decision of the Board and its implementation be shared with Ministry/Audit

Audit recommends that responsibility be fixed for such investment for which relevant expertise and experience was not available with the Organization.

(DP. 29)

3.4.28 Non-transparent tendering process for award of works - Rs 346.998 million

Para 35 of Public Procurement Rules 2004, provides that the procuring agencies shall announce the results of bid evaluation in the form of a report giving justification for acceptance or rejection of bids at least fifteen days prior to the award of procurement contract.

Audit noted that different formations of CDA, Islamabad, awarded 54 works at agreed cost of Rs 346.998 million to different contractors, as detailed below:

DP. No.	Name of Formation	No. of works	Amount (Rs in million)
136	Deputy Director, Street Light Division	11	170.845
146	Deputy Director, Mechanical Division-II	39	132.562
181	Dy. Director, Road & Market Maintenance (South)	04	43.591
	Total	54	346.998

Audit observed that the divisional office did not prepare any evaluation report of accepted and rejected tenders and also did not publish on website or announced it before the award of contracts. Further, Works awarded at higher rates above the TS /NIT estimates. In every bid, 03 to 05 same bidders were shown as participated. The rejected bidders were not informed. This resulted in a non-transparent tendering process for award of works of Rs 132.562 million.

Audit pointed out the irregularity in August 2023. The Authority replied (DP. 114) that evaluation reports were prepared. Against DP. 181 replied that tenders in question are open tenders related to maintenance works and do not require any separate financial and technical proposal. These tenders were opened in the presence of all bidders and lowest bid amount was announced at that time immediately and the same was accepted. No contractor/bidder objected regarding the acceptance of a lowest bid.

The reply was not accepted because no documentary evidence was provided in support of reply. Rejected bidders were not informed through letter and the bid evaluation reports were required to be published on Public Procurement Regularity Authority website. In some cases, the tender opening register was also not signed by the contractors.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends fixing responsibility for violation of rules besides strengthening of internal controls to avoid recurrence of such irregularity in future.

(DP. 136,146&181)

3.4.29 Irregular division of five plots in side by side position instead of front-rear position - Rs 300 million

Clause 2.3.5 of ICT Building Control Regulations 2020, provides that plots, which abut on one road only, can be sub-divided, provided an independent road access is given to the rear sub-divided portion from within the front portion. The area and ownership of this access lane will remain with the rear plot.

Audit noted that plot No. 5 (Street No. 56), Plot No. 8 (Street No. 55), Plot No. 28 (Street No. 56) & 48 (Nazim-ud-Din Road) Sector F-7/4 and Plot No. 18 (80x140 ft) street No. 18 Sector F-8/2 Islamabad, abut on only one road as per the layout plan.

During scrutiny of record of the Directorate of Estate Management-1, CDA, Audit observed that the plot was sub-divided into two side by side plots instead of front-rear division as required by above referred ICT Building Control Regulations. Further, this division/size of plot does not commensurate with any size of the plot in Islamabad. Furthermore, after leaving 5 feet on right and left side of the plot as required for construction of one Kanal plot, remaining construction area of plots would be irregular in shape and portray a bad image of the sector. This resulted in irregular division of five (05) plots in side by side position instead of front-rear position valuing Rs 300 million.

Audit maintains that irregularity occurred due weak internal and monitoring controls.

Audit pointed out the irregularity in May 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends investigation into the matter at Director General (Internal Audit), CDA level for 100% check/identify if there are more such cases and submit report for corrective action besides fixing responsibility at the persons at fault.

(DP. 236)

3.4.30 Unjustified payment to the contractor without record measurement in the measurement book - Rs 269.269 million

According to Para-209 (d) of CPWA Code all Payment for work done or supplies are made on the basis of quantities recorded in the Measurement Book. It is incumbent upon the person taking measurements to record the quantities clearly and accurately. He would also work out and enter in the measurement book the figure for the contents or area column.

Audit noted that Project Director (Bus Rapid Transit) CDA Islamabad awarded work “Construction of Metro Bus Depot and Allied Works for Islamabad Metro Bus Service” to M/s NLC on 20.07.2022 at agreed cost of Rs 765.516 million against NIT amount of Rs 355.186 million and completion period of 5 months. The total value of work done paid to the contractor up to IPC No.02 was Rs 384.096 million including mobilization advance of Rs 114.827 million.

Audit observed that Authority made payment to the contractor amounting Rs 269.269 million (Rs 254.958 million against scheduled items and Rs 14.310 million against non-scheduled items). Audit further observed that said payment was made to the contractor without recording detailed measurement. This resulted in unjustified payment of Rs 269.269 million to the contractor without recording measurement in the measurement book.

Audit maintains that the unjustified payment occurred due to non-adherence of financial rules and regulating and weak oversight mechanisms.

Audit pointed out unjustified payment during July and August 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends an investigation besides inquiry with the view to fix responsibility against the person(s) at fault in order to avoid the serious irregularity in future.

(DP. 172)

3.4.31 Non-adjustment of material available at site - Rs 257.102 million

Rule 55 of CDA Procedure Manual (Part-II) provides that every Government officer should realize fully and clearly that he would be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

Audit noted that Director, Special Project Directorate CDA awarded the project “Development of Low Cost Housing Scheme Farash Town” for construction of 3960 apartments to M/s FWO through direct contracting at a lump sum cost of Rs 14,776.00 million (EPC basis) on 13.07.2021 with the completion period of 24 months. The total value of work done up to 12th running bill was Rs 6,570.887 million. Later on, CDA placed another proposal before its Board to curtail the approved scope from already approved contract from 3960 apartments to 2400 apartments and to start another project titled “Construction of Nilore Heights (G+9)” comprising 1876 apartments with revised specification and design. CDA Board approved the proposal on 31.03.2022 and another EPC mode contract at a cost of Rs 16,854.234 million was awarded to M/s FWO on 11.04.2022 with the completion period of two years and a cost of revised PC-I was approved for Rs 31,984.57 million.

Audit observed that Authority had paid 96.96% payment to the contractor on account of material in first agreement for 3960 flats. However, upon awarding the second agreement for 2400 flats, the Authority did not adjust the available material against which payment of Rs 642.756 million (96.66%) was paid to the contractor up to 12th running bill and the same material was added in 2nd agreement (Nilore Heights) with extraordinary higher rates. This resulted in non-adjustment of material available at site amounting to Rs 257.102 million.

Description	Milestone Weightage	Paid Weightage	Amount of material paid for 3960 flats (100%)	Amount of material as per 2400 flats (60%)	Non-adjustment of material
Supplier selection	1.50%	1.50%	221,640,000	132,984,000	88,656,000

Description	Milestone Weightage	Paid Weightage	Amount of material paid for 3960 flats (100%)	Amount of material as per 2400 flats (60%)	Non-adjustment of material
Advance payment to supplier	1.50%	1.45%	214,252,000	128,551,200	85,700,800
Delivery of material	1.50%	1.40%	206,864,000	124,118,400	82,745,600
Total			642,756,000		257,102,400

Audit maintains that the irregularity occurred due to weak internal financial controls.

Audit pointed out the matter during July and August 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends that material available at site was the property of employer against which payment has already been made to the contractor. Therefore, 40% material needs to be adjusted in “Nilore Heights” agreement besides investigating the matter and fixing the responsibility against the person(s) at fault.

(DP. 164)

3.4.32 Unauthorized retention of funds since 2015-16 due to non-utilization of Cash Development Loan - Rs 248.948 million

As per Para 4 (ii & iii) of System of Financial Control and Budgeting 2006, the funds allotted to a Ministry/Division, Attached Departments and Subordinate Offices are spent for the purpose for which they are allocated and the funds are spent in accordance with relevant rules and regulations.

During examining the CDA Final Accounts for the year 2021-22 maintained by Accounts Directorate, CDA it was noticed that an amount of Rs 5,000 million was received by CDA in the financial year 2015-16 on account of Cash Development Loan (CDL) out of which, total expenditure of Rs 4,751.052 million was incurred up to financial year 2015-16 and remaining amount of Rs 248.948 million was left unutilized since 2015-16.

Audit observed that the remaining funds of Rs 248.948 million were neither utilized by CDA nor timely surrendered to the Federal Government. A huge amount is still blocked/retained by CDA since 2015-16 which is unjustified/unauthorized. Further, Audit was not provided information/documents like terms and conditions for utilization of CDL and procedure for repayment of this loan, detail of projects/works against which expenditure was incurred from this loan, Project/work wise detail of expenditure, certificate to the effect that all projects/works executed under this loan were completed and handed over to the concerned authorities and accounts finalized, interest if any applied.

Audit pointed out the issue in June 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends that matter of retention and non-return of huge amount of CDL may be discussed in Board meeting of CDA and decision/action taken may be shared.

(DP. 228)

3.4.33 Unauthentic execution of asphaltic works - Rs 245.875 million

As per clause 36 of contract agreement, the contractor shall use the material fabricated in Pakistan which is required standard and ensure timely procurement of bitumen required for the works. All materials, plant and workmanship shall be of the respective kind and in accordance with the engineer instructions. It shall be subjected to any kind of tests before incorporation in the works as may be selected by the Engineer. Engineer estimates of road works in CDA are based on NHA

Schedule of Rate and Specification. As per NHA specification of works 305.4.1, the quantities of asphaltic wearing course shall be measured by volume in Cu.m. laid and compacted in place. Measurements shall be based on the dimension as shown on plans or as otherwise directed or authorized by the Engineer. A tolerance of + three (3) mm shall be allowed in compacted thickness of wearing course. However, any asphalt in excess of 3 mm shall not be paid and any layer deficient by more than 3 mm but not exceeding 10 mm shall be paid at an adjusted price.

During scrutiny of the accounts record of Director Roads-South, CDA Islamabad, Audit noted that CDA executed and paid different asphalt consuming items of tack coat, prime coat, TST and Asphaltic Concrete for Wearing Course for different works for Rs 245,875,327 as under:

Name of work & Contractor	Amount Rs
Rehabilitation/Carpeting of Service Road (North, East & South) from East to NESCOM Gate, MR-I (Southern Side) Sector H-11 & Streets in Sector H-11/4, Islamabad (M/s Origin Enterprises). Agreement cost Rs 136,611,158 and was started on 16.08.2022.	91,069,676
Carpeting of Major Roads VR-I Chishtiabad Road & Main Entrance in Sector I-14, Islamabad (M/s M. Afzal Brothers) dated 25.01.2021 at agreement cost of Rs 74,415,187.	68,842,021
Development of Islamabad Expressway from PWD Underpass to G.T Road Including Bhandar Bridge, Japan Road, Underpass Soan Bridge, Islamabad (M/s Frontier Works Organization (FWO)) dated 03.08.2022 at agreement cost of Rs 10,990,001,248.	85,963,629
Total	245,875,326

Audit observed that the evidence of procurement of bitumen/invoices from authorized Pakistan/local source was not on record. This indicated that the contractor did not procure the material from the specified origin directly, therefore, quality cannot be assured and by virtue of this, chances of failure of the asphaltic pavement cannot be ruled out. The quality of bitumen used in the work therefore, could not be ascertained. This resulted in unauthentic execution of asphaltic work items for Rs 245,875,327.

Audit maintains that the matter occurred due to weak internal controls.

Audit pointed out the matter in July 2023. The Authority replied that the procurement of bitumen/invoices were made through authorized published/local source. The quality testing was conducted through NUST Lab and C.E Lab CDA. The asphaltic wearing course was carried out as per approval. Furthermore, core thickness test along with other tests were also conducted.

The reply was not accepted because in one case purchase invoices were by different contractors other than the contractor under observation. IRI, Wearing Course thickness tests, JMF, etc., were not furnished in support of reply.

The matter was discussed in DAC meeting held on 31.01.2024 wherein Audit contended that bitumen procurement invoices were produced in one case which did not contain the name of contractor therefore it could not be established that the bitumen was used in the work in question or otherwise. DAC directed CDA to provide IRI, Wearing Course thickness tests, JMF to Audit for scrutiny.

Audit recommends compliance of DAC's directive.

(DP. 97)

3.4.34 Non-encashment of performance security and non-forfeiture the retention money due to default of contractor - Rs 235.438 million

Clause 63.1 (e) of contract agreement provides that the Employer may after giving 14 days' notice to the contractor, enter upon the site and the works and terminate the employment of the contractor without thereby releasing the contractor from any of his obligations or liabilities under the contract, or effecting the rights and authorities conferred on the Employer or the Engineer by the contract and may himself complete the work.

As per sub-clause 10.1 of the contract agreement, the contractor shall provide a performance security in the prescribed form annexed to those Documents. The said security shall be furnished by the Contractor within 28 days after the receipt of a letter of acceptance. The performance security shall be equal to 25 percent (due to imbalanced rates) of the Contract Price in the currency of the contract at the option of the bidder, in the form of a Bank Guarantee from any scheduled Bank in Pakistan or from a Bank located outside Pakistan duly counter-guaranteed by a scheduled bank in Pakistan or an insurance Company having at least AA rating from PACRA/JCR.

Audit noted that Deputy Director, I-15 CDA, Islamabad awarded work “Development of Infrastructure Work of Sector I-15/1 Islamabad” to M/s Zafar & Co at an agreed cost of Rs 778.978 million on 22.02.2021 with the completion period of eighteen (18) months. The total value of work done up to IPC No.7 paid to the contractor was Rs 813.899 million and price escalation paid was Rs 45.880 million. Audit further noted that contractor provided performance security amounting to Rs 194.744 million vide guarantee dated 23.02.2021.

Audit observed that the commencement letter was issued on 05.03.2021 and the stipulated time period for the completion of said work was eighteen (18) months (04.08.2022) but contractor could achieve only 75% progress of work against 100% progress up to June, 2023. Later on, the contractor demobilized from the site without complete the work. The Director General (Works) CDA Islamabad terminated the contract under contract clause 63.1 on 22.09.2023 but the Authority neither encashed the performance security nor forfeited the retention money of the contractor. Award of the work at the risk and cost of the defaulting contractor was also not initiated. This resulted in non-encashment of performance security and non-forfeiture the retention money Rs 235.438 million (performance security Rs 194.744 million + Retention money Rs 40.694 million).

Audit pointed out the matter during November 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite request made by Audit on 21.12.2023.

Audit recommends that action taken against the contractor towards encashment of performance security and forfeiture of the retention money and work to be awarded at the risk & cost of the contractor and outcome be shared with Audit.

(DP. 317)

3.4.35 Loss to the Authority due to non-recovery of extension charges - Rs 230.062 million

Rule-16 of the Islamabad Land Disposal Regulations, 2005, provides that the allottees shall have building completed within time. Extension in construction may be granted by the Authority on the merits of each case subject to payment of extension surcharges at such rate as may be prescribed by the Authority from time to time.

As per Clause 2 (D) of the allotment letter dated 29.06.2005, the firm will start construction as per approved plan from the date of handing over possession of plot and complete the construction work within three years.

According to lease deed dated 28.07.2005 signed between CDA and M/s BNP Pvt. Ltd. (the lessee), the lessee agreed to build a building and structure for five star or higher rating hotel complex together with service apartments, related facilities including but not limited to executive offices, shopping areas restaurants, leisure activities, business center, etc., in line with worldwide international standards within a period of three (03) years from the final approval of the drawings/plans.

Audit noted that CDA allotted two (02) plots to private companies. The first plot, Plot (01) Constitution Avenue measuring 13.50 Acres (65,098 Sq. Yd) of land was allotted to M/s BNP Pvt. Ltd. at a cost of Rs 4,882.350 million @ Rs 75,000 per sq. yard. The second plot, Plot (01) (Centaurus building), Jinnah Avenue, F-8/G-8, Islamabad, measuring 6.62 Acres (32040.8 Sq. Yd) of land, was allotted to M/s Pak Gulf Construction Pvt. Ltd. at a cost of Rs 6,090.956 million @ Rs 190,100 per sq. yard.

During the scrutiny of accounts record of the Directorate of Estate Management-II, CDA, Audit observed that Building Completion Certificates were not available on record which showed that the buildings (which were to be completed by the year 2008) were still under construction. But, neither the extension of construction period was granted by the Authority nor extension charges were imposed/recovered. This resulted in non-recovery of extension charges for Rs 230.062 million, as detailed below:

Class	Rates (Rs/sq yd)	Area (Sq yds)	Extension Charges	No. of years	Total (Rs)
Plot No. 01 (Centaurus building), Jinnah Avenue, F-8/G-8, Islamabad					
Rates 2001-07	180	32,040	5,767,200	03 (2005-08)	17,301,600
Rates 2007-17	270	32,040	8,650,800	15 (2008-22)	129,762,000
05 Star hotel Plot No. 01 Constitution Avenue, Grand Hyatt, Hotel					

Class	Rates (Rs/sq yd)	Area (Sq yds)	Extension Charges	No. of years	Total (Rs)
Rates 2001-07	50	65,098	3,254,900	03 (2005-08)	9,764,700
Rates 2007-17	75	65,098	4,882,350	15 (2008-22)	73,235,250
Total					230,063,550

Audit holds that the loss was due to non-adherence to the terms and conditions of allotment letter and ineffective implementation of the internal and financial controls.

Audit pointed out non-recovery of extension charges during March 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends for recovery of extension charges, besides improvement in the monitoring system for strict implementation and compliance of term & conditions of the allotment letter.

(DP. 215)

3.4.36 Unauthentic expenditure on the closing dates of the financial year - Rs 225.025 million

As per rule 6 of CDA Procedure Manual (Part-II), each head of the directorate is responsible for enforcing financial order and strict economy at every step. Further, Rule 96 of GFR (Vol-I) provides that it is contrary to the interest of the state that money should be spent hastily or in ill-considered manner merely because it is available or that the lapse of a grant could be avoided. In the public interest, grants that cannot be profitably utilized should be surrendered. The existence of likely savings should not be seized as an opportunity for introducing fresh items expenditure which might wait till next year. A rush of expenditure particularly in the closing months of the financial year will ordinarily be regarded as a breach of financial regularity.

During scrutiny of the accounts record relating to the Treasury Division CDA for the financial year 2021-22, Audit noted that Treasury Division CDA Islamabad made a payment of Rs 225.025 million on account of different works of Water Distribution Divisions CDA (**Annexure-V**).

Audit observed that the expenditure was incurred on the closing dates of the financial year in hastily manner. Incurring of huge expenditure against special nature works without evidence of actual execution/test checks seems merely utilization of funds. Approval of these works in the Annual Budget Estimates was not available in the record. This resulted in unauthentic expenditure on the closing dates of the financial year for Rs 225.025 million.

Audit maintains that the irregularity occurred due to violation of rules and procedure and weak internal controls.

Audit pointed out the matter in May 2023, but the Authority did not reply.

The matter was discussed in DAC meeting held on 19.01.2024. The management did not provide any tenable reply. DAC directed CDA that the complete record including approval of schemes shall be provided to Audit for verification within seven days.

Audit recommends that responsibility be fixed against officers concerned for violation of rules besides verifying actual execution of works at site.

(DP. 30)

3.4.37 Non-recovery of delayed payment charges against possession able plots - Rs 225.099 million

Terms and conditions of allotment letter of plots of Park Enclave Scheme Phase-I, Phase-II and Phase-I Extension, provides that if allottee failed to deposit any installment within the given time schedule delay payment charges @ 15% or as may be revised from time to time will be charge by the Authority. Absence of any infrastructure facility at site will be no justification for withholding payment or any dues of the Authority.

The Director, Estate Management-I, CDA, Islamabad allotted 45 plots in Park Enclave Phase-1, Phase-I Extension and Park Enclave Phase-II, measuring 500 sq. yards and 1000 sq. yards. Allotment letters were issued in July 2012.

Audit observed that allottees of certain plots did not deposit payments/installments on time, and in most cases, payments were delayed for 3 to 7 years. However, the CDA Management did not impose/recover delay payment charges. Further, possession of these plots was announced in May 2017, so, the allottees were required to pay the remaining dues along with the delayed payment charges before taking possession. . However, the Authority waived off/re-imbursed the delayed payment charges, resulting in a non-recovery of Rs 225.099 million as detailed below:

S. No.	Para No. of AIR	No. of Plots	Amount of delay charges (Rs in million)
	7	04	37.800
	9	13	66.945
	10	11	64.529
	11	09	22.907
	13	01	5.639
	14	01	8.333
	15	01	7.191
	18	05	11.755
			225.099

Audit maintains that non-recovery of delay payment charges occurred due to weak administration, monitoring, financial and internal controls.

Audit pointed out the irregular waiver/non-recovery of delay payment charges in May 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends early recovery of the charges from all the allottees who delayed the payment of cost of land which also caused delay in development of the schemes and enjoying the money payable to CDA unduly; once in shape of bank profit/any business with the amount and once in shape of getting plots without any delay charges. Investigation into the matter for fixing the responsibility/making the loss good against/from the person(s) who irregularly waived off/reimburse the charges to allottees, besides strengthening the internal and financial controls.

(DP. 231)

3.4.38 Doubtful allotment of 22 residential plots - Rs 220.00 million

According to CDA Land Acquisition and Rehabilitation Regulation 2007 (Land Sharing Basis), land will be acquired on land sharing basis, meaning a developed plot of one (01) kanal will be allotted to the affectee/land owner for every four (04) kanals of land acquired from him in the same sector.

Audit noted that as per the land revenue/patwari report and Fard maintained through Naqsha-II the land measuring 88 kanal 6 marla was the property of Mr. Muhammad Akthar Tahir S/o Muhammad Ashraf Tahir. The owner submitted a request to the Authority that he changed his name from M. Akthar Tahir S/o Muhammad Ashraf Tahir to Muhammad Azhar S/o Mirza Muhammad Ali in the CNIC from NADRA. He further requested that allotment of 22 plots against 88 kanals and 6 marlas land be made in the name of Muhammad Azhar S/o Mirza Muhammad Ali. The Authority accepted the request and allotted 22 plots (50x90) in sector D-13 Islamabad.

Audit observed that allotment of 22 plots was made simply on the basis of CNIC without corresponding change in the Revenue Record i.e., (land award, Naqsha-II, Qabz-ul-wasool & Farad) and without verification/confirmation from educational degrees, certificates, nikah nama, police report. Apparently, this was a doubtful allotment on the basis of an unauthentic title. In the Land Revenue record, ownership of above 88 kanal 6 marla land still existed in the name of Muhammad Akthar Tahir S/o Muhammad Ashraf Tahir.

This resulted in doubtful allotment of 22 residential plots without detailed verification and fact finding inquiry for real owner amounting to Rs 440 million. (Number of plots 22 @ Rs 20.00 million each).

Audit pointed out doubtful allotment during June 2023. The Authority replied that Civil Judge Lahore vide order dated 30.06.2016 directed NADRA to cancel CNIC issued in the name of Mr.

Muhammad Akhtar Tahir. Hence, Deputy Commissioner, CDA took all the due measures while making change of name in revenue record.

The reply was not accepted because complete case along with judgment of Civil Judge Lahore as referred in the reply, proceedings/details of name change in DC CDA record in favour of allottee in question were not produced in support of reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends provision of complete case along with judgment of Civil Judge Lahore and proceedings/details of name change in DC CDA record in favour of allottee in question to Audit.

(DP. 89)

3.4.39 Loss to Authority due to double allotment of plots - Rs 180.00 million

Para 4(1) of the Islamabad Displaced Persons Rehabilitation Policy, 1996 regarding allotment of residential plots provides that the residential plot shall be allotted to the affectees where the land acquired is with or without built up property thereon. Area of Acquired Land (a) 4 kanals or more but less than 10 kanals Plot of 25x50 (b) 10 kanals or more Plot of 30x60 for every complete unit of ten (10) kanals of acquired land. Provided that where the land acquired is less than four (04) kanals the affectee will be allowed to join other affectees to make up the deficiency in the minimum area of four (04) kanals to be eligible for joint allotment of plot.

Audit noted that land award for Khanpur Dam water supply scheme was issued on 20.01.1991 and Authority acquired ninety-three (93) kanal and fifteen (15) marla land from Mr. Muhammad Zuhraab and as per package deal five (05) plots were allotted to the affectees family on 08.01.1997. Allotment letters were issued and entry recorded in red entry registered against S. No. 159 to 163 as detailed below.

S. No.	Red Entry S. No.	Name	Plot No.	Plot Size	Allotment Date
01	159	Tahir Mehmood Abbasi S/o Muhammad Zuhrab	1473-C (I/11-2)	30x60	26.09.1996
02	160	Babar Mehmood S/o Muhammad Zuhrab	1474-C (I/11-2)	30x60	09.01.1997
03	161	Aamir Mehmood S/o Muhammad Zuhrab	1475 (I/11-2)	30x60	09.01.1997
04	162	Musarrat Jabeen D/o Muhammad Zuhrab	1476 (I/11-2)	30x60	09.01.1997
05	163	Ulfat Jan W/o Muhammad Zuhrab	1477 (I/11-2)	30x60	09.01.1997

Audit further noted that in March 2016, family of Mr. Muhammad Zuhrab (affectee) again approached to CDA (L&R) Directorate for allotment of nine (09) plots against the land acquired by the CDA in 1991 and submitted an affidavit that they were not allotted any plot against the acquired land. The dealing assistant stated vide para 18/n of the Noting Sheet of concerned file that no plot was allotted against the said acquired land. The Authority approved nine (09) plots (30x70) i.e., 1579, 1580, 1581, 1573, 1574, 1586, 1588, 1589 and 1590 in sector I-11/2 and same were allotted in March 2016 and recorded in red entry register against serial No. 73, 74, 79, 80, 81, 86, 88, 89 & 90.

Audit observed that CDA had already allotted five (05) plots against said acquired land in 1997 and after 19 years, nine (09) plots were again allotted unauthorisedly without proper verification of the previously allotted plots.

This resulted in loss to Authority due to double allotment of plots amounting Rs 180.00 million (09 plots x Rs 20.00 million each approximately).

Audit pointed out the loss to Authority during June 2023. The Authority replied that the issue for allotment of nine plots in Sector I-11/2 was already taken up by FIA. The outcome of the inquiry shall be shared.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends investigation into the matter and taking strict action against the person(s) responsible and recovery of the same.

(DP. 81)

3.4.40 Overpayment due to execution of concrete class D1 for rigid pavement instead of required and economical item of concrete class A1 - Rs 174.702 million

As per NHA General Specification 401.1.1, Classes of Concrete, the classes of concrete recognized in these specifications shall be designated: A, B, C, D1, D2, D3, and Lean Concrete. Class A1 Concrete shall be used everywhere, for non-reinforced and reinforced concrete structures, except as noted below or directed by the Engineer. Class D1, D2 or D3, concrete shall be used for pre-stressed and post-tensioned elements, as indicated on drawings.

Audit noted that CDA awarded a work "Rehabilitation and Widening of IJP Road Islamabad to M/s NLC at agreed cost of Rs 4,953.110 million on 12.08.2021 with the completion period of eighteen (18) months. The total value of work done up to 8th running bill paid to the contractor was Rs 4,153.960 million and price escalation paid up to EPC-06 was Rs 980.612 million.

Audit observed that the Authority provided the concrete class D-1 for rigid pavement for a slow lane with a quantity of 52,987.20 Cu.m (VO-6) @ Rs 15,169.56 per Cu.m involving Rs 803.792 million in which quantity of 43,136.94 Cu.m was executed up to 8th IPC. Audit further observed that the concrete class D1 was not meant for rigid pavement but only for pre-stressed and post tensioned elements. For rigid pavement, normally concrete class A1 is used which was lesser in rate and more economical. It is further added that concrete mix design and its approval and test

reports were also not available in office record. Due to execution of costly item concrete class D1 @ Rs 15,169.56 per Cu.m instead of required item concrete class A1 @ Rs 11,119.60 per Cu.m has resulted in to extra expenditure of Rs 174.702 million.

Quantity Paid	Rate Paid for Class D1	Rate to be Paid for Class A1	Difference in Rate	Amount Rs
43,136.94 Cu.m	15,169.56 per Cu.m	11,119.60 per Cu.m	4,049.96 per Cu.m	174,702,881
Total				174,702,881

Audit pointed out overpayment during November 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite request made by Audit on 21.12.2023.

Audit recommends that overpayment may be recovered from the contractor besides fix the responsibility against the person at fault.

(DP. 313)

3.4.41 Unauthorized/inadmissible payment on account of price variation due to change/revision of weightages - Rs 158.575 million

Clause 70.1(a) and (f) of Conditions of Particular Application (Part-II) regarding increase or decrease of cost provides that the weightages for each of the factors of cost given in Appendix-C to Bid shall be adjusted if, in the opinion of the Engineer, they have been rendered unreasonable, unbalanced, or inapplicable as a result of varied or additional work executed or instructed under Clause 51. Such adjustment(s) shall have to be agreed in the variation order. Appendix-C Note-2 of the contract provides that adjustment of increase/decrease shall only be admissible for the materials listed above.

Audit noted that Director Road (North) CDA, Islamabad awarded a contract for “Construction of Khayaban-e-Margallah from GT Road to Sector D-12, Islamabad Balance Work (Package-I)” to M/s FWO at an agreement cost of Rs 965.274 million on 19.05.2021 and revised contract cost of Rs 2,669.297 million after VO-3 with completion period of twelve (12) months. EOT up to 28.02.2023 was granted. The contractor received a total payment of Rs 2,212.035 million, which includes an escalation amount of RS 158.575 million until the 9th running bill in April, 2023.

Audit observed during scrutiny of the accounts record that the Project Authority has revised the fixed portion of price adjustment (Appendix-C) from 72% to 57% and weightage of POL/Diesel from 5% to 10% and included cement and steel in the specified material with 5% weightages of each and paid escalation of Rs 158,575,583 up to IPC-05 vide CV. No. 26 dated 14.09.2022.

Audit held that change/revision in fixed portion of price adjustment and addition of new materials in the specified items was unauthorized and inadmissible. Further, Note-2 under the Appendix-C of the contract clearly states that adjustment of increase/decrease shall only be admissible for the material listed in Appendix-C above. Further, the weightages of specified material were not supported with detailed calculations. This resulted in unauthorized/inadmissible payment of Rs 158.575 million on account of price variation due to unauthorized change/revision in fixed portion of price adjustment.

Audit pointed out unauthorized/ inadmissible payment in July-August 2023. The Authority replied that the weightages given in Appendix-C to Bid have been revised provisionally under the provisions of Contract specified in Clause 70.1 (f) of PCC as the scope of work enhanced abnormally as per project requirement and the weightages given in Appendix-C to Bid were found unreasonable and unbalanced therefore the same have been revised with the approval of Employer.

The reply was not accepted as the change/revision in fixed portion of price adjustment and addition of new materials in the specified items was unauthorized and inadmissible. Further, the adjustment of increase/decrease shall only be admissible for the material listed in Appendix-C above.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends recovery/adjustment of the unauthorized/ inadmissible payment of price variation due to change/revision of fixed portion and weightages of specified materials as per Appendix-C of the contract.

(DP. 112)

**3.4.42 Overpayment due to non-deduction of security deposit and payment of departmental charges to the contractor -
Rs 154.885 million**

As per clause 60.3 of the contract agreement for the work “Construction of 10th Avenue from IJP Road to Srinagar Highway, Islamabad.” awarded to M/s NLC (Sohan Camp Rawalpindi), retention money @10% of the amount of Interim Payment Certificate (IPC) is to be deducted. Departmental charges @ 6.5 % are to be credited to CDA against the PSDP work “Construction of 10th Avenue from IJP Road to Srinagar Highway, Islamabad”.

During scrutiny of the accounts record, Deputy Director Roads-South, Division-I, CDA Islamabad, Audit noted that the above work was awarded to M/s NLC at agreed cost of Rs 10,286,244,818 vide acceptance letter dated 03.12.2021. The work was started on 21.03.2022 and is to be completed on 20.03.2024. Total value of work done up to IPC No.02 was Rs 938,697,701.

Audit observed that despite payment of two IPCs for total work done of Rs 938,697,701, retention money of Rs 93,869,770 was not deducted from the contractor’s payments. Audit further observed that departmental charges Rs 61,015,351 (6.5% of Rs 938,697,701) which were the receipt of CDA were also paid to the contractor.

This resulted in overpayment due to non-deduction of security deposit and payment of departmental charges to the contractor of Rs 154,885,121 (Rs 93,869,770 + Rs 61,015,351).

Audit maintains that the non-recovery occurred due to weak financial controls and poor contract management.

Audit pointed out the matter in July 2023. The Authority replied that the subject project is a PSDP Project and as per AGPR office procedure, no payment would be made to the CDA directly. M/s NLC should submit return the payment against security deposit & Departmental Charges. In case of any further delay, the amount would be withheld from upcoming IPCs of M/s NLC.

The reply was not accepted because retention money was not deducted from the contractor's payments. Moreover, departmental charges which were the receipt of CDA were also paid to the contractor.

The matter was discussed in DAC meeting held on 31.01.2024 wherein CDA apprised that M/s NLC had remitted back the amount in question to CDA Main Account in October 2023. Audit contended that payments were made to the contractor as undue financial aid to avoid lapse of funds in June 2023. The recovery was also not verified by Audit. DAC directed CDA to get the recovered amount verified by Audit and streamline the issue of handling of withdrawals from assignment account in consultation and advice from the Finance Division to avoid recurrence of such irregularity in future.

Audit recommends compliance of DAC's directive.

(DP. 106)

3.4.43 Loss due to abnormal delay in auction/award of license for collection of car parking fee - Rs 152.46 million

Rule-6 of Islamabad Land Disposal Rules 2005, provides that business plots shall be leased out through open auction for one of the specific activities. Plots for any kind of commercial activity having profits as a primary aim, and include plots earmarked for shops, show rooms, markets, hotels, motels, guest houses, marriage halls, petrol/CNG filling and or service stations, sites for multi-story building meant for shops, offices, sites for multi-story parking and offices connected with industrial & commercial enterprises.

Audit noted that Municipal Administration/MCI awarded license and executed an agreement on 28.02.2020 with M/s Fazal Khan & Co. for collection of car parking fee at the plot adjacent to Centaurus Mall, Islamabad for one year at a bid cost of Rs 90.70 million per annum. The agreement duration expired on 27.02.2021 and site was taken back on 24.06.2021 from the licensee.

Audit observed that the Management since after taking over possession in June 2021 could not decide and finalize the next auction process which is generally started two to three months before completion of existing contract time. The prime location having potential revenue of millions of rupees per month was lying un-decided for more than 19 months simply for the determination of reserve price, decision for collection of revenue through stop gap arrangements, etc. Last auction process held on 13.09.2022 with highest bid amount of Rs 66.000 million was cancelled being the bid less than reserve price by 39%.

Another auction process remained un-finalized till date of Audit/November 2023. Matter was still undecided despite the lapse of more than two (02) years depriving the entity from huge revenue and the Authority has started self-collection of parking fee w.e.f. 24.02.2023. Non-initiation of auction process two (02) months before expiry of existing contract in February 2021 and non-finalization of auction process resulted in loss of Rs 152.46 million.

Audit pointed out loss in November 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite request made by Audit on 21.12.2023.

Audit recommends fixing responsibility against persons responsible for inaction besides early corrective action.

(DP. 282&283)

3.4.44 Unauthentic and delayed execution of works - Rs 150.064 million

Clause 10.2 of COC part-I provides that the performance security shall be valid until the expiry of defect liability period. As per Para 208 of Central Public Works Accounts Code, payments for all work done are made on the basis of measurements recorded in the Measurement Book (Form 23) in accordance with the rules in Para 209 of CPWA Code. The Measurement Books should, therefore, be considered as very important accounting record. Para 209(b) states that all measurements should be neatly taken down in a Measurement Book.

During scrutiny of the accounts record of Director Roads-South, CDA Islamabad, Audit noted that CDA awarded three different works and made payments, as under:

(Amount Rs)

S. No.	Name of work & Contractor	Performance security & validity	Work done Amount
1.	Providing and Laying Strom Drainage System in Sector	9,125,339 09.06.2023	60,822,702

S. No.	Name of work & Contractor	Performance security & validity	Work done Amount
	I-11/1-2, Islamabad (M/s Rawal Builders). Agreement cost of Rs 60,835,589 dated 09.09.2020		
2.	Construction of VR-I in H-11/1, Islamabad. (Remaining Portion) (M/s Bukhari Brothers). Agreement cost of Rs 12,632,013 dated 03.01.2022.	2,526,403 02.06.2023	7,651,880
3.	Construction 04 Box Culverts in Sector I- 11/2, Islamabad (M/s Lyallpur Construction Company). Agreement cost Rs 94,124,663 dated 15.09.2020.	28,237,399 14.09.2021	81,588,975
	Total	39,889,141	150,063,557

Audit observed that these works were in progress but the validity of the performance securities of Rs 39.889 million had expired. Moreover, the authenticity of executed work was not confirmed because road and drainage system works were yet not operational. Laid RCC pipes were not connected with the drainage system and tested. The works completion was delayed abnormally. Wastage of executed work without finalization and without being operational, therefore, cannot be ruled out. During execution of the work, "Construction four (04) Box Culverts in Sector I-11/2, Islamabad" excavate surplus hard rock was measured for 5,366 Cu.m which was not utilized in stone masonry work paid separately at full rate. Price adjustment of Rs 9,280,899 was paid to the contractor without detailed calculations and despite delay in completion of work.

This resulted in non-revalidation of performance security of Rs 39.889 million, unjustified payment of price adjustment of Rs 9.281 million and unauthentic execution of work of Rs 150.064 million.

Audit maintains that the matter occurred due to weak internal controls and poor contract management.

Audit pointed out the matter in July 2023. The Authority replied that extended performance securities would be obtained from the contractors. All reports/documents would be shared during verification of record. 75% stone were not serviceable rest of the stone were consumed on different locations to protect land from urban flood on the nullah. Price adjustment was paid to contractor after detailed checking by Q.S Directorate, CDA.

The reply was not accepted because the financial interest of the Authority was compromised and validity of the performance security was not revalidated. The laid RCC pipe and drainage system was not connected and not operational so far. The work completion was delayed abnormally. Price adjustment was paid to the contractor without detailed calculations and despite the delay in completion of work.

The matter was discussed in DAC meeting held on 31.01.2024 wherein DAC directed CDA in works at S. No. 1 & 3 of the above table to get the EOTs along with justification, revalidated performance securities and testing commissioning of the executed works verified from Audit. With regard to work at S. No. 2, DAC directed to encash the guarantees and complete the balance work at the risk and cost of the defaulting contractor.

Audit recommends compliance of DAC's directive.

(DP. 98)

3.4.45 Non-payment of premium by allottees resulting in loss of Rs 147.722 million and non-forfeiture of 10% of cost of premium - Rs 33.450 million

Clause 4 of offer of allotment letter provides that if any of the installments of premium is not paid as per payment schedule, the Authority reserve the right to cancel the offer of plot without any notice and 10% of the premium of the plot shall stand forfeited in favor of the CDA.

CDA Board in its meeting held on 02.06.2021 revised the payment schedule of Park Enclave Phase-III Islamabad as under:

Installment	Premium %	Existing Date	Proposed dated	Revised
1 st Instalment	20%	10.02.2021	30.06.2021	
2 nd Instalment	20%	10.05.2021	30.09.2021	
3 rd Instalment	20%	10.11.2021	31.12.2021	
4 th Instalment	20%	At the time of Possession	At the time of Possession	

Audit noted that the Estate Management Directorate-I, CDA, Islamabad launched Park Enclave Phase-III Scheme on 24.09.2020 for allotment of 984 residential plots of different categories.

Audit observed that allottees of five (05) plots did not pay any installments after down payment and nineteen (19) allottees only paid down payment and 1st installment up till June 2023, but neither the allotment was cancelled nor the 10% cost of premium of land was forfeited. Had the plot been cancelled and auctioned, the Authority could get more benefit/market price of these plots which could be Rs 147.722 million. This resulted in non-cancellation of plots of Park Enclave Phase-III on non-payment of premium by allottees resulting in loss of Rs 147.722 million and non-forfeiture of 10% of cost of premium amounting to Rs 33.450 million.

Audit holds that irregularities occurred due to non-adherence to the provision of allotment letters and ineffective implementation of the administrative and financial controls.

Audit pointed out the irregular waiver/non-recovery of delay payment charges in May 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends investigation into the matter for fixing responsibility for non-cancellation of plots on default of allottees, and corrective action in light of terms and conditions of allotment letters besides strengthening of administrative and financial controls.

(DP. 233)

3.4.46 Non-depositing of earnest money of participant bidders in CDA account - Rs 117.730 million

As per Notification dated 01.08.2021, Chairman CDA approved the rules for adopting transparency in the bidding process for various formations of CDA/MCI in the light of Public Procurement Regulatory Authority and PEC documents which included that deposit at call/earnest money should be generated only from firm accounts. The bid security of all bidders would be deposited in the CDA bank account and same may be returned after the acceptance of the contract with the successful bidder.

Audit noted that Director South Road CDA Islamabad, invited and awarded road works to various contractors during the year 2022-23.

Audit observed that during the tendering 53 bidders participated. CDRs were verified by bank only for those participants who were awarded works, whereas CDRs of remaining 47 bidders for Rs 117,730,078 (**Annexure-W**) were neither shown to Audit nor verified by respective banks. Earnest money/CDRs of unsuccessful bidders were not deposited in CDA Account as required. Irregular tendering process and non-depositing of earnest money of participant bidders in the CDA account due to non-compliance to Chairman CDA approved tendering process policy

Audit holds that the irregularity occurred due to non-adherence to rules and procedure.

Audit pointed out the matter in July 2023. The Authority replied that as per chairman, CDA approved process all the clauses were fulfilled except clause Vii, due to the reason that there is no mechanism for re-payment of earnest money to contractors if the same deposited in CDA bank account. The case was referred to the competent authority for clarification.

The reply was not accepted because a violation of procedure was made as admitted in reply.

The matter was discussed in DAC meeting held on 31.01.2024 wherein DAC observed that procedure prescribed for ensuring transparency in tendering process was violated. DAC directed CDA to get the CDRs of successful and unsuccessful bidders (as pointed out by Audit) verified from respective banks and outcome be shared with Ministry and Audit.

Audit recommends compliance of DAC's directive.

(DP. 101)

3.4.47 Unauthorized expenditure/undue payment of Covid allowance to all employees of CDA - Rs 92.040 million

As per M/o NHSRC vide letter No. 9-17/2015-Estab-III dated 20.10.2020, in the National Coordination Committee (NCC) meeting Chaired by Prime Minister of Pakistan held on 26.03.2020, it was decided to pay risk allowance to the healthcare workers performing duties related to Covid-19. Accordingly the Prime Minister approved risk allowance for the doctors/healthcare workers performing Covid relating duties.

During audit scrutiny of the accounts record/final account of CDA for the financial year 2021-22, it was noted that the CDA Management incurred an expenditure of Rs 92.040 million on account of 'Covid-19 Risk Allowance' @ Rs 1,500 for 5 months to all 12,272 employees of CDA during the year 2021-22.

Audit observed that despite clear instruction from NCC, Covid-19 allowance was paid to all employees of CDA, instead of only those directly handling Covid-19 patients, such as healthcare workers. This resulted in unauthorized expenditure/undue payment of Covid allowance to all employees of CDA for Rs 92.040 million.

Audit maintains that the irregularity occurred due to weak financial controls.

Audit pointed out the matter in June 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends recovery of undue covid allowance besides disciplinary action against those responsible for making the unauthorized payment.

(DP. 221)

3.4.48 Overpayment due to un-necessary and repeated provision of tower crane in approved cost breakup - Rs 82.160 million

According to Rule-I of CDA Procedure Manual Part-II, every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public funds as a person of ordinary prudence would exercise in respect of expenditure of his own money.

Audit noted that Director, Special Project Directorate CDA awarded the project “Construction of Nilore Heights” Ground+9 floors 1,876 apartments, having covered area of 2.290 million Sft. to M/s FWO through direct contracting at agreed cost of Rs 16,854.234 million (EPC basis) on 11.04.2022 with completion period of 24 months.

Audit further noted that the above project consists of 10 blocks with total covered area of 2,222,840 sft, whereas cost of tower crane was added in rates for Rs 82.160 million by taking the incorrect covered area 2,780,272 sft for twelve (12) blocks.

Audit observed that in the BOQ, the rates of items were provided floor-wise, therefore separate provision of rate for tower crane was not justifiable, which caused extra burden on public exchequer due to duplicity in the rates.

Audit maintains that the overpayment occurred due to weak oversight mechanisms.

Audit pointed out overpayment during July and August 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends that payment may be made to the contractor by excluding the cost of tower crane besides fix the responsibility against the officers/official responsible who did not properly evaluate the rates.

(DP. 155)

3.4.49 Irregular change in original lay out plan (LOP) without obtaining NOC and non-recovery of ROW charges - Rs 76.800 million

Section 46 of CDA Ordinance, 1960 provides that whoever contravenes any provision of this Ordinance or of any rules or regulations made or scheme sanctioned there under shall, if no other penalty is provided for such contravention, be punishable with imprisonment which may extend to six months or fine or with both and 46-B of ibid regarding disobedience of orders provides that whoever, without lawful excuse, fails or refuses to comply with any direction or order issued by the Authority under the Ordinance shall be guilty of an offence punishable under section 46. And ibid rule 49-C to initiate legal action against illegal building being constructed/erected, under section 49-C of CDA Ordinance 1960, Clause 5(1) of ICT Zoning Regulation 1992 and relevant provisions of Islamabad Capital Territory Building Control Regulations, 2020.

CDA Board in its 19th Board Meeting dated 24.12.2014, decided to impose access/right of way (ROW) charges for Housing Schemes on major road of Islamabad, i.e., Islamabad Highway, Kashmir Highway, Park Road, GT Road, IJP Road. The approved rate charges w.e.f. 24.12.2014 were as under:

S. No	Category	Rate/Amount (Rs) per Month
1	Petrol Pump/CNG Stations/Amenities	0.5% of Market Value up to a Maximum of Rs 50,000 penalty Per month
2	Housing Societies up to 400 Kanals	Rs 266,000 penalty per month
3	Housing Societies from 401 to 800 Kanals	Rs 562,000 penalty per month
4	Housing societies with 801+ Kanals	Rs 800,000 penalty per month

Audit noted that Director Housing Societies CDA, Islamabad, approved the LOP of River Garden Housing Scheme, Zone-5 Islamabad sponsored by M/s Renaissance Developers Pvt. Ltd. on 19.06.2001, of land measuring 809 kanals and 17 marla consisting of 660 plots, No objection certificate (NOC) was issued by CDA on 19.09.2007. Audit further noted the revised/ extended/as built LOP was approved by Deputy Director (HS-II) CDA on 02.04.2020 of land measuring 1,079.91 kanals and number of plots enhanced up to 1036 plots without prior approval of the revised/extended/as built LOP from the Planning Wing CDA Board.

Audit observed that the revised/extended/as-built LOP of the schemes was approved measuring 1,079.91 kanals. However, the percentage in the revised LOP was not as per CDA standard. The sponsor of the scheme converted the graveyard measuring 21.58 kanals into a playground to make up the deficiency of land under parks/open space/playground and green areas. No revision/change in the approved LOP was

permissible without approval of CDA Board but the sponsor of the scheme made many changes in the original LOP and developed commercial plots/apartments/buildings without prior approval from the CDA which was a serious violation of building by-laws and ICT (Zoning) Regulations 1992.

Audit further observed that CDA directed to M/s Renaissance Developer Pvt. Ltd. to deposit Right of Way (ROW) charges in the form of pay order in favour of DDO (Planning) CDA w.e.f. 24.12.2014 to 23.12.2022 of Rs 76.800 million penalty, but the sponsor did not deposit the ROW charges.

This resulted in irregular change in original LOP and development of commercial plots/apartments/buildings without obtaining NOC from Building Controls Section, CDA and non-recovery of ROW charges of Rs 76.800 million after lapse of eight (08) years.

Audit pointed out the recovery in February-March 2023. The Authority replied that Planning Wing, CDA obtained the requisite fee from the sponsors of the scheme.

The reply was not accepted because recovery of CDA fee as replied was not verified by Audit. However, the Authority did not reply against irregularities in the revision of LOP.

The matter was discussed in DAC meeting held on 31.01.2024 wherein DAC directed CDA to get the record, in support of due recoveries and revision of LOP as per approved procedure, verified by Audit.

Audit recommends compliance of DAC's directive.

(DP. 77)

3.4.50 Irregular expenditure due to execution of different works through splitting - Rs 136.292 million

As per Rule 5 of CDA Procedure Manual (Part-II) the delegation of power for incurring expenditure is subject to the condition that an individual item is not split up into parts merely to enable a part of the whole item for qualifying for a particular sanction. The power of incurring expenditure is not exercised except to progress a programme, a project or activity, approved by the Authority.

Rule 12 of Public Procurement Rules, 2004 provides that (1) Procurements over five hundred thousand Pakistani Rupees and up to the limit of three million Pakistani Rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the Authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency: Provided that the lower financial limit for advertisement on Authority's website for open competitive bidding shall be the prescribed financial limit for request for quotations under clause (b) of Rule 42.

During scrutiny of the accounts record relating to different formations of CDA, for the financial years 2021-22 and 2022-23, Audit noted that payments were made of Rs 136.292 million, on the account of different maintenance/procurement works, as detailed below:

DP.No.	Formation/Division	Particulars of Payments	Amount in Rs in million
11	Aiwan-e-Sadr Directorate, CDA	Supply of store material, providing & fixing of floor tiles, provision of chairs, providing & installation of AC, Deep freezer, misc. electrical items, repainting of various areas and other maintenance activities etc.	79.012
127	Director Coordination, Parliament House Maintenance	Renovation, paint works, Janitorial services, wooden works, procurements	57.280

DP.No.	Formation/Division	Particulars of Payments	Amount in Rs in million
	Division (Civil & EM)	of Split AC, LED TV, illumination items, supply of store material, and furniture, etc.	
Total			136.292

Audit observed that procurements were made through quotations by splitting the works into piece meal work in order to avoid the approval of the next higher authority and open competition to achieve the best value of money.

This resulted in irregular/unauthorized expenditure of Rs 136.292 million due to splitting of works through piecemeal orders.

Audit maintains that the irregular/unauthorized expenditure occurred due to violation of rules, procedure and weak internal controls.

Audit pointed out the matter in May and July 2023, but the Authority did not reply.

The matter was discussed in DAC meeting held on 12.01.2024, wherein the management apprised that different works were carried out in Aiwan-e Sadr on emergency basis in the light of Rule 42 of Public Procurement Rules with the approval of competent forum. Execution of works through quotations is under investigation by FIA and record provided to the investigation team. DAC pended the para till the finalization of inquiry by FIA and directed the management that works/ supplies made carried out through quotations shall be physically verified and report be shared with Ministry/ Audit within one month.

Audit recommends compliance of DAC's directive.

(DP. 11&127)

3.4.51 Unauthentic execution of maintenance works without fulfilling codal formalities - Rs 687.082 million

Para 9(1) maintenance policy 2019, provides that maintenance works of Government houses as per approved S.O.P shall be undertaken through comprehensive Maintenance Work Plan only annually.

Para 6 of ibid provides that the Maintenance Directorate in the past undertake work of individual house on first come first serve basis, and no standard procedure followed. This unwanted exercise has created liabilities which were subsequently chargeable to Maintenance Grant Fund, thus unbalancing the system. The occupants are left with no other option than to either approach the office of Wafaqi Mohtasib or use other means to get their genuine complaints attended.

During scrutiny of accounts record of Directorate of Maintenance CDA for the fiscal year 2022-23, Audit noted that the Authority incurred expenditure of Rs 687.082 million on repair and maintenance of government houses and on renovation of government offices in Islamabad during the year 2022-23.

Audit observed the following discrepancies in award of work:

The works executed without a comprehensive maintenance work plan and admin approval as per criteria referred above.

No proper categorization of works done e.g. most urgent, routine maintenance, structural maintenance, renovation, etc.

No proper computerized compliant system generated so far.

No priority cases were set, no proper queue system maintained for dealing complaints.

A proper detail of works requested by allottee along with allotment letter is missing in files.

Handing/taking over or acknowledgment of completed works from end user i.e., allottee is missing.

No proper survey in decades was conducted to authenticate structural damage caused due to earth quakes, fire, flood, gutter seepages, etc.

No proper details of budget allocation, government grant, re-appropriation, and reconciliation with AGPR and Finance Wing (budget CDA) was shared with Audit.

This resulted in an unauthentic execution of works due to inefficient mismanagement practices for Rs 687.082 million.

Audit pointed out irregular award of work in October 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends necessary action against the person(s) at fault.

(DP. 274)

3.4.52 Inadmissible payment due to undue financial aid/benefit to the contractor - Rs 72.922 million

Clause 60.11-a(6) - Particular Conditions of Contract provides that the contractor shall be entitled to receive from the Employer Secured Advance against an Indemnity Bond acceptable to the Employer of such sum as the Engineer may consider proper in respect of non-perishable materials brought at site but not yet incorporated in the Permanent Works. The sum payable for such materials on Site shall not exceed 75% of the (i) landed cost of imported materials, or (ii) ex-factory/ex-warehouse price of locally manufactured or produced materials, or (iii) market price of other materials.

Audit noted that Director Works Directorate CDA, Islamabad awarded a work “Construction of Litigants Facilitation Centre for Litigants and Lawyers at G-10, Islamabad” to M/s United Engineers and contractors on 19.01.2023.

Audit observed that the Authority made payment amounting to Rs 278,512,773 on the account of Secured Advance vide 2nd Part of Secured Advance/running bill recorded at page-1 to 3 vide Measurement Book No.18686 up to 30.06.2023. Whereas, a review of the record indicated that the said payment was required to be made to the contractor to the extent of Rs 205,590,000. Moreover, the Authority allowed/granted premium 35.47% above on cost of material brought at site which was unauthorized/inadmissible. This resulted in overpayment to the contractor.

Non-adherence to rules caused overpayment due to undue financial aid/benefit to the contractor for Rs 72,922,773 as below:

Payment made (Rs 274.120 m * 35.47%) * 75%	=Rs 278,512,773
Payment to be made Rs 274,120,000 * 75%	=Rs 205,590,000
Overpayment	=Rs 72,922,773

Audit pointed out the inadmissible payment in November 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends early recovery from the contractor besides fixing the responsibility against the person(s) at fault in order to avoid such overpayment in future.

(DP. 270)

3.4.53 Irregular payments through DDO instead of direct payments to affectees under PM Assistance Package - Rs 65.940 million

Rule 388 of Federal Treasury Rules (Volume-I), Revised Edition 2019, provides that in cases in which a disbursing officer is authorized to draw cheques on the treasury or the bank, all payments in respect of works expenditure shall be made by cheques, as far as possible.

During scrutiny of the accounts record relating to the Treasury Division CDA for the financial year 2021-22, Audit noted that Treasury Division CDA Islamabad made a payment of Rs 65.940 million for the financial year 2021-22, on account of PM Assistance Package.

Audit observed that instead of making payments directly to the families of the deceased employees, payments were made to DDOs of different CDA formations. There was no evidence of receipt by the families of the deceased employees.

This resulted in irregular payments to DDOs, instead of direct payments to affectees through cheques against payment of PM Assistance Package for Rs 65.940 million.

Audit maintains that the irregularity occurred due to violation of rules and procedure and weak internal controls.

Audit pointed out the matter in May 2023. The Authority replied that Treasury Division, CDA has to issue cheques related to various formations/divisions of CDA. Treasury Division and CDA have to follow a complete procedure for the payment of affectees against PM Assistance Package. The affectees of deceased non-gazetted employees were paid PM Assistance Package after receiving a DP sheet from the concerned division. It is the responsibility of DDO and other staff of the concerned Directorate to fulfill all the codal formalities before payment against the PM Assistance Package. This may include a Succession Certificate issued by the 1st class Civil Judge of District Court, an Affidavit of Notary Public, a death certificate, a family registration certificate and Finance wing allocation.

The reply was not accepted because payments were made to DDOs instead to concerned affectees/legal heirs.

The matter was discussed in DAC meeting held on 19.01.2024. The management apprised that payment was made after fulfillment of codal formalities. Complete record has been provided to Audit for verification. Audit contended that partial record was provided. DAC directed that balance record including Succession Certificates, Affidavit attested by Notary Public and actual payee's receipts be provided to Audit for verification within seven days. DAC further directed that online payment system shall be adopted for payments in future.

Audit recommends compliance of DAC's directive.

(DP. 20)

3.4.54 Loss to Authority due to allotment of excessive plots than admissible against acquired land - Rs 60.00 million

According to CDA Land Acquisition and Rehabilitation Policy 2007 (Land Sharing Basis), (CDA Land Acquisition and Rehabilitation Regulation 2007 (Land Sharing Basis) vide SRO 304 (1)/2008 dated 06.03.2008) land will be acquired on land sharing basis, meaning a developed plot of one (01) kanal will be allotted to the affectee/land owner for every four (04) kanals of land acquired from him in the same sector.

Audit noted that the Director Land and Rehabilitation CDA Islamabad allotted forty three (43) residential plots of size 50x90 in Sector C-16 to Mr. Shahid Iqbal Rana S/o Rana Muhammad Iqbal on 05.11.2014 against the acquired land of 167 kanal 15 marla.

Audit observed that as per above land sharing policy total forty one (41) plots against 167 kanal 15 marla acquired land required to be allotted but Authority allotted forty three (43) plots against the required land. In this way, two (02) plots were allotted which was a serious irregularity on the part of the Authority. This resulted in loss of Rs 40.00 million to the Authority due to allotment of two (02) extra plots against acquired land, as calculated below:

Total plots allotted = 43
 To be allotted as per policy = 41
 Price of one kanal plot (approx) =Rs 20.00 million
 Loss (2x 20,000,000) =Rs 40.00 million

Audit further observed that CDA allotted Plot No. 05, Street No. 92, Sector D-13/3, Islamabad (01 kanal) to Mr. Muhammad Ramzan S/o Muhammad Ali against 4 kanal acquired land.

Audit observed that as per naqsha-II the area of land according to share of affectee was 02 kanals which was unauthorizedly enhanced to 04 kanals as detailed below:

Total Area/Land	Share of affectee	Total share in marlas	Share of affectee
40 Kanal – 17 Marlas (817 Marlas)	$40/817 = 0.049$	$0.049 \times 817 = 40$ Marlas	$40/20 = 02$ Kanal

This resulted in irregular allotment of a plot against on insufficient area of acquired land worth Rs 20.00 million.

Audit pointed out excess allotment of plots for Rs 60.00 million during June 2023. The Authority replied in DP. 90 that the plots were allotted on land pooling basis, as per approved policy. As regards to DP. 96, CDA responded that the matter was referred to Security Directorate, CDA for investigation.

The reply was not accepted without any documentary evidence. The outcome of the investigation in other case was also not shared.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends provision of required record besides sharing outcome of the investigation with Audit.

(DP. 90&96)

3.4.55 Irregular procurement without advertisement - Rs 52.363 million

Rules 12 (2) of the Public Procurement Rules, 2004, all procurement opportunities over three million rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

Audit noted that Deputy Director, Mechanical Division, maintenance of Street Light Division, CDA, Islamabad, awarded eight (08) works over three million cost for a total of Rs 52.363 million at market rates during the FY 2022-23. Payment of Rs 22.007 million was made against these works.

Audit observed that these works were not advertised in national daily Urdu newspapers which violated the Public Procurement Rules. This resulted in irregular procurement worth Rs 52.363 million.

Audit maintains irregularity occurred in violation of rules.

Audit pointed out the irregularity in August 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends fixing responsibility for violation of rules besides strengthening of internal controls to avoid recurrence of such irregularity in future.

(DP. 147)

3.4.56 Unjustified allotment of residential plot to ineligible affectees - Rs 45.00 million

Para 4(2) of the Islamabad Displaced Persons Rehabilitation Policy, 1996 regarding allotment of residential plots provides that where built up property is acquired in Abadi Deh, residential plots will be allotted to the affectees notwithstanding the ownership of the land beneath the where built up property on the following criteria:

Area of BUP	Plot size
i) 300 to 499 sft	Plot of 25x50
ii) 500 sft and upwards	Plot of 30x60

The allotment will, however, be subject to the condition that the affectee did not avail any benefit against acquisition of land, if any, acquired from him, provided that where the acquired built up property is located outside Abadi Deh, residential plots will be allotted to the affectee of the built up property, as in the case of Abadi Deh, only of the land beneath is owned by the affectee himself.

Audit noted that the Director Land & Rehabilitation CDA Islamabad allotted the Residential Plot No 213 (30x70) in Sector F-11/4 to Mst. Kausar Bibi D/o Lal Hussain Shah W/o Aftab Hussain Shah on 05.04.2018 against award dated 01.10.1985 by the Deputy Commissioner CDA Islamabad on the basis of built up property against House No.90/1-3 in Bheka Seyeden acquired by the CDA from the affectees for development of sector F/11.

Audit observed that as per award list of BUP/demolished report of affectees at Serial No 112, the covered area of house of Mst. Kausar Bibi D/o Lal Hussain Shah W/o Aftab Hussain Shah was 144 sft. mentioned for built-up property which was less than minimum required area of 300 sft. to qualify for the allotment of residential plot against the compensation. Similarly Plot No. 695 size (25 x 50) was allotted to Mr. Zeeshan Ahmed S/o Abdul Rehman in Islamabad Model Village Chatha Bakhtawar on 04.10.2019 being an affectee of Village Chatha Bakhtawar against the Built-up Property (BuP) No. 2/6 S .No. 16 measuring 170 sft.

Audit further observed that after the award, the area of BUP of the affectee was unauthorizedly enhanced from 170 sft. to 379 sft. to compensate the said person who was not entitled/eligible for allotment of plot due to less area as required for allotment.

This resulted in unjustified allotment of residential plot to ineligible affectees of Rs 45.00 million (Approximately).

Audit pointed out loss to Authority during June 2023. The Authority replied that Built-up Property (BuP) award was reviewed by the then Deputy Commissioner, CDA and approved by the Member (Estate), CDA being competent authority.

The reply was not accepted because original BuP with back up details/survey reports, revenue record as well as revised BuP with relevant details and process of approval of revised BuP was not verified.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends provision of original BuP with back up details/survey reports, revenue record as well as revised BuP with relevant details and process of approval of revised BuP to Audit for scrutiny.

(DP. 92)

3.4.57 Deviation from the approved LOP and non-recovery on account of delay in development of the housing scheme - Rs 42.984 million

According to revised Modalities & Procedures (2020) framed under ICT (Zoning) Regulation, 1992 (As amended) for Development of Private Housing/Farm Housing scheme in Zones 2, 4 & 5 of Islamabad Capital Territory Zoning Plan. Clause-6 "Scrutiny Fee for the Detailed Schemes" provides that "a scrutiny fee at the rate scheduled in Annex-F; shall be payable through bank draft/pay order to the Authority and shall be deposited along-with the submission of detailed scheme as required by paragraph-4. The scrutiny fee is, however, subject to revision by the Authority from time to time.

Audit noted that Director Housing Society (CDA) approved the Layout Plan (LOP) of Roshan Pakistan Corporation Housing Society in Sector E-16, Zone-II, Islamabad sponsored by M/s RP Corporation Pvt. Ltd. on 06.07.2004. The scheme comprising of 1,619 kanals was approved and NOC of the scheme was issued by CDA on 11.03.2006.

During scrutiny of the available record of the Roshan Pakistan Corporation Housing Society, Audit observed that total area in Fard Jamabandi was 1,377 kanal and 10 marlas whereas the LOP of the scheme was approved by the CDA for 1619 kanals. According to Fard Jamabandi, only 861 kanals of land was owned by Roshan Pakistan Corporation Housing Society and rectification Mortgage Deed was not according to the specimen available in Modalities and Procedure of the Zoning Regulations. The development of site was entirely different from the approved LOP and the scheme does not have any proper access/approach. The Director Housing Society imposed fee/fine/penalty of Rs 42.984 million for the delay in development of scheme, extension charges, etc., in the year 2015 but the same was not recovered even after seven (07) years (up to the year 2022).

This resulted in deviation from the approved LOP and non-recovery of Rs 42.984 million.

Audit pointed out the loss in February-March 2023. The Authority replied the sponsors of the scheme deposited all the dues and other requisite fee. However, their NOC was withdrawn/revoked, but it can be reinstated upon payment of the required fee.

The reply was not accepted because reasons leading to withdrawal of NOC were not shared with Audit. The stake of the general public who paid for plots in the society was not safeguarded.

The matter was discussed in DAC meeting held on 31.01.2024 wherein DAC directed CDA to provide a comprehensive report explaining the violation of LOP, chronology/timelines of actions to be taken before NOC, notices, outcome of NAB proceedings, along with supporting record to Audit for scrutiny.

Audit recommends compliance of DAC's directive.

(DP. 74)

3.4.58 Loss due to change of plots allotted from non-developed Sector to developed Sector on the choice of the allottees - Rs 41.00 million

According to Para 3, Part-I of CDA Land Acquisition and Rehabilitation Policy, 2007 (Land Sharing Basis), land will be acquired on land sharing basis, meaning a developed plot of one kanal will be allotted to the affectee/land owner for every four kanals of land acquired from him in the same sector.

Audit noted that the Director Land & Rehabilitation CDA, Islamabad allotted seventeen (17) residential plots having sizes of (25x50) and (50x90) through computer balloting in Sector I-14 and C-16, Islamabad to legal heirs against the built-up property (BUP) and issued allotment letters. Thereafter, the above-mentioned plots were changed/deleted and further allotted in developed Sector I-12 and C-15 in lieu of already allotted plots on the choice of the allottees through corrigendum and without revision of the Layout Plan (LOP). This resulted in loss of Rs 41.00 million to the Authority (**Annexure-X**).

Audit pointed out the loss during June 2023. The Authority replied that the allotted plots in Sector I-14 were changed in Sector I-12 due to revision of LOP of Sector I-14, through open balloting.

The reply was not accepted because the original and revised LOP of Sector I-14 with justification and relevant record, as well as entitlement of the legal heirs was not produced in support of reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends that Authority may produce the details of all plots exchanged through corrigendum during 2021-22 along with reasons and justification besides effecting the recovery on account of difference of cost.

(DP. 93)

3.4.59 Non-accountal/recovery of available stone material - Rs 39.078 million

Item 106.2 and 106.3.1 of NHA General Specification provides that all suitable material excavated within the limits and scope of the project shall be used in the most effective manner for the formation of

the embankment for widening of roadway for backfill or for other work included in the contract. The cost of excavation of material which is used anywhere in the project shall be deemed to be included in the pay item relating to the part of the work where the material is used.

Audit noted that Director Road (North) CDA, Islamabad awarded a contract for “Construction of Khayaban-e-Margallah from GT Road to Sector D-12, Islamabad Balance Work (Package-I)” to M/s FWO at agreed cost of Rs 965.274 million on 19.05.2021 and revised contract cost of Rs 2,669.297 million after VO-3 with completion period of twelve (12) months. EOT up to 28.02.2023 was granted. The contractor was paid Rs 2,212.035 million up to 9th running bill in April 2023. Escalation of Rs 158.575 million was paid.

Audit observed that the Deputy Director Road Division No. II, Directorate of Road (North), CDA Islamabad executed and measured items of stone masonry for a quantity of 36,898.19 Cu.m and paid Rs 189.703 million in the construction of work. An item of excavation of surplus/unsuitable hard rock executed for a quantity of 68,648.99 Cu.m was also available at site which was neither stacked at site and accounted for in the Divisional Stock for further disposal nor adjusted from the items of stone masonry executed in the work. This resulted in non-accountal/stacking/recovery of stone valuing Rs 39.078 million.

Audit pointed out non-accountal/recovery in July/August 2023. The Authority replied that total cutting of hard rock was 324,071.72 Cu.m out of which a quantity of 255,257.08 Cu.m was used in formation of embankment and remaining 68,814.64 Cu.m was surplus. The contractor has not yet mobilized at the site and the stock of surplus material is also under the watch and ward of the contractor being contractual obligation as the project is not yet been handed over to Employer.

In reply the Authority admitted that there was surplus quantity of excavated stone and the accountal/recovery of the same was not made/adjusted.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends for accountal/adjustment of the hard rock excavated and to effect recovery.

(DP. 113)

3.4.60 Non-deduction of the earnest money of the 1st lowest Rs 759,000 and irregular award of work on negotiation basis to 2nd lowest bidder – Rs 27.500 million

Rule 38 of the Public Procurement Rules 2004 provides that the bidder with the lowest evaluated bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract, within the original or extended period of bid validity.

Rule 40 of ibid rules also provides that there shall be no negotiations with the bidder having submitted the lowest evaluated bid or with any other bidder.

Audit noted that the Executive Director, Capital Hospital CDA Islamabad awarded a contract for “Supply of three function Motorized beds on F.O.R basis for Capital Hospital” to the contractor on 10.02.2022 with agreement amount of Rs 27.500 million.

Audit observed that the financial bid was opened on 28.12.2021 in which three (03) firms were qualified and M/s Delta Plus declared 1st lowest bidder with its quoted bid of Rs 24.150 million which was 46.33% below the estimated cost of Rs 45.00 million. Audit further observed that M/s Delta Plus requested CDA Management on 31.12. 2021 to extend the delivery period to 75 days due to Christmas & New year holidays combined with Chinese New Year which was rejected by the Authority Management on 01.01.2022 and contractor was directed to visit the hospital on 03.01.2022 for execution of contractual agreement. Later on, M/s Med Engineering reduced the rates through under taking dated 01.01.2022 from Rs 34.731 million to Rs 27.500 million and authority awarded the contract to M/s Med Engineering without cancelling the bid of 1st lowest bidder M/s Delta Engineering which was certainly as a result of negotiations with the 2nd lowest bidder.

Audit is of the view that the Authority was required to cancel the bid of 1st lowest bidder deduct the earnest money and go for retendering for a healthy competition, which was not done and work was awarded through negotiation to the 2nd lowest bidder. This is a violation of Public Procurement Rules and points to lack of fair and transparent competitive tendering process. This resulted in irregular award of work on negotiation basis – Rs 27.500 million and non-deduction of the earnest money of the 1st lowest bidder Rs 759,000.

Audit pointed out irregularity in March 2023, but the Authority did not reply.

The matter was discussed in DAC meeting held on 19.01.2024. The management apprised that 1st lowest bidder applied for extension in the stipulated period for supply of motorized beds, however, due to urgency of the matter, extension was not granted and work was awarded to 2nd lowest who supplied the beds within stipulated time period. DAC was not satisfied and directed a fact finding inquiry at Ministry level within one month and report be submitted to Audit.

Audit recommends fixing responsibility against the person(s) responsible besides corrective action.

(DP. 49)

3.4.61 Overpayment on account of separate measurement of inbuilt component - Rs 25.500 million

Non-schedule contains 'Providing, installation of split type of air conditioner 1.5 tons capacity heat and cool D.C inverter (make Gree, Haier) complete in all respect for a quantity one hundred and fifty-one (151) @ Rs 167,863.27.

Audit noted that the Director Works CDA, Islamabad awarded a contract "Construction/ Establishment of ninety-three (93) District Courts in Sector G-11/4 Mauve Area Islamabad" to M/s FWO at agreed cost of Rs 1,473.033 million on 03.09.2021 with a completion period of six (06) months. The contractor was allowed a first extension of time (EOT) from 03.03.2022 to 31.08.2022 and 2nd EOT from 01.09.2022 to 30.11.2022. The contractor was last paid 8th running bill for Rs 1,468,906,850 in June 2023 recorded in MB 18744 at Pages-1 to 47.

Audit observed that a separate record measurement in IPC was made for an item of work "providing installation of copper pipe, aero flex insulation, flexible power cable, etc., (any size, any dia as per site requirement) from outdoor to indoor complete in all respect as per entire satisfaction of Engineer Incharge" for a quantity of 5,000 meter @ Rs 5,100 whereas the cost of this item was inbuilt in the above referred pay item of BOQ. Therefore, its separate payment was not admissible. This resulted in overpayment on account of separate measurement of inbuilt component of work Rs 25,500,000.

Non-adherence to rules caused overpayment due to separate measurement of inbuilt component for Rs 25.500 million.

Audit pointed out the overpayment in November 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends early recovery of the overpaid amount from the contractor besides appropriate action against the person(s) at fault.

(DP. 264)

3.4.62 Non-cancellation of plot valuing Rs 147.220 million and loss to the government due to non-deposit of taxes - Rs 3.680 million

Clause 2 of Chapter “Mode of payment” of Auction Boucher, states that in case of failure to pay the due installment and/or applicable taxes within given time period, the acceptance of bid shall stand automatically withdrawn and 10% of the total premium shall be forfeited. Clause 8 of Chapter “Mode of Payment”, provides that allottees are required to pay all applicable taxes in the prescribed manner and submit proof to the Authority within the prescribed time along with the premium, failing which acceptance of bid letter shall be withdrawn.

The provisional acceptance of Plot No. 1-P, I-12 Markaz, Islamabad, was issued on 31.08.2021, directing the successful bidder to deposit first installment amounting to Rs 130,665,725 within 30 working day i.e., up to 11.10.2021, but the bidder deposited the first installment on 12.10.2021. So the provisional acceptance was withdrawn on delay of just one day.

In another case, Audit noted that Plot No. 21-G (111.11 sq. yard) in Sector G-10 Markaz, Islamabad, was auctioned on 4-5.08.2021, for an amount of Rs 147,220,750 (Rs 1,325,000 per sq. yard).

During scrutiny of the account record of the Director, Estate Management-II, CDA, Audit observed that the successful bidder of Plot No. 21-G (111.11 sq. yard) in Sector G-10, Markaz, Islamabad, did not provide tax payment receipt of Rs 3,680,518 to the Authority. The payment of taxes was due in September 2022 and 2nd notice was served in November 2022. Consequently, provisional acceptance of the plot should have been withdrawn, which was not done rather notices were served to the bidder to submit the dues. Audit further observed that in case of Plot No. 1-P, I-12 Markaz Islamabad, allotment was cancelled due to minor delay of just one day in payment of first installment which reflects selective implementation of law by CDA. This resulted in loss of Rs 3.680 million.

Audit holds that irregularity occurred due to weak internal controls, non-adherence to the terms and conditions set by the Authority and non-uniform/selective implementation of the terms & condition of the auction brochure.

Audit pointed out non-recovery of advance tax in March 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends recovery of the advance tax at the earliest, fixing responsibility and disciplinary action for this negligence against the persons responsible.

(DP. 211)

3.4.63 Discrepancies in the Layout Plan (LOP) in violation of CDA by-laws

Para 7 (ii) (d) of modalities & procedure framed under ICT (Zoning) Regulation, 1992 provides that after approval of layout plan, the sponsor shall transfer to the Authority in the form annexed as Annexure "C" and free of charge, the land reserved for open spaces/parks, grave-yard, and land under right-of-way of roads, etc., in the scheme, within 45 days of the clearance of the detailed layout plan of the scheme.

According to Clause-5 of Modalities and Procedures framed under ICT (Zoning) Regulation, 1992, the planning standards may vary depending on the residential density desired to be achieved by the sponsors of the schemes. However, land use percentages must remain within the prescribed limits.

Audit noted that the Directorate of Housing Societies Planning Wing, CDA Islamabad approved the LOP of Islamabad Garden Housing Scheme Sector-E-11, Islamabad sponsored by Multi Professional Co-operative Housing Society (MPCHS) on 10.06.2005 and NOC was issued on 22.08.2005 over land measuring 811.5-Kanals.

During scrutiny of the accounts of the Islamabad Garden Housing Scheme, following discrepancies were found in the actual LOP:

The land use analysis as per actual land use percentage (%) of Public Building/Parks/open spaces areas, graveyard and roads/streets were not according to the modalities and procedure framed by the CDA.

Description	Planning Standards	Discrepancies
Open/Green Spaces/Parks	not less than 8%	3.59%
Graveyards	less than 2	1.04%
Public buildings like school, mosque dispensary, hospital, post office Community center,	not less than 4%	3.25%

As evident from letter dated 24.01.2023, all land under, Public Building/Parks/open spaces areas, graveyard and roads/streets measuring 332.80 kanals stands transferred to CDA. But after the lapse of 11 years up to 2022, the M/s Multi Professional Cooperative Housing Society did not submit certified true copy of the sanctioned mutations of measuring 332.80 kanals neither certified from Tehsildar, ICT, Islamabad up till now.

Aks Shajra showing the boundary of a Public Building/School area, Parks/open spaces areas, and graveyard duly signed by the Tehsildar with certificate on it that land in question is contiguous, compact owned and possessed were neither provided, nor transfer deed was made on legal documents in the name of CDA after the lapse of 11 years.

Audit pointed out the loss in February-March 2023. The Authority admitted audit observation and replied that Planning Wing, CDA was asking MPCHS to transfer the land under roads, public building areas in the name of CDA which had not been complied.

The matter was discussed in DAC meeting held on 31.01.2024 wherein DAC directed CDA to pursue the matter of due recoveries and transfer of public amenities land to CDA and outcome of efforts in this regard be shared with Audit.

Audit recommends compliance of DAC's directive.

(DP. 80)

3.4.64 Non-finalization of 120 inquiries against the CDA officers/officials due to corruption, misplacement of plot files and other charges

According to Establishment Division Secretary's D.O. letter dated 06.06.1981(SI-130 of ESTA Code) the following measures should be strictly observed while conducting/finalizing of the disciplinary cases:

The Inquiry Officer be carefully selected for his competence and capability to hold the inquiry. A time-limit should be prescribed for completion of the inquiry. Until the inquiry is completed, the Inquiry Officer, the accused as well as the witnesses concerned should not be permitted to proceed on leave, training course or on transfer in or outside Pakistan. A check-sheet, recording the day to day progress, should be maintained by the Inquiry Officer. The inquiry proceedings once started should be held without interruption, as far as possible, on day to day basis. On receipt of the inquiry, the case should be processed expeditiously by the Ministry concerned. It should be impressed upon the Inquiry Officer that the quality of work produced by him will reflect on his efficiency, which will be recorded in his Annual Performance Evaluation Report. The initiating officer should record his assessment of the Inquiry Officer's performance.

Audit noted that Director Security, CDA conducted one hundred twenty (120) Fact Finding Inquiries and complaints against the various wings/CDA officers/officials regarding the allotment of plots and other issues.

Audit observed that delaying tactics were being adopted to delay in finalization of formal inquiry causing undue favor/latitude to the involved officers/officials of the CDA but, also encouraging the other employees to commit such offences/irregularities in future.

Audit pointed out the non-finalization of inquiries against the CDA officers/officials in May 2023, but the Authority did not reply.

The matter was discussed in DAC meeting held on 23.01.2024. The management apprised that while assigning inquiries, the HRD section had always kept insight the instruction of the Establishment Division for adherence in letter & spirit and never deviated thereof. Once inquiries are assigned, the Confidential Cell, HRD Directorate takes upon itself the responsibilities of vigorously pursuing the same for conclusion without overstepping the time lines specified in the relevant rules/ instructions. HRD Directorate extends its support to the inquiry committees/ inquiry officers in getting access to record.

DAC directed that status of 120 inquiries mentioned in the para shall be shared with Audit within seven days. DAC further directed that detail of inquiries assigned on prescribed format including nature of inquiry, authority, inquiry committee, date of initiation, present status showing if finalized recommendations/penalties and action taken, and if not finalized reasons for non-finalization shall also be shared with Ministry and Audit. DAC further directed that inquiries be finalized before the retirement of the officers being proceeded.

Audit recommends taking necessary corrective action.

(DP. 68)

3.4.65 Illegal construction of commercial buildings by Bahria Town without approval

ICT (Zoning) Regulations 1992 and the Modalities and Procedures for development of private housing schemes empowers CDA to regulate Planning and Development of Private Housing Schemes in Zone-2 and Zone-5 of the ICT.

Section 46 of CDA Ordinance 1960 provides that whoever contravenes any provision of this Ordinance or of any rules or regulations made or scheme sanctioned there under shall, if no other penalty is provided for such contravention, be punishable with imprisonment which may extend to six (06) months or fine or with both and 46-B of ibid regarding disobedience of orders provides that whoever, without lawful excuse, fails or refuses to comply with any direction or order issued by the Authority under the Ordinance shall be guilty of an offence punishable under section 46.

Clause 5 (iii) ICT Zoning Regulation 1992 provides that any person, group of persons, organization, etc., found guilty of violating any of the provisions of the Regulation of who or which without lawful excuse fails or refuses to comply with any direction or order issued by the Authority in this behalf may be proceeded against under section 46 and 46-B of the CDA Ordinance, 1960.

Audit noted that the Director Housing Societies (CDA) approved Layout Plan (LOP) of Bahria Town Phase III-E & IV Zone-5, Islamabad sponsored by M/s Bahria Town Pvt. Ltd. on 18.12.2010.

Audit observed that in Bahria Town Phase III-E & IV Zone-5, Islamabad that approximately twenty (20) commercial building were constructed and about five (05) commercial building were under construction along Corniche Road Bahria Town Phase III-E & IV, Islamabad in sheer violation of approved LOP of the scheme approved on 18.12.2010. The said area was earmarked as linear Park

and Right of Way (ROW) of Soan Road as per the approved LOP. Moreover, M/s Bahria Town Pvt. Ltd. did not obtain NOC for development of the scheme from the Directorate Housing Societies CDA. CDA has taken no action against the M/s Bahria Town Pvt. Ltd. Phase III-E & IV. This resulted in illegal construction of commercial building without prior approval from the CDA in violation of the LOP.

Audit maintains that irregularity/violation of the LOP occurred due to lack of internal and supervisory/monitoring control of the CDA.

Audit pointed out the irregularity in March 2023. The Authority replied that the commercial building was constructed without the approval of CDA but due to efforts of CDA, Bahria Town administration submitted their scheme with relevant regularization fees.

The reply was not accepted because unauthorized construction was carried out under the nose of CDA without approval. No evidence was furnished in support of regularization process and deposit of fees as replied.

The matter was discussed in DAC meeting held on 31.01.2024 wherein DAC observed that the unauthorized construction was being carried out on ROW of Soan Road and hindering the water stream which could cause urban flooding besides environmental hazards. DAC directed CDA to enforce construction bylaws and submit a comprehensive report thereon to Ministry and Audit.

Audit recommends compliance of DAC's directive.

(DP. 76)

3.4.66 Non-maintenance of computerized data base for 5,777 commercial/industrial property worth billions of rupees

Departmental Accounts Committee (DAC) in its meeting held on 25.05.2023 while discussing para No. 3.5.40 for Audit Year 2019-20 directed CDA that the process of computerization of inventory/assets should be completed by the end of June 2023.

During scrutiny of files record of Director Estate Management-II (Commercial), CDA Audit requisitioned information and record regarding the total number of units in each sector, number of

motels, number of hotels, total number of business units, units awarded on lease basis, total number of plots and their locations whose leases have expired or nearly expired, total number of units involved in non-conforming use, number of units granted to NGOs, lease amount received and recoverable in each financial years, etc.

Audit observed that the record of total 5,777 commercial/industrial plots, as detailed below, were maintained on property ledgers and files operating since 1986 which were in deteriorated condition and partially torn. Most of the ledger sheets were not updated. In the absence of accurate information, the Management did not know the exact position regarding expired or nearly expired lease agreements, outstanding recovery period from business units, notices served to the leases and their response, etc.

Plots classification	No. of plots
Commercial	1,700
Industrial	1,950
Agro Farms	527
Government	1,600
Total	5,777

Audit maintains that due to the absence of Management Information System, CDA was unable to raise demands against outstanding dues on account of cost of land, AGR, lease extension charges and other receivable(s). Moreover, details of total cancelled plots, their present status, restoration cases were not available with Estate Management Directorate.

This resulted in non-maintenance of computerized data base for commercial property worth billions of rupees.

Audit pointed out non-maintenance of computerized data during March 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends fixing responsibility through a fact finding inquiry besides maintenance of computerized record of all land/plots and details of commercial/residential at the earliest.

(DP. 219)

3.4.67 Non-transfer of land under roads/streets, public building area park/open space, graveyard in the name of CDA and improper maintenance of record of private housing societies

As per provisions of ICT Zoning Regulation 1992, Para-2(b) (vi) “all land reservations made for roads and other services in such schemes shall belong to the Authority”. (f) all land reservations made for roads and utilities in such schemes shall belong to the Authority.

According to Clause-8(d) of Revised Modalities & Procedure (2020) framed under ICT (Zoning) Regulation, 1992, private housing society shall transfer the land reserved for open space/parks, graveyard and land under right-of-way of roads, etc., in the scheme, within 45 days of the clearance of the detailed LOP of the scheme. Plots under mosques, solid waste collection point and STP will not be part of 1% public building area for the purpose of transfer.

Section 46 of CDA Ordinance, 1960 provides that, whoever contravenes any provision of this Ordinance or of any rules or regulations made or scheme sanctioned there-under shall, if no other penalty is provided for such contravention, be punishable with imprisonment which may extend to six months or fine or with both and Section 46-B provides that whoever, without lawful excuse, fails or refuses to comply with any direction or order issued by the Authority under the Ordinance shall be guilty of an offence punishable under section 46.

During scrutiny of record of Director Housing Societies CDA, Islamabad, Audit observed that:

Twenty seven (27) housing societies were identified by CDA and declared as illegal/unauthorized for lacking CDA approval. . CDA did not take action against the sponsors of these schemes. The Directors Housing Societies and Building Controls did not inspect the area under CDA jurisdiction.

CDA approved the LOP of private Housing schemes but these housing schemes did not transfer and mutate land under roads/streets, public building area, park/open space, graveyard, etc., in the name of CDA.

CDA did not maintain separate ledgers of each housing scheme showing the position of revenue/receipt/fee/fine charges/penalty of each society, date of receipt of scrutiny fee of scheme along with amount received, deposit of development cost of schemes and mortgaged area with CDA.

Record did not indicate dates of processing of engineering design fee, dates of payment of inspection/monitoring fee along with amount of pay order, date of inspection of quality works by CDA, CE-Lab, date of Approval of revised LOP in case of changes in the original LOP along with the amount of extension fee.

Building Control Wing CDA did not penalize against non-conforming use in the private housing schemes. Revenue collection register i.e., pay orders received from various property owners for the completion certificates, Approval of Building Plan, scrutiny fee and detail of any other charges imposed from time to time was not prepared

Audit pointed out the matter in March 2023. The Authority replied that the housing schemes/societies already transferred land in favour of CDA prior to issuance of NOC. As regards to illegal/unauthorized housing societies, the Authority replied that Planning Wing CDA issues notices and puts efforts for stoppage of illegal activities. Periodically public notices are also issued in national dailies for awareness of the general public. Necessary ledgers would be prepared accordingly.

The reply was not accepted because CDA did not provide mutation record in support of land transferred by the housing societies. CDA bylaws authorize penal and legal action against the illegal/unauthorized housing societies. CDA record was silent about any such action initiated against illegal/unauthorized housing societies.

The matter was discussed in DAC meeting held on 31.01.2024 wherein DAC directed CDA to enforce building bylaws using powers under CDA Ordinance 1960. DAC further directed CDA to make strenuous efforts by issuing notices and taking legal action against the illegal/unauthorized housing societies. A comprehensive compliance report be shared with Ministry and Audit.

Audit recommends compliance of DAC's directive.

(DP. 71, 78 &79)

3.4.68 Irregular approval of layout plan (LOP) of private housing society

Clause-6 “Scrutiny Fee for the Detailed Schemes” of the Revised Modalities & Procedures (2020) framed under ICT (Zoning) Regulation, 1992 (As amended) for Development of Private Housing/Farm Housing Scheme in Zones 2, 4 & 5 of Islamabad Capital Territory Zoning Plan, provides that a scrutiny fee shall be payable through bank draft/pay order to the Authority and shall be deposited along-with the submission of detailed scheme.

Clause -8 of Modalities and Procedures framed under ICT (Zoning) Regulation, 1992 provides that LOP shall be approved provisionally and issued to the sponsors with a clear stamp indicating that the plan is provisionally approved for the preparation of detailed engineering design, transfer deed, mortgage deed and subsequent NOC. Strictly not to be used for marketing purposes. Objection, if any, in the layout plan will be communicated by registered post acknowledgement due, to the sponsors for rectification within a period not exceeding 30 days of issuance of communication failing which the scheme will not be processed further till removal/settlement of objections.

Audit noted that Director Housing (CDA) approved LOP of Al-Makkah City Housing Scheme Sponsored by M/s Brother Construction YK Pvt. Ltd. Vide letter dated 15.12.2020 measuring 408.43 kanals falling in Mouza Lidhiot Zone-5, Islamabad, with observations which were not responded by the Sponsor:

The sponsor may purchase land approximately 2 kanals from Japan Road up to scheme area, within forty five (45) days from the date of issuance of this letter or shall pay the cost of acquisition of land from Japan Road up to scheme area to CDA and the acquired land shall directly be transferred in the name of CDA prior NOC. But the Sponsor failed to execute Mortgage Deed on legal documents within stipulated period.

The sponsor failed to execute Transfer Deed on legal documents with stipulated period

The sponsor failed to publish public notice in the press regarding the mortgage of plots under saleable area with the Authority.

The sponsor did not get the Engineer Designs vetted from the Authority.

The Sponsor had not submitted the design of STP.

The Sponsor had not submitted the comprehensive Solid Waste Management Plan as per approved LOP of the scheme.

The sponsor had not provided test boreholes at site recommend by ERS Report.

The sponsor started the development of scheme without prior approval of engineering design in addition to submitted fine/penalty in this respect.

Audit maintains that despite above shortcomings, CDA approved LOP which was against the rules and procedure.

Audit pointed out the recovery in March 2023. The Authority replied that the concerned housing scheme has already deposited the requisite fees/penalties and nothing was outstanding on the part of sponsors.

The reply was not accepted because details/process of approval of LOP and recovery of dues was not verified in support of reply.

The matter was discussed in DAC meeting held on 31.01.2024 wherein committee directed CDA to provide the details/process of approval of LOP and record in support of recoveries made to Audit for verification.

Audit recommends compliance of DAC's directives.

(DP. 73)

3.4.69 Non-recovery of outstanding balance from Metropolitan Corporation Islamabad (MCI) - Rs 26,930.631 million

As per CDA Budget Estimates for the financial year 2021-22, duly approved by Federal Cabinet, funds are being provided by CDA to MCI on loan basis which are recoverable/ adjustable. CDA has provided loan amounting to Rs 44,142.620 million to MCI since 2016-17 to 2021-22 (up to February-2023).

During scrutiny of the accounts record relating to the Treasury Division CDA for the financial year 2021-22, Audit noted that CDA received Rs 17,211.989 million. A net amount of Rs 26,930.631 million (Rs 44,142.620 million – Rs 17,211.989 million) was outstanding against MCI. This resulted in non-recovery of outstanding balance from MCI for Rs 26,930.631 million.

Audit pointed out the matter in May 2023. The Authority replied that MCI entrusted its functions to CDA with the approval of Federal Government to carry out its functions for the ease of public doing business.

The reply was not accepted because CDA provided loan to MCI for Rs 44,142.620 million and received back Rs 17,211.989 million. A net amount of Rs 26,930.631 million was outstanding against MCI.

The matter was discussed in DAC meeting held on 19.01.2024. DAC directed the management to submit a comprehensive report on the matter to Audit within seven days.

Audit recommends early recovery/adjustment.

(DP. 27)

3.4.70 Non-adjustment/recovery of unutilized funds - Rs 2,000.00 million

Federal Cabinet accorded approval for establishing Islamabad Development Fund Limited (IDFL) in CDA on 01.12.2021. The main objective was to develop various projects including an exclusive project for overseas Pakistanis for investment in Islamabad i.e., high-rise apartments and other standalone development initiatives including Real Estate Investment Trust.

Audit noted that Treasury Division CDA released an amount of Rs 2,000.000 million as seed money/paid up capital to IDFL, pursuant to the approval of Federal Cabinet as under:

(Rs in million)

S. No.	Bank	Cheque No.	Date	Amount
1	JS Bank	1810247779	06.01.2022	1,000.000
2	HBL	1810247780	20.01.2022	1,000.000
Total				2,000.000

Audit observed that despite the lapse of one year, CDA took no step for utilization of funds. Bank statements for the reconciliation of available balances were also not obtained and available with CDA Treasury Division.

This resulted in non-adjustment/recovery of unutilized funds of Rs 2,000.00 million.

Audit pointed out the matter in May 2023. The Authority replied that Treasury Division released amount of Rs 2,000.00 million after fulfilling all formalities and approval of the Federal Cabinet and the CDA Board. Due to change of the senior Management and board members of CDA including Chairman, CDA, the work could not be executed on the projects. However, Treasury Division was not responsible for the execution of the work.

In reply, Management admitted that the projects, for which funds were released, were not executed and funds were parked without utility. Cash book and bank statement of this Account were also not available in the record.

The matter was discussed in DAC meeting held on 19.01.2024. DAC directed that a comprehensive reply shall be submitted to Ministry and Audit. DAC further directed that the matter shall be referred to CDA Board to decide future strategy and outcome be shared with Ministry and Audit.

Audit recommends that responsibility be fixed for failure in initiating and developing projects including exclusive project for overseas Pakistani for investment in Pakistan against the Management of IDFL besides adjustment/transfer back the amount in CDA Accounts.

(DP. 24)

3.4.71 Lapse of development and non-development funds - Rs 552.079 million

As per Sections 11 and 12 of Public Finance Management Act, 2019, all Ministries/Divisions, their Attached Departments and Sub-Ordinate Offices are required to sanction re-appropriation of funds and surrender the anticipated savings to the Finance Division by 31st of May each year. Accordingly, Finance Division vide O.M No. F.No.4(2)-CAO(MoF)/2021-22/563 dated 14.05.2022 requested all Principal Accounting Officers to surrender the anticipated savings on priority basis but not later than 31.05.2022 for proper utilization of funds where required.

During scrutiny of accounts record of Treasury Directorate CDA Islamabad Audit noted that an amount of Rs 5,770.936 million was received/allocated during the financial year 2021-22 against PSDP, Maintenance Grant, Deposit Works (through assignment accounts) and pay & allowances. Audit observed that CDA utilized funds of Rs 5,218.857 million leaving balance of Rs 552.079 million (as detailed below), thus stood lapsed at the closing of the financial year 2021-22. These funds were lapsed and could not be utilized towards some other development and non-development activities.

(Amount in Rs)

Description	Grants Received	Expenditure	Balance
PSDP Grant	2,787,099,000	2,271,851,923	515,247,077
Maintenance Grant	2,750,446,000	2,724,932,992	25,513,008
Lapsed Deposit Work	233,391,000	222,072,093	11,318,907
Total	5,770,936,000	5,218,857,008	552,078,992

Audit pointed out the matter in May 2023. The Authority replied that CDA received PSDP grant and Maintenance grant on quarterly basis which were credited in various lapsable assignment accounts. Maintenance grant has to be fully utilized during the financial year with the exception that few funds may be lapsed due to late presentation of assignment account cheques after 30th June and funds retained in other allowances heads which cannot be utilized as AGPR raised observations in the last days of the financial year.

The reply was not accepted because the funds were lapsed due to slackness of CDA. The responsibility of maintenance of consolidated accounts lied with Treasury Division/Accounts Directorate.

The matter was discussed in DAC meeting held on 19.01.2024. The management could not provide cogent reasons for the lapse of funds. DAC showed displeasure on the ill-preparedness of the management and directed that DG Planning and DG Services should provide a comprehensive report on PSDP and Maintenance Grant explaining reasons for lapse of funds along with relevant record to Ministry & Audit within seven days.

Audit recommends inquiry to fix responsibility for not surrendering the unutilized funds timely. CDA should devise internal controls to improve internal coordination amongst its formations/ directorate.

(DP. 19)

3.4.72 Non-recovery from different contractors - Rs 98.213 million

Rule-01(i) of CDA Procedure Manual Part-II, financial procedure provides that every officer authorized to incur expenditure from public funds is expected to exercise same vigilance in respect of expenditure from public funds as person of ordinary prudence shall exercise in respect of his own money.

Audit noted that in different Directorates of CDA, Islamabad an amount of Rs 98.213 million was required to be recovered from contractors from the payment made to the contractors during the financial year 2022-23.

Audit observed that in different divisions of CDA shortcomings/recovery were found like, cost of dismantled material, room rent, water charges, non-provision of site facilities and delay damages due to non-completion of works within a stipulated time period, non-recovery of insurance premium & non-recovery of sales tax. This resulted in overpayment/non-recovery from contractors of Rs 98.213 million (**Annexure-Y**).

Audit maintained that non-recovery occurred due to lack of effective internal financial controls.

Audit pointed out non-recovery during July and August 2023. The Authority did not reply.

DP. 16, 63, 69 was discussed in DAC meeting held on 19.01.2024. DAC directed verification of complete record including dismantled stock register, FBR notification, registration status of suppliers, court proceedings within seven days. DAC further directed that SOP for early auction of dismantled material be framed to avoid its further deterioration.

Audit recommends that Authority may recover the amount from the contractor under intimation to Audit.

(DP. 16, 63, 69, 116, 122, 125, 166, 202, 207, 242, 246, 254, 257, 269&322)

3.4.73 Non-implementation of Building Control By-laws

Section 2.17 of Zoning (Building Control) Regulations, 2005 (Ban on non-conforming uses), provides that no land or building shall be put to a non-conforming use. A non-conforming use of a residential building may render the owner and occupant of the building liable on 1st conviction to pay a fine of Rs 500,000 and in case of failure to discontinue the non-conforming use within fifteen (15) days of conviction to an additional fine Rs 5,000 for every day up to three (03) months. The owner or the occupant, as the case may be, shall be liable to be evicted from the building and the allotment deed of the plot be cancelled.

Clause 2.8.1 of Building Controls Regulations, 2020 provides that no building or structure or part thereof shall be occupied or used without obtaining completion certificate (permission to occupy) from the Authority, within three months after the expiry of initial construction period. No person shall occupy or permit to be occupied, any such building or use or permit, to be used any part affected by the erection/re-erection, if any, of such building, until the completion certificate/permission to occupy is obtained.

During scrutiny of the accounts record of Building Control Directorate, CDA, Islamabad, Audit observed the following:

1,224 notices were issued during the financial year 2021-22 to owners of the residential houses being used for non-residential purposes but penalty of Rs 612.00 million (1,224 x Rs 500,000 each) was not imposed and recovered.

In financial year 2021-22, Rs 565.102 million were received in the Directorate through One Window but details of receipts i.e., approval of completion plan, non-conforming use penalty and NOC fee for transfer of residential and commercial properties were not maintained. No authorized person was nominated by CDA Management to receive pay orders. Proper receipts books neither issued by the Management of CDA nor duly signed by an Authorized Officer. No proper DDO is present to look after revenue and receipts matters.

A number of residential apartments and commercial buildings of various societies located/situated in Islamabad were completed but the owners did not ensure approval of obtaining of completion certificates from CDA before occupation of these completed properties.

In absence of proper patrolling by the Building Inspectors, it was not possible to cater the irregularities occurring in the Private Societies of Islamabad.

Islamabad High Court in a case directed CDA that the affair of the housing societies be examined on case to case basis but compliance was not made.

Audit observed during the scrutiny of record that there was an amount of Rs 68.944 million lying with DDO in September 2021 which was not remitted to the main account of treasury.

Audit pointed out non-implementation of Building Control By-laws in April 2023, but the Authority did not reply.

The matter was discussed in DAC meeting held on 12.01.2024 wherein CDA explained that record was maintained and DDO was also in place. Cash books were being maintained. Audit contended that the record in support of reply was not verified. DAC directed that point-wise detailed revised reply be submitted and a comprehensive report be shared with Ministry & Audit regarding approval and implementation of SOPs/policies for revenue collection and its remittance into treasury. DAC further directed that consolidated reconciled statements and measures taken to rectify the deficiencies be got verified from Audit within seven days. With reference to DP. 3 and 4, DAC directed the management that the matter may be presented in the upcoming CDA Board meeting with recommendation from Building Control Committee for decision regarding sealing of buildings till issuance of completion of certificate to avoid any mishappening in future. DAC further directed to review system, strengthen controls and make sure 100% implementation/ compliance of policies. All the Directorates of CDA be aligned and survey reports and action taken be verified from Audit DAC. DAC further directed CDA to get the required record i.e., detail of court cases, detail/ breakup of illegal constructions/non-conforming use alongwith detail of detail of recovery verified from Audit within 15 days.

Audit recommends early compliance to DAC's directives.

Note: The issue was reported earlier also in the Audit Reports for Audit Years 2019-20, 2020-21 and 2022-23 vide para numbers 3.5.5 (2019-20), 3.4.5 (2020-21) and 3.4.56 (2022-23), having a financial impact of Rs 8,050.52 million. The recurrence of same irregularity is a matter of serious concern.

(DP. 01 to 08)

METROPOLITAN CORPORATION ISLAMABAD

3.4.74 Loss of billions of rupees due to non-recovery of Property Tax from 63 private housing societies of Islamabad measuring covered area 164,202 kanals

As per Notification dated 17.12.2018 in exercise of the powers conferred by Sub-Section-5, Section-88, Chapter-X of ICT Local Government Act-2015, the Metropolitan Corporation Islamabad in its 30th Meeting held on 29.11.2018, approved Revision of “Property Tax” in Islamabad Capital Territory applicable from 01.07.2019.

During scrutiny of the accounts record relating to Property Tax recoveries of Revenue Directorate CDA for the year 2021-22, Audit noted that Director Revenue CDA did not raise demand of Property Tax against sixty-three (63) private housing societies having LOP area 164,202 kanals. Due to this, CDA was suffering loss of billions of rupees in shape of non-collection of property tax.

Audit maintains that non-recovery of Property Tax from developed housing societies was due to weak financial controls.

Audit pointed out the irregularity in May 2023, but the Authority did not reply.

The matter was discussed in DAC meeting held on 19.01.2024. The management apprised that schedule of rates of property tax from private housing societies has been submitted to the Ministry for notification. Recovery at prescribed rates would be started as and when rates are notified. DAC directed the management to provide complete record in respect of private housing societies on the format prescribed by Audit and circulated by Ministry within seven days

Audit recommends fixing responsibility against those responsible for inaction, early imposition and recovery of Property Tax besides production of information to Audit to ascertain exact amount as per following table:

Housing Society	LOP date	Total area	No. of Houses with	No. of Commercial properties	Property tax due
-----------------	----------	------------	--------------------	------------------------------	------------------

			house covered area	with covered area	
--	--	--	-----------------------	----------------------	--

(DP. 42)

3.4.75 Loss of millions of rupees on account of Property Tax due to illegal construction in E-11

As per Notification dated 17.12.2018 in exercise of the powers conferred by Sub-Section-5, Section-88, Chapter-X of ICT Local Government Act-2015, the Metropolitan Corporation Islamabad in its 30th Meeting held on 29.11.2018, approved Revision of “Property Tax” in Islamabad Capital Territory applicable from 01.07.2019. Further, as per provisions of ICT (Zoning) Regulations 1992, Islamabad Residential Sector Regulations, any development activity in ICT is to be carried out after approval/NOC from CDA.

Further, according to Section 46-A Chapter-VII of CDA Ordinance, 1960, “whoever willfully causes damage or allows damage to be caused to any property which vests in the Authority or unlawfully converts it to his own use or to that any other person shall be punishable with imprisonment for a term which may extended to one year or with fine, or with both.”

CDA has issued a list of illegal apartments and wedding halls/marques located in Sector E-11 Islamabad which includes many famous name and renowned projects running in this sector.

Audit noted that illegal constructions in the form of Multi-Storey buildings like residential buildings/apartments/commercial areas/shops and wedding halls/marques were being carried out without prior approval/NOC from CDA and are therefore unauthorized and unlawful.

Audit observed that Property Tax was not being recovered from the owners which resulted in loss of Property Tax of millions of rupees. Apart from residential and commercial plazas/building, the construction of marques/wedding halls in sector E-11 is also illegal, unlawful and unauthorized, as detailed below:

S. No.	Illegal Buildings	S. No.	Marque
1.	Fortune Empire		The Monal

S. No.	Illegal Buildings	S. No.	Marque
2.	Qurtaba Heights		The Wedding
3.	Apollo Apartments		The Millennium
4.	Margalla View Heights		Aura Grande
5.	Mehran Complex		Paragon
6.	Shaheen Apartments		Taj
7.	Mustafa Heights		Zakia's
8.	Makka Tower		Clay Oven
9.	Ahad Residencia		Blessings
10.	Capital Residencia and Fortune Residency		Khiva and The Empire

Audit pointed out the matter in May 2023, but the Authority did not reply.

The matter was discussed in DAC meeting held on 19.01.2024 wherein the management apprised that the matter of recovery of property tax from marquees and multi-storey buildings in E-11 is subjudice. DAC directed the management to vigorously pursue the case and progress be shared with Audit.

Audit recommends an investigation into the matter for fixation of responsibility against the officer(s) responsible for inaction. Further, matter may be pursued in court of law actively.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2017-18 vide para number 2.4.9, having a financial impact of Rs 1,032.00 million. The recurrence of same irregularity is a matter of serious concern.

3.4.76 Unauthentic revenue collection record and non-deposit of property tax revenue in MCI Account - Rs 2,992.686 million

As per Islamabad Capital Territory (ICT) Local Government Act, 2015, Section 87 the Property Tax, under this Act, shall be collected by MCI. The Tax collected under this section shall be distributed amongst the Metropolitan Corporation and Union Councils in such a ratio as the Government may, by notification, specify.

During the scrutiny of the accounts record of the Directorate of Revenue, CDA for the financial year 2021-22, it was noted that an amount of Rs 2,992.686 million was collected on account of Property Tax and water charges during the financial year 2021-22. Whereas, an amount of Rs 4,360.865 million was shown as recoverable.

Audit observed the following:

Revenue Directorate, CDA has collected and deposited Rs 2,992.686 million in CDA Accounts/Treasury instead of depositing the amount in MCI account.

Audit observed that there was no approved SOP in operating of Property Tax and water charges billing system by IT Directorate CDA and Revenue Directorate CDA. There is no Information Security/Access Control Policy/Data Integrity/ Monitoring and Implementation, Disaster Recovery/ Backup media, System documentation/updation of system. Bank scrolls/receipt vouchers being attached with monthly accounts. The manual ledgers of consumers were also without back up details of outstanding recoverable(s).

CDA fixed budgeted target for Property Tax/Water & Allied Charges of Rs 2,582.00 million for the year 2021-22 without backup details for such target.

The collection was being made without site surveys. Six (06) posts of Covered Area Survey Inspectors were vacant. Moreover, party-wise demand and collection register/ subsidiary ledger showing arrears with aging and new demand was not maintained.

Revenue Directorate was collecting Property Tax/Water and Allied charges from different hotels/motels without fulfilling codal formalities. In case of Marriott Hotel, G/5 Islamabad, the covered area was changed by addition/alteration several times without approval from a competent authority. Physical verification of covered area against Marriott Hotel Islamabad was

required to be done by building inspector Revenue vide letter dated 22.05.2018 which was not done. In Case of Margala Hotel, Ramada Hotel 01-H-06 and Serena Hotel, no completion certificate as well as physical inspection certificate was available in record. Revenue realized from these hotels for Rs 43.717 million was, therefore, unauthentic.

As on 30.06.2022, the collected Property Tax/Water & Allied charges of Rs 519.768 million were not transferred to CDA Main Account.

Furthermore, amount deposited into MCI account was not reconciled with the treasury.

This resulted in unauthentic revenue collection record and non-deposit of Property Tax revenue of Rs 2,992.686 million in MCI Account.

Audit maintains the irregularities occurred due to weak internal controls.

Audit pointed out the matter in May 2023, but the Authority did not reply.

The matter was discussed in DAC meeting held on 19.01.2024. In DP 34, the management apprised that actual difference was Rs 307.497 million out of which reconciliation of revenue amounting to Rs 222.497 million has been carried out. Reconciliation of remaining amount of Rs 87 million is under process. DAC directed that balance be reconciled and verified from Audit within seven days. In case of DP. 36 the management apprised that re-assessment of covered area of hotels is in progress and will be completed within one month. At present, recovery of property tax is made on the basis of available covered area. DAC pended the para and directed the management to complete re-assessment at earliest and recovery be made accordingly. In DP. 40, DAC directed the management to provide bank statements for the months of June & July 2022 to Audit for verification within seven days. With reference to DP. 43, DAC directed the management for early completion of reconciliation process and its verification from Audit within seven days.

Audit recommends compliance of DAC's directives.

Note: The issue of non-reconciliation was reported earlier also in the Audit Reports for Audit Years 2021-22 and 2022-23 vide para numbers 3.4.53 (2021-22) and 3.4.15 (2022-23), having a financial impact of Rs 4,158.063 million. The recurrence of same irregularity is a matter of serious concern.

(DP. 34, 36, 38, 40&43)

3.4.77 Non-recovery of Property Tax from different building owners - Rs 2,874.273 million

As per letter dated 13.10.2022, and according to Section 49-A of CDA Ordinance, 1960, any sum due to the Authority or any sum wrongly paid to any person under this ordinance shall be recoverable as arrears of land revenue. Rule 26 of GFR Vol-1 provides that it is the duty of departmental officer to see that all sums due to the government are regularly assessed, demanded, realized and remitted into the national treasury.

Audit noted that Directorate of Revenue CDA, Islamabad did not recover Property Tax worth Rs 2,874.273 million from Semi Government/Institutions, private buildings owners during the year 2021-22 (**Annexure-Z**).

Audit observed that no efforts have been made for recovery of said Property Tax from these institutions during the period. This resulted in non-recovery of Rs 2,874.273 million.

Audit maintains that non-recovery was due to weak internal controls.

Audit pointed out non-recovery in May 2023, but the Authority did not reply.

The matter was discussed in DAC meeting held on 19.01.2024. In DP. 32, the management apprised that recovery of Rs 37.765 million on account of property tax from universities/ educational institution had been made. DAC directed the management that concrete efforts be made to recover the balance amount of Rs 1,669.361 million. DAC further directed that a comprehensive report on court cases and receivables be provided to Audit within seven days. In DP. 33, the management apprised that the matter of imposition of new rates of taxes had been finalized and case had been submitted to the Ministry for notification. The matter was also subjudice. As soon as the MCI House becomes functional, property tax would be imposed on Kahuta Triangle, Chak Shehzad and Murree Road. DAC directed the management that complete record showing efforts made including notified rates, details of court case be verified from Audit. In DP. 35, the management explained that property tax was regularly received from owners of the building occupied by foreign diplomats. DAC directed to get the record verified. In DP. 37, the management apprised that a huge number of notices have been served to the management of Gun & Country Club, however, the management is reluctant to pay the property tax with the plea that the case is subjudice in Supreme Court of Pakistan. DAC directed the management to pursue the court case and recovery vigorously and directions of the court be shared with Audit. In DP. 44, the management apprised that recovery of

Rs 180.00 million had been made and efforts were being made to recover balance amount of Rs 164.318 million. DAC directed the management to vigorously pursue recovery of the balance amount of Rs 164.318 million. In DP. 47, the management apprised that notices had been served to the industries and meetings with management were regularly being convened. Properties had been sealed till payment of water cess. DAC directed that detailed report (company-wise) on water bottling companies in Islamabad, mechanism for determination of sale of water, notified rates, amount received, be shared with Audit for verification within seven days.

Audit recommends recovery of the dues.

Note: The issue was reported earlier also in the Audit Reports for Audit Years 2018-19, 2019-20 and 2021-22 vide para numbers 3.4.22 (2018-19), 3.5.7 (2019-20) and 3.4.50 & 3.4.52 (2021-22), having a financial impact of Rs 6,539.663 million. The recurrence of same irregularity is a matter of serious concern.

(DP. 32, 33, 35, 37, 44&47)

3.4.78 Non-reconciliation of expenditure and non-maintenance of cash book /proforma accounts - Rs 1,661.373 million

Para 20 of CDA Accounting Procedure Manual (Part-III) states that after verification of the cash balance, the bank balance should also be verified. A statement of accounts should be obtained monthly from the bank within three days of the closing of the cash book and a reconciliation statement prepared before the submission of the monthly account to the Accounts Directorate. The reconciliation statement should be copied out in the cash book over the signatures of the Disbursing Officer after the closing entries of the month.

Para 389 of Chapter-VII of CDA Procedure Manual Part-III provides that the Machinery Pool Organization (MPO) was established for departmental purposes. Its accounts should therefore, be maintained in such a way as should enable the organization to prepare its Pro forma Account annually, these accounts will facilitate review of financial results of the organization at the end of every year.

Para 421 further provides that Annual Proforma Accounts of the workshop will be prepared by the Deputy Director Workshop immediately after the accounts for the year have been finally closed. After approval of the Director M.P.O., these accounts will be submitted to the Director Accounts for review. Audit noted that DDO Operation and Maintenance MPO Directorate (MCI) Islamabad

compiled account for financial year 2022-23 wherein cash and cash equivalents expenditure of CDA were shown Rs 1,661.373 million, as detailed below.

(Rs in million)

Name of Division	Allocation	Expenditure
MPO (Maintenance)	556.47	544.29
MPO (Operation)	1,202.249	1,117.083
Total	1,758.719	1,661.373

Audit observed that:

The expenditure was not booked/entered in cash book. Reconciliation of the expenditure was also not carried out with the banks.

MPO Directorate MCI did not prepare Proforma Accounts as required to review the financial results of the Machinery Pool Organization for the financial year 2022-23. Workshop and carpeting works were being done without preparation and approval of Technical Sanctioned Estimate/Manufacturing Estimates and preparation of Profit & Loss Accounts.

This resulted in non-reconciliation of expenditure and non-maintenance of Cash Book /Proforma Accounts of Rs 1,661.373 million.

Audit pointed out the non-preparation of Proforma Accounts to review the financial results in August 2023. The Authority replied that the observation was noted for compliance.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends fixing responsibility against those responsible besides corrective action.

(DP. 190&197)

**3.4.79 Unjustified/Advance payment to the oil companies and non-adjustment there-against through vouched account -
Rs 1,022.283 million**

As per Rules 205 to 216 of Federal Treasury Rules, every Government officer entrusted with the payment of money should obtain for every payment he makes a voucher setting forth the full and clear particulars regarding the claims and all relevant information necessary for its proper identification and classification in accounts. Every voucher must bear to have attached to it an acknowledgement of payment signed by the person by whom or on whose behalf the claim is put forward.

Audit noted that Deputy Director (maintenance/operations) MPO Directorate (MCI) Islamabad made huge advance payments to Pakistan State Oil and Attock Petroleum for supply of Petrol, High speed Diesel, Light Diesel Oil and Bitumen. Advance payments through hand receipts were made during the Financial Year 2022-23 for Rs 960.052 million whereas:

Company	Item	Advance (Rs)
Pakistan State Oil	High Speed Diesel	731,465,356
	Super Petrol	56,687,588
Attock Petroleum Ltd	Bitumen	159,365,001
	Lite Diesel Oil	74,765,707
Total		1,022,283,652

Proper stock taking and inspection of stores was not maintained and consumption of material through valid requisitions was not maintained.

Adjustment of advance payments through vouched account was not made.

Comparison of rates for the supply of Light Diesel Oil and Bitumen were not obtained to achieve economical rates.

Formal fresh contract agreement with Attock Petroleum and Pakistan State oil were not showed/maintained and hence not provided to Audit to check the TORs.

Orders regarding advance payments were not forth-coming from the record.

Audit pointed out the matter in August 2023. The Authority replied that all the payments were made after approval. Adjustments of the advances were made.

The reply was not accepted because contract agreements, approval for advance payments, record of proper stock taking and physical verification reports were not provided to Audit.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends early adjustment of advance payment.

(DP. 194)

3.4.80 Consumption of diesel/petrol without details - Rs 788.152 million

According to Rule-I of CDA Procedure Manual Part-II, every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public funds as a person of ordinary prudence would exercise in respect of expenditure of his own money.

Audit noted that the Deputy Director (Operations), MPO Directorate (MCI) Islamabad issued diesel/petrol from G-7 and H-10 petrol pumps to CDA and MCI vehicles against indents during the financial year 2022-23 worth Rs 788.152 million.

Rs in million

Description	Allocation	Expenditure
Diesel	755.000	731.465
Petrol	79.00	56.687
Total		788.152

During scrutiny of the petrol/diesel receipt/issue register, Audit observed that there was no detail of vehicle wise monthly issuance of petrol/diesel. This resulted in consumption of diesel and petrol

worth
Rs 788.152 million without details.

Audit pointed out the issue in August 2023. The Authority replied that all the details were being maintained. Admn Directorate, CDA was responsible for fixing of ceiling and diesel/petrol was being issued accordingly.

The reply was not accepted because details/proper accountal of expenditure separately and record of issuance of petrol/diesel of each vehicle as per the authorized limit was not maintained.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends fixing responsibility against those responsible besides corrective action.

(DP. 196)

3.4.81 Non-recovery of hire charges of machinery and cost of premix asphalt concrete from CDA formations - Rs 495.936 million

Para 401 of Capital Development Authority Procedure Manual Part-III states that “estimated cost of job must be deposited in advance by the party concerned with the Machinery Pool Organization either in shape of special cheque or otherwise”.

Audit noted that the Deputy Director (Operation Division), MPO Directorate (MCI) Islamabad hired out machinery to various Divisions of CDA/MCI during the financial year 2022-23 without actual receipt of funds in advance.

Audit observed that MPO Operation Division raised hire charges of Rs 478.510 million against various CDA formations/divisions during the financial year 2022-23. The accounts record of the division revealed that hire charges were not recovered and settled the accounts with various CDA formations/divisions despite closure of the financial year. Audit further observed that the indents for hire of machinery was also not maintained which shows that the machinery was not used as per the requirements and needs. Thus, the chances of misuse of funds by the concerned Divisions cannot be ruled out.

Audit further noted that the Deputy Director, MPO (Maintenance), MCI Islamabad issued 1784 number batches of premix asphalt concrete to other divisions of CDA on the demand during the year 2022-23 as below:

S. No.	Formation	Total badges issued during 2022-23	Cost per badge	Amount (Rs)
1	M&R North CDA	825	9,785	8,072,625
2	M&R South CDA	529	9,785	5,176,265
3	Road III	430	9,785	4,207,550
	Total	1,784		17,456,440

Audit observed that the batches of asphalt were issued to the divisions but cost thereof was neither deposited in advance by the respective divisions, nor recovered even after completion of the jobs. This resulted in non-recovery of Rs 17.426 million.

This resulted in non-recovery/adjustment of hire charges of Rs 495.936 million (Rs 478.510 million + Rs 17.426 million)

Audit holds that non-recovery of hire charges occurred due to weak internal and financial control and inadequate oversight mechanism to make adjustment in real time.

Audit pointed out the non-recovery of hire charges of machinery in August 2023. The Authority replied that the formations concerned were already requested for adjustment of hire charges of machinery, which would be completed in due course of time.

The reply was not accepted because in the absence of recovery of hire charges, incurring of expenditure on working/running of machinery was unauthentic.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 04.10.2023, 20.10.2023, 06.11.2023, 12.12.2023, 19.12.2023 and 21.12.2023.

Audit recommends recovery of hire charges of machinery along with details of work performed with reference to engineer estimates and approvals for such deployment of machinery.

3.4.82 Non-recovery of rent and space charges - Rs 341.123 million

Rule 26 of GFR provides that it is the duty of the departmental Controlling officers to see that all sums due to government: are regularly and promptly assessed, realized and duly credited in the Public Account. They should accordingly arrange to obtain from their subordinates monthly accounts and returns in suitable form claiming credit for so much paid into the treasury or otherwise accounted for and compare them with the statements of treasury credits furnished by the Accountant General, to see that the amounts reported as collected have been duly credited in the Public Account.

Audit observed different cases of non-recovery of Annual Ground Rent (AGR), rent and space charges of Rs 341.123 million as under:

Directorate of Municipal Administration (DMA) allowed to lay Optical Fiber Cable to various telecom companies operating in Islamabad subject to payment of AGR. Audit observed that demanded notices for recovery were also not sent by the Authority from time to time. Now the Authority realized that the companies are not paying the dues and notices were issued after the lapse of many years. This resulted in non-recovery of Rs 169.072 million.

DMA could not recover Rs 3.000 million and Rs 18.700 million from M/s Jazz/Ex-Warid and PTCL, respectively in financial year 2022-23.

Lease agreement was signed between CDA and M/s ZeGrill (Monal Restaurant) on 10.03.2006 for a lease period of 15 years. DMA did not recover the monthly rentals from M/s Monal Restaurant since October 2020 @ Rs 897,591 per month. An amount of Rs 34.273 million was outstanding during last three (03) years.

M/s Ufone was allowed for utilization of space for parking for 5,838 sq. yard @ Rs 143 per sq. yard per month for Rs 10,018,008 per annum for one-year extendable subject to revision of rate. M/s Ufone was however, paying license fee against 4,379 sq. yard which caused non-recovery of Rs 116.078 million.

DMA record was being maintained manually on different business, and files are being operated in manual since 1986 which were in deteriorated conditions and partially torn. The Management was neither sure of amount deposited by different businesses in different years, nor any record for outstanding dues was forthcoming from these files.

This resulted in non-recovery of AGR, rent and space charges of Rs 341.123 million.

Audit pointed out irregularity in December 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite request made by Audit on 21.12.2023.

Audit recommends fixing responsibility against persons responsible for inaction besides early recovery.

(DP. 287, 288,302, 304, 305 & 308)

3.4.83 Loss due to non-auction/award of license for collection of car parking fee at multi-level car parking at F-7 Markaz - Rs 41.163 million and wasteful expenditure - Rs 250.00 million

Rule-6 of Islamabad Land Disposal Rules 2005, states that business plots shall be leased out through open auction for one of the specific activities. Plots for any kind of commercial activity having profits as a primary aim, and include plots earmarked for shops, show rooms, markets, hotels, motels, guest houses, marriage halls, petrol/CNG filling and or service stations, sites for multi-storey building meant for shops, offices, sites for multistory parking and offices connected with industrial & commercial enterprises.

During scrutiny of the accounts record of Municipal Administration/MCI, it was noted ‘multi-level car parking at F-7 Markaz’ was constructed/completed at the total cost of Rs 250.00 million up to December 2016.

Audit observed that the Management since after taking over possession/completion of the multilevel car parking F-7 Markaz could not decide and finalize the auction process. The prime location having potential revenue of millions of rupees per month was lying un-auctioned/un-awarded for more than six (06) years. The parking was completed at the total cost of Rs 250.00 million with a capacity of 440 vehicles/cars can be parked at a time. As per noting file, the car parking at Raja Bazar was awarded to a contractor @ Rs 5,757,157 per annum with parking capacity of 400 cars/vehicles during same period. Non-initiation of the auction process before completion of the construction works in December 2016 and non-finalization of auction process resulted in a loss of Rs 41.163 million and wasteful expenditure of Rs 250.000 million.

Audit pointed out irregularity in November 2023, but the Management did not reply.

DAC meeting was not convened by PAO despite request made by Audit on 21.12.2023.

Audit recommends fixing responsibility against persons responsible for inaction besides early corrective action.

(DP. 286)

3.4.84 Non-recovery conservancy charges of bazars - Rs 223.889 million

As per Notification of MCI dated 18.04.2023 new rates of weekly bazaars would be charged for different sizes of stalls per month per bazar w.e.f. 01.07.2022 (as Rs 430, Rs 681, Rs 967, Rs 1,362 etc.).

Further, the subject of this notification clearly states that its revision of rates of conservancy charges of stalls of weekly bazaars.

During audit scrutiny of accounts record of Directorate Municipal Administration, MCI Audit noted that the Directorate charged stalls conservancy of H-9 bazar for only one week bazars per month i.e., Itwar, Mangal, and Juma.

Audit observed that as these bazaars are conducted on weekly basis so its rates were applicable for every week's bazars per month but the same was not done by the Management and charged Rs 430, Rs 860 etc., for different sizes of stalls per month irrespective of frequency of bazars per month in violation of above notification.

Audit further observed that 70% shops were issued to those businesses whose rates were not fixed by CDA against allotment policy of 1985 and they are selling things with market rates specially items of plastic, crockery, carpets and used shoes and charging of Rs 430 per month is already unjustified. This resulted in non-recovery of bazars conservancy charges as per rates of weekly bazaars Rs 223.889 million.

Audit pointed out non-recovery in November 2023, but the Management did not reply.

DAC meeting was not convened by PAO despite request made by Audit on 21.12.2023.

Audit recommends fixing responsibility against persons responsible for inaction besides early recovery.

(DP. 297)

3.4.85 Non-recovery/non-depositing of outstanding dues including direct access and RoW charges - Rs 137.835 million

According to revised Modalities & Procedures (2020) framed under ICT (Zoning) Regulation, 1992 (As Amended) for Development of private Housing/Farm Housing scheme in Zones 2, 4 & 5 of Islamabad Capital Territory Zoning Plan. Clause-6 "Scrutiny Fee for the Detailed Schemes" provides that "a scrutiny fee at the rate scheduled in Annex-F; shall be payable through bank draft/pay order to the Authority and shall be deposited along-with the submission of detailed scheme as required by paragraph-4. The scrutiny fee is, however, subject to revision by the Authority from time to time.

Clause 07 (i) and (ii) (b) & (c) of Modalities and Procedures framed under ICT (Zoning) Regulation, 1992 provides that "any objection in the layout plan will be communicated by registered post acknowledgement due to the sponsors for rectification within a period not exceeding 30 days of issuance of communication, failing which the scheme will not be processed further till removal/settlement of objections and deposit of the entire development cost of the scheme with the Authority. The amount of development cost shall be assessed by the Authority on the basis of prevailing cost of development. The amount shall be deposited within 45 days of the clearance of detailed layout plan of the scheme. In case the authority is not inclined to deposit, the development cost of the scheme".

Audit noted that Director Housing (CDA) approved the Layout Plan (LOP) of Capital Enclave Housing Scheme, Mouza Lohi Bher, Zone-5, Islamabad sponsored by M/s Service Cooperative Housing Society Islamabad (SCHS) over an area measuring 552 kanals in Mouza Lohi Bher and NOC was issued in the name of M/s SCHS on 12.08.2014. Audit further noted that extended/revised/as built LOP was approved on 14.10.2020 over an area of 771.52 kanals.

Audit observed that a final show cause notice under section 49-C, 46 and 46-B of the CDA Ordinance 1960 read with clause 5 chapter-IV of the ICT (Zoning) Regulation 1992 was submitted to M/s SCHS vide letter No. CDA/PWL/HS(213)/2022/699 dated 27.01.2022 for depositing 137.835 million on account of fee/charges/penalties in the form of pay order in the name of DDO (Planning) CDA, but the perusal of record revealed that said amount has not yet been deposited completely in the name of CDA after lapsing 10 years. Audit observed that M/s SCHS started development/construction of building and sale of land/plots of the schemes without obtaining prior

approval from the CDA Authority, thus the sponsor of the schemes was liable to pay the following fee/penalties, etc., as under:

S. No.	Fee/Charges/Penalty	Amount (Rs)
1	Scrutiny Fee for Revised/Extended LOP 771.52 Kanals @ Rs 3,000	2,314,560
2	Penalty for change in approved layout plan without approval from the CDA (as per CDA Board decision dated 17.01.2012) 771.52 Kanals @ Rs 3,897 per kanal	3,006,613
3	Start of Development of work of the revised/extended LOP area of scheme prior to obtaining NOC and without approval of Engineering Designs (771.52 Kanals – 552 Kanals = 219.52 Kanals @ Rs 10,000 per Kanal)	2,195,200
4	Extension Charges for the development period of the scheme for 771.52 Kanals 1 to 10 years @ Rs 8,000 per Kanal x 10 years from 2012 to 2022	61,721,600
5	Access/ROW for 10 years (From 2012 to 2022) as per CDA Board Decision dated 24.12.2014 @ 562,000 per Month x 120 Months	67,440,000
6	Fee for inspection/ Monitoring of the Scheme 771.52 Kanals @ Rs 1,500 per Kanals	1,157,280
	Total	137,835,253

Audit is of the view that CDA has taken no legal action against the sponsor of the schemes for non-depositing the outstanding dues/ fee/fine charges/penalty. This resulted in non-recovery/non-depositing of outstanding fee/charges/penalty including direct access and ROW charges from the Capital Enclave Housing Scheme after lapsing ten (10) years Rs 137,835,253.

Audit maintains that non-recovery of fee/fine/penalties occurred due to lack of oversight mechanism for implementation of internal controls.

Audit pointed out the recovery in February & March 2023. The Authority replied that Planning Wing has obtained the ROW charges from M/s Capital Enclave Housing Scheme sponsored by M/s Service Cooperative Housing Society Islamabad (SCHS) Mouza Lohi Bher, Zone-5 Islamabad. The amount had been received and deposited in the account of DDO (Planning).

Audit recommends for early recovery from the sponsor and verified pay orders of fee/fine/penalties with documentary evidences.

(DP. 72)

3.4.86 Non-pursuance of recovery notices and consequent less realization of trade license fee - Rs 85.340 million

Section 62 of Chapter-VII and Section-91 of Chapter-XII of the Islamabad Capital Territory Municipal Bye-laws 1969, provides that “no person shall within Islamabad municipal limits can carry on any trade without taking proper license from the Director Municipal Administration, CDA”.

As per Islamabad Capital Territory Municipal Bye-Laws, 1969, Chapter XII Licensing of Trades, rules 94 and 97, Every application for a license and every license issued under these bye-laws shall be got registered by the Director in the license register prescribed for the purpose. Whoever carries on any licensable trade without obtaining a license therefore or carries on that trade during the period of suspension of a license or after the same has been revoked or the period of its validity has expired, shall be punishable with a fine which may extend to Rs 500 or in the event of a continuous breach, Rs 20 per day during which the breach continues.

According to Rule 20 of GFR “it is the duty of the departmental Controlling officers to see that all sums due to Government are regularly and promptly assessed, realized and duly credited in the Public Account. Furthermore, rule 23 of the same provides that every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.”

Audit noted that the Directorate of Municipal Administration, MCI issued 2,350 notices to traders for illegal operations without obtaining licenses from the office of Directorate Municipal Administration, and managed to collect an amount of Rs 20,213,533 from 466, which was only 20% of the amount collected from businesses against license fees across all sectors of Islamabad.

Audit observed that out of 2,350 notices; on the contrary, Audit team surveyed different sector and approximately 16000 businesses are being operated in Islamabad (at average 800 in each sector with total of 25 sectors) Furthermore, as per Islamabad Chamber of Commerce & Industry (ICCI) there are 18,000

different businesses registered with them. However, the Directorate lacked sector-wise data on different trades being operating in Islamabad Capital Territory reason best known to the corporation.

Audit contends that the Directorate failed to take effective measures to bring various businesses into the revenue stream by issuing trade licenses and imposing fines on them. The Directorate shows inefficiency by only managing to collect trade license fee from 20% out of 2,350 traders. The relevant section produced a list of nearly 200 defaulters and information was conveyed to the magistrate two years ago, with no subsequent correspondence. This oversight resulted in the non-maintenance of records on trade licenses and a loss to the Authority due to the inadequate realization of trade license fees amounting to Rs 85,340,164 ($2,350 - 450 = 1,900 \div 2,350 = 80.85\% \times \text{Rs } 105,553,697 = \text{Rs } 85,340,164$).

Audit recommends addressing this issue with higher authorities to curb illegal business operations or legitimize them by issuing licenses with the corresponding fees.

Audit pointed out loss to Authority and non-management of trade license in December 2023, but the Management did not reply. However, the issue was also reported in Audit Reports in 2019-20 and 2020-21. The matter was discussed in DAC meeting held on 28.11.2022 wherein the management apprised that the rates of new categories are not yet notified in Gazette of Pakistan, as the traders in ICT were agitating against the new categories which were included in the Trade license categories. DAC directed the management to complete the process of computerization of inventory and notification of rates be issued before upcoming PAC meeting. Compliance of DAC's directive was not made despite reiteration of same direction in a follow-up DAC meeting held on 07.06.2023.

Audit recommends compliance of DAC's directive.

Note: The issue was reported earlier also in the Audit Reports for Audit Years 2019-20 and 2020-21 vide para numbers 3.5.40 (2019-20) and 3.5.29 (2020-21), having a financial impact of Rs 291.236 million. The recurrence of same irregularity is a matter of serious concern.

(DP. 309)

3.4.87 Non-maintenance of accounts record of revenue receipts on self-collection basis for Rs 60.30 million and mishandling of cash receipts - Rs 18.095 million

Rule 76-77 of Treasury Rules states that moneys tendered as dues of the Government shall not pass through the hands of a departmental officer unnecessarily. Rule 7-10 *ibid*, all moneys received by or tendered to Government officers on account of revenues should be deposited in a treasury or

bank in full and without any delay. Whenever any amount in the custody of a Government officer is deposited into treasury or bank, the entry in the cash book should be compared by the Head of office with the treasury receipts/challan and attestation is to be done.

Audit noted that Municipal Administration/MCI awarded license and executed an agreement on 28.02.2020 with M/s Fazal Khan & Co. for collection of car parking fee at the plot adjacent to Centaurus Mall, Islamabad for one year at a bid cost of Rs 90.70 million per annum. The agreement duration expired on 27.02.2021 and site was taken back on 24.06.2021 from the licensee.

The Authority has reportedly made arrangements for cash collection departmentally from June 2021 for the parking at Centaurus Mall and approximately cash receipts amounting to Rs 60.30 million were collected from June 2021 to November 2023 (30 months) as Rs 18.095 million was departmentally collected during the period of 9 months (from 22.02.2023 to 24.11.2023) in this way the monthly flow of receipts come to Rs 2.010 million per month.

Audit observed that the Authority was collecting car parking fee by In-Charge from Centaurus parking since June 2021 but no separate accounts record of revenue receipts of approximate amount of Rs 60.30 million from June 2021 to November 2023 was maintained. No record of revenue receipts showing actual receipts, deposit slips, etc., was provided to Audit. Furthermore, the Authority has collected revenue of Rs 18.095 million during the period from 22.02.2023 to 24.11.2023 and defective /inadequate arrangements of cash collection and its handling left sufficient room for pilferage of revenue, briefly stated as under:

Generally, one or two officials were assigned responsibility to oversee all four (04) sites at a time. This lacked proper check over collection of receipts. Strong financial controls at the initial stage were not ensured.

Considerable amount of collection was being deposited in bank with a delay of 10-12 days. So heavy cash was retained with a single person unauthorizedly and irregularly. At this level too, no appropriate check existed.

No acknowledgment of cash collection and its handing over from one person to another for deposit in the bank exists at any stage. This enhanced the risk of pilferage.

No reconciliation of cash collection with deposited challans and certification in the cash book as per above rules was ever made.

Sites were kept un-auctioned for long time depriving the authority from competitive highest amount of revenue.

Audit pointed out irregularity in November 2023, but the Management did not reply.

DAC meeting was not convened by PAO despite request made by Audit on 21.12.2023.

Audit recommends fixing responsibility against persons responsible for inaction besides early corrective action.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide para number 3.4.71 (2022-23), having a financial impact of Rs 138.662 million. The recurrence of same irregularity is a matter of serious concern.

(DP. 284)

3.4.88 Irregular/unjustified expenditure without open tendering through splitting - Rs 39.740 million

As per rule-12 (1) of the Public Procurement Rules, 2004, procurements over five hundred thousand Pakistani Rupees and up to the limit of three million Pakistani Rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the Authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency: Provided that the lower financial limit for advertisement on Authority's website for open competitive bidding shall be the prescribed financial limit for request for quotations under clause (b) of rule 42.

As per rule-12 (2) of the Public Procurement Rules 2004, all procurement opportunities over three million Pakistani Rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

Audit noted that the Directorate of Municipal Administration, MCI has incurred an expenditure of Rs 29.663 million on account of decorative arrangements for opening ceremony of orange, green, blue metro bus service in Islamabad, observing black day on 27.10.2022, installation of CCTV cameras at H-9 Bazar, etc., and on arrangement/ infrastructure provided for Ramzan Sasta Bazar at G-6, G-7/2 & E-11 Islamabad' to different contractors.

Audit observed that the Management has incurred a huge expenditure of Rs 9,628,876 on the opening ceremony of green/orange/blue metro bus service in Islamabad and Rs 8,598,349 on observing black day on 27.10.2022 which is quite unjustified/higher sides on single events. Similarly, Rs 1,525,091 was paid for installation of CCTV cameras at H-9 Bazar. Further, the whole expenditure was made without preparing proper estimate based on rate analysis/ minimum three quotations and without going through any open competitive bidding process/tendering in violation of the Public Procurement Rules, 2004.

Audit observed that Director General Sanitation CDA, Islamabad accepted and awarded twenty-two (22) contracts/works to different contractors/suppliers at an agreement cost of Rs 10,079,538 during the year 2022-23 keeping the value of Rs 500,000 within the competency of Director General. In the instant case, the same contracts/works were awarded to selected contractors through quotations without calling open tenders in order to achieve competitive rates but this standard approved ruling practice was completely ignored in violation of cited rules. Subsequently, a review of the paid vouchers indicated that the Management also made payment to the extent of Rs 10.080 million to the different contractors on account of quotations work.

This resulted in irregular/unjustified expenditure without open tendering through splitting of Rs 39.740 million (Rs 29.663 million + Rs 10.080 million).

Audit maintains that the matter occurred due to weak internal controls.

Audit pointed out the irregularity in October 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite request made by Audit on 21.12.2023.

Audit recommends that responsibility be fixed against officers concerned for violation of rules besides internal controls may be strengthened to avoid recurrence of such irregularity in future.

(DP. 248&285)

CHAPTER 4

CIVIL AVIATION AUTHORITY
(AVIATION DIVISION)

4.1 Introduction

A. Pakistan Civil Aviation Authority (PCAA) is a public sector autonomous body working under the Federal Government of Pakistan Aviation Division, Cabinet Secretariat. PCAA was established on 07.12.1982 through Pakistan Civil Aviation Authority Ordinance 1982. As per Schedule-II of Rules of Business 1973, Aviation Division is responsible for administration of Civil Aviation Ordinance and development of civil aviation in Pakistan.

The purpose of establishing PCAA is to provide for the promotion and regulations of Civil Aviation activities and to develop an infrastructure for safe, efficient, adequate, economical and properly coordinated Civil Air Transport Service in Pakistan. PCAA not only plays role of the aviation regulator of the country but also performs as service provider of Air Navigation Services and Airport Services. The core functions of PCAA are therefore, ‘Regulatory’, ‘Air Navigation Services’ and ‘Airport Services’. These core functions are fully supported by various corporate functions of the organization.

The general direction and administration of PCAA and its affairs is with PCAA Board which exercises all powers, performs all functions and does all acts and things that need to be exercised, performed or done by the Authority. The Chairman PCAA Board is the Secretary of Division to which the affairs of the Authority are allocated. Presently, it is the Secretary Aviation. PCAA Executive Committee is the highest decision-making body of the Organization. It exercises such administrative, executive, financial and technical powers as delegated to it by the Authority. Director General PCAA is the Chairman of PCAA Executive Committee. The Headquarters of the PCAA are situated at Karachi.

B. Comments on Budget and Accounts (Variance Analysis)

Financial Statements of CAA for the financial year 2022-23 (Draft) disclosed the figures of budget, revenue and expenditure as follows:

Budget & Expenditure 2022-23

Rs in million

Description	Budget Allocation	Expend-iture	Excess/ (Shortfall)	Excess/ (Short-fall) %age
-------------	-------------------	--------------	------------------------	---------------------------------

Non-Development	31,939.690	33,337.150	1,397.460	4.38%
Establishment Charges	22,280.690	21,865.260	(415.430)	(1.86%)
Other Administrative Expenses	9,659.000	11,471.890	1,812.890	18.77%
Development	33,624.050	10,083.662	(23,540.388)	(70.01%)
PSDP Grant	3,184.680	2,818.802	(365.878)	(11.49%)
Annual Development Program (ADP)	30,439.370	7,264.860	(23,174.510)	(76.13%)
Grant Total	65,563.740	43,420.812	(22,142.928)	(33.77%)

Source: Utilization Reports/Draft Financial statements provided by CAA

Revenue

Rs in million

Description	Target	Actual	Excess/	Excess/
			(Shortfall)	(Short fall) %
Aeronautical	124,309.054	124,195.000	(114.054)	(0.09%)
Non-Aeronautical (Rent & Allied)	14,282.582	14,360.618	78.036	0.55%
Inspection & Services	455.722	509.565	53.843	11.81%
Return on Bank Deposits	11,500.000	13,075.620	1,575.620	13.70%
Total	150,547.358	152,140.803	1,593.445	1.06%

Source: Draft financial statements provided by CAA

Comments on 'Receipt and Expenditure Account' of CAA for the year 2022-23 are as under:

1. Against provision of Rs 30,439.370 million in the approved Annual Development Plan 2022-23, an expenditure of Rs 7,264.860 million was incurred which was Rs 23,174.510 million (76.13%) in saving. Development targets were, therefore, not achieved and the process and efforts on planning, estimation were wasted. It would certainly cause cost overruns due to high inflation rate.

2. CAA engaged M/s Grant Thornton Chartered Accountants for third party audit of the Financial Statements of CAA as at 30.06.2023 without concurrence of the Auditor-General of Pakistan as required.

C. Audit Profile of PCAA

(Rs in million)

S. No.	Description	Total	Audited	Expenditure audited FY 2022-23 (Rs in million)	Revenue/ Receipts audited FY 2022-23 (Rs in million)
1	Formations	68	16	110,427.44*	53,625.29
2	Assignment Accounts SDAs, RFAs (Excluding FAP)	04	04	2,818.802*	-

*Expenditure audited indicated against formations is inclusive of assignment accounts

Note: In addition to above, fourteen (14) formations audited during Phase-II of 2022-23 involving expenditure of Rs 3,274.891 million & revenue of Rs 40.104 million and results incorporated in this report.

4.2 Classified summary of audit observations

Audit observations amounting to Rs 541,924.758 million were raised in this audit report. This amount also includes recoverable of Rs 1,758.441 million as pointed out by the Audit. Summary of the audit observations classified by nature is as follows:

Overview of audit observations

S. No.	Classification	Amount (Rs in million)
1	Irregularities	
A	HR/Employees related irregularities	548.049
B	Procurement/award related irregularities	11,321.143
C	Execution of works, contract agreement	41,311.229
D	Management of accounts in commercial banks	144,500.156
E	Revenue management	283,704.050
2	Value for money and service delivery issues	252.700
3	Others	60,287.431
Total		541,924.758

Note: Amount of audit observations exceeds amount audited due to non-budgetary issues like award of works which involve future spending, amount covering multiple previous years of spending, multiple reckoning of monetary impact in different audit observations pertaining to same transaction, etc.

4.3 Brief comments on the status of compliance with PAC's directives

Compliance position of PAC's directives on Audit Reports relating to Civil Aviation Authority is as under:

Year	Total Paras	No. of Paras Discussed	Compliance Made	Compliance Awaited	Percentage of Compliance
1985-86	3	3	-	3	-

Year	Total Paras	No. of Paras Discussed	Compliance Made	Compliance Awaited	Percentage of Compliance
1986-87	3	3	-	3	-
1988-89	6	6	-	6	-
1989-90	01	01	01	-	100.0
1990-91	09 PCAA+ 3 Ex- ADA+1 PAR (10)	12	09	3 Ex ADA+ 1 PAR	75.0
1991-92	26	26	10	16	38.46
1992-93	33 PCAA+ 5 Ex- ADA+ 1 PAR (14)	38	26	07+Ex_ ADA+01 PAR	68.42
1993-94	49	49	21	28	42.85
1994-95	08	08	06	02	75
1995-96	14	14	07	07	50.0
1996-97	20	20	16	04	80.0
1997-98	91	91	82	09	90.10
	2 SAR	2	-	2	-
1998-99	46	46	36	10	78.26
1999-00	63	63	37	26	58.73

Year	Total Paras	No. of Paras Discussed	Compliance Made	Compliance Awaited	Percentage of Compliance
2000-01	83	83	62	21	74.69
2001-02	14	14	12	02	85.71
2002-03	10	10	04	06	40.00
2003-04	21	21	16	5	76.42
2004-05	10	10	08	02	80.0
2005-06	13	13	12	01	92.30
2006-07	09	09	05	04	55.55
2007-08	06	06	03	03	50.0
2008-09	17	17	10	07	58.82
2009-10	14	14	12	02	85.71
2010-11	56	56	26	30	53.57
	25 PAR	25	22	3	88.0
	16 PAR	16	14	2	87.5
	33 PAR	33	19	14	57.57
2012-13	38	10	01	09	2.63
2013-14	38	38	16	22	42.10
2014-15	25	15	-	15	-
2015-16	51	50	15	36	29.42
2016-17	26 (50+ M)	26	12	14	46.15
	15 (50- M)	15	04	11	26.66

Year	Total Paras	No. of Paras Discussed	Compliance Made	Compliance Awaited	Percentage of Compliance
2016-17 Spl study	2	2	01	01	50.0
2017-18	32	12	1	11	8.33
2018-19	38	10	-	10	-
2019-20	53	10	-	10	-

Note: Audit Reports for 2020-21, 2021-22 and 2022-23 were not discussed by PAC till the finalization of this Audit Report.

4.4 AUDIT PARAS

4.4.1 Non-recovery of outstanding dues from concessionaires - Rs 138,649.301 million

Special Conditions of License agreements, executed between PCAA and various operators/licensees provide that PCAA shall levy 5% surcharge on the amount payable to PCAA if the licensee fails to pay the dues within the due date of the bill. For the outstanding dues longer than 30 days, the PCAA shall levy additional surcharge @ six months Karachi Interbank Offered Rate (KIBOR)+ 2% of the outstanding dues per annum. PCAA reserves the right to impose penalty/fine on Licensee (licensee) in case of any violation of the terms of the license agreement that takes place during the license period.

Audit noted that Authority executed different license agreements with different concessionaires including Pakistan International Airlines Corporation Limited (PIACL) at different monthly license fees.

Audit observed that PCAA management did not recover the outstanding dues from the various concessionaires/licensees. This resulted in non-recovery of outstanding dues including surcharge of Rs 138,649.301 million (**Annexure-AA**) on 30.06.2022.

Audit maintains that non-recovery of outstanding dues was due to non-adherence to agreement clauses and weak implementation of internal controls.

Audit pointed out non-recovery in January-May 2023. The Authority replied that appropriate efforts were being made for recovery of dues from defaulters including M/s PIACL.

The reply was not tenable because Audit took the matter of non-recovery of PCAA dues from PIACL previously through (Para 4.4.1/AR 2021-22. 4.4.51/AR2019-20) but PCAA did not recover its dues.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 23.06.2023, 28.08.2023, 18.09.2023, 03.10.2023, 20.10.2023, 06.11.2023, 05.12.2023, 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends appropriate action under license agreements which include suspension of licenses of defaulters, imposition of fines and interest on the default amount, and any other methods at the disposal of CAA for recovery of the outstanding dues. If the defaulters are unable to pay the arrear amount, a settlement may be agreed upon for gradual recovery of the arrear amount in installments. Responsibility may be fixed against the negligent officials of CAA for non-recovery of dues.

Note: The issue was reported earlier also in the Audit Reports for Audit Years 2019-20, 2020-21, 2021-22 and 2022-23 vide para numbers 4.5.2 (2019-20), 4.5.5 (2020-21), 4.4.1 (2021-22), 4.4.14 (2022-23) having a financial impact of Rs 140,242.16 million. The recurrence of same irregularity is a matter of serious concern.

(DP. 01, 08, 09,10,16,28, 30, 33,34,35,36,103,114, 198, 256, 258, 283, 315, 320, 413)

4.4.2 Massive increasing trend of doubtful debts of aeronautical and non-aeronautical dues - Rs 113,853.187 million

Recovery Cell was established based on the decision of CAA Executive Committee in its 300th meeting held on 16.05.2019. The core responsibility of Recovery Cell is to exercise zero-tolerance policy in respect of all current dues of the active parties. Recovery Cell has to ensure timely recovery of dues in co-ordination with respective Office of Prime Importance (OPI)/Directorate.

Audit noted from financial statement for the year 2022-23 that an amount of Rs 118,436.439 million was accumulated as gross aeronautical dues Trade debts and an amount of Rs 4,022,607 million was accumulated as non-aeronautical dues Trade debts as on 30.06.2023.

Audit further noted that an amount of Rs 110,436.439 million was considered doubtful out of gross aeronautical dues Trade debts Rs 118,161.478 million and an amount of Rs 3,416.748 million was considered doubtful out of gross non-aeronautical dues Trade debts Rs 4,022.607 million.

Audit observed that Recovery Cell of Directorate of Finance HQ CAA Karachi has not taken effective steps to minimize trend of doubtful debts of aeronautical and non-aeronautical dues of Rs 113,853.187 million (Rs 110,436.439 million + Rs 3,416.748 million) which was 93.245% of gross trade debts of aeronautical dues of Rs 118,161.478 million and 84.94% of gross trade debts of non-aeronautical

dues of
Rs 4,022.607 million. This resulted in massive increasing trend of doubtful debts of aeronautical and non-
aeronautical dues involving
Rs 113,853.187 million.

Doubtful debts for the financial year 2021-22 were Rs 95,800.186 million and for the financial year 2020-21 were Rs 88,076.132 million.

Audit holds that Recovery Cell of CAA, Karachi had not taken effective steps to minimize the massive increasing trend of doubtful debts of aeronautical and non-aeronautical dues of Rs 113,853.187 million.

Audit pointed out the irregularity in October 2023. The Authority replied that the CAA Recovery Cell has been constantly pursuing the matter of aeronautical and non-aeronautical dues by putting considerable efforts for clearance of outstanding dues.

The Authority admitted the audit observation. There was a massive increase in doubtful debts of aeronautical and non-aeronautical dues but concerted effort has not been witnessed from the Recovery Cell.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends taking effective steps for minimizing the massive increasing trend of doubtful debts of aeronautical and non-aeronautical dues involving Rs 113,853.187 million under intimation to audit

(DP.287)

4.4.3 Investment of surplus funds beyond the investment policy - Rs 77,000 million

As per Table-B given in CAA Employees Pension Fund Trust Investment Policy, funds can be placed in any single bank up to Rs 6,000 million (credit rating A1) and Rs 4,000 million (credit rating A1) in daily product account/investment account.

Audit noted that the Director Finance (Pension & Funds) HQ, CAA, Karachi placed surplus funds in different commercial banks for investment of Rs 77,000 million.

Audit observed that Pension & Funds Section of Finance Directorate HQ, CAA, Karachi invested Rs 7,000.00 million beyond the prescribed limit of Rs 6,000.00 million in a single bank as evident from M-01 of the file No. HQCAA/2918/518/Pension in which Sr. Assistant Director (AD) Finance (Pension) apprised and got approval from the competent authority of Para 4.2b and c of the said M-01 in the following manner:

- a. Rs 1,000 million Term Deposit Receipts (TDRs) encashed from M/s. Habib Metropolitan Bank Limited so as to keep the balance of TDRs in line with the maximum investment limits of CAA (i.e., Rs 6 billion for A1 + rated banks).
- b. Rs 1,000 million TDRs encashed from M/s Bank Al Falah Limited so as to keep the balance of TDRs in line with the maximum investment limits of CAA (i.e., Rs 6 billion for A1 + rated banks).

This resulted in an investment beyond the prescribed limit in a single bank involving Rs 77,000 million.

Audit maintains that the investment of surplus funds beyond the prescribed limit in a single bank occurred due to weak administrative and financial control.

Audit pointed out irregularity in October 2023. The Authority replied that all the investments activities carried out by CAA Employees Pension Fund/Trust are in complete compliance of CAA Employees Pension Fund Investment Policy duly approved by the Trustees of CAA Employee Pension Fund Trust. The auditor erroneously highlighted the maximum limit of investment in Daily Product Account and applied it for TDRs investment. The limit of Rs 6 billion is for daily product investment in any A1+ rated bank (short term). For TDRs placement, the maximum placement limit is Rs 7 billion for A1+ rated banks (short term). The Table B, as referred by auditor above, also states the following under the Section (b) for preferred concentration limit:

“In case, any bank holds CAA Pension Fund TDRs investment and also has CAA Pension Fund daily product account, the total amount of placement should not be more than Rs 13.0 billion (A1+) and Rs 9.0 billion (A1) respectively.”

CAA Employees Pension Fund Trust has an investment of Rs 6 billion in a single bank, against the approved limit of Rs 7 billion, needless to say that the amount was invested within the approved limit.

Secondly, encashment upon maturity and exposure level in mentioned scheduled banks is purely a part of investment strategy under prevailing economic scenario rather than a Policy decision. All the investments carried out by Trustees of CAA, Pension Fund are in complete compliance of CAA, Pension Fund Investment Policy duly approved by CAA, Pension Fund/Trust Board of Trustees.

The reply was not tenable because the maximum limit of fund was required to be invested of Rs 6,000.00 million on balance of TDR account. Accordingly Sr. AD Finance (Pension) apprised and got approval from the competent authority vide Para 4.2 b and c of the said M-01 in the following manner:

- a. Rs 1,000 million TDRs encashed from M/s Habib Metropolitan Bank Limited so as to keep the balance of TDRs in line with the maximum investment limits of CAA (i.e., Rs 6 billion for A1 + rated banks).
- b. Rs 1,000 million TDRs encashed from M/s Bank Al Falah Limited so as to keep the balance of TDRs in line with the maximum investment limits of CAA (i.e., Rs 6 billion for A1 + rated banks).

DAC meeting was not convened by PAO despite repeated requests made by Audit on 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends that inquiry may be conducted as to why certain banks were given undue benefit by depositing excess amount in their accounts in violation of the rules and responsibility may be fixed against the responsible individuals. Financial controls may be strengthened and an internal audit committee should be formed to oversee the decisions of the financial committee.

Note: The issue was reported earlier also in the Audit Reports for Audit Years 2019-20 and 2022-23 vide paras number 4.5.3(2019-20) and 4.4.1 (2022-23), having a financial impact of Rs 153,956.60 million. The recurrence of same irregularity is a matter of serious concern.

(DP 285)

4.4.4 Loss to Authority on account of payment of corporate tax on unrealized/unrecovered PCAA dues from M/s PIACL- Rs 42,400 million

Para 4.2 of the DG directive No. 05/2021 (establishment/ revamping of recovery cell) dated 31.08.2021 describes for old outstanding cases where the dues have exceeded 75% of security deposit/ advance, Recovery Cell shall immediately report such cases to DG, CAA and Addl. DG, CAA for approval of final recovery action.

During audit of the accounts of Finance Directorate, (HQ) Civil Aviation Authority Karachi it was noted that PCAA has recognized the receivable dues in its books of accounts as per applicable accounting standards and has also paid a significant amount of Rs 33.900 billion (approx.) on account of tax on unrealized dues from M/s PIACL.

Audit further noted that corporate tax of Rs 8.500 billion was paid by CAAP on unrealized/unrecovered PCAA dues from M/s PIACL.

Audit observed that no timely and effective steps have been initiated to recover/adjust the dues whereas the authority has paid Rs 33,900 million on account of tax of unrealized/unrecovered PCAA dues from M/s PIACL. This resulted in likely loss of Rs 42,400 million to Authority on account of payment of tax on unrealized/unrecovered PCAA dues from M/s PIACL.

Audit maintains that the loss occurred due to inadequate oversight mechanism in enforcing relevant financial rules.

Audit pointed out the loss in October 2023. The Authority replied that outstanding CAA dues piled up/raised up to the tune of Rs 184.674 billion as on 30.09.2023 (including freeze dues).

DAC meeting was not convened by PAO despite repeated requests made by Audit on 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends devising a mechanism for realization of PCAA dues from M/s PIACL to avoid loss on account of payment of tax on un-realized/un-recovered PCAA dues from M/s PIACL.

Note: The issue was also reported earlier in the Audit Report for Audit Year 2016-17 vide para number 3.4.15 having a financial impact of Rs 18,398.310 million. The recurrence of same irregularity is a matter of serious concern.

(DP. 268 & 269)

4.4.5 Unauthentic payment without recording detailed measurement of work in Measurement Book - Rs 31,840.244 million

Civil Aviation Authority Order (CAAO) No.4-2 (revised) dated 31.12.2000 provides, CAA Board in its 89th meeting held on 26.06.2000 approved the adoption of Federal Government Rules and procedures for execution of works in CAA.

Para 208 of Central Public Works Accounts Code, payments for all work done are made on the basis of measurements recorded in the Measurement Book (Form-23) in accordance with the rules in Para 209 of CPWA Code. The Measurement Books should, therefore, be considered as very important accounting record. Para 209(b) states that all measurements should be neatly taken down in a Measurement Book.

Audit noted that CAA made payments for five projects against work done for Rs 31,840.244 million for the year 2022-23, as detailed below:

(Rs in million)

DP. No.	Name of Project	Contractor	Work-done
157	Reconstruction of rigid runway Faisalabad Airport	M/s Design & Engineering System Pvt. Ltd.	3,142.976
190	Expansion of Terminal Building at AIIAP, Lahore (up-gradation of Main Runway)	M/s CCECC – Matracon– Habib (JV)	8,789.851
	Expansion of Terminal Building at AIIAP, Lahore (Access Road Network)	M/s Sichuan-SCL (JV)	1,490.380
	Expansion of Terminal Building at AIIAP, Lahore (Parking Area)	M/s Izhar Const.	9,060.177

DP. No.	Name of Project	Contractor	Work-done
224	Const. of Greenfield Aerodrome for General Aviation Activities at Muridke	M/s Shaanxi Const. Eng. Group Corp Ltd-Umer Jan & Co. (JV)	1,413.015
237	New Gwadar International Airport Project	Various Packages	2,717.502
321	Reconstruction of Rigid Runway at Quetta International Airport for Operation of Aircraft up to ICAO Code 4E	M/s Umer Jan & Co Engineers and Contractors	5,226.343
		Total	31,840.244

Audit observed that payments of work done, price adjustments were made to the contractors without recording detailed measurements in the Measurement Books.

Audit maintains that veracity/authenticity of payment could not be verified due to non-maintenance of Measurement Books. The Authority adopted an irregular method of work measurement by dispensing with an approved and established method of permanent record keeping for all public sector infrastructure works and mandatory oversight of 100% work done certification by the Engineer Incharge and 10% test check by the Supervisory Engineer.

This resulted in unauthentic payment without detailed measurement/execution in the measurement books for Rs 31,840.244 million.

Audit pointed out the irregularity in August-September 2023. The Authority replied that the matter was taken up with the Ministry of Law and Justice and the Ministry vide letter dated 22.02.2021 has given its clarification on applicability of measurement book not to be binding on PCAA. In nexus to above the matter has been taken up with the Ministry of Planning & Development through Aviation Division vide letter dated 13.05.2023 for their candid opinion on the matter.

The reply was not tenable. Audit emphasized that the requirement of maintenance of Measurement Books in the prescribed format is as per rule being a permanent record and it should, therefore, be considered a very important record and be maintained very carefully and accurately as they may have to be produced as evidence in a Court of Law. The irregularity has also been repeatedly pointed out by Audit in the preceding Audits (Para 4.4.4 Audit Report 2022-23), but no policy decision was obtained from competent forum.

The matter was discussed in DAC meeting held on 15-16 January, 2024. The management of CAA apprised the DAC that in PEC Bidding Documents & FIDIC based Contracts, detailed measurements of items are made on measurement sheets and the same are duly attached with the abstracts of every IPC. The matter has also already been taken up with Ministry of Planning, Development & Special Initiatives through Aviation Division for their opinion on recording detailed measurements in the prescribed measurement book (MB) but the response is awaited.

Audit contended that MB has not direct relation with contract documents and informed the committee that Measurement Book, to be prepared in Form 23, is a control prescribed in applicable works code. It is an important and reliable record which can be presented in court of law as evidence. Accordingly, it follows a strict control whereby all books are serially numbered, machined-numbered pages and accounted for in a register showing name of officer to whom issued with date and its return after use. Entries are to be made continuously on real time execution basis with certificates of officers concerned. The entries made in MB cannot be erased and in case of any correction it has to be made under proper authentication by the officers concerned.

DAC directed the management of CAA to deliberate the matter regarding recording of MB at in-house/Board level in the light of audit contention and final stance be shared with Audit. The DAC further directed to approach Ministry of Planning, Development and Special Initiatives for their input.

Audit recommends that the department should justify the total cost of work done since the progress of work done and the amount of quantities utilized cannot be reasonably measured in the absence of detailed measurements. Audit recommends that responsibility may be fixed for violation of rules and corrective action may be taken.

Note: The issue was reported earlier also in the Audit Reports for Audit Years 2021-22 and 2022-23 vide para numbers 4.4.4 (2021-22), 4.4.4 (2022-23) having a financial impact of Rs 10,142.38 million. The recurrence of same irregularity is a matter of serious concern.

(DP.157, 190, 224, 237, 321)

4.4.6 Mishandling procurement case of Allama Iqbal International Airport, Lahore, Expansion of Terminal Building and Allied Facilities estimated cost - Rs 25,276.266 million

Rule 36 (viii) of the Public Procurement Rules 2004 states that, ‘after the evaluation and approval of the technical proposal the procuring agency, shall at a time within the bid validity period, publicly open the financial proposals of the technically accepted bids only. The financial proposal of bids found technically non-responsive shall be returned un-opened to the respective bidders.’

Planning & Development Directorate, CAA is responsible for the development of Airport Infrastructure which includes development of new airports and expansion/ modernization of existing airports.

Planning, designing & development of projects as per ICAO/FAA Standards,

Taking input from all directorates and compile Annual Development Plan (ADP) for budget allocation,

Hiring of Consultants for Design & Supervision of projects,

Preparation of PC-1 and obtaining approval from competent fora,

Deployment of Project Staff (In-house + hiring from the market),

Monitoring Project progress, handing/taking over & closures.

Audit noted that the letter of acceptance was issued in favor of M/s Sinohydro-Umer Jan (JV) on 14.03.2023 for the work “Allama Iqbal International Airport (AIIP), Lahore, Expansion of Terminal Building and Allied Facilities.

Audit observed that M/s NESPAK Consultant declared M/s Sinohydro-Umer Jan (JV) as “non-responsive” for the work because at the time of financial bid M/s Sinohydro – Umer Jan (JV) had not filled their financial bid on the original hard copy of BOQ. But the management of Planning & Development of PCAA did not agree with the recommendation of the Consultant and the Director P&D approached credible Law Firms for seeking legal opinion vide letter dated 15.02.2022. In response, two law firms also recommended disqualification of M/s Sinohydro-Umer Jan JV. Despite the above fact the letter of acceptance was issued in favour of M/s Sinohydro-Umer Jan (JV) by 14.03.2023.

The Final Evaluation Report was uploaded on the PPRA website by 15.03.2023 and the following day i.e., 16.03.2023 P&D Directorate issued formal notice to JS Bank Limited vide letter dated 16.03.2023 for Encashment of Bid Security of Rs 250.00 million provided by M/s Sinohydro-Umer Jan (JV).

Audit pointed out mishandlings procurement case in August 2023. The Authority replied that the Consultant's recommendation was not binding on the Procuring Agency and CAA declared M/s Sinohydro - Umer Jan (JV) as the lowest evaluated bidder in the best interest of the Authority. The Authority further replied that M/s Sinohydro-Umer Jan (JV) vide PCAA letter dated 10.02.2023 was requested for the extension of Bid validity and subsequent extension of Bid Security for the extended period. In response to PCAA letter, M/s Sinohydro-Umer Jan (JV) vide letter dated 20.02.2023 informed to communicate their decision before 08.03.2023 regarding extension in bid validity. However, no such decision was communicated which confirmed that the JV didn't extend the bid validity. Letter of Acceptance issued to M/s Sinohydro-Umer Jan (JV) on 14.03.2023 well within the bid validity period and asked to acknowledge the acceptance by 16.03.2023 failing which the Employer reserves all rights to invoke relevant clauses in accordance with the issued bidding documents and prevailing rules. When no such acknowledgment was provided by the JV till close of hours on 16.03.2023, relevant necessary actions including notice to encashment of Bid Security were taken by PCAA in line with the provision of issued bidding documents and prevailing rules

The reply was not tenable because the acceptance letter was issued to the firm, disqualified by the consultant M/s NESPAK and two law firms. Further, the final Evaluation Report was uploaded on the PPRA website by 15.03.2023 and just next day on 16.03.2023 formal notice was issued to bank for Encashment of Bid Security but the bank guarantee was not encashed. This resulted in mismanagement of the procurement case.

Audit maintains that due to mishandling, the procurement case was under litigation.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends that a thorough investigation of the procurement case may be conducted as the department gave undue advantage to a contractor despite contrary advice by the consultant and two law firms. The process of procurement may be improved by forming a procuring committee where no single individual has the authority to overturn the decision of the whole committee.

(DP. 373)

4.4.7 Non-achievement of development targets due to non- utilization of development funds - Rs 23,174.510 million

Para 2.1 of Planning Commission's Guidelines for Project Management (August 2008) provides that policy of the Government of Pakistan is to efficiently utilize natural and economic resources of the country for socio-economic welfare of the people. This objective may be achieved only when development projects are planned and executed with vigilant management. Objective of development planning is to have projects implemented for the benefit and social uplift of the society. For achievement of stipulated targets and tangible returns, it is imperative to entrust management and supervision of the project during implementation stage to capable and competent persons of required qualifications, experience and caliber.

Audit noted during the scrutiny of record of Director Planning and Development Directorate Civil Aviation Authority HQ CAA Karachi that after re-appropriation in about 17 cases, the final funds approved for Annual Development Programme of 172 schemes come to Rs 30,439.368 million for the financial year 2023-24.

Audit observed that development fund of Rs 7,264.858 million was utilized during financial year 2022-23 against the ADP funds of 30,439.368 million approved and allocated for 172 ADP Schemes for the financial year 2022-23. In this way, a huge development fund of Rs 23,174.510 million which comes to 76.13% of the ADP allocation could not be utilized. The authority thus failed to achieve the development target despite availability of development funds. This leads to inefficiency towards achievement of development targets involving Rs 23,174.510 million.

Audit maintains that the non-achievement of the targets was due to non-adherence to the rules/regulations and weak internal controls.

Audit pointed out non-achievement of development targets in August, 2023. The Authority replied that several factors hindered utilization of ADP 2022-23. The main challenges included unstable/ uneconomical financial condition of the country, abnormal currency rate fluctuation, ban on opening of LCs by Government of Pakistan and litigation/court cases. These factors resulted in poor participation of bidders in many cases, specially where imported items were involved. In some cases, bidders quoted extremely higher price for such items to safeguard themselves against unstable economic conditions, hence bids were rejected.

The reply without documentary evidence was not acceptable. This is alarming situation that only amount of Rs 7,264.858 million i.e., 23.867% of Rs 30,439.368 million was utilized against the final approved 172 ADP schemes/allocation as on 30.06.2023.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends that the authority should improve its planning department which should ensure complete utilization of development funds since the delay for any reason would ultimately cost the exchequer. An arbitration committee may be formed for early and timely resolution of disputes that could possibly hinder the progress of development projects. Furthermore, audit recommends further investigation in the matter for not achieving the development targets despite availability of funds and action against the responsible under intimation to audit.

(DP. 372)

4.4.8 Non-finalization of accounts and non-preparation of PC-IV and PC-V of completed works - Rs 20,944.340 million

Rule 45 of the Public Procurement Rules, 2004 (1) provides, except for defect liability or maintenance by the supplier or contractor, as specified in the conditions of contract, performance of the contract shall be deemed close on the issue of overall delivery certificate or taking over certificate which shall be issued within thirty days of final taking over of goods or receiving the deliverables or completion of works enabling the supplier or contractor to submit final bill and the auditors to do substantial audit. (2) In case of defect liability or maintenance period, defect liability certificate shall be issued within thirty days of the expiry of the said period enabling the supplier or contractor to submit the final bill. Except for unsettled claims, which shall be solved through arbitration, the bill shall be paid within the time given in the conditions of contract, which shall not exceed sixty days to close the contract for final audit.

Audit noted that CAA awarded four (04) works to different contractors which were completed from October 2019 to July 2022 involving expenditure of Rs 20,944.340 million, as detailed below:

(Rs in million)

DP No.	Name of Project	Amount	Date of Completion/ TOC
173	Reconstruction & Up-gradation of Main Runway (18L/36R) at AIIAP Lahore	8,789.825	29.07.2022
186	Passenger Terminal Building Expansion Project at AIIAP Lahore (Const. of Car Parking Area)	10,550.557	2021
296	Package-4A Airport Information Management System IIAP Islamabad	1,547.656	09.11.2020

DP No.	Name of Project	Amount	Date of Completion/ TOC
303	Construction of Airport Security Force camp phase-1 at IIAP Islamabad	56.302	15.10.2019
	Total	20,944.340	

Audit observed that since expiry of considerable time after completion, CAA did not finalize the accounts of the projects/works and PC-IV & PC-V has also not been prepared as required. Furthermore, assets i.e., vehicles, office and residence furniture and fixtures, laboratory and survey equipment, etc., procured against these works/projects were not taken on stock register. This resulted in non-finalization of accounts and non-preparation of PC-IV and PC-V of completed works for Rs 20,944.340 million.

Audit maintains that non-finalization of accounts and non-preparation of PC-IV and PC-V of completed works/projects occurred due to weak internal controls and poor assets management.

Audit pointed out the matter during August-November 2023. The Authority replied (DP. 173) that final TOC was yet to be issued in respect of the whole of the works. The Engineer will issue final payment certificate to the employer in accordance with the provisions of contract and subsequently will submit PC-IV.

In DP. 296, it was replied that the Engineer Representative (ER) of Package-4A was coordinating with the contractor for submission of Application of Final Certificate of Payment as per Clause 33.8 of the contract. Final Payment Certificate (FPC) will be processed and forwarded to the Employer by the ER, after completing contractual obligations.

In DP 303 it was replied that the main facility was handed over to end-user ASF, on Taking-Over Certificate and ASF was using the facility since operationalization of Airport and at the same time Contractor has executed remedial works.

The reply of the Authority was not tenable. The finalization of accounts of the project alongwith PC-IV was to be prepared as per Planning Commission guidelines after completion of all codal formalities. Further, accountal of assets (Stock/equipment) was not recorded in the CAA books of

accounts. A period of more than two year has been elapsed after TOC but the contractor neither submitted final statement nor the project management finalized the accounts of the project.

The matter was discussed in DAC meeting held on 15-16 January, 2024. CAA apprised that final bill has been received and finalization of accounts is under process. DAC directed to expedite the process and get the relevant record be verified by Audit (DP. 186). In case of DP. 173, CAA explained that Final TOC is yet to be issued. DAC directed the management of CAA that relevant record showing original date of start, stipulated date of completion, actual date of completion, reasons/ justification for delay, approved extension of time be verified from Audit. DP. 296 and 303 were not discussed in DAC meeting.

Audit recommends that the matter may be further investigated to fix responsibility, whether it be against the client, consultant, or the contractor and fines may be levied against the responsible party for delay in the finalization of the projects. If the delay is on part of CAA, the responsible officers may be held to task for causing unnecessary delays and costing the exchequer. Audit also recommends early finalization of accounts and taking over assets (Stock/equipment) in CAA books of accounts under intimation to Audit.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2020-21 and 2021-22 vide para numbers 4.4.1 (2020-21) and 4.4.2 (2021-22) having a financial impact of Rs 22,138.372 million. The recurrence of same irregularity is a matter of serious concern.

(DP. 173, 186, 296, 303)

4.4.9 Non-recovery of outstanding dues against defaulters - Rs 19,135.094 million

Para 4.2 of the DG directive No. 05/2021 (establishment/ revamping of recovery cell) dated 31.08.2021 describes for old outstanding cases where the dues have exceeded 75% of security deposit/ advance, Recovery Cell shall immediately report such cases to DG, CAA and Addl. DG, CAA for approval of final recovery action.

During audit of the accounts of Finance Directorate, Civil Aviation Authority, Karachi it was noted that an amount of Rs 105,034.280 million has been realized against aeronautical billing of Rs 124,169.373 million during the financial year 2022-23. In this way the Authority could not realize of Rs 19,135.093 million (Rs 124,169.373 million - Rs 105,034.280 million) for the period from July 2022 to June 2023.

Audit observed that no timely and effective steps have been initiated to recover/ adjust the outstanding dues. Delay in recovery of the dues will result accumulation and at the end remained irrecoverable and recommends for write off action.

Audit holds that due to non-observance of the prescribed procedure an amount of Rs 19,135.094 million remained irrecoverable.

Audit maintains that non-recovery of aeronautical charges was due to inadequate oversight mechanism in enforcing relevant financial rules.

Audit pointed out non-recovery in October, 2023. The Authority replied as under:

M/s PIACL Rs 18,828.383 million

M/s PIACL failed to comply with the decision of ECC/Aviation Division. Moreover, PCAA is continuously following up the Airline for payment of its outstanding dues, in this regard, upon no positive response from the airline, PCAA further approached to the highest possible forum i.e., Aviation Division, Government of Pakistan for recovery of its dues.

Parking Charges Rs 29.083 million

A comprehensive mechanism for disposal of long parked aircrafts is under consideration with the management and outcome of which will be appraised to Government Audit, as and when effected.

Court Cases Rs 96.433 million

The court cases are vigorously being pursued by Legal Regulatory HQ, CAA.

Embassies Rs 171.331 million

The matter has already been taken up to Ministry of Foreign Affairs by Recovery Cell, HQ, CAA for recovery of outstanding PCAA dues, outcome will be shared to Audit as and when recovered.

Government & Others Rs 9.863 million

The matter is under active persuasion by Recovery Cell, HQ, CAA, as and when recovered will be apprised accordingly.

Authority has admitted the audit observation.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends suspension of services of defaulting parties. Furthermore, fines may be levied against the non-complying parties. A payment method may be devised in consultations with the defaulting companies for clearance of their dues in installments. Audit also recommends appropriate action under the provision of license agreements besides ensuring recovery of the outstanding dues.

(DP. 274)

4.4.10 Unauthentic award and execution of contract - Rs 8,166.212 million

Para 56 of CPWA Code, a properly detailed estimate must be prepared for the sanction of competent authority; this sanction is known as the Technical Sanction to the estimate and must be obtained before the construction of the work is commenced. As its name indicates, it amounts to no more than a guarantee that the proposals are structurally sound, and that the estimates are accurately calculated and based on adequate data.

Para-98 of CPWD Manual chapter VI states, “While preparing estimates the quantity surveyor should base the estimate on the schedule of rates in force, in the locality. For non-schedule item current market rates should be properly analyzed.

Audit noted during audit of the Project Director, New Gwadar International Airport Project (NGIAP), CAA Gwadar that a work “Power Supply System along Fence, Security Control & Monitoring System and Watch Tower (Package-I)” was awarded to M/s Qavi Engineers (Pvt) Ltd on 20.06.2022 at a bid cost of Rs 2,299.617 million and the total gross payment of Rs 1,050.147 million was made to the contractor during financial year 2022-23.

Audit further noted that the work “Construction of CAA residential Complex Cargo Building, and External Services at NGIAP (Package-II)” was awarded to M/s SCEGCL-N&B (J.V) on 24.11.2022 at a bid cost of Rs 5,866.596 million and the gross payment of Rs 1,230.327 million was made to the contractor during the financial year 2022-23.

Audit observed that the above mentioned contracts were awarded on the basis of non-scheduled item and based on market rates, whereas rate analysis duly supported with evidences of basic market rates was not forthcoming from the record produced to Audit. Audit further observed that work plan, detailed estimate, original Technical sanction and test reports (Soil, Steel & Concrete) were also not forthcoming from the record produced to Audit.

Audit is of the view that in the absence of the mandatory evidences regarding reasonability of market rate-based items, the payment stands unauthentic.

Audit holds that non- preparation of proper rate analysis resulted in unauthentic award and execution of work amounting to Rs 8,166.212 million (Package-I Rs 2,299,616,940 + Package-II Rs 5,866,596,025).

Audit pointed out the irregularity in September 2023. The Authority replied that rate analysis for Package-I & II had already been prepared by the M/s NESPAK and based on market rates which are available for verification.

The reply was not tenable as the rate analysis duly supported with evidence of prevailing market rates were not provided for verification till finalization of report.

The matter was discussed in DAC meeting held on 15-16 January 2024. DAC pended the para with the directions to the management of CAA to submit revised reply along with supporting record, revised TS, basis of rates/quotations, work plan, test reports, geo-tech report to Audit for evaluation.

Audit recommends that fresh estimates may be prepared for the projects as per CPWD code and it may be compared with the contract rates to calculate the actual discrepancy in the contract cost. The excess amount may be recovered from the contractor. Furthermore, Audit recommends that the matter may be investigated for fixing responsibility against the concerned officials.

(DP. 238)

4.4.11 Irregular expenditure due to non-revision of PC-I - Rs 3,608.507 million

Para 9.1 of Planning Commission's Guidelines for Project Management (August 2008) provides that after the approval of the project, the executing agency implements the Project according to the provisions of PC-I. There is no need for revision of PC-1 if completion cost is within the permissible limit of 15% of the approved cost and scope of the project as approved in the PC-I. According to para 9.2, during the implementation of project, if it is felt that there will be major change in the scope of work or increase in the approved cost by more than 15%, then the project has to be revised and submitted for approval by the competent authority. It is essential that the revised cost estimates are prepared in a realistic manner. As per para 9.3, the revised PC-I should provide reasons and justifications for revision in cost/scope of work.

Audit noted that Project Management Unit, CAA Lahore got executed works and incurred expenditure of Rs 14,581.727 million as under:

(Rs in million)

DP. No.	Name of Works	PC-I Cost	Agreement Cost	Expenditure	Excess	%age excess
185	Passenger Terminal Building Expansion Project at Allama Iqbal International Airport, Lahore (Const. of Car Parking Area)	5,023.220	5,903.940	7,709.557	2,686.337	53.48
165	Reconstruction & Up-gradation of Main Runway (18L/36R) at Allama Iqbal International Airport (AIIAP) Lahore	5,950.000	6,450.868	6,872.170	922.170	15.50
	Total	10,973.22		14,581.727	3,608.507	

Audit observed that the value of work done was increased from the admissible limit of 15 % from PC-I provisions and excessive expenditure of Rs 3,608.507 million was incurred without revision of PC-I as required. This resulted in irregular expenditure of Rs 3,608.507 million due to non-revision of PC-I.

Audit pointed out the irregularity during July-August 2023. The Authority replied that umbrella PC-I was approved for Rs 43.632 billion for the project Expansion of AIIAP Lahore whereas approved work done cost increase, in car parking package was approximately 6% of aforementioned total approved PC-I cost which was within prescribed limits. In other work, it was replied that revised PC-I was being prepared by the Consultant and subsequently would be presented to competent forum and would be shared with audit upon approval.

The reply was not accepted because under the component of car parking an excess of 53.48% was made. Moreover, payments were made beyond the permissible limit without approval of revised PC-I.

The matter was discussed in DAC meeting held on 15-16 January 2024 wherein the Committee directed DG CAA to review the project holistically in the light of irregularities pointed out by Audit and comprehensive report be shared with PAO and Audit. Further, DAC directed the management of CAA to provide following details in tabular form, regarding variations to Audit for verification:

PC-I cost	Component wise cost (Civil Works, others)	Item-wise detail of cost						
		Name of Item	Quantity	Rate	BOQ/No-BOQ	Justification	Price Escalation	Custom duty

Audit recommends investigation in the matter for making payments beyond the permissible limits, besides approval of the revised PC-I under intimation to Audit. Excess payments may be justified by the department and if found unjustified, recoveries may be made from the contractor while fixing responsibility against the concerned officials for allowing excess payments.

(DP. 165 & 185)

4.4.12 Unjustified transfer of PCAA's funds to PIACL bank account -Rs 4,000 million

Recovery Cell was established based on the decision of CAA Executive Committee in its 300th meeting held on 16.05.2019. The core responsibility of Recovery Cell is to exercise zero-tolerance

policy in respect of all current dues respective of the active parties. Recovery Cell has to ensure timely recovery of dues in co-ordination with respective Directorate.

During audit of the accounts of Finance Directorate, (HQ) CAA, Karachi, Audit noted that the PCAA transferred an amount of Rs 4,000 million to Pakistan International Airlines Corporation Ltd (PIACL) on 03.08.2023 as temporary financial aid.

Audit observed that such aid was made despite the fact that an amount of Rs 107,649.172 million was recoverable from PIACL on account of aeronautical dues and Rs 1,397.629 million as non-aeronautical on 30.06.2023. This resulted in unjustified transfer of PCAA's funds of Rs 4,000 million to PIACL.

Audit pointed out irregularity in October 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends justification for the irregular transfer of money from PCAA account to PIACL account. Strict financial controls may be implemented where transfer of significant amounts should be approved by the highest authority in the PCAA. Responsibility may be fixed against the relevant officers for the negligence on their part. Furthermore, the Ministry of Aviation should implement stern measures for reducing impaired amount of Rs 113,046.801 million which was increasing on day by day.

(DP. 288)

**4.4.13 Non-achievement of stipulated targets and tangible returns under approved Annual Development Programme -
Rs 3,490.80 million**

Para 2.1 of Planning Commission's Guidelines for Project Management (August 2008) provides that policy of the Government of Pakistan is to efficiently utilize natural and economic resources of the country for socio-economic welfare of the people. This objective may be achieved only when development projects are planned and executed with vigilant management. Objective of development planning is to have projects implemented for the benefit and social uplift of the society. For achievement of stipulated targets and tangible returns, it is imperative to entrust

management and supervision of the project during implementation stage to capable and competent persons of required qualifications, experience and caliber.

During audit of the record of Directorate of Communication Navigation Surveillance (HQ) CAA, Karachi it was noted that twenty (20) schemes duly approved from competent forum were included under ADP 2022-23 involving estimated cost of Rs 6,906.255 million.

Audit further noted that funds allocation against remaining eight (8) schemes valuing Rs 197.300 million were also made during the year against which, releases amounting to Rs 76.634 million were made up to 30.06.2023 i.e., 38.841%.

Audit observed that out of twenty (20) schemes, allocation of funds against twelve (12) schemes valuing Rs 3,490.80 million were also made but these schemes were not yet started, which means that the projects/ schemes were planned and undertaken without due diligence and the availability of financial resources. This shows that the Authority failed for timely procurement of these projects which were included /approved under ADP. Further, due to increasing trend of the prices of materials, services and foreign exchange conversion rate, the procurement cost will increase from the estimated cost abnormally. This resulted in non-achievement of stipulated targets and tangible returns due to non-procurement of works approved under ADP Rs 3,490.80 million.

Audit maintains that non-achievement of the targets was due to non-adherence to the Project Management Guidelines and weak internal controls.

Audit pointed out the non-achievement of the targets in August 2023. The Authority replied that most of the cases were either re-tendered or in process, while some were turned down by the competent authority. The reply of the Authority was not convincing because schemes were proposed in ADP 2022-23 without proper analysis, need and necessity. Further, the Authority could utilize only 1.109% of the ADP.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 03.10.2023, 20.10.2023, 06.11.2023, 05.12.2023, 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends that investigation may be carried out to determine the reason why funds were demanded but not utilized by the PCAA. Inquiry may be made for abnormal delay in procurements of works and reduction in ADP schemes may be investigated for fixing the responsibility against the person(s) at fault.

(DP. 214)

4.4.14 Execution of the projects without feasibility studies and technical sanctioned estimates - Rs 11,569.00 million and irregular approval of schemes - Rs 2,872.00 million

Para 2.08 of Manual for Development Projects, 2021 issued by Planning Commission states that the PC-II approved by the relevant competent forum is required for the conduct of feasibility study, including technical investigations, market surveys and other studies. The requirement of a PC-II shall be mandatory for infrastructure projects, each costing Rs 500.00 million or above. Further, Para 7.25 of the Manual explains that the autonomous organizations whether commercial or non-commercial having Board by whatever name called, should be competent to sanction their development schemes with 100% self-financing with no government guarantee and involving less than 25% foreign exchange/foreign assistance subject to various requirements including constitution of Departmental Development Working Party (DDWP). In cases where foreign exchange is more than 25% of the total cost of the project, the approving forum will be Central Development Working Party (CDWP)/Executive Committee of the National Economic Council (ECNEC) irrespective of the cost of the project vide Planning Commission Notification No.20(1) PIA-I/PC/2019 Islamabad, dated 23.09.2019.

Further, as per Para 6.09 of Pak PWD Code Revised 1982), adopted by PCAA, a proper detailed estimate must be prepared for the sanction of competent authority.

Audit observed from the record of Communication, Navigation and Surveillance (CNS) Directorate, PCAA Karachi that:

Two schemes as detailed below were approved in Annual Development Programme (ADP) of PCAA without conducting feasibility study in violation of Planning Commission's guidelines:

Name of Scheme	Year	Estimated cost (Rs in million)		
		Local component	Foreign component	Total
Up-gradation of ATM/Voice Control and Communication System (VCCS) of	2021-22	680.000	1,520.000	2,200.000

Name of Scheme	Year	Estimated cost (Rs in million)		
		Local component	Foreign component	Total
Karachi and Lahore Area Control Centres (ACCs)			(69%)	
Provision /Replacement of Doppler Very High Frequency Omni Directional Range (DVORs)/Distance Measuring Equipment (DMEs) at Airports	2021-22	325.000	1,075.00 (77%)	1,400.000

An amount of Rs 4.829 million was spent till June 2021 against the scheme “Up-gradation of ATM/Voice Control and Communication System (VCCS) of Karachi and Lahore Area Control Centres (ACCs)” and no further progress was achieved during the year 2021-22. Subsequently, estimated cost of the scheme was enhanced to Rs 4,000.00 million, which included Foreign exchange component of Rs 2,255.00 million and got approved from the PCAA Board for the year 2022-23. Delayed implementation caused increase in cost.

Six (06) self-financing schemes amounting to Rs 2,872.00 million involving Foreign Exchange Component (FEC) of Rs 2,146.00 million were approved by PCAA Board for the year 2021-22 and 2022-23. Since the foreign exchange component for these schemes was in excess of 25% of the total project cost, therefore PCAA Board was not competent forum to approve the schemes and approval of CDWP was required in terms of Panning Commission’s Manual for Development Projects, as detailed below:

(Rs in million)

S. No.	Name of scheme	Local component	Foreign Component	Total	%age of Foreign component
1	Provision of ILS at PCAA Airports	180.00	720.00	900.00	80%
2	Provisioning/ replacement of digital voice logging system (DVLS) for ATC and flight inquiry recordings	46.000	21.000	67.000	31%
3	Provisioning/ replacement of High Power HF RT System	50.000	200.00	250.00	80%
4	Provisioning/ replacement of FIDS and allied components at airports	65.000	100.000	165.00	61%
5	Procurement of ATIS	60.000	30.000	90.000	33%
6.	Provision/ Replacement of Doppler Very High Frequency Omni Directional Range (DVORs)/ Distance Measuring Equipment	325.000	1,075.0	1,400.0	77%

S. No.	Name of scheme	Local component	Foreign Component	Total	%age of Foreign component
	(DMEs) at Airports				

Twenty-two (22) schemes (**Annexure-AB**) were approved in ADP involving Rs 6,169.00 million but cost estimates of the schemes were not technically sanctioned prior to entering into the tendering.

Audit pointed out the irregularity in January 2023. The Authority replied that:

Feasibility study was conducted on PC-II Proforma and working paper was submitted for consideration of PCAA Board with full justification and the reasons for procurement of DVOR/DMEs.

The delay in one scheme was caused due to nature & complexity of project and obtaining approval from the various fora.

The cases were submitted to Aviation Division for onward submission to Planning, Development & Special Initiatives Division for Ex-Post Facto approval to regularize the cases.

In one case estimate was got technically sanctioned from competent authority. In rest of the cases guidelines had been noted for compliance.

The reply was not tenable because the feasibility study dated 09.05.2022 in respect of DVOR/DMEs submitted by the Authority was a recommendation which has not been got approved from the competent forum (CDWP). Further, the provision of the scheme in ADP prior to approval from the competent authority was not justified. In other case (VCCS/ACCs), feasibility study was not carried out on the prescribed proforma. Moreover, the increase in the cost of a project was due to improper planning. Schemes involved foreign component more than 70% therefore these should have been forwarded to CDWP for approval before execution.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 23.06.2023, 28.08.2023, 18.09.2023, 03.10.2023, 20.10.2023, 06.11.2023, 05.12.2023, 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends evaluation of the whole procurement process to ensure that public money is utilized in the most fair and efficient manner. Lack of a feasibility study can result in wastage of public resources so in this case, the matter needs to be investigated to fix responsibility against the persons responsible besides taking effective measures to complete the project without further delay.

(DP. 38, 39, 41&42)

4.4.15 Loss to Authority due to non-execution of lease agreement and unauthorized occupation of land - Rs 2,647.471 million

Para A.1 of CAA Land Lease Policy-2019 provides that it is vital to effectively utilize PCAA land to achieve sustainable economic development, up gradation of aviation services, adoption of upcoming aviation technologies, etc.

Para D15.1 provides that the Lessee will not mortgage/ pledge/ alienate/ sub-lease any part or portion of the leased land. PCAA shall have the right to inspect the leased land periodically.

During audit of the record of Commercial and Estate Directorate, CAA, Karachi it was noted that several spaces of total area measuring 43,145.33 sq.yds. were allotted to M/s PIACL on thirty (30) years lease w.e.f 01.09.1976 which was expired on 01.09.2006.

Audit observed as under:

Since expiry of the lease, no further lease was executed between both the parties.

Till to date, several spaces of total area measuring 912,796.50 sq.yds. were under possession of M/s PIACL at Karachi against the initially allotted area of 43,145.33 sq.yds.

CAA raised bill for land lease period from 01.03.2023 to 29.02.2024 for yearly ground rent of Rs 2,647.471 million payable up to 10.03.2023 (including arrears as on 28.02.2023 and late payment surcharge). But no payment was made by M/s PIACL.

It seems that M/s PIACL is reluctant to execute lease agreement, pay dues of the Authority and occupied Authority's precious land (un-utilized/abandoned) without need and necessity as PIACL has shifted its main operational hub from Karachi to Islamabad and number of premises in possession of PIACL were in no use and lying abandoned. This resulted in loss to Authority due to non-execution of lease agreement and unauthorized occupation of land Rs 2,647.471 million.

Audit pointed out the loss in December 2023 but the Authority did not reply.

DAC meeting was not convened by PAO despite request made by Audit on 28.12.2023.

Audit recommends that Authority should involve law enforcement agencies for possession of CAA land from PIACL on an urgent basis, repossession of abandoned/unused land may be the priority while other areas may be focused on later. Officials responsible for delay in repossession may be taken to task. The Authority may approach the court of law for execution of pending lease agreements and further loss to the exchequer may be avoided.

(DP. 388)

4.4.16 Non-inclusion of M/s PIACL bills of 40 lease spaces in ERP report - Rs 2,584.996 million

Recovery Cell was established based on the decision of CAA Executive Committee in its 300th meeting held on 16.05.2019. The core responsibility of Recovery Cell is to exercise zero-tolerance policy in respect of all current dues of the active parties. Recovery Cell has to ensure timely recovery of dues in co-ordination with respective Directorate.

As per para 1.7 of CAA Revenue Accounting Manual, the accounting system objectives for revenue charges are as follows:

Each time a charge arises, source of information must be generated. This information must be prompt, authentic and independently checked/verified.

The source of information must be properly controlled for completeness in order to minimize the possibility of revenue leakage.

The procedures will ensure that proper bills/ collection are raised as promptly as possible.

Steps will be initiated and continued for recovery of long overdue charges.

Bills and collection will be accurately recorded in the books of account.

Audit noted that Sr. Joint Director Finance JIAP, Karachi apprised to Sr. Joint Director Recovery Cell, HQ, CAA, Karachi, vide letter dated 31.03.2023, that M/s PIACL bills of 40 lease spaces, outstanding for Rs 2,584.996 million, were not included in Enterprise Resource Planning (ERP) report.

Audit observed that Recovery Cell did not take any action to resolve the above mentioned deficiency. This reflects that CAA books of revenue accounts did not present true and fair picture of outstanding dues.

Audit maintains that irregularity occurred due to weak internal and financial control.

Audit pointed out irregularity in October 2023. The Authority replied that the matter would be pursued with the formation concerned for inclusion of bills in ERP report.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends inquiry as to why such a significant amount was overlooked by the ERP committee. A board may be formed to investigate the matter, to determine why undue benefit was given to PIACL while determining their total recoverable dues. Forty lease spaces outstanding for Rs 2,584,996,133

may be included in ERP Report under verification with supporting documents to Audit. Responsibility may be fixed against individuals responsible for the exclusion of the recovery from the report.

(DP. 291)

4.4.17 Unauthorized occupation of 11,887 Square Yards CAA land since the year 2003 causing loss of revenue - Rs 2,370.743 million

Paras D2.1.1 and D3.5 of Land Lease Policy, 2019 provide that the lease of land shall be either through open auction, open bidding or calling tenders. Maximum 10% increase in awarded land may be allowed, if identified later on in the possession of lessee and the lessee shall be charged 100% of the assessed land price/value at the time of award of lease.

During scrutiny of the accounts of Jinnah International Airport Karachi for the financial year 2022-23, Audit noted that the lease deed for an area of 44,914 Square Yards effective from 19.09.2003 was entered into on 29.12.2005 between the Civil Aviation Authority and M/s UIG (Pvt) Limited, Karachi Pakistan (Ramada Hotel). During site survey in the year 2020, it was discovered that the Lessee was in unauthorized occupation of excessive land of 11,887 Square Yards.

Audit observed that:

Lessee has succeeded in occupation/lease of CAA land 11,887 Square Yards without open auction/competition.

Rent of open space from 19.09.2003 to 18.09.2023 is recoverable @ Rs 6.81 per sft for 106,983 sft (11,887 Square Yards x 09) for Rs 231,083,280 (106,983 sft x Rs 6.81 per sft x 12 x 20).

Premium at current market rate @ Rs 180,000 per Square Yard (FBR Notified rate) for 11,887 Square Yards for Rs 2,139.660 million is recoverable.

Audit maintains that unauthorized occupation of CAA land and loss of revenue of Rs 2,370,743,280 (Rs 231,083,280 + Rs 2,139,660,000) was due to poor assets management/negligence of CAA staff.

Audit pointed out the matter in November 2023. The Authority replied that in the matter of excess land measuring 11,887 sq yds under occupation, letters of displeasure were issued to the ex-CAA officials after conducting BOI as per CAA Board directives. The matter was then presented to CAA Board which

regularized the excess land under possession of the lessee on the same terms and conditions of the original lease. Moreover, recovery of premium and annual ground rent in respect of excess land was being recovered from the lessee from the date of initial allotment.

The reply was not accepted because as per Land Lease Policy of PCAA 2019 the lease of land was put to auction through open bidding or calling tenders. Recovery of premium on the rates of the year 2003 in the year 2023 was not justified and in contradiction to the land lease policy.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends that the premium of land under unauthorized occupation may be recovered at current market/auction rate besides recovery of the Annual Ground Rent from the date of occupation.

(DP. 29 & 308)

4.4.18 Delay in procurement of bird repellent system compromising safety of aircrafts - Rs 2,118.000 million

Part 3 of the Airport Services Manual of the International Civil Aviation Organization describes the responsibilities of the national civil aviation organization as follows:

Birds and other wildlife on, and in the vicinity of, the airport may represent a threat to aircraft safety. In cases, this threat can be reduced by adapting the aircraft's schedule in favour of the wildlife, especially when the presence of wildlife is for a limited time. Reducing the presence of wildlife in aircraft flight paths can be achieved through ecological means such as habitat management or the dispersal or removal of hazardous wildlife. While the wildlife control programme will be airport-specific, the development of such nature and environmentally sensitive programmes should adhere to national environmental regulations.

Repellent and harassment techniques should be used to keep hazardous wildlife away from specific areas on or near an airport. The long-term cost-effectiveness of repelling hazardous wildlife does not compare favourably with habitat modification or exclusion techniques. Wildlife will return as long as the attractant is accessible. However, habitat modification and exclusion techniques will never rid an

airport of all hazardous wildlife. Repellent techniques are a key ingredient of any wildlife hazard management plan.

Para 2.1 of Planning Commission's Guidelines for Project Management (August 2008) provides that policy of the Government of Pakistan is to efficiently utilize natural and economic resources of the country for socio-economic welfare of the people. This objective may be achieved only when development projects are planned and executed with vigilant management.

During audit of the record of Directorate of Communication Navigation Surveillance (HQ) CAA, Karachi it was noted from the details of ADP Schemes for the year 2022-2023 that Scheme No. 1352N281- Bird Repellent System for PCAA Airports" for Rs 2,118.000 million was included in the ADP with completion period up to 30.06.2023.

Audit observed that the scheme was proposed to curtail significant threat to aircraft safety but no action towards procurement was initiated till 30.06.2023.

The delay in the procurement of the scheme within the targeted period occurred due to poor project management. Moreover, the delay in the project will increase risk of significant damages to aircrafts due to bird hazard/strike. This also impacts the cost of the scheme due to rapid fluctuation in the foreign exchange rates.

Audit holds that non-adherence of the Guidelines for Project Management and economic measures, caused delay in procurement of bird repellent system compromising safety of aircrafts for Rs 2,118.000 million.

Audit pointed out the delay in procurement in August 2023. The Authority replied that this project was not part of annual tasks & targets of CNS Directorate. ADP for the project was created on immediate basis with the approval of Director General, CAA on 05.04.2023. The requirement was considered immediate and operational in nature. Accordingly, tender action was initiated through logistics Air Navigation Services (ANS) on immediate basis as per directions of DGCAA. However, both bidders were technically disqualified owing to major non-compliances to technical specifications. Hence no abnormal delays were involved in the project.

The reply was not tenable because the scheme was introduced for immediate provision of bird repellent system at the PCAA airports to control aircraft accidents due to bird hazard. The tender was floated wherein two suppliers participated and both bidders were technically disqualified

owing to major non-compliances to technical specifications. The technical evaluation committee recommended that proper in-house feasibility study and presentation from potential suppliers may be conducted for preparation of technical/ operational specification. This shows that tender was floated without proper feasibility study for viability of system, acceptable technical and operational specification. Therefore, due to inadequate planning the scheme could not be materialized in the given time line i.e., 30.06.2023. Further, due to non-installation of bird repellent systems, safety of aircrafts is at risk.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 03.10.2023, 20.10.2023, 06.11.2023, 05.12.2023, 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends that the responsible individuals may be held to task for their negligent attitude as they allowed the whole financial year to lapse before executing the procuring procedure. Their negligent attitude put hundreds of lives at risk and also made the authority liable to heavy damages. Audit also recommends implementing comprehensive bird control strategies that include both preventive measures (such as habitat management, waste management, and bird repellent systems) and reactive measures (such as wildlife hazard assessments and immediate response protocols).

(DP. 215)

4.4.19 Unauthentic and un-reconciled receipt of throughput charges - Rs 1,420.480 million

Civil Aviation Authority Order-06 (CAAO-06) implemented with effect from 20.05.2020, requires that the Airport Manager/Chief Operating Officer (COO) shall ensure that effective coordination & communication is made with all stakeholders involved in the process of collection of Cargo Throughput Charges (CTC) including Pakistan Customs, Ground Handling Agents (GHAs), Customs Agent Association and Airlines, etc. Daily reconciliation of CTC Collection with Delivery Report of all GHAs shall be carried out by the Cargo Manager/Officer incharge CTC/Team Leader CTC.

As per CAAO-06, a fortnightly CTC reconciliation report shall be developed/generated based on the data contained in FIRMS after integration with GHA data. This detailed report shall contain 3 important aspects of reconciliation (Bank Deposit Data, Firms data and Data provided by GHA's on real time basis). The final report shall be signed by Cargo Manager and countersigned by Revenue Manager & Airport Manager of the respective location. In case any discrepancy is identified after the reconciliation process, i.e., less amount charged or wrong cargo type entered, the Cargo Manager shall make efforts to rectify the same at the earliest. The fortnightly reconciliation report shall be emailed to Addl. Director Cargo, HQCAA.

During scrutiny of the accounting record of Cargo Section of APM JIAP, Karachi for the financial years 2022-23, Audit noted that CAA earned revenue of Rs 1,420,479,690 on account of cargo throughput charges.

Audit observed that there was no effective coordination & communication with Pakistan Customs, GHAs, Customs Agent Association and Airlines, etc. Daily and fortnightly reconciliation of CTC Collection with Delivery Report of all Ground Handling Agents was not carried out as required. No comparison of chargeable cargo weight as per Ground Handling Agents and actually charged by CAA, was available.

This resulted in unauthentic and irregular recovery of Rs 1,420.480 million on account of cargo throughput charges, which was due to weak financial controls and lack of oversight in the major non-aeronautical revenue area. Such shortcomings if probed could unearth leakage of CAA revenue worth millions of rupees.

Audit pointed out the matter in November 2023. The Authority did not reply. The similar issue relating to Islamabad International Airport was also reported in Audit Report for the year 2022-23 (Para 4.4.13) which was discussed in DAC meeting held on 10.03.2022 wherein after detailed deliberations, the DAC directed the Authority to get the daily reconciliation of weight with Ground Handling Agents, rates and other relevant record verified from Audit.

Audit recommends compliance of DAC's directive.

(DP. 312)

4.4.20 Non-resolving the issue of CAA aeronautical outstanding dues against the embassies - Rs 1,334.894 million

Para 4.2 of the DG directive No. 05/2021 (establishment/ revamping of recovery cell) dated 31.08.2021 describes for old outstanding cases where the dues have exceeded 75% of security deposit/ advance, recovery cell shall immediately report such cases to DG CAA and Addl. DGCAA for approval of final recovery action.

During audit of the accounts of Finance Directorate, (HQ) Civil Aviation Authority Karachi it was noted that the A/Additional Director Finance (Billing) has sent the Ministry of Aviation, Government of Pakistan Office Memorandum No.5-1/2021-AT-II dated 06.06.2023 to Recovery Cell for information and necessary action. Audit further noted that the Section Officer (AT-II) Ministry of Aviation has apprised to Secretary Ministry of Foreign Affairs Islamabad on the aforesaid Office Memorandum dated 06.06.2023, that the issue of outstanding dues accumulated against the concerned Embassies on account of services rendered by Civil Aviation Authority such as air navigation/housing charges still remained unresolved. The outstanding amount has inflated to the tune of Rs 1,334,894,426 as on 31.03.2023 against various embassies.

Audit observed that no record was found showing resolution of the issue of outstanding dues involving Rs 1,334,894,426 accumulated against the embassies concerned on account of services rendered by CAA.

Audit holds that due to non-observance of the prescribed procedure, the dues of Rs 1,334.894 million resulted in accumulation and remained irrecoverable.

Audit pointed out the matter in October 2023. The Authority replied that the matter has already been under consideration by Ministry of Aviation & Ministry of Foreign Affairs, and needs to be resolved at diplomatic level. Outcome will be intimated to Audit.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends for taking stern measure in order to resolve the issue of CAA aeronautical outstanding dues of Rs 1,334.894 million against the embassies.

(DP. 292)

4.4.21 Irregular award of different concessions without fair competition - Rs 1,172.016 million

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

Rule 20 states that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

Audit noted that Airport Manager, Allama Iqbal International Airport, Lahore awarded and executed eight (08) concessions to different concessionaires during the financial year 2022-2023 for running of business at the airport for Rs 1,172.016.

Audit observed that APM Lahore awarded the concessions mostly to the sitting licensees with minor excess on the reserve price without open competitive bidding. The Authority should have opted for retendering process and avail maximum opportunity to fetch competitive rates but the retendering was not done.. This has resulted in irregular award of different concessions without fair competition of Rs 1,172.016 million.

Audit pointed out the irregularity in July 2023. The Authority replied that all commercial licenses were awarded through open tenders after wide publicity. Further, Rule 38B of the Public Procurement Rules 2004 allows acceptance of single bid.

The contention of the Authority was not acceptable because fresh tender was not floated to get fair and advantageous rates. Further, rule 38 of the Public Procurement Rules allows acceptance of single bid but only when condition including “financial conformance in terms of rate reasonability” holds true.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 03.10.2023, 20.10.2023, 06.11.2023, 05.12.2023, 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends formation of a fact finding committee to establish whether the concessionaire was granted undue benefit. Audit further recommends formation of a procuring committee to ensure that all procurements are in line with rules, the committee may be unbiased and have objective to ensure that no unfair advantage is given to any single contractor.

(DP. 201, 208)

4.4.22 Irregular award due to hiring of outsourced janitorial staff at higher rate than on retainership basis - Rs 19.266 million

Rule 4 of the Public Procurement Rules 2004 states that procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economic. Rule 20 provides that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

Audit noted that Airport Managers Allama Iqbal International Airport, Lahore, Bacha Khan Airport Peshawar and Quetta International Airport awarded and executed four contracts Service Level Agreement (SLA) for janitorial and cleaning services, O&M Services of E&M and Civil during financial year 2022-23 for a period of one year to three (03) years with total agreement cost of Rs 1,079.678 million.

Audit observed that APM, Lahore and Peshawar were running the janitorial and cleaning activities and O&M of Civil and E & M services through retainership with per janitor fee of Rs 25,000. Audit further observed that these services were outsourced through SLA at higher rates as compared to the cost incurred on the retainer-ship and consumables. It is pertinent to mention that the contract was awarded on a single bid, at an extraordinary higher cost up to 330% than the cost of retainership. This showed that the contracts were awarded to give undue benefits to the preferred contractors, causing huge loss to the Authority. This resulted in irregular award of contracts for Service Level Agreements on higher cost than of operations on retainership basis causing loss of Rs 19.266 million per month, as detailed below:

(Rs in million)

DP No.	Description of SLA	Period (year)	Monthly cost			Contract cost
			Retainer-ship	SLS	Diff.	
207	SLA for Janitorial Services at AIIAP	3	3.675	15.820	12.145	569.527
209	SLA for O&M of E/M at AIIAP	2	2.100	5.714	3.614	184.538
	SLA for O&M of Civil Staff at AIIAP	1		3.949		
259	SLA for Janitorial Services at BKIAP	3	3.673	4.248	0.575	152.921
329	SLA for Janitorial Services at QIAP	3	1.865	4.797	2.932	172.692
				Total	19.266	1,079.678

Audit maintains that irregular contracts at higher rates were awarded due to weak mechanism of financial controls.

Audit pointed out the irregularity in July/October 2023. The Authority replied that PCAA had taken up the process of retainer-ship in 2020. Previously services were hired from third party contractors for different operational needs including janitorial services. The decision of hiring of staff on fixed retainer-ship was taken by the competent forum i.e., executive committee and accordingly staff was hired on fixed fee and not against vacant positions but to fulfil the needs/ requirements in operational area.

The contention of the Authority was not tenable because total cost through retainer-ship including the cost of consumable material was less than the SLA Agreements. The Authority was required to rationalize the contracts cost.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 03.10.2023, 20.10.2023, 06.11.2023, 05.12.2023, 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends thorough investigation into the matter to determine why undue favour was given to contractors. Responsibility may be fixed against the concerned officials with strict punitive measures. Furthermore, contract may be dissolved for violation of rules and a fresh tender may be floated to find the most advantageous contractor.

(DP. 207, 209, 259, 329)

4.4.23 Non-recovery of outstanding dues on account of aeronautical charges - Rs 963.278 million

Pakistan CAA Revenue Accounting Manual- Revenue Recognition and recovery provides that at the end of each month, bank reconciliation and the outstanding report along with age analysis (showing the outstanding balances of operators/airlines) shall be sent to the Air Traffic (AT) Directorate HQ, CAA after approval by Additional Director Billing Branch HQ, CAA for further necessary action to recover the dues from operators/airlines. On submission of the said report, it shall be the responsibility of the AT Directorate for recovery of the outstanding dues which shall be authorized to take punitive action against defaulters in case of continuous default.

During audit of the accounts of Finance Directorate, (HQ) Civil Aviation Authority, Karachi it was noted that an amount of Rs 963.278 million was outstanding against U.S. Embassy for air force flight operations as on 30.06.2023.

Audit observed that no timely and effective steps were initiated to recover/adjust the dues of Rs 963.278 million. Delay in recovery of these dues resulted in accumulation, and in the end may remain irrecoverable.

Audit maintains that non-recovery of outstanding dues was due to inadequate oversight mechanism in enforcing relevant financial rules.

Audit pointed out non-recovery in October 2023. The Authority replied that the Billing Branch of CAA continuously raising invoices on account of aeronautical charges against the flights operated by U.S Government in Pakistan airspace/airports and owing to non-payment by U.S Government the dues accumulated to Rs 963.278 million.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends that the matter may be taken up with the Foreign Office for further pursuance with the embassy concerned. The amount may be adjusted by the Foreign Office against any pending payments to the embassy concerned for settlement.

(DP.267)

4.4.24 Non-retrieval of encroached CAA land at old Airport Islamabad - Rs 956.450 million

Para D1.1 of Land Lease Policy, 2019 provides that PCCA felt the need to revise the existing land lease in light of vision of the National Aviation Policy to maintain financial self-sufficiency by revenue generation from land use.

Para D1.2 of the Land Lease Policy, 2019 states that PCAA owned land is not available for sale, however land may be exchanged with the prior approval of the PCAA Board. Airport aeronautical and non-

aeronautical development will be processed through grant of long-term lease subject to airport master plan, airport layout plan, airport business plan and the PCAA land use scheme as determined from time to time.

Audit noted during scrutiny of record of Airport Manager, Islamabad International Airport (IIAP), Islamabad that as per report of Estate Directorate, IIAP dated 28.11.2023, thirteen (13) commercial plots/land pockets measuring 09 kanal and 11.29 Marla valuing Rs 956.450 million (@ Rs 5.00 million per Marla approx.) owned by CAA, situated at Ex-Benazir Bhutto International Airport Islamabad were encroached and under unauthorized possession of different encroachers.

Audit observed that most of the commercial plots/land was encroached for last thirty years and three plots were encroached in 2020 and 2021. The management has not made efforts to vacate the CAA land.

Audit is of the view that these plots are situated in valuable commercial areas at Ex-BBIAP and PCAA should retrieve the land/plots from the unauthorized possession of encroachers and bring it in use as Land Lease Policy to earn revenue.

Audit maintains that non-retrieval of valuable commercial land/plots occurred due to mismanagement of the Authority.

Audit pointed out the non-retrieval of land/plots in December 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite request made by Audit on 28.12.2023.

Audit recommends that concerted efforts may be made to retrieve the land/plots encroached and use the same as per land lease policy of CAA.

(DP. 408)

**4.4.25 Non-settlement of outstanding dues against Government Agencies due to non-execution of License Agreement -
Rs 724.430 million**

As per DG CAA Directive No. 05/2021, Recovery Cell was established based on the decision of CAA Executive Committee in its 300th meeting held on 16.05.2019. The core responsibility of Recovery Cell is to exercise zero-tolerance policy in respect of all current dues of the active parties. Recovery Cell has to ensure timely recovery of dues in co-ordination with respective Directorate.

Para 4.3 of the DG directive No. 05/2021 (establishment/revamping of recovery cell) dated 31.08.2021 provides, that cases pertaining to outstanding dues of M/s PIAC and Government Agencies/Department are to be forwarded by Recovery Cell, with the approval of DG CAA, to Aviation Division for recovery.

Audit noted that the Recovery Cell, CAA, Karachi apprised to Director Commercial & Estate vide letter dated 08.11.2022 that, “during correspondence with locations, it revealed that mostly License Agreement/MoUs had not been executed with Government Agencies (as evident in enclosed Telex of AIIAP Lahore). The Recovery Cell has also requested the Director Commercial & Estate that locations may be directed to execute License Agreements/ MoUs in accordance with relevant clause of CAAO with Govt. Agencies forthwith to avoid any inconvenience. But, the data received from locations showed that no License Agreements had been executed with government department.

Audit observed that Recovery Cell of Directorate of Finance CAA, HQ, Karachi was unable to exercise zero-tolerance policy in respect of all current dues of the active parties/Government departments as required as it could not obtain the latest status for the execution of License Agreements with Government departments since November 2022 to October 2023.

Audit further observed that due to lack of co-ordination between Recovery Cell and respective OPI Director Commercial & Estates, the cases pertaining to execution of License Agreements with Govt. Departments were unresolved and the Recovery Cell was also not in a position to resolve the queries of Ministry of Aviation for settlement of outstanding dues against Government Agencies. This resulted in non-settlement of outstanding dues against Government Agencies due to non-execution of License Agreement with Government Departments involving Rs 724.430 million.

Audit maintained that the Recovery Cell had not taken effective steps to resolve the long outstanding issue for settlement of outstanding dues of Rs 724.430 million against the government departments.

Audit pointed out non-settlement of outstanding due in October 2023. The Authority replied that Recovery Cell had requested all APMs to update the present status of execution of License Agreements with Government departments and would be apprised to Audit as and when received.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends that a fact finding committee may be formed to investigate the matter and identify relevant individuals who are showing a lax attitude in recovery of pending PCAA dues. Stern action may be taken against the responsible individuals as well as imposing fines on the defaulting departments. Licenses of defaulting departments may be suspended until the clearance of their dues.

(DP. 282)

4.4.26 Loss due to non-imposition and recovery of liquidated damages - Rs 645.057 million

Clause 47.1 of the agreement (Appendix-A to Bid special stipulation-08), if the contractor fails to complete the work within the stipulated time period, he shall render himself liable to pay liquidated damages equal to 0.08% of contract price for each day of delay in completion of work subject to maximum of 10% of the contract price stated in letter of Acceptance.

Audit noted that CAA, HQ, Karachi awarded a work “Reconstruction & Up-gradation of Main Runway (18L/36R) at Allama Iqbal International Airport (AIIAP) Lahore” to M/s China Civil Engineering Construction Corporation (CCECC)–Matracon Pakistan (Pvt.) Ltd.-Habib Construction Services (JV) at an agreement cost of Rs 6,450.568 million vide acceptance letter dated 07.08.2020 with completion period of 455 days. An amount of Rs 6,872.170 million was paid to the contractor upto 27th IPC.

Audit observed that the Authority technically qualified M/s CCECC-Matracon-Habib JV firm, having two (02) concrete pavers, as provided in Appendix-G to bid (one available in Pakistan and other in Nigeria). The contractor was required to provide both the pavers for execution of work of PQC slab in runway project at AIIAP Lahore. During execution of work both the pavers were not brought on site, as no entrance and exit passes of split form concrete pavers issued by airport security forces, were available/produced to Audit. Due to non-provision of required machinery at site the progress of the work was slow. In this regard, Audit observed the following:

1. Undue favour was extended to contractor as unjustified 1st EOT (w.e.f. 03.12.2021 to 02.03.2022) was granted instead of imposition and recovery of liquidated damages.

2. The Authority sustained loss due to payment of escalation in extended period.
3. Unjustified expenditure was incurred on account of consultant fee and operational expenses alongwith pay and allowances of CAA staff/work charge establishment.

Audit is of the view that in case of non-completion of works by the contractor in the given timeframe, the Authority was required to impose and recover liquidated damages from contractor @ 10 % of contract cost, which did not take place in the subject case. This resulted in non-recovery of liquidated damages of Rs 645.057 million (Rs 6,450.568 x 10%).

Audit pointed out loss during July-August, 2023. The Authority replied that Taking Over Certificate (TOC) for the Main Runway has been issued by The Engineer under Clause 48.2(c) of GCC but the final extension of time was yet to be determined by The Engineer, therefore, imposition of liquidated damages on the contractor or otherwise would be decided after determination and grant of final EOT by The Engineer. Two concrete pavers were also deployed by the contractor for concrete works in the sequential form.

The reply was not tenable because no documentary evidence in support of reply was produced to Audit regarding entry and exit of two (2) split form concrete pavers at site. The contractor could not complete the work within stipulated time period and main reason for this was non-provision/mobilization of requisite machinery as per Appendix-G at site, therefore liquidated damages should have been imposed on the contractor for non-completion of work timely and investigation for issuance of EOT.

Audit hold that interest of the government was not watched during execution of works. The JV firm did not provide the required machinery for timely completion of works at site.

The matter was discussed in DAC meeting held on 15-16 January 2024. After detailed deliberation DAC pended the para and directed DG CAA to review the project holistically in the light of irregularities pointed out by Audit and comprehensive report be shared with PAO and Audit for discussion in next DAC meeting.

Audit recommends formation of an investigation committee to determine the actual cost of delay. If the delay was on the part of the department then the concerned officials may be held to task but if the delay was caused by the contractor then liquidated damages may be imposed promptly. If any officials are involved in granting undue favour to the contractor then responsibility may be fixed against them.

4.4.27 Irregular payment on account of escalation beyond the PC-I provision - Rs 626.675 million

PC-I of the Project “Re-construction & Up-gradation of Main Runway at AIIAP, CAA Lahore” was prepared and approved by the CAA Executive Board for Rs 5,950.00 million excluding the component/provision of escalation. Therefore, no escalation was admissible to the contractor.

Audit noted that CAA, HQ, Karachi awarded a work “Reconstruction & Up-gradation of Main Runway (18L/36R) at Allama Iqbal International Airport (AIIAP) Lahore” to M/s China Civil Engineering Construction Corporation (CCECC)-Matracon Pakistan (Pvt.) Ltd.-Habib Construction Services (JV) at an agreement cost of Rs 6,450.568 million vide acceptance letter dated 07.08.2020 with completion period of 455 days. An amount of Rs 6,872.170 million was paid to the contractor upto 27th IPC.

Audit observed that the project authorities paid price escalation of Rs 626.675 million for the work “Construction & Up-gradation of Main Runway” up to IPC No.27 in violation of provision of PC-I. This resulted in irregular payment on account of escalation beyond the provision of PC-I 626.675 million.

Audit pointed out the irregularity during July-August 2023. The Authority replied that the Price Escalation was certified by “The Engineer” in accordance with clause 70.1 of the contract agreement. The payments were made to the contractor in order to comply with clause 60.10 of General Condition of the Contract. However, in order to cater this missing component in original PC-I, the Revised PC-I is under preparation by the consultant and the same would be processed for approval from competent forum. The department admitted the irregularity.

Audit maintained that the irregularity occurred due to violation of the provisions of approved PC-I.

The matter was discussed in DAC meeting held on 15-16 January, 2024. CAA explained that revised PC-I was under process. After detailed deliberation, the DAC directed the management of CAA to provide following information along with supporting record to Audit:

Reasons for non-inclusion of price escalation in original PC-I

Reasons for inclusion of price escalation in contract when it was not in PC-I

Basis/Calculation of price escalation in revised PC-I

If work has not been completed in stipulated period, status of EOT with justification

Whether price adjustment paid in extended period

Audit recommends investigation in the matter for making payments without provision in the approved PC-I, besides approval of the revised PC-I under intimation to Audit.

(DP. 170)

4.4.28 Non-recovery of non-utilization charges of Rs 601.128 million and illegal construction of hotel without obtaining NOC

Para D12.2 of PCAA Land Lease Policy, 2019 explains that if the lessee fails to complete the project for operation within the period given in lease deed or within the extended period as allowed by the Authority, the lessee shall be liable to pay a non-utilization charges of Rs 300 per square yard per month as delay penalty for a grace period of 60 days or/and before the notice for cancellation/termination of lease deed and resumption of land as stipulated in the lease deed.

Audit noted that Director Commercial & Estate, PCAA, HQs Karachi leased out six (06) acres of land at Karachi Airport to Pakistan Software Export Board (PSEB) for a period of thirty (30) years for establishment of IT Park for Rs 337.00 million in May 2008. Physical handing/taking over of land was done on 11.08.2015 and lease deed was executed on 01.10.2015. Time period for commencement and completion of construction stipulated under Lease Agreement was 01.10.2016 and 01.10.2019 respectively.

Audit observed that PSEB failed to start construction within stipulated time, but PCAA did not impose and recover non-utilization charges @ Rs 100 to Rs 300 per sq.yard per month amounting to Rs 200.376 million to Rs 601.128 million for the period 01.10.2016 to 30.06.2022. PSEB was also granted NOC for construction of boundary wall without recovery of non-utilization charges.

Audit further observed that correspondence between Chief Operating Officer/ Airport Manager, Allama Iqbal International Airport (AIIAP), Lahore and Director Airport Services (APS) indicated that management of Hotel Unicon (Royal Swiss) started construction without obtaining NOC from quarters concerned as highlighted in Annual Audit of AIIAP Lahore by Directorate of Airspace

and Aerodrome Regulations (DAAR). Compliance of observation raised by DAAR regarding illegal construction of Hotel Unicon (Royal Swiss) at AIIAP, Lahore without obtaining NOC.

This resulted in non-recovery of Rs 601.128 million and illegal construction of hotel without obtaining NOC.

Audit maintains that non-recovery of non-utilization charges and illegal construction of hotel without obtaining NOC from PCAA was due to weak internal and financial controls.

Audit pointed out the non-recovery in January 2023. The Authority did not reply in respect of PSEB, whereas with reference to illegal construction of Royal Swiss Hotel Lahore, it was replied that after verification from Google Earth Pro, the site (Royal Swiss Hotel) is situated at a distance of 2,877 feet from Runway Centre line (RWY 36R) and falls in Inner Horizontal Surface of AIIAP Lahore, where 147 feet is available.

The reply was not tenable because basic parameters as identified in inspection by DAAR were required to be cleared in advance and final clearance of the observation by DAAR was also not provided to Audit.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 23.06.2023, 28.08.2023, 18.09.2023, 03.10.2023, 20.10.2023, 06.11.2023, 05.12.2023, 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends formation of an inquiry committee to ascertain the facts of the matter and fix responsibility for delay of execution of the project. The responsible party may be held to task with early recovery of damages. Furthermore, fines may be imposed on the hotel for construction without NOC, and also on the officials responsible for enabling the construction by not taking any preventative action.

(DP. 27&107)

4.4.29 Excess expenditure due to execution of non-BOQ items without approval - Rs 507.712 million

As per CAA Delegation of Financial Powers, competent authority for approval of variation orders up to 5% of approved cost is Assistant Director General CAA.

Audit noted that CAA, HQ awarded a work “Reconstruction & Up-gradation of Main Runway (18L/36R) at Allama Iqbal International Airport (AIIAP) Lahore” to M/s China Civil Engineering Construction Corporation (CCECC)-Matracon Pakistan (Pvt.) Ltd.–Habib Construction Services (JV) at an agreement cost of Rs 6,450.568 million vide acceptance letter dated 07.08.2020 with completion period of 455 days. An amount of Rs 6,872.170 million was paid to contractor upto 27th IPC.

Audit observed that the Authority changed the scope of work and various non-BOQ items were got executed. Audit further observed that the non-BOQ items were executed without availability of rate analysis and detailed estimates. The Authority made payment to the extent of Rs 507.712 million as undue financial aid to the contractor.

Audit also observed that the payment for non-BOQ items was made to contractor without approval of variation/deviation statement from the competent forum. This resulted in excess expenditure due to execution of non-BOQ items of work for Rs 507.712 million.

Audit pointed out excess expenditure during July-August 2023. The Authority replied that the said project is governed by FIDIC conditions of contract which allows variations. Variation orders were issued by “The Engineer” strictly in accordance with contract agreement clause 51.1. Further, “The Engineer” certified payments of various works on provisional basis in accordance with clause-52.1. On receipt of specific approval of the employer, the variation order will be formally issued wherein the rates would attain the finality.

The reply was not tenable because the project management executed various non-BOQ items without preparation of rate analysis/ detailed estimates and approval of variation orders from the competent authority.

The matter was discussed in DAC meeting held on 15-16 January, 2024. The management of CAA apprised that The Engineer had certified payments of varied works on provisional basis, the variation order would be formally issued by the Engineer wherein the rates will attain the finality. After detailed deliberations, the DAC directed the management of CAA that rates be finalized on priority basis and be shared with Audit. DAC further directed CAA to develop a Composite Schedule of Rates (CSR) keeping in view the applicable standard specifications of runways and terminal buildings to form a basis of estimation to evaluate reasonability of rates in tender process.

Audit recommends investigation in the matter for making payments without approval of variation orders, besides justification/ regularization of the same from competent forum.

(DP. 171)

4.4.30 Loss due to award of Service Level Agreement for provision of operation & maintenance services - Rs 499.840 million

Rule 4 of the Public Procurement Rules 2004 states that procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economic. Rule 20 provides that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

Audit noted during scrutiny of record of Airport Manager IIAP, Islamabad that CAA awarded four (04) Service Level Agreements (SLA) for provision of civil, maintenance, janitorial and Motor Transport (MT) pool services during financial year 2022-23, with monthly cost of Rs 39.059 million.

Audit observed that these services were being executed through retainer-ship staff before entering into SLA. A comparative analysis of the cost of services being provided by the SLAs and retainer-ship staff revealed that monthly expenditure of Rs 13.129 was incurred on these services through retainer-ship whereas the same services were being outsourced through SLAs @ Rs 39.058 million per month which was three times higher as compared to cost on retainer-ship staff. In this way a monthly loss of Rs 25.929 million (Rs 39.058 million – Rs 13.129 million) is being sustained by the authority. This resulted in a loss of Rs 499.840 million (excluding the cost of Rs 27.300 million on account of consumable material) for the four service level agreements entered during financial year 2022-23.

Audit pointed out the loss in December 2023. The Authority did not reply.

DAC meeting was not convened by PAO despite request made by Audit on 28.12.2023.

Audit recommends investigation into the matter to determine why the PCAA shifted from retainer staff to a contractor even though the retainer staff was more financially beneficial to the department. If the department fails to justify their decision then responsibility may be fixed against the concerned officials for making the decision.

(DP. 410)

4.4.31 Non-imposition of liquidated damages for slow progress and delay in completion of work - Rs 496.784 million

Clause 46.1 and 47.1 of the contract agreement for the work “Reconstruction of Rigid Runway at Quetta International Airport for Operation of Aircraft up to ICAO Code 4E” executed between CAA and M/s Umer Jan & Co Engineers and Contractors on 28.02.2020, provides that if the contractor fails to achieve the required progress of work and does not complete the work within the stipulated time period, he shall render himself liable to pay liquidated damages equal to maximum of 10% of the contract price stated in letter of Acceptance.

During scrutiny of the accounts of the Project Director, “Reconstruction of Rigid Runway at Quetta International Airport for Operation of Aircraft up to ICAO Code 4E” Audit noted that the work was awarded to M/s Umer Jan & Co Engineers and Contractors at contract cost Rs 4,938.756 million (Revised Rs 4,967.848 million) on 28.02.2020. The work was started on 05.05.2020, to be completed on 04.05.2022. However, the extension of time (EOT) was granted upto 28.02.2023, the work was substantially completed and TOC was issued on 30.05.2023. Further, EOT upto 30.05.2023 was under process of approval. The total value of work done upto 25th IPC was Rs 4,661.343 million.

Audit observed from the record that EOT was granted upto 28.02.2023 however the work was not completed in extended time period whereas, the work was substantially completed on 30.05.2023 without prior approval of competent Authority for extension in time period. Besides this, liquidated damages for slow progress of work and delay in completion of work, were required to be imposed against the contractor under provisions of the contract, which did not take place in the subject case. This resulted in non-imposition of liquidated damages for Rs 496.784 million (Rs 4,967.848 x 10%).

Audit maintains that non-imposition of liquidated damages occurred due to weak contract management.

Audit pointed out the non-imposition of liquidated damages in September 2023. The Authority replied that the project was successfully completed on 30.05.2023 within the determined EOT as certified by The Engineer. The runway with allied infrastructure has been successfully operationalized w.e.f 31.05.2023.

The reply was not convincing because the work was substantially completed and TOC was issued on 30.05.2023 i.e., beyond the approved EOT up to 28.02.2023.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends further investigation into the matter to determine if the delay was justifiable or not. In case the delay is unjustified, fines may be imposed on the contractor as well as responsibility be fixed against the concerned officers for non-imposition of damages on a timely basis.

(DP. 323)

4.4.32 Loss to authority due to allowing higher rates of item of work - Rs 494.780 million

Rule 10 (i) of GFR Vol-I provides that every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public money as a person of ordinary prudence would exercise in respect of expenditure from his own money.

Audit noted that CAA, HQ, Karachi awarded a work “Reconstruction & Up-gradation of Main Runway (18L/36R) at Allama Iqbal International Airport (AIIAP) Lahore” to M/s China Civil Engineering Construction Corporation (CCECC)–Matracon Pakistan (Pvt.) Ltd.-Habib Construction Services (JV) at an agreement cost of Rs 6,450.568 million vide acceptance letter dated 07.08.2020 with completion period of 455 days. An amount of Rs 6,872.170 million was paid to contractor up to 27th IPC.

Audit observed that 100% same specification item P-501 “Portland cement concrete pavement (700 psi flexural strength with all kinds of joint including dowel bar, sealant, cutting filling, etc.) as per drawing and as directed by engineer incharge” was measured and paid to contractor for main runway, taxiway, curve improvement and for turn in the same project at same location with different rates.

Audit further observed that being key value item of the work (sub head of pavement), the rate analysis of the item was not demanded by the Engineer/Employer from Contractor at the time of agreement and the same was not provided to Audit. The rate reasonability was not kept in mind at the time of award of contract.

Audit is of the view that the project management needed to convince the contractor to use the lower rates for whole item for Rs 20,007 instead of Rs 24,235. Application of higher rates resulted in loss to Authority of Rs 494.780 million.

Audit pointed out loss during July-August 2023. The Authority replied that before the submission of bid, all bidders were at liberty to quote their rates for items given in BOQ of bidding documents. Once, the bids were submitted by the bidders, the lowest evaluated bid was accepted by the Employer and the Contract was awarded accordingly. Subsequently, the Contract Agreement was signed between two parties, the Employer (PCAA) and Contractor M/s CCECC Matracon-Habib JV Construction. Hence, both parties were legally bound for full compliance. Therefore, quoted rates accepted by the Employer under no circumstances may be changed or vitiate during or until completion of this Contract. The item wise rates have been paid to the Contractor as per actual work done for each item of work.

The reply was not acceptable because execution of same specification item at same location in same project paid with different higher rates without preparation of rate analysis was not justified.

Audit holds that the Authority sustained loss due to weak technical and internal controls.

The matter was discussed in DAC meeting held on 15-16 January, 2024, wherein the DAC directed the management of CAA to verify the accuracy of the rates quoted by all bidders (both approved and rejected) for both items to ensure that due diligence was followed and get the same verified by Audit.

Audit recommends compliance of DAC's directive.

(DP. 169)

4.4.33 Excess payment to the contractor due to excessive quantities beyond the TS Estimate/BOQ - Rs 476.559 million

Para-209 (d) of CPWA Code provides that all payment for work done or supplies are made on the basis of quantities recorded in the Measurement Book. It is incumbent upon the person taking measurements

to record the quantities clearly and accurately. He would also work out and enter in the measurement book the figure for the contents or area column.

As per CAA Delegation of Financial Powers, competent authority for approval of variation orders up to 5% of approved cost is Assistant Director General CAA.

Audit noted that CAA, HQ, awarded a work “Reconstruction & Up-gradation of Main Runway (18L/36R) at Allama Iqbal International Airport (AIIAP) Lahore” to M/s China Civil Engineering Construction Corporation (CCECC)-Matracon Pakistan (Pvt.) Ltd.-Habib Construction Services (JV) at an agreement cost of Rs 6,450.568 million vide acceptance letter dated 07.08.2020 with completion period of 455 days. An amount of Rs 6,872.170 million was paid to contractor.

Audit observed during review of the interim payment certificates that some items of work were got executed, measured and paid up to 27th IPC in excess of the quantity provided in BOQ/estimate. The Authority did not get approved any variation/deviation statement. This resulted in excess payment of Rs 476.559 million due to excessive quantities beyond the TS Estimate/BOQ.

Audit pointed out excess payment during July-August 2023. The Authority replied that items of works have been carried out as per actual execution in accordance with the construction drawings. Further, the payments have been certified by The Engineer as per actual executed quantities in accordance with provision of contract agreement. However, increase or decrease of quantities will be regularized in final variation/ deviation statement.

The Authority accepted the audit observation and promised to provide the variation/deviation statement after its approval from the competent forum at the time of finalization of the project.

Audit holds that the excess payment was due to non-preparation and approval of variation statement from the competent authority.

The matter was discussed in DAC meeting held on 15-16 January, 2024. Audit informed the committee that TS ensures that proposal is sound and rates are based on accurate data. Excess quantities were executed beyond the TS which reflected that estimation was not properly done. The DAC directed the management of CAA to provide following details in tabular form regarding variations to Audit for verification and evaluation:

Name of item
Quantity
Rate
Justification of increase in BOQ/non-BOQ items.
Approval of the competent authority

Audit recommends investigation into the matter for making excess payment without approval of variation orders, besides justification/regularization of the same from competent forum.

(DP. 172)

4.4.34 Loss due to non-utilization of vacant commercial concessions/ spaces - Rs 403.852 million

Para D.3.6.1 of Civil Aviation Authority Commercial Policy provides that commercial concessions shall be disposed of through open competitive tender usually as per Single Stage-Two Envelope Procedure i.e., Technical & Financial Proposal/offer as outlined in Rule 36 (b) of the Public Procurement Rules, 2004), tender are to be invited/published three months prior to expiry of the existing concessions.

According to GFR 26, it is the duty of the departmental Controlling officers to see that all sums due to Government: are regularly and promptly assessed, realized and duly credited in the Public Account.

Audit noted that eight (08) commercial concessions/ spaces lying vacant in visitor gallery Level-II, in Passenger Terminal Building (PTB), IIAP CAA Islamabad.

Audit observed that these spaces/shops were vacant without any utilization. The management did not make efforts to lease out these vacant spaces/shops to earn revenue as per PCAA policy. This resulted in loss of Rs 403.852 million due to non-utilization of vacant commercial spaces/shops.

Audit maintains that non-utilization of valuable commercial spaces/shops at IIAP, Islamabad occurred due to deficient revenue recognition and weak financial controls of the Authority.

Audit pointed out the loss in December 2023. The Authority did not reply.

DAC meeting was not convened by PAO despite request made by Audit on 28.12.2023.

Audit recommends that the department should form a committee for the timely leasing of all vacant spaces/land of the department for maximizing revenue generation. Negligence by the concerned officials has led to a significant loss to the exchequer, potentially warranting disciplinary action.

(DP. 411)

4.4.35 Irregular award of licenses without calling of open bids - Rs 377.508 million

Para 4-6 of Policy and Procedure for grant of business (Concessions) at Airports CAAO No. 11-4 dated 15.01.1990 provides that; all commercial licenses shall be disposed of through inviting tenders, after wide publicity in the newspapers. A License shall ordinarily be issued for a period of three years at a time. Action for inviting tenders must start at least three months before the expiry of the current period of a license so as to provide ample time for consideration at Headquarters and for retender if necessary.

Audit noted that Airport Manager, Faisalabad awarded contracts of the following licenses at Faisalabad Airport” for Rs 377.508 million per year for a period of five years:

S. No.	Licensee	License	Period (Years)	Period	Per month	Contract amount (Rs)
1	M/s Abdullah creative (Pvt) Ltd.	Coffee shop	05	01.04.2023 to 31.03.2028	1,048,856	12,586,272
2		Tuck shop	05	16.12.2022 to 15.12.2027	476,198	5,714,376
3		Car parking	05	16.09.2022 to 15.09.2027	2,686,244	32,234,928

S. No.	Licensee	License	Period (Years)	Period	Per month	Contract amount (Rs)
4	M/s Gerry's Dnata (Pvt) Ltd.	Ground handling agency office, check in counters	05	01.04.2022 to 31.03.2027	3,483,717	41,804,604
5	PIA	Airline service	05	01.03.2021 to 28.02.2024	9,984,817	119,817,804
6	Royal Air Pvt. Ltd	Ground handling agency office,	05	01.04.2022 to 31.03.2027	3,483,715	41,804,580
7	Sania Enterprises	Bag wrapping	05	01.06.2022 to 31.05.2027	4,643,684	55,724,208
8		Sweet shop	05	01.04.2023 to 31.03.2028	5,193,143	62,317,716
9		Gift & Flowers	05	18.04.2023 to 17.04.2028	458,639	5,503,668
Total					31,459,013	377,508,156

Audit observed that the CAA awarded/extended the licenses without any wide publicity/advertisement in violation of CAA license policy and the Public Procurement Rules. This resulted in irregular award of licenses without any advertisement valuing Rs 377.508 million.

Audit pointed out the irregularity in September 2023. The Authority replied that the concessions were awarded after wide publicity.

The reply was not accepted because evidence in support of reply was not provided to Audit for verification.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 03.10.2023, 20.10.2023, 06.11.2023, 05.12.2023, 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends that the responsible officials may be held accountable for granting undue favor to certain individuals in awarding of licenses without open competition. A monitoring board may be formed at every airport under PCAA to ensure fair award of contracts through open competitive bidding to give a fair chance to every contractor to participate and avail the opportunity. The airport administration should investigate the matter for fixing responsibility.

(DP. 147)

4.4.36 Non-recovery of fine for non-utilization of leased out space and change of business title without approval - Rs 365.904 million

Para D 14.1 of CAA Policy and Procedure regarding grant of business (concession) at Airports (2019) provides that, it is the personal responsibility of the Airport Manager concerned to ensure that all the dues are realized from the licensees as soon as they become due.

Audit noted that lease agreement between CAA and M/s Makro Habib Ltd was executed on 03.08.2006 to “Establish an air-conditioned cash and carry warehouse as per Makro concept” in consideration of premium of Rs 217.95 million @ 1/3rd of the cost of land Rs 653.85 million and annual ground rent of Rs 21.79 million. Item No. 6 of Para-7 of the minutes of CAA Board meeting held on 03.06.2006 provides that the facilities may be operated with the lead name of Makro. Moreover, the para 6 (c) of tender conditions provides that all operations should function under one roof and under one brand name. The Lessee shall complete the construction and/or allied works of the Makro Mall to meet the purposes of this Lease, within a period of 18 months or such extended period as may be agreed upon by the parties, from the date of obtaining final approval of building plans from the Lessor and all required permissions from all concerned departments and authorities directly through the Lessor. The Lessee within a maximum period of 60 days of the signing of Lease agreement shall submit building plans for CAA approval which will be granted by CAA within 30 days of the date of submission of building drawings or return the plans within 30 days with objections/observations for remedial action by the Lessee. Failure to commence construction work within 3 months and/or complete within the given period in view the purpose of this Lease, shall either be subject to a penalty of Rs 100 to Rs 300 per squared yards per month as non-utilization charges as decided by the Lessor.

Audit observed that the title of Makro was changed to Metro without prior approval of the Authority. Moreover, CAA did not recover non-utilization charges for 19,360 square yards unutilized as approved by DG CAA @ Rs 300 per square yards per month up to March 2013 for Rs 365.904 million. The recovery letter was issued in April 2013 but further progress towards recovery and status of space utilization was not forthcoming from the record.

Audit pointed out the matter in November 2023. The Authority did not reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends investigation to determine the cause behind unauthorized change of name of the project, for fixing of responsibility against the responsible officials. Audit also recommends prompt recovery of the non-utilization charges from the contractor with intimation to Audit.

(DP. 309)

4.4.37 Irregular enhancement of license period and non-finalization of selective concession agreement - Rs 356.85 million

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

Rule 38 of *ibid* rules provides that (1) The procuring agency shall consider single bid in goods, works and services if it- (a) meets the evaluation criteria, ensures compliance of specifications and other terms & conditions expressed in advertisement or bid solicitation documents; (b) is not in conflict with any provision of the Ordinance; (c) conforms to the technical specifications; (d) has financial conformance in terms of rate reasonability: Provided that except unsolicited proposal, in case of pre-qualification proceedings single bid shall not be entertained. (2) The procuring agency shall make a decision with due diligence and in compliance with general principles of procurement like economy, efficiency and value for money.

Audit noted that Director Commercial & Estate PCAA Karachi granted a license 'Duty Free Shop' for five years from 24.10.2016 to 23.10.2021. The licensee 'Zainab Duty Free Shop' requested for an extension of one year up to 23.10.2022 @ US\$ 814,012 with annual increase and annual gross turnover fee ranging from 5% to 6%. After approval of reserve price of US\$ 1,251,384 by the Director General PCAA, tenders were floated on five different occasions but scrapped on the premise of having single bid.

Audit observed that:

Continuous rejection of tender process for five times between October 2021 to July 2022, provided opportunity to the existing licensee to retain possession of the site under the cover of clause 13 of license agreement.

Although, Deputy Director General identified the licensee as having outstanding dues, the Addl. Director General disregarded this and granted extensions.

In fourth bidding process held in June 2022, the bidding process was kept pending for 2 weeks to manage participation of another firm M/s DUFREY who had not even purchased the tender documents. Holding the bidding process in abeyance was not covered under rules.

Director General PCAA showed its concern on single participation of existing licensee while in many cases single existing licensee was allowed without re-tendering.

Repeated tendering (5 times) in national and international media also involved wasteful expenditure due to non-conclusion of tendering process.

This resulted in irregular implied grant of extension to existing licensee for Rs 356.85 million, which was a loss to Authority.

Audit maintains that irregularity occurred due to weak internal control.

Audit pointed out the irregularity in January 2023. The Authority replied that exemption was granted by the Federal Cabinet to M/s PIACL for non-deposit of 3 billing cycles. In case of M/s Serene Air, Director General CAA accorded the approval for payment in two monthly installments. M/s Fly Jinnah already maintained the required security deposit of Rs 100 million. M/s Air Blue and M/s Air Sial deposited the required amount in October 2023.

The reply was not accepted because recoveries were made in September, October and December 2023 instead of by June 2023. Moreover, recoveries made and exemptions granted by Federal Cabinet and DG CAA were not provided to Audit.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 23.06.2023, 28.08.2023, 18.09.2023, 03.10.2023, 20.10.2023, 06.11.2023, 05.12.2023, 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends formation of an inquiry committee to investigate why undue benefit was granted to the licensee at the expense of the department and punitive action against the responsible individuals.

(DP. 37)

4.4.38 Irregular/unauthorized payment on account of pay & allowances of officers/officials in excess to approved pay group sanctioned strength - Rs 340.500 million

Rule 4.04 of Civil Aviation Authority Service Rules provides, that actual staff strength of CAA, HQ and any unit of the Authority will at no time, exceed the sanctioned strength except with the prior approval of the Board.

Rule 23 of GFR (Vol-I) provides that every Government officer should realize fully and clearly that he would be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

Audit noted that Airport Manager Bacha Khan International Airport (BKIAP), Peshawar approved Establishment Pay Group Sanctioned Strength of 42 officers and 452 officials/staff. The total sanctioned strength across various cadres and pay groups with different strength was actually 494 officers and officials.

Audit observed during the review of the record being maintained in the HR Wing of Airport Manager Bacha Khan International Airport (BKIAP), Peshawar that the Authority deployed/deputed one hundred twenty five (125) officers/officials in excess in various cadres beyond the approved sanctioned strength of each cadre.

Audit further observed that Authority utilized 125 numbers in excess posts and incurred excess expenditure of Rs 340,500,000 without obtaining the approval for additional posts from CAA Board.

Audit is of the view that 125 officers/officials were deployed in excess than the approved pay group sanctioned which come to 152 % above of the approved pay group sanctioned strength without obtaining the approval of the additional posts from CAA Board. This resulted in unauthorized/irregular payment of Rs 340.500 million approx.

Audit maintains that excess deployment was made due to weak financial.

Audit pointed out irregularity in October 2023. The Authority did not reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends that the employment of excess officials be suspended until approval from the CAA board. Justification of excess employees may be provided to audit and their employment rationalized with facts and figures. Furthermore, responsibility may be fixed against the concerned officials for unauthorized hiring of staff.

(DP. 262)

4.4.39 Irregular acceptance of bid and award of work prior to evaluating eligibility and approval of competent authority - Rs 325.440 million

Para 65 of the Central Public Works Department Code provides that when the expenditure upon a work exceeds, or is found likely to exceed, the amount administratively approved for it by more than 10 percent, a revised administrative approval must be obtained from the authority competent to approve the cost, as so enhanced. Para 69 explains that revised estimate must be prepared when the sanctioned estimate is likely to be exceeded by more than 05 per cent.

During audit of the record of Directorate of Communication Navigation Surveillance (HQ) CAA, Karachi it was noted that an agreement was executed with M/s Pakistan Telecommunication Company Limited (PTCL) on 03.03.2023 effective from 01.04.2022 for online Nationwide Connectivity of PCAA 43 airports for a period of three (03) years at a project cost of Rs 325.440 million.

Audit observed that the CAA Executive Committee accorded approval, in its meeting held on 05.10.2021, for open tendering of the project for a period of three (03) years at an estimated cost of Rs 230 million. In compliance, tenders were called and contract was awarded to M/s PTCL on 03.03.2023 at bid cost of Rs 325.440 million which was 41.49% above the estimated cost as

approved by the Executive Committee. This shows that estimate was not structurally sound and that the estimates were not calculated accurately and based on inadequate data.

Audit further observed that revised administrative approval and revised estimate was not got approved prior to award of work. Moreover, eligibility of contractor having PEC registration/license in the relevant specialized code EE 07, EE 08 and EE 09 was neither provided in the tender inviting notice, tender document nor in technical evaluation criteria.

Audit holds that in the absence of such a mandatory requirement, the firm's technical qualifications cannot be verified because the work comprised telecommunications installation, external communication works and software engineering. This resulted in irregular acceptance of bid and award of work for Rs 325.440 million prior to evaluating eligibility and approval of competent authority.

Audit pointed out the irregularity in August 2023. The Authority replied that expenditure falls within the purview of Additional Director General, CAA in accordance with delegation of financial powers functional group-7 item-1. Due to complexity and criticality of requirement, the case was submitted to EC. Later on final approval for execution of contract was sought from Additional DGCAA. Since the requirement was comprised of services only, therefore, condition for registration from PEC was not included in RFP. However, the contractor has submitted copy of PEC registration/license.

The reply was not tenable because originally the scheme was administratively approved by the EC, which requires revised approval from the same authority in case the lowest bid cost deviates 15% (excess/less) than the estimate. As regard PEC registration the PEC guidelines clearly defines that no engineering work shall be operated except by an operator licensed as such by the Council. Further no documentary evidence regarding PEC registration/license was provided in support of reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 03.10.2023, 20.10.2023, 06.11.2023, 05.12.2023, 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends formation of a fact finding committee to inquire why contract for the work was awarded at a much higher cost than estimated, to a firm that was not even licensed by the Pakistan Engineering Council. The concerned officials may be held to task for their oversight, the terms of the contract revised or either dissolved for a more favorable contract.

(DP. 216)

4.4.40 Unauthentic receipt on account of fuel throughput charges without authentic/verified quantities of fuel sold to Aviation Customer for raising bills - Rs 238.723 million

Clause 4(a) of the Concession Agreement between PSO-APL JV provides that the Licensee shall pay to the Licensor, on monthly basis, the Fuel Throughput Charges @ Rs 1.3102 per liter sold to the Aviation Customers; such payment in respect of a month to be made by the Licensee up to 10th of the following month, whether the Licensee receives any bill or not.

Audit noted that CAA granted license to PSO-APL JV for providing fuel to and collect fees and charges from the Aviation Customers and to pay to CAA Fuel throughput Charges at the rate of Rs 1.3102 per liter on fueling the Aircraft of Aviation Customers. Payment in respect of a month is to be made by the Licensee up to the 10th of the following month, whether the Licensee receives any bill or not.

Audit noted that Civil Aviation Authority the 'Licensor' and Pakistan State Oil (PSO) and Attock Petroleum Ltd. (APL) Joint Venture (JV) entered into a concession agreement on 11.03.2015 for grant of the License so as to establish, operate and maintain a Fuel Farm and operate & maintain the Hydrant Refueling System at the Islamabad International Airport (IIAP) for a period of thirty years commencing from 17.03.2015.

Audit observed that PSO-APL JV provides details of sale of fuel on monthly basis to APM for raising bills regarding Throughput Charges. However, the details of sale of fuel provided by the PSO-APL JV was not supported with any date-wise/Airline-wise/Flight-wise authentic invoices, authentic Meter Readings. The acceptance of monthly fuel sale by the Estate Branch and raising of bill and receipt of Rs 238.723 million for the financial year 2022-23 on account of fuel through put charges @ 1.3102 per litre sold to aviation customers stands unauthentic/unverified.

Audit maintains that unauthentic receipt occurred due to weak internal and financial controls.

Audit pointed out the unauthentic receipt of fuel throughput charges in December 2023. The Authority replied that a committee comprising members of E&M, Estate, Airside, Internal Audit, and Finance was constituted for preparation of mechanism to verify/ inspect/cross check the bills submitted by Joint Venture (PSO & APL). The committee submitted its recommendations. A proposal based on the recommendations of the committee had been forwarded to HQCAA for approval of mechanism to be evolved for verification of bills submitted by the Joint Venture. The Authority in its reply has admitted the audit observation.

DAC meeting was not convened by PAO despite request made by Audit on 28.12.2023.

Audit recommends that a third party financial audit of the books of account/ERP data may be carried out between CAA and JV to authenticate the actual quantity of fuel sold and receipt realized and recover the due amount.

(DP. 412)

4.4.41 Non-recovery on account of premium, annual ground rent and interest thereon - Rs 22.181 million

As per clause 11 (e) & (f) of General Tender conditions under CAA Land Lease Policy, CAA shall not allow any structural addition or alteration in the premises to the lessee without prior written permission. The lessee shall, abide by Civil Aviation Rules 1994 and all other applicable regulations and instructions.

Audit noted that Director Commercial & Estate Civil Aviation Authority Karachi executed a lease deed on 16.08.2012 for establishment of Petrol Pump Cum CNG Station at Jinnah International Airport, Karachi with M/s Total PARCO measuring 1,000 sq.yds. for thirty (30) years at the rate Rs 36,000 per sq.yd and handed over the site on 30.04.2013. A committee was constituted on 10.02.2016 to verify the earlier measurement of the space allotted to the lessee.

Audit observed that the lessee occupied 1,296.22 Sq. yds. land against the actual leased land of 1,000 Sq. yds., meaning thereby unfairly occupation of 296.22 Sq. yds land. Estate Officer proposed for charging of additional land from the lessee w.e.f. initial date of handing over of the site i.e., 30.04.2013 on the same rates and terms & conditions. Audit further observed that recovery of dues of excess land with interest was not recovered since 2016.

This resulted in non-recovery of Rs 22,180,954 on account of premium, annual ground rent and interest thereon as detailed below:

Particulars	Calculations	Amount (Rs)
Premium	296.22 sq. yards @ Rs 36,000 per sq. yard	10,663,920
Annual Ground Rent	Rs 10,663,920 x 1/30 x 9 years (2013 to 2022)	3,199,176
Sub-Total		13,863,096
Interest	10% per annum for 6 years (2016 to 2022)	8,317,858
Total		22,180,954

Audit pointed out the loss in January 2023. The Authority replied that upon identification of excess land, the case had been taken up with the competent authority i.e., CAA Executive Committee for decision and final action would be taken accordingly.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 23.06.2023, 28.08.2023, 18.09.2023, 03.10.2023, 20.10.2023, 06.11.2023, 05.12.2023, 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends investigation into the matter to determine the ground realities. The enforcement team of CAA may be empowered and improved to timely clear the illegal and unauthorized occupation of CAA land. If any legal cases are preventing CAA from reacquiring their land then the cases may be aggressively pursued for timely resolution of the matter. The services of the violating parties may be immediately suspended and fines levied for their unlawful occupation of PCAA land.

(DP 31)

4.4.42 Inadmissible payment of price escalation beyond the provision of PC-I - Rs 224.461 million

In the approved PC-I of the project “Construction of Greenfield Aerodrome for General Aviation Activities at Muridke” a sum of Rs 4,124.72 million was provided for land cost including all other descriptions of cost. In this component, the PC-I envisages no provision for escalation. Therefore, no escalation was admissible to the contractor.

Audit noted that Planning and Development Directorate, CAA Karachi awarded a work, “Construction of Greenfield Aerodrome for General Aviation Activities at Muridke”, at agreement cost Rs 1,784,623,902 to M/s Shaanxi Construction Engineering Group Corp Ltd- Umer Jan & Co. (JV) on 26.10.2021. Total value of work done was paid Rs 1,188,554,778 excluding escalation amount of Rs 224,461,635 up to IPC 10. Time of 12 months for completion of the project was allowed from the date of start.

Audit observed that the Project Director paid price escalation of Rs 224.461 million to the contractor of the work in violation of provision of PC-I.

Payment of escalation without provision in the approved PC-I resulted in inadmissible payment of price escalation of Rs 224.461 million.

Audit maintained that payment of escalation was made due to violation of provision of approved PC-I and weak internal and financial controls.

Audit pointed out inadmissible payment in July 2023. Authority replied that the original PC-I envisaged completion of project in six months, so provision for escalation was not added. During bidding, time period was not rationalized to 2 months, therefore, PEC clause of price escalation was added in bidding documents. All payments are being made as per clause of the contract and the same may be regularized through revision of PC-I.

The audit observation that payments were made beyond PC-I was accepted by the Authority, which may be regularized or recovered from the contractor.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 03.10.2023, 20.10.2023, 06.11.2023, 05.12.2023, 08.12.2023, 19.12.2023 and 28.12.2023.

Audit stresses regularization of the matter with documentary evidence.

4.4.43 Irregular provision of weightage factor in Appendix-C of bid of local currency for imported items impacting - Rs 200.889 million

Standard Bidding Documents of FIDIC provides that, the source of indices and the weightages or coefficients for use in the adjustment formula under clause 70 Appendix-C to bid (Local Currency) shall be, Fixed Portion/Non Adjustable, Un-skilled Labour, Cement, Diesel (HSD), Bitumen and Reinforcement (Steel).

Audit noted that Project Director, awarded the work “Reconstruction of Rigid Runway at Quetta International Airport for Operation of Aircraft up to ICAO Code 4E” to M/s Umer Jan & Co Engineers and Contractors at contract cost of Rs 4,938.756 million (Revised Rs 4,967.848 million) on 28.02.2020. The work was started on 05.05.2020 and to be completed on 04.04.2022. However, the Extension of time was granted up to 28.02.2023 further case of extension in completion up to 30.05.2023 was in process. Total value of work done up to 25th IPC was Rs 4,661.343 million. Audit further noted that as per Appendix-C to Bid (**Annexure-AC**) regarding source of indices and the weightages or coefficients are (55% fix and 45% variable) for use in the adjustments.

Audit observed that the cost of imported items component i.e., Air Field Lighting (AFL)/Electrical/NAVAIDs was Rs 1,080.972 million (revised cost as per VO-I) and the Authority provided weightage factor at 0.16 in Appendix-C to bid of Local Currency instead of specifying item wise weightage of the items based on Foreign Currency. Audit further observed that an amount of Rs 564.999 million was paid to the contractor as price adjustment out of which an amount of Rs 200.889 million (Rs 564.999*0.16/0.45) related to price adjustment against imported items.

Audit is of the view that the Authority formulated the Appendix-C to bid, which was against the PEC guidelines. This resulted in an irregular provision of weightage factor in Appendix-C of bid of local currency for imported items impacting Rs 200.889 million.

Audit maintains that the irregularity occurred due to non-adherence to PEC guidelines and weak internal controls.

Audit pointed out the irregularity in September 2023. The Authority replied that PEC standard bidding document Instruction to Bidders Clause IB 13, Sub Clause 13.1., states that “The unit rates and the prices shall be quoted by the Bidder entirely in Pak Rupees”.

The Authority used the PEC prescribed Standard Procedure and Formula for Price Adjustment, First Edition (March, 2009). Standard Procedure and Formula for Price Adjustment defined by PEC allows users to add, substitute or delete any element as deemed appropriate. Applicability Clause 6.1 is narrated as “Users of the formula may add, substitute or delete any element as deemed appropriate”. They would then decide on the weightages or coefficients for the elements” whereas Clause 10 is narrated as “This document will be applicable only for Price Adjustment in local currency (Pak Rs)”. Price Adjustment in foreign currency is not in purview of this document which, if applicable, it is submitted that the weightages in Appendix-C of the bidding documents were finalized with mutual agreement among the parties prior to the award of Contract. Airfield Lighting System (AFLS) imported items being an integral part of the Project with a significant cost was added keeping in view the uncertainty relating to dollar-rupee parity.

The reply was not accepted because, PEC Standard Procedure is applicable only for Price Adjustment in local currency. Price Adjustment in foreign currency was not in purview of the procedure. Further, weightage factor for imported items @ 0.16 was provided in Appendix-C to bid in Local Currency instead of specifying item wise weightage of the imported items based on Foreign Currency.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends that the matter may be taken up with PEC for clarification.

(DP. 322)

4.4.44 Non-accounting of dis-honoured CAA receipt by the Bank - Rs 155.816 million

Rule 79 of Federal Treasury Rules provides that in the event of the cheques being dishonoured by the bank on presentation, the fact shall be reported at once to the tenderer with a demand for payment in cash, but the Government cannot accept any liability for loss or damage which may possibly occur as a result of delay in intimating that the cheque has been dishonoured. When Government dues which are payable by certain fixed date are paid by cheques, the person desiring to make such payment in this manner without risk must take suitable precautions to ensure that his cheques reaches the treasury or the receiving office at the latest on the working day preceding the

date on which the payment is to be made. Cheques received on the last day of payment of Government dues may be refused at the discretion of the officer to whom they are tendered and those received later will not be accepted.

Section-489 (after amendment) of the Pakistan Penal Code provides that dishonestly issuing a cheque, whoever dishonestly issues a cheque towards re-payment of a loan or fulfillment of an obligation which is dishonoured on presentation, shall be punishable with imprisonment which may extend to three years, or with fine, or with both.

As per HBL Bank statement (Bank Account No. 0064-00031411-03) for the period from 01.07.2022 to 30.06.2023, CAA bank deposits against different receipts for Rs 155,816,420 (**Annexure-AD**) were not cashed/cleared by the bank and were shown as returned.

Audit further observed that these non-cashed/dis-honoured transactions were not got corrected from concerned licensees and no penal action was initiated against such defaulters.

Audit holds that irregularity occurred due to weak internal controls.

This resulted in non-accounting of dis-honoured cheques amounting to Rs 155.816 million.

Audit pointed out the matter in November 2023. The Authority did not reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends investigation for fixing of responsibility and disciplinary action against person (s) at fault, to discontinue practice of accepting cheques instead of pay order on account of dues besides corrective action.

(DP. 304)

4.4.45 Non-award/completion of defective work at risk and cost of the defaulting contractor - Rs 150.934 million

Board of Inquiry (BOI) conducted by Planning and Development, CAA Headquarters dated 27.04.2021 recommended that:

The responsibility towards damage of custom building is shared among contractor and designer of the project.

The content of financial expenditure to be incurred on the remedial measures should be recovered from the contractor and design consultant at the percentage of 38.5% and 61.5% as per 3rd part of forensic evaluation report.

Audit noted that a work, "Construction of Landside (Custom Building, & Cargo Agents Building at Islamabad International Airport, Islamabad" was awarded to M/s Amanat Hussain & Co (Pvt) Ltd at agreement cost of Rs 311.058 million on 16.11.2016. The work was started on 20.12.2016 to be completed up to 23.08.2017. The Contractor was paid Rs 204.451 million up to 14th IPC in May 2020.

Audit observed that recommendations of Board of Inquiry were not implemented and the defective work has neither been rectified nor effected recovery. Tentative summery of cost rehabilitation of custom building of defective work at IIAP Islamabad for Rs 150.934 million was made. As per record, the small piece of defective work was awarded in piece meal basis to M/s TS Engineering for Rs 11.650 million in February 2023. This resulted in non-award of defective work at risk and cost for Rs 150.934 million.

The matter was also discussed in the DAC meeting held on 03-05.01.2022. The DAC directed the Authority that recommendations of Inquiry Report be implemented at the earliest and defective works be got rectified and in case of failure, the works may be got executed at the risk and cost of the Contractor.

Audit pointed out the matter in November 2023. The Authority replied that the work was being executed at site in full swing at the risk & cost of Contractor and design Consultant in accordance with recommendation of BoI as per the blame apportioned on the Contractor and Design Consultant. Further, it is worth to mention here that the structural works are currently being executed through the specialist firm M/s TS Engineering.

The reply was not accepted because defective work being executed was awarded in piecemeal. Recovery of risk and cost amount from the defaulter contractor and consultant was also not made.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends that the work may be completed on risk and cost and effect recovery from the defaulter contractor & consultant under verification to audit. Furthermore, the department should write to the PEC for debarring the licenses of the contractor and the consultant in case of non-compliance as well perusing legal cases against them. If the officials are found to favor the contractor and the consultant, they may be held to task.

(DP. 299)

4.4.46 Loss to Authority due to non-adherence of contractual obligation - Rs 147.843 million

Clause-5 of the lease agreement explains that if any part of the rent hereby reserved shall be in arrear or unpaid for one calendar month next after any of the sale days where on the same shall have become due whether the same shall have been demanded or not or if there shall have been in the opinion of the lessor any substantial breach by the lessee or by any person claiming through or under him of any of the covenants or conditions hereinbefore contained, then and in such case the lessor may, notwithstanding the waiver of any previous cause or right of re-entry, after giving 30 days written notice, enter upon any part of the premises hereby demised or of the buildings thereon in the name of the whole and thereupon the said premises and building shall remain to the use of and be vested in the Lessor and the Lessee shall peacefully vacate the same and this lease shall absolutely determine and the Lessee shall not be entitled to any compensation whatsoever.

Clause-6 explains that on the expiry of the tenure of the lease hereby created or on sooner determination of the lease in the event of substantial breach of any of the conditions as mentioned above, the lessee shall without delay peacefully vacate the premises and shall handover to the lessor free of all costs such building, inclusive of all fittings and fixtures etc., which may have been erected by the lessee on the said plot.

Audit noted during audit of the record of Commercial and Estate Directorate, (HQ) Civil Aviation Authority, Karachi that a lease agreement was executed for land measuring 10,325 Sq. yds to M/s Aviserv Pvt. Ltd. at JIAP, Karachi for establishment of flight kitchen

facility at the rate of Rs 1,350 per Sq. yds for a period of thirty (30) years commencing from 19.05.1994 to 18.05.2024 in accordance to CAA Land Lease Policy 1985. During 2005, CAA Board in its 109th Meeting held on 26.07.2005 considered and approved the request of M/s Aviserv Pvt. Ltd. regarding enhancement of ten (10) years in existing lease period culminating into 40 years commencing from 19.05.1994 to 18.05.2034 subject to payment of dues on account of Annual Ground Rent at the rate of 1/30th of the revised market value of leased land i.e., Rs 5,500 per Sq. yds., from 19.05.2004 and renewal conditions with no premium at the time of renewal/ approval of CAA Board was accordingly communicated to M/s Aviserv Pvt. Ltd. vide letter dated 25.08.2005.

Audit observed that CAA Board in its 118th meeting held on 16-17.01.2007 decided that time frame for construction of flight kitchen facility must be included in the lease agreement. The decision of CAA Board was accordingly communicated to M/s Aviserv Pvt. Ltd. vide letter dated 13.02.2007 alongwith a draft copy of addendum for execution. Upon which, M/s Aviserv Pvt. Ltd. Expressed their reservations vide letter dated 26.03.2007. Since then, neither the addendum has been executed nor M/s Aviserv Pvt. Ltd. paid revised amount of Annual Ground Rent at the rate of Rs 30,000 per Sq. yd for the third decade from 19.05.2014 to 18.05.2024 of lease period. Moreover, M/s Aviserv Pvt. Ltd., has also not started construction on the leased premises till date.

Audit further observed that the lessee did not start its business or construct building for the desired purposes since allotment to-date. However, the Authority issued notice for clearance of outstanding dues of Rs 147.843 million to the lessee on 09.11.2023, but the lessee failed to deposit the dues.

Audit maintained that due to non-adherence of the contractual obligation and weak financial/internal controls resulted in loss of Rs 147.843 million to the Authority.

Audit pointed out the loss in December 2023. The Authority did not reply.

DAC meeting was not convened by PAO despite request made by Audit on 28.12.2023.

Audit recommends that the authority should utilize all the legal avenues available to recover its pending dues. In case of non-compliance, the authority should write to the concerned authorities for cancellation of the license of the contractor. Audit also recommends further investigation in the matter for fixation of responsibility, besides effecting recovery of the outstanding dues.

(DP. 391)

4.4.47 Inadmissible acceptance of price escalation liability and payment of price escalation beyond the provision of PC-I - Rs 142.33 million

Revised PC-I of the project “Upgradation of Main Runway (13L/31R) at Quetta International Airport for Operation by Aircraft up to ICAO Code 4E”, approved in October 2022 at a cost of Rs 6,287.244 million, included provision of Rs 565.00 million for price adjustment.

Standard procedure and formula for price adjustment formula 2009 provides that weightages of specified items each of the cost elements, having cost impact of five (05) percent or higher can be selected for adjustment. Cost elements of HSD and labour shall be included in the Price Adjustment formula irrespective of their percentage determined for a particular project, if these are applicable for that project.

Audit noted during scrutiny of the accounts of the Project Director, “Reconstruction of Rigid Runway at Quetta International Airport for Operation of Aircraft up to ICAO Code 4E” that the work was awarded to M/s Umer Jan & Co Engineers and Contractors at contract cost of Rs 4,938.756 million on 28.02.2020. The work was started on 05.05.2020, substantially completed on 30.05.2023 and TOC of the runway was issued on 30.05.2023. An amount of Rs 5,297.941 million was paid to the contractor through IPC No.25 (including Rs 636.597 million on account of price escalation vide EPC-11).

Audit observed that an amount of Rs 565.00 million was allocated under the head of account price escalation/de-escalation in Revised PC-I, whereas, the contractor claimed an amount of Rs 636.597

million on account of Escalation which was certified by the Project Management Consultant (PMC) and restricted the payment up to the provision of Revised PC-I, thereby leaving a balance of excess amount of Rs 71.597 million of escalation as liability.

Audit further observed that the authority developed in-admissible weightages of co-efficient in the bidding documents on items having cost impact of below five percent (5%) i.e., (Steel 2% & Bitumen 3%) for Rs 70.733 million in contradiction to above instructions as provided in the PEC adjustment formula 2009. This resulted in booking of escalation over and above the revised PC-I and inadmissible payment of price escalation amounting to Rs 142.330 million (Rs 71.597 + Rs 70.733).

Audit maintained that acceptance of price escalation over and above the revised PC-I and payment of escalation against in-admissible weightages of co-efficient for items Bitumen and Steel were due to non-adherence to revised PC-I, PEC instruction and weak financial and internal controls.

Audit pointed out the inadmissible payment in September 2023. The Authority replied that the provision of Rs 565.00 million for Price Adjustment was provided in the revised PC-I/Admin approval of the Project which was approved from CAA Board in October 2022 while the works were in progress and project was substantially completed on 30.05.2023. The cumulative value of Price Adjustment was valuing Rs 636.00 million but the payment has been made only as per available provision of PC-I/Admin approval i.e., Rs 565.00 million and the excess amount is booked as liability which was legally and contractually binding on part of the Employer to pay the contractor. As the final Bills and Final Escalations are in hand with the contract, re-appropriation to the Price Adjustment head of the Admin approval shall be carried once the final values are duly certified by the Engineer, and the payments shall accordingly be released.

The reply was not acceptable because the booking of liability on account of escalation over and above the revised PC-I cost and acceptance of escalation on Steel having cost impact of 2% and Bitumen of 3% was in contradiction to instructions as provided in the PEC adjustment formula 2009.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends that the matter may be investigated and the responsible officials who paid above and beyond the price escalation formula may be held to task. Furthermore, Audit recommends recovery/adjustment of the excess amount paid to the contractor.

(DP. 324)

4.4.48 Unauthentic payment due to ill estimation and payment of non-BoQ item without approval - Rs 135.919 million

Para 56 of Chapter-2 of NHA Code provides that technical sanction means the order of the competent authority sanctioning a properly detailed estimate of the cost of a work of construction or repair proposed to be carried out by the Authority. Sanction accorded to the execution of a work by an officer of any other department is regarded merely as an administrative approval of the work. Technical Sanction is a guarantee that the proposal is structurally sound and that the estimates are accurately calculated and based on adequate data. It shall be issued on the basis of detailed estimates for the project as a whole, after administrative approval is accorded.

Audit noted that CAA HQ awarded a work “Reconstruction & Up-gradation of Main Runway (18L/36R) at Allama Iqbal International Airport (AIIAP) Lahore” to M/s China Civil Engineering Construction Corporation (CCECC)-Matracon Pakistan (Pvt.) Ltd.-Habib Construction Services (JV) at an agreement cost of Rs 6,450.568 million vide acceptance letter dated 07.08.2020 with completion period of 455 days. An amount of Rs 6,872.170 million was paid to contractor up to 27th IPC.

Audit observed that the Authority made payment to contractor for non-BOQ item “providing and laying of Needle punched polypropylene Geo textile (density 200 gsm)” for quantity of 230,340.458 SM @ Rs 590.08 per SM. Audit also observed that the contractor did not prepare and get approved rate analysis of the item on quotation basis and made payment for non-BOQ items to contractor without approval of variation/deviation statement from the competent forum.

Audit is of the view that the estimation of the engineering staff of the project was very poor because an important and costly item for runway construction was required to be included before start of the work. Expenditure incurred in violation of quoted rules resulted in unauthentic payment of Rs 135.919 million due to ill estimation.

Audit pointed out unauthentic payment during July-August 2023. The Authority replied that the said project was governed by FIDIC conditions of contract and the contract allows variations and variation orders were issued by The Engineer strictly in accordance with contract agreement clause 51.1. The Engineer certified payments of varied works on provisional basis in accordance with Clause-52.1. On receipt of specific approval of the Employer in accordance with clause 2.1, the Variation Order will be formally issued by The Engineer wherein the rates would attain the finality.

The reply was not accepted because estimate was not prepared on the basis of proper survey and actual requirement of site. Execution of very costly non-BOQ item without preparation of rate analysis and approval of variation/deviation statement was due to poor estimation.

Audit holds that the unauthentic payment occurred due to ill estimation of the technical staff and approval of same by The Engineers.

The matter was discussed in DAC meeting held on 15-16 January, 2024. DAC directed CAA that detailed reply explaining technical aspects, approval of variation order and rates, reasons as to why the lessons learnt in respect of polythene sheet de-bonding was not reflected in planning resulting in execution of non-BOQ item, be provided to Audit for evaluation.

Audit recommends investigation in the matter and fixation of responsibility for increase in the cost of project due to ill estimation and inclusion of such a technical item of work at later stage.

(DP. 181)

4.4.49 Irregular/unjustified payment due to non-assurance of procurements of material from the specified origin - Rs 129.900 million

Special Provision-18 Specifications of contract agreement stipulates that the contractor shall furnish all materials new and unused, standard first grade quality of the best workmanship and design. No inferior or low-grade materials, supplies or articles will be either approved or accepted. The contractor shall provide the manufacturer or supplier with complete information as may be necessary to secure compliance to this clause and in every case. The contractor shall submit samples of Materials, the Engineer shall check and approve such samples with reasonable promptness only for conformance with the design concept of works and all work shall be in in accordance with approved samples.

Audit noted that P&D PCAA, Headquarters Karachi awarded a work, “Construction of Greenfield Aerodrome for General Aviation Activities at Muridke”, at agreement cost of Rs 1,784,623,902 to

M/s Shaanxi Construction Engineering Group Corp Ltd- Umer Jan & Co. (JV) on 26-10-2021. Total value of work done paid was Rs 1,188,554,778 excluding escalation amount Rs 224,461,635 up to IPC 10. Time was allowed 12 months from the date of start.

Audit observed that Asphaltic Work under Sub Head Main Runway, Asphalt Base and Wearing Courses and other bituminous items were executed wherein bitumen of specified grade was used which was main component of these items. As per afore quoted provisions, origin of the bitumen was required to be vetted by the consultant in order to maintain quality assurance. When the assurance of the origin of bitumen material was requisitioned, it was not found in the record to ascertain the source and for assurance of invoices of bitumen was sale tax invoices. This indicated that contractor did not procure the material from the specified origin directly, therefore, quality cannot be assured and by virtue of this chances of failure of the asphaltic pavement cannot be ruled out

Non-adherence to provision of contract agreement caused irregular/unjustified payment for Rs 129.900 million.

Audit pointed out irregularity in July 2023. The authority replied that bitumen from National Oil Refinery has been used confirming to the Project Technical Specifications.

The reply of the Authority was not acceptable because the bitumen receipt was not for the specific project at Muridke.

The matter was discussed in DAC meeting held on 15-16 January, 2024. DAC directed the management of CAA to get the record showing date of execution of item, date of request for asphalt test with forwarding letter and test report verified from Audit.

Audit recommends conducting of engineering and chemical tests to determine the actual quality and origin of the bitumen. If the tests reveal that the bitumen falls below the established standard, recoveries may be made from the contractor and responsibility be fixed against the concerned officials.

(DP. 229)

4.4.50 Loss due to non-allotment of commercial spaces and irregular appointment of operational staff - Rs 123.194 million

Para C-5 of Policy & Procedure for grant of business license at PCAA Airports 2014 & 2019 provides that, Senior Manager, Commercial/Commercial Officers at the respective airports and in case of absence of such officer (s) at any airport, the respective Airport Manager(s) or an officer designated by him shall be responsible to carry out all commercial functions to enhance non-aeronautical revenue/ income of PCAA and add quality services for the passengers and meeters/greeters at all airports.

Establishment Division issued policy guidelines to regulate contract appointments in autonomous/semi-autonomous bodies vide O.M. No. 6/2/2000-R.3 dated 06.05.2022. As per para iii(b) of the above-mentioned O.M, vacancies may be advertised in the leading national and regional newspapers.

Audit observed from the record of Airport Manager, Multan International Airport that:

a) The agreement period of the concessions expired on different dates and sites were lying vacant from the date of expiry. The management did not make efforts for further award of concessions to enhance non-aeronautical revenue/income of PCAA. This resulted in loss of Rs 49.607 million (**Annexure-AE**) to the Authority due to mismanagement.

b) 281 individuals were appointed on retainer-ship/contract basis for various wings of the airport building for providing operational and non-operational services. The contract, initially for a period of two months, was repeatedly extended. This resulted in an unjustified payment of Rs 73.587 million during the financial year 2021-22.

Audit maintains that loss occurred due to weak internal control.

Audit pointed out the loss in March 2023. The Authority replied that the management floated tenders for the concessions since their expiry. However, due to COVID-19 and subsequent economic turmoil in the country PCAA has not been able to award the concession.

In the other case, it was replied that the retainer-ship appointment was made with the approval of PCAA Executive Committee on retainer-ship basis through job advertisement published in prominent newspapers of the country. Initially manpower was hired for 02 months as an interim arrangement mainly to fill in the gaps of the specialist functions. Extension beyond initial period was granted by HQPCAA being the competent authority.

The reply was not accepted because concrete efforts should have been made to award the concessions just after completion of previous contracts.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 23.06.2023, 28.08.2023, 18.09.2023, 03.10.2023, 20.10.2023, 06.11.2023, 05.12.2023, 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends that the matter of appointment of retainer staff be investigated, the terms and conditions of their contract be formalized. Furthermore, audit recommends prompt action to award concessions of expired agreements to mitigate further losses.

(DP. 12 & 14)

4.4.51 Irregular/unjustified payment of Special Allowance without concurrence of Ministry of Finance - Rs 113.614 million

As per directions issued vide O.M No.F.1 (38)-IMP-II/88, dated 11.07.1988, financial matters including revision of pay and allowances, etc., cannot be decided without prior concurrence of the Finance Division. Further, Ministry of Defense issued instructions vide letter No.11-2/2002-PCAA dated 08.03.2007 that financial matters including financial implications particularly, increase in pay and allowances require prior clearance of the Finance Division. It is binding on the Authority to follow directives on the policy matters issued by the Federal Government under section of Civil Aviation Authority Ordinance 1982. Finance Division's O.M. No. F.4 (3)R-4/2011-Revision dated 04.08.2017 described that, "it is binding upon all the administrative Ministries/Divisions of Semi-autonomous, autonomous bodies/ corporations to ensure that any changes in the pay, allowances and privileges of executive/supervisory staff of the semi-autonomous, autonomous bodies corporations working under their administrative control, are processed in accordance with the Finance Division's O.M No.F.1 (1) Imp/94, dated 26.06.1999.

Audit noted during scrutiny of accounts of CAA that special allowance @ 20% to the employees and lump sum monthly pay package to Flight Inspector Pilots involving Rs 113.614 million was approved during the year 2021-22 without concurrence of Ministry of Finance in violation of instructions.

This resulted in irregular payment of Rs 113.614 million on account of Special allowance and monthly pay Package/salary of Regulatory Division Flight Inspector Pilots.

Audit pointed out irregularity in February-May 2023. The Authority replied that PCAA is a statutory body and as per the Section (04) & (27) of PCAA, Ordinance 1982, the Authority is competent to devise its own service regulations and the same are non-statutory in nature. The approval for Special Pay Packages for Flight Inspector Pilots was granted by PCAA Board.

The reply was not tenable because concurrence of Ministry of Finance through Ministry of Defence was mandatory prior to payments.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 23.06.2023, 28.08.2023, 18.09.2023, 03.10.2023, 20.10.2023, 06.11.2023, 05.12.2023, 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends that the matter may be referred to Ministry of Finance for clarification, all future allowances be granted only with the prior approval of Ministry of Finance as per standard procedure.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2021-22 and 2022-23 vide para numbers 4.4.10, 4.4.12 (2021-22), 4.4.2 and 4.4.9 (2022-23) having a financial impact of Rs 16,311.64 million. The recurrence of same irregularity is a matter of serious concern.

(DP. 04, 13 & 104)

4.4.52 Irregular award of work at higher rates - Rs 92.000 million

Public Procurement Rule 38 provides that, the bidder with the most advantageous bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract, within the original or extended period of bid validity.

Public procurement rule 04 provides that, Procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

Audit noted that CAA management awarded contract for the work of safeguarding the acquired land around Kasana Dam, Project site near IIAP Islamabad to M/s Ilyas Construction Rawalpindi at a contract cost of Rs 148.214 million. Total payment up to 02nd IPC of Rs 24.260 million was

made to the contractor. The work was started on 08.11.2022 and to be completed within a maximum period of 280 days.

Audit further noted that two firms submitted their bids within the due date and time. The bid evaluation committee checked and corrected the two bids i.e., M/s Choudhery Construction Company as Rs 56.919 million and M/s Ilyas Construction Rawalpindi Rs 148.214 million. The first lowest bidder backed out from his quoted bid. Record of forfeiture of earned money and action of blacklisting M/s Choudhery Construction Company was not made.

Audit observed that bid of the 2nd lowest bidder was also defective as they included premium after the grand total in the form of bid. Instead of rejecting bids and re-tendering, the work was awarded to the second lowest bidder i.e., M/s Ilyas Construction at a bid price of Rs 148.214 million. Further the interim extension of time was given to the contractor up to 02.02.2024 without any solid reason. Due to EOT, the insurance period also did not cover the maintenance period. Insurance is effective from 08.11.2022 to 07.11.2023.

This resulted an irregular award of work at higher rate of Rs 92.00 million (First lowest quoted rate Rs 56.919 million-second lowest quoted rate Rs 148.214 million).

Audit pointed out the matter in November 2023. The Authority replied that two firms participated in bidding process, both bids were opened by Tender Committee. Rule 34, Re-Bidding Quote “if the procuring agency has rejected all bids under Rule 33, it may call for a re-bidding” Unquote but in this case CAA has not rejected all bids and work has been awarded to 2nd lowest bidder whose bid was responsive and rates were reasonable and workable. Premium amount was corrected by CAA prior to award of Contract and bid amount as compared Engineer estimate was only 1.10% above and rates were reasonable/workable and bid commensurate the bidding requirements, hence accepted. Earnest money of M/s Choudhery Construction Company has been forfeited hence blacklisting may not possible. Final fate of Extension of Time will be dealt at the time of Taking Over Certificate in accordance with contractual provisions. Contractor Insurance policy is intact up to 07.11.2024.

The reply was not accepted because despite defective bidding the work was awarded to 2nd lowest bidder. As regards other irregularities, the reply furnished was without documentary evidence.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends investigation in the matter for fixing of responsibility for violation of rules besides effecting recovery under intimation to Audit.

(DP. 302)

4.4.53 Irregular award of construction supervision consultancy on higher rate - Rs 91.842 million

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

Approved PC-1 of the project Construction of Greenfield Aerodrome for General Aviation Activities at Muridke provides work outlay cost of Rs 2,406.603 million including all description of cost for the work. In this component, the PC-I envisages that an amount of Rs 45.921 million was provided for construction supervision through consultant which was 1.90 % of project cost.

Audit noted that Pakistan Civil Aviation Authority awarded consultancy service to M/s Osmani & Company Pvt. (Ltd) at agreement cost Rs 114,774,660 (Rs 22,932,000 for designing and Rs 91,842,660 for construction supervision accordingly) as lump sum remunerations for planning & designing Phase-I and construction supervision phase II of the Project “Construction of Greenfield Aerodrome for General Aviation Activities at Muridke,” costing Rs 1,784,623,902. Further, the Project Director paid Rs 111.519 million on account of consultancy fee to the consultant up to Invoice No. 19.

Audit observed that the Authority awarded the construction supervision for Rs 91.842 million which was 5% of total value of project cost Rs 1,784,623,902 which was more than 50% higher than the general practice as evident from PC-I provision of 1.90% and also same nature of work consultancy services for construction supervision of project (Reconstruction/Rehabilitation of Main Runway at AIIAP Lahore which was 0.5% of the project cost (Rs 36.080 million/ 6450.568%).

Audit further observed that planning & designing fee for Rs 22.932 million was also paid separately to the consultant for Muridke project which indicates

that the construction supervision remuneration was awarded much higher than general practice without any detailed working causing undue benefit to the consultant. This has resulted in irregular award of construction supervision consultancy on higher rate for Rs 91.842 million.

Audit maintained that irregular award was made due to weak internal and financial system of CAA.

Audit pointed out irregular award in July 2023. The authority replied that taking cognizance of rule 4 of the Public Procurement Rules, the bidding proceeding for consultancy engineering services for Muridke Aerodrome Project were invited under rule 36(b) & rule 3(C)–Least Cost of PPRA Regulations ‘Procurement of Consultancy Services Regulations 2010’. As a part of its scope defined the Request for Proposal” document, the consultant under Appendix-III, Section 6, Part Scope of services, sub -part Planning & Designing, axiom - ‘e’ was entrusted with “Preparation of PC-I proforma in light of contemporary Planning Commission guidelines. Therefore, award of consultancy contract (Letter of Acceptance dated 07.05.2021) precedes preparation of PC-I, which precedes award of construction work to contractor (26.10.2021).

Planning Commission in tandem with PPRA and PEC layout the procedure for appointing a consultant however, there’s no indicative yardstick available in these guidelines for extent and consultancy fee in contrast to cost of project.

The cost of works was unknown at the time of bidding whereas it may please be noted that only Phase-I of the works are launched as of now and the PC-I of the Phase-II of works is also in the pipeline. The Consultant shall perform services for both as already mentioned in his Contract Agreement. Therefore, comparison with current cost of tendered work is not worthy.

The reply of the Authority was not acceptable because only supervision fee of any project cannot be seen and provided @ 5% of contract cost other than designing fee. In this case design fee separate allowed therefore in previous practice maximum construction supervision of 2.5% was seen. At this stage matter may be investigated due to acceptance of high rate of supervision.

The matter was discussed in DAC meeting held on 15-16 January, 2024. DAC pended the para with the direction to management of CAA that matter may be examined by Deputy Director General (Works and Development), CAA and feedback be submitted to the PAO for the decision.

Audit recommends investigation and fixation of responsibility against the persons responsible for awarding the contract at higher rates. The consultant may be held accountable for approving a contract in violation of PPRA, and the Authority should seek arbitration with the consultant and resolve the issue.

(DP. 227)

4.4.54 Misprocurement through quotation and petty purchases - Rs 89.123 million

Rule-9 of the Public Procurement Rules, 2004 provides that, Limitation on splitting or regrouping of proposed procurement “Save as otherwise provided and subject to the regulation made by the Authority, with the prior approval of the Federal Government, a procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly without any splitting or regrouping of the procurements so planned. The annual requirements thus determined would be advertised in advance on the Authority’s website as well as on the website of the procuring agency in case the procuring agency has its own website”.

Rule 20 of the Public Procurement Rules, 2004 provides that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

During scrutiny of accounts of Director Civil Aviation Training Institute Hyderabad, audit noted that Engineering Service Electro mechanical (E/M) Section and Civil Section CATI Hyderabad incurred an expenditure of Rs 5.890 million and Rs 35.797 million through quotation basis.

Similarly, Logistic Center (South & North), Civil Aviation Authority made procurement of goods and spares for Rs 47.436 million through quotations and petty purchases during financial year 2021-22.

Audit observed that the procurements were made in piecemeal on quotation basis instead of consolidated annual requirement keeping the amount of every supply order less than Rs 0.500 million in quotation and less than Rs 0.05 million in petty purchases to avoid the open tendering. Further the annual requirements were not determined for advertising in advance on the Authority's website as well as on the CAA's own website. This resulted in mis-procurement involving of Rs 89.123 million (Rs 5.890 million + Rs 35.797 million + Rs 47.436 million).

Audit pointed out the irregularity in December 2022 and May 2023. The Authority replied in case of DP-51 that the mechanism of procurement at Logistics Branch APS is devised and bifurcated on the principles laid by Public Procurement Rules and regulations, estimated cost of procurement is acquired from the local market of every approved procurement, if the estimated cost of procurement is greater than 0.1 million but within 0.5 million the method of RFQ is being adopted, only the cases in which estimated prices are less than 0.1 million are procured through petty purchases. The common use items are procured at locations while items which are not available at locations due to technical complexities are procured at logistics centers.

The reply was not tenable because quotations were invited through placement of RFQ on notice board which was placed inside the office premises. Further procurements through petty purchases were made just to other location to avoid the approval of higher authority. Therefore, transparency and open competition was not ascertained.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 23.06.2023, 28.08.2023, 18.09.2023, 03.10.2023, 20.10.2023, 06.11.2023, 05.12.2023, 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends fixation of responsibility and disciplinary action against the responsible under intimation to Audit.

(DP. 51, 93)

4.4.55 Non-recovery of Secured Advance - Rs 84.252 million

Clause – 60.11(a) – Particular conditions of contract provides that the contractor shall be entitled to receive from the employer secured advance against an indemnity bond acceptable to the employer of such sum as the engineer may consider proper in respect of non-perishable materials (excluding equipment/items pertaining to AFL system) brought at site but not yet incorporated in the permanent works. (b) the recovery of secured advance paid to the contractor under the above provisions shall be effected from the monthly payments on actual consumption basis.

Audit noted that CAA, HQ, awarded the work “Reconstruction & Up-gradation of Main Runway (18L/36R) at Allama Iqbal International Airport (AIIAP) Lahore” to M/s China Civil Engineering Construction Corporation (CCECC)-Matracon Pakistan (Pvt.) Ltd.-Habib Construction Services (JV) at an agreement cost of Rs 6,450.568 million vide acceptance letter dated 07.08.2020 with completion period of 455 days. An amount of Rs 6,872.170 million was paid to contractor up to 27th IPC.

Audit observed during review of the Interim Payment Certificates that the Authority made payment of Rs 950.096 million to contractor on account of Secured Advance up to IPC No. 27. The amount was paid to the contractor for purchase of material i.e., Lawrencepur Sand, Local Sand, Crush, Aggregate Base Course, Clean Aggregate for Econocrete, Stone Dust for Econocrete, Aggregate Base Course, Sub Base, Bitumen etc., whereas, the said advance was required to be paid on non-perishable items like steel and bricks, etc., instead of sand, aggregate base course, stone dust, etc., as per afore quoted contract provisions. Audit further observed that the work has been completed and runway is functional since July 2022 but the amount of secured advance given to contractor for non-perishable items is still outstanding. This resulted in non-recovery of secured advance from contractor of Rs 84.252 million (Rs 950.096 – Rs 865.844)

Audit pointed out less recovery during July-August 2023. The Authority replied that contractor has received secured advance in accordance with clause 60.11 of PCC against procurement of non-perishable items as per scope of work. However, portion of drainage works along secondary runway has been de-scoped and outstanding secured advance of steel for said drainage works will be recovered in the forthcoming IPC. Further, contractor’s payments of approximately Rs 1,000 million against work done, Performance Guarantee and Retention Money were available with the Employer to safeguard the interest of the Employer.

The reply was not accepted because secured advance was recoverable despite the work was completed at site.

Audit holds that non-recovery of the amount of secured advance from contractor shows undue favour to contractor despite lapse of sufficient time.

The matter was discussed in DAC meeting held on 15-16 January, 2024 CAA explained that secured advance of unconsumed steel due to de-scope of drainage work would be adjusted from next IPC. However, work done of Rs 1,000 million is yet to be paid to the contractor and retention money and performance guarantee is available with CAA.

After detailed deliberation, the DAC directed the management of CAA to make adjustment of outstanding secured advance from next IPC besides getting the record i.e., work plan, timelines for adjustment, actual adjustment, work done yet to be paid, de-scoped work with justification verified from Audit.

Audit recommends inquiry at an appropriate level for non-recovery of secured advance even after lapse of sufficient time, besides effecting the recovery at the earliest under verification to Audit.

(DP. 168)

4.4.56 Overpayment to contractor due to change in scope of work against the provision of PC-I - Rs 82.362 million

Para 9.6 of PC-I states that, the thickness of sand cushion for rigid pavement will be 300 mm (12inch). As per technical estimate and approved drawings of the project, the item of sand cushion was needs to be executed with the thickness of 300 mm. According to clause 9.6.1.7 of the PC-I, the Pavement Classification Number (PCN) for rigid pavement of main runway was reported as PCN 159/R/B/W/T.

Audit noted that CAA, HQ awarded the work “Reconstruction & Up-gradation of Main Runway (18L/36R) at Allama Iqbal International Airport (AIIAP) Lahore” to M/s China Civil Engineering Construction Corporation (CCECC)-Matracon Pakistan (Pvt.) Ltd.-Habib Construction Services (JV) at an agreement cost of Rs 6,450.568 million vide acceptance letter dated 07.08.2020 with completion period of 455 days. An amount of Rs 6,872.170 million was paid to contractor up to 27th IPC.

Audit observed that the Project Director measured and paid BOQ item No 152-4.7 “providing sand cushion under the Earthwork Bill No. 1” in Main Runway with a quantity of 133,090.294 Cu.m @ Rs 990 per Cu.m for Rs 131,759,392 up to 27th IPC after taking the thickness of the item as 990 mm against the provision of 300 mm. The said quantity was executed 167% above the provided quantity of estimate 49,896 Cu.m. Audit further observed that as per Project Director letter dated 12.06.2023, the PCN for rigid pavement of main runway is reported as PCN 216/R/B/W/T against the provided/required value in PC-I of 159/R/B/W/T.

Audit is of the view that the extra quantity of sand was used for the work without justification and was only to extend undue favor to the contractor. This resulted in overpayment due to change in scope of work against the provision of PC-I of Rs 82,362,351 (Rs 133,090.294 – Rs 49,896 x 900).

Audit pointed out overpayment during July-August, 2023. The Authority replied that this AIR-12 may please be clubbed with Audit Para No. 4.4.29 (2022-23) and PDP-63 (2020-23) because it is based on the same observation.

The reply was not tenable. Due to use of extra quantity of sand, the PCN value of runway was increased in conflict of PC-I design.

Audit held that the scope of specified work was unnecessarily changed without any cogent reasons and only for obliging the contractor.

The matter was discussed in DAC meeting held on 15-16 January, 2024. The management of CAA apprised that upon excavation, the soil was found severely water logged and was totally unsuitable to start the construction of main runway. Audit contended that substantial variation was due to design consultant fault. After detailed deliberation, the DAC directed the management of CAA that consultant be penalized for inadequate design work and blacklisted as per policy. Final action be shared with Audit. DAC further directed that to avoid conflict of interest, design consultancy and construction supervision consultancy services should not be assigned to the same firm and in future “the Engineer” should not be consultant.

Audit recommends compliance of DAC’s directive.

(DP. 176)

4.4.57 Less recovery of water charges - Rs 72.909 million

Clause-34.5 of special conditions of contract agreement provides that, the contractor shall make his own arrangement at his own expense for provision operation and maintenance of electric supply, reasonable supplies of raw and portable water and sewerage system at the site of works and his labour camps, staff residences and offices. The contractor shall pay all fees and charges (including bills) of whatsoever nature to the concerned departments in order to procure connections of the above facilities and thereafter using these facilities.

Condition No. 6 of CPWD form 7&8 of Pakistan Public Works Department provides that, water supply will be allowed by the department to the contractor from main line passing through areas where the work is required to be carried out and he shall pay the cost of water to the department at ½% of the total cost of work for drinking purposes and 1 % of the total cost of work involving use of water (i.e., for constructional purposes). The contractor will bear all charge for laying his water line from the mains to the site of his undergrounds tanks which he may require and construct for storage purposes at his own cost.

Audit noted that CAA HQ awarded following two works at Allama Iqbal International Airport (AIIAP) Lahore.

Audit observed that the Authority deducted water charges @ 1 % for construction works but ½ % charges for drinking water were not deducted. Undue favour was extended to the contractors in resulted in less r recovery of water charges of Rs 72.909 million as detailed below.

(Rs in million)

DP No.	Work	Work-done	Water charges @.5%
167	Reconstruction & Up-gradation of Main Runway (18L/36R) at AIIAP Lahore M/s CCECC-Matracon Pak. (Pvt.) Ltd.- Habib Const. Services (JV)	6,872.170	34.361
187	Passenger Terminal Building Expansion Project at AIIAP Lahore (Construction of Car Parking Area) M/s Izhar Construction (Pvt.) Ltd.	7,709.557	38.548
	Total	14,581.727	72.909

Audit pointed out less recovery during July-August 2023. The Authority replied in DP. 167 that water for drinking purpose has been arranged by the Contractor himself as required in the Clause-34.5 of Special Conditions accordingly the Engineer has made only deductions of water charges @ 1% for constructions works in certified IPCs. In DP-187 it was replied that as per direction of DAC meeting held on 15.01.2021 against DP-42 a recovery of Rs 25.9 million has already been made in IPC-27. Further, the matter is under dispute as the Engineer has given their decision in favour of the contractor under clause 67.1 of GCC being impartial under clause 2.6 of GCC on 24.08.2021. Moreover, the contractor vide his letter dated 06.07.2023 has also shown his intention to take the matter to Arbitration under sub-clause 67.4 of GCC. However, as per clause 26.3.1 special provision of the contract the contractor has managed temporary water supply for drinking purpose through his own resources and no supply line (water supply) of CAA was available at car parking project.

The reply was not tenable. No record in support of reply regarding supply/provision of water for utilization of drinking purpose for labour, offices of employer and the engineer was produced to Audit.

Audit maintained that less recovery of water charges was due to not following the relevant rules and weak internal controls.

The matter was discussed in DAC meeting held on 15-16 January, 2024. The DAC pended the para and directed to provide justification for evaluation by Audit and discussion in next meeting.

Audit recommends recovery on account of water charges under verification to audit. Furthermore, audit recommends proper measurement of water supply to ensure accurate calculation of water bill.

(DP. 167, 187)

4.4.58 Loss due to non-imposition and recovery of non-utilization charges - Rs 71.965 million

Clause 4 of Lease Deed executed between M/s Attock Petroleum and Civil Aviation Authority on 13.01.2012 for 30 years provides that “the lessee shall complete the construction and/or allied works to meet the purpose of this lease, within the specified period of two years from the date of signing of this indenture or during the specified extended period. Failure to commence construction work within 3 months or delay in launching/operation within specified period to two years or extended period as deemed fit

by the lessor in view of the purpose of this lease, shall either be subject to a penalty of Rs 100 to Rs 300 square yards per month as non-utilization charges as decided by the lessor or shall result in termination of lease and resumption of land by the lessor or shall result in termination of lease and resumption of land by lessor.

During audit of the record of Commercial and Estate Directorate, (HQ) CAA, Karachi it was noted that a lease agreement was executed for a plot measuring 1,500 Sq.yds, situated near Luxury Cinema at JIAP Karachi for the purpose of Petrol Pump Cum CNG Station with M/s Attock Petroleum on 13.01.2012 for 30 years.

Audit observed during examination of record that the lessee could not complete the construction and/or allied works to meet the purpose of lease, within the specified period of two years from the date of signing of this indenture or during the specified extended period. Audit further observed that construction work was not started within 3 months and launching/operation was also not started within specified period of two years. The Authority charged non-utilization charges (NUC) under the clause for the period 13.04.2014 to 12.01.2020 amounting to Rs 32.400 million which was also not recovered till to date. It was further observed from the file that the Authority also imposed an amount of Rs 39.565 million on account of surcharge and additional penalties, which were also not deposited by the lessee although the lessee is doing its business with full swing.

Audit maintained that the loss in the form of non-recovery of non-utilization charges and non-recovery of surcharge & additional penalties was due to weak internal control and monitoring, system within authority.

This resulted in loss on Rs 71.965 million

Audit pointed out the irregularity in December 2023. The Authority did not reply.

DAC meeting was not convened by PAO despite request made by Audit on 28.12.2023.

Audit recommends further investigation into the matter for fixing of responsibility and for recovery of losses to the Authority.

(DP. 392)

4.4.59 Overpayment to the contractor due to allowing double lead for dismantled concrete material - Rs 66.470 million

Rule 10 (i) of GFR Vol-I provides that every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public money as a person of ordinary prudence would exercise in respect of expenditure from his own money.

Audit noted that CAA HQ awarded the work “Reconstruction & Up-gradation of Main Runway (18L/36R) at Allama Iqbal International Airport (AIIAP) Lahore” to M/s China Civil Engineering Construction Corporation (CCECC)-Matracon Pakistan (Pvt.) Ltd.-Habib Construction Services (JV) at an agreement cost of Rs 6,450.568 million vide acceptance letter dated 07.08.2020 with completion period of 455 days. An amount of Rs 6,872.170 million was paid to contractor up to 27th IPC.

Audit observed that the Project Director executed and paid a BOQ item “dismantling of existing 13" PQC slab including transportation outside airport limits for main runway, turn pad and overrun” for Rs 42,455,237 for a quantity of 85768.56 Cu. m @ Rs 495 per Cu. m. Audit further observed that the Authority measured and paid a non BOQ item “disposal of existing PQC material up to lead of 26 km (from outside airport limit to designated approved place karolghatti)” with a quantity of 85,768.156 Cu.m @ Rs 775 per Cu.m for Rs 66,470,321. Audit is of the view that as the transportation of dismantled material was included in BOQ item why did the Authority execute and pay a separate non-BOQ item for the same work. This resulted in overpayment to contractor of Rs 66.470 million.

Audit pointed out overpayment during July-August, 2023. The Authority replied that the engineer has certified payments of varied works on provisional basis in accordance with Clause-52.1 of GCC. On receipt of specific approval of the Employer in accordance with Clause 2.1 (ix) of PCC, the variation order will be formally issued by the Engineer wherein the rates will attain the finality. The same shall be then submitted to Audit for verification.

The reply was not accepted. The Authority paid separate non BOQ item for disposal of existing PQC slab whereas the cost of disposal of PQC slab was included in BOQ item.

Audit holds that the overpayment to contractor was due to weak technical controls.

The matter was discussed in DAC meeting held on 15-16 January, 2024. DAC directed the management of CAA that consultant be penalized for inadequate design work and blacklisted as per policy. Final action be shared with Audit.

Audit recommends compliance of DAC's directive.

(DP. 177)

4.4.60 Inadmissible payment of consultancy beyond the PC-I provision - Rs 65.598 million

Approved PC-I of the project "Construction of Greenfield Aerodrome for General Aviation Activities at Muridke" was provided at a cost of Rs 4124.72 million including land cost and all description of cost. In this component, the PC-I envisages that an amount of Rs 45.921 million was provided for consultancy supervision.

Audit noted that CAA awarded consultancy service to M/s Osmani & Company Pvt. (Ltd) at agreement cost Rs 114.774 million (Rs 22,932 million for designing and Rs 91.842 million for supervision accordingly) as lump sum remunerations for planning& designing Phase-I and Construction Supervision phase II of the Project "Construction of Greenfield Aerodrome for General Aviation Activities at Muridke", costing Rs 1,784.623 million.

Audit observed that the Project Director paid consultancy fee to the consultant as Rs 111.519 million up to Invoice no. 19 on account of the consultancy services for the work against the PC-I provision of Rs 45.921 million which was 142% excess than provision. This has resulted in inadmissible payment of Rs 65.598 million for consultancy beyond the PC-I.

Audit maintained that payment of consultancy over and above the PC-I was made due to weak internal and financial system of CAA.

Audit pointed out the inadmissible payment in July 2023. The Authority replied that all payments were made as per actual consumption of man-months for the deployed positions. The same would be regularized through revised PC-I by the end of next month. Furthermore, the consultancy contract was for a duration of 12 months, which was increased to 19 months i.e., 15.09.2023. This extension in time for completion of works propagated extension in services of PMC. Therefore, PMC under the mandates of SCC 6.3[b] was compensated for additional man-hours. Sum of Rs 45.921 million earmarked amid approved PC-I was exclusive for supervision as mentioned within cost summary of PC-I, moreover, the sum of Rs 45.921 was kept with six months in hindsight as duration of the project. Nonetheless, PMC had been instructed to revise the PC-I with instruction to rationalize the plausible supervision cost, which shall be put up to competent authority for approval.

The observation of audit is accepted by the Authority that payments were made beyond the PC-I, which may be regularized or recovered from the consultant.

The matter was discussed in DAC meeting held on 15-16 January, 2024. DAC pended the para with the direction to management of CAA that matter may be examined by Deputy Director General (Works and Development), CAA and feedback be submitted to the PAO for the decision.

Audit recommends that detailed report in the light of DAC's direction may be provided to Audit.
(DP. 226)

4.4.61 Overpayment to the contractor due to non-utilization of available earth - Rs 65.162 million

Addendum No.1, Item No.152.1.1 – Technical Provisions of Contract Agreement and NHA Specification provides that the quantities to be paid for shall be the number of cubic meters calculated on theoretical designed lines and grades and the ground levels as compacted in place. Measurement shall be made as under:

Formation from Borrow=Total Embankment Quantity (minus) Roadway Excavation Quantity (minus) Structural Excavation Quantity

Audit noted that Planning & Development Pakistan Civil Aviation Authority, Headquarters Karachi awarded the work, "Construction of Greenfield Aerodrome for General Aviation Activities at Muridke, at agreement cost Rs 1,784.623 million to M/s Shaanxi Construction Engineering Group Corp Ltd- Umer Jan & Co. (JV) on 26.10.2021. Total value of work done was paid Rs 1,188.554 million excluding escalation amount Rs 224.461 million up to IPC 10. Time was allowed 12 months from the date of start.

Audit observed that the Project Director measured and paid a BOQ item Formation of Embankment from Borrow Excavation in common material in Sub Head 3 Main Runway, Sub Head 04 Taxi Way Sub Head 5 Apron and sub Head Loop with the quantity of 528,061 CM @ 500 per CM with the amount of 264,030,500 up to 10th IPC. Audit further observed that the Project Director also paid the item (Excavation in foundation of building, bridges structure, etc., as non-BOQ item(provisional sum) with the quantity 130,325 @ 290 per cum Audit held that borrow material can only be utilized when Structural/Roadway Excavation material would not be available but in this case despite availability of the excavated material as Non BOQ item at site the borrow material was used and paid at higher rate and available material was not adjusted/decreased from the quantity of Formation of Embankment from borrow Excavation.

The department was required to measure and pay the quantity of Formation of Embankment from Borrow Excavation material after deduction of available excavated earth quantity 130,325 Cu.m. This resulted in overpayment to the contractor due to non-utilization of available earth Rs 65,162,500 (130,325 Cu.m x 500 per cu.m).

Audit pointed out overpayment in July 2023. The Authority replied that the mentioned excavated material in this Para was un-suitable to be used based on the CBR criteria (Min 3%). Third Party Test reports from renowned state owned facility are available for verification. Hence, the said material cannot be utilized for formation of Embankment. Since the excavated material did not conform the specification of BOQ item "Formation of Embankment from borrow excavation in common material with minimum 8% CBR material and minimum 95% compaction including cost of clearing, grubbing & compaction of natural ground" [lab results annexed], therefore the excavation was not used with formation of embankment. Moreover, under the premise of same clause the excavation was paid [provisionally] at the rate available within the BOQ item "Excavation in foundation of building, bridges and other structures, including dressing, refilling around structure with excavated earth, watering and ramming lead up to one chain (30 m) and lift up to 5 ft. (1.5 m), in ordinary soil" at a BOQ rate of Rs 290 per cu.m.

The reply was not acceptable because as per technical specification 152.1.1 if the excavated material was reused for formation of embankment, the item of excavation shall not be paid separately as mention in the reply, Thus, department was required to recover the excavated rate as Rs 290 per Cu.m.

The matter was discussed in DAC meeting held on 15-16 January, 2024 DAC directed the management of CAA to get the record showing date of execution of item, date of request for test with forwarding letter and test report of UET verified from the Audit.

Audit recommends compliance of DAC's directive.

(DP. 228)

4.4.62 Non-recovery of outstanding dues from airlines and licensees – Rs 60.055 million

Clause 3 (a) of License agreement provides that the licensee shall pay license fee in advance for the current month i.e., on the date of start of the business or possession of the premises is handed over to the licensee. Thereafter, the monthly license fee shall be paid in advance up to 10th of each month to which it relates. If, licensee fails to pay monthly license fee on due date, late payment surcharge thereon @ 5% shall be imposed. According to Clause 3(b) of agreements (standard form) for various licenses/concessions, if the license fee or any part thereof shall be in arrears for one month or more after the same has become due, whether demanded or not, the Airport Manager/Licensor may terminate the license agreement and the licensor or his authorized representatives may upon such termination enter into or upon the premises and take over the same without any right or remedy to the licensee or any obligation to the licensor.

Audit noted that the Airport Manager, Allama Iqbal International Airport, Lahore awarded licenses to different airlines and commercial concessionaries to run their business activities at AIIAP, Lahore.

Audit observed that the Airport Manager, AIIAP, Lahore could not recover CAA dues on account of rent, license fee and other charges from the license holders for the financial year 2022-23.

Audit further observed that actions required under the clauses of the agreements like notices of recovery, imposition of surcharge and termination of license agreements, etc., were also not taken. This resulted in non-recovery of outstanding dues from airlines and licensees of Rs 60.055 million (as per statement provided).

Audit maintains that recovery was not effected due to weak monitoring system and ineffective internal controls.

Audit pointed out non-recovery in July 2023. The Authority replied that an amount of Rs 5.950 million recovered out of Rs 60.064 million. However, efforts are being made for recovery of remaining amount.

The reply of the Authority was not tenable regarding effecting recovery of Rs 5,950,491 until verification.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 03.10.2023, 20.10.2023, 06.11.2023, 05.12.2023, 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends recovery of outstanding dues from the concerned Airlines.

(DP. 199)

4.4.63 Irregular/unjustified payment of Special Allowance - Rs 59.867 million

Directions issued vide Finance Division O.M No.F.1 (38)-IMP-II/88, dated 11.07.1988 provide that financial matters including revision of pay and allowances, etc., cannot be decided without prior concurrence of the Finance Division. Further, Ministry of Defense issued instructions vide letter No.11-2/2002-CAA dated 08.03.2007 that financial matters including financial implications particularly, increase in pay and allowances require prior clearance of the Finance Division. It is binding on the Authority to follow directives on the policy matters issued by the Federal Government.

Audit noted during scrutiny of accounts (Trial Balance) of Airport Manager Bacha Khan International Airport CAA Peshawar that an amount of Rs 59,867,196 on account of 20% special allowance was paid to the employees during the financial year 2022-23.

Audit observed that the CAA Management made payment of 20% Special Allowance of running basic pay. The payment of said allowance was made without concurrence of Ministry of Defense as well as Ministry of Finance in violation of codal obligations. This resulted in irregular/unjustified payment of Rs 59,867,196.

Audit maintains that irregularity occurred due to inadequate implementation of financial, administrative and internal controls.

Audit pointed out irregularity in October 2023. The Authority did not reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends seeking concurrence of special allowance from Finance Division.

(DP. 255)

4.4.64 Overpayment due to measurement of excessive thickness of Granular/ Sand cushion as post bid change - Rs 54.555 million

Approved tender drawing X-Section states that granular material was to be executed as 600 mm.

Approved tender drawing of work 'Reconstruction of Main Runway of AIIAP, Lahore provides that granular material/sand was to be provided as 300 mm.

NHA specification item No 108.3.5 provides that where embankments are to be placed in water logged areas and which are inaccessible to heavy construction equipment, a special working platform shall be first established, consisting of a blanket of fill material placed on top of the soft layer. The material of the working table shall consist of normal or processed granular fill, obtained from borrow excavation. This material shall conform to the following specifications:

Percentage of Weight Passing: 100%

Sieve Description: Mesh Sieve, AASHTO T-27, 3 inch (75 mm)

108-4, The thickness of the working table as prescribed above shall be approximately 0.5 meter (500mm) unless directed otherwise by the Engineer, and the width shall be that of the embankment. The placement and compaction of the working table shall be carried out by use of light equipment, as directed by the Engineer.

Audit noted that Planning & Development Pakistan Civil Aviation Authority, Headquarters Karachi awarded a work, "Construction of Greenfield Aerodrome for General Aviation Activities at Muridke, at agreement cost Rs 1,784,623,902 to M/s Shaanxi Construction Engineering Group Corp Ltd- Umer Jan & Co. (JV) on 26.10.2021. Total value of work done was paid Rs 1,188,554,778 excluding escalation amount Rs 224,461,635 up to IPC 10. Time was allowed 12 months from the date of start.

Audit observed that the Project Director measured and paid sand cushion as granular material for a quantity 85,242 Cu.m @ 1,600 per Cu.m for Rs 136,387,908 up to IPC 10 for Sub Head Main Runway after taking thickness 1,000 mm instead of 600 mm in violation of tender drawing approved by P&D CAA, NHA specification and also violation of already approved project Reconstruction of Main Runway Lahore Airport.

Audit is of the view that the contractor quoted the high rate for granular material, subsequently the contractor executed the sand cushion which was cheap item and increased the thickness of sand for higher profit. This has resulted in overpayment of Rs 54,555,589 (85,242 Cu.m/ 1,000 mm x 600mm-85,242 @ Rs 1,600) due to measurement of excessive thickness of Granular/ Sand cushion as post bid change.

Audit maintained that overpayment was made due to violation of specifications and weak financial controls.

Audit pointed out the overpayment in July 2023. The Authority replied that the project was being carried out as per Project Technical Specifications and not as per NHA Specifications. Granular Backfill Material (Sand) was used as filter layer. Since the Project was located in paddy cultivation area, this thickness was AASHTO compliant. A good comparison is Lahore-Sialkot motorway and Muridke-Narowal road. Lahore-Sialkot Motorway is doing well because of additional sand layer but Muridke-Narowal is in tatter because of its absence. As highlighted by Audit the granular material pad shall conform to specification of 100% passing 3 inch [75mm] sieve , the sand used for this purpose conformed to this specification over and above to Item P-152 of Technical Specification sub-part 152.1.4 – For Sand cushion payment shall be made at the contract unit price per cubic meter.

The reply of the Authority was not acceptable because the engineer can allow the variation in quantity with minor percentage but cannot change the thickness without construction requirement because technical sanctioned estimate was approved by competent forum with 600 mm thickness of sand and also in a similar nature work construction of Lahore Main runway also utilized less thickness than Muridke project.

The matter was discussed in DAC meeting held on 15-16 January, 2024. DAC directed the management of CAA to conduct a Fact Finding inquiry at departmental level in the highlighted matter and report be shared with Audit through PAO.

Audit recommends review of the changed specification by the competent forum through investigation in the light of DAC's directive, and early recovery of overpaid amount under verification to Audit

(DP. 230)

4.4.65 Non-recovery of dues from occupants of CAA residential accommodations - Rs 53.422 million

Pakistan Aviation Authority Ordinance 2021 Para 5(g) defines the power of the authority to, 'operate, manage and maintain airports and aerodromes in an efficient and businesslike manner including provision of airport services and facilities such as—(viii) services and facilities for the operation of customs, immigration, narcotics control, public health and quarantine checks and control.' During scrutiny of the accounts of APM Jinnah International Airport Karachi for the financial year 2022-23, Audit noted that an amount of Rs 53,421,663 was outstanding/ recoverable from occupants of CAA accommodations at Jinnah International Airport, Karachi on account of water charges, house rent, electricity charges and repair maintenance charges.

Audit observed that most of the defaulters were from different departments like Customs, Metrological department, ASF, Health, etc. but the matter of recovery of dues was not taken up with the concerned departments despite accumulation of dues. This resulted in non-recovery of dues of Rs 53.422 million from occupants of CAA residential accommodations.

Audit maintained that dues were accumulated due to weak financial controls.

Audit pointed out the matter in November 2023. The Authority did not reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends investigation for fixing of responsibility besides early recovery of dues under intimation to Audit.

(DP. 307)

4.4.66 Unauthentic provision of facilities by the Concessionaire of Common Use Passenger Processing System and Baggage Reconciliation System - Rs 252.700 million

Clause 4.12.3 of concession agreement for Deployment, Operations and Maintenance of CUPPS & BRS facility at PCAA airports (Islamabad International Airport, Jinnah International Airport Karachi, Allama Iqbal International Airport, Lahore, Bacha Khan International Airport, Peshawar, Multan, Faisalabad, Quetta International Airports) with M/s Reliance Aviation Tech Services Pvt. Ltd. (RATSPL), the licensee was required to furnish performance guarantee from AA+ rating scheduled bank for USD 75,000 valid up to 60 days after expiry of the term of the contract. As per clause 4.16, the licensee was to be penalized up to 10% of the monthly charges for default as explained in clause 4.16.2.

The services are provided to CAA stakeholders (i.e., airlines and GHAs) under the Operating Regulations issued by CAA against a specified per passenger service charge USD 1.25 per departing passenger excluding transit passengers, USD 0.625 per transit passenger. The Airport Managers on periodical basis will provide a Performance Appraisal Report for deployment and thereafter a service levels appraisal report as per Appendix-6 during the term.

Audit noted that CAA executed the agreement on 01.02.2019 for five years from the date of commencement. As per scope of the agreement for Deployment, Operations and Maintenance of CUPPS & BRS facility at PCAA airports, CAA is procuring services from, M/s Reliance Aviation Tech Services Pvt. Ltd. (RATSPL) against which CAA pays the following quoted per passenger charge to M/s Reliance Aviation Tech Services Pvt. Ltd., USD 0.66 per departing passenger excluding transit passengers, USD 0.33 per transit passenger.

During scrutiny of the accounts of APM Jinnah International Airport Karachi for the financial year 2022-23, Audit noted that the contract was in operation at the Airport.

Audit observed that the Airport Managers did not provide on periodical basis a Performance Appraisal Report for deployment and thereafter a service levels appraisal report. No penalty during the period under audit was imposed/recovered from the licensee. There is no evidence/certification on record that the licensee provided equipment valuing App Rs 252.700 million (**Annexure-AF**) as per BOQ.

Audit pointed out the matter in November 2023. The Authority did not reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends investigation for fixing of responsibility, besides taking corrective action under intimation to Audit.

(DP. 306)

4.4.67 Irregular award of works in violation of the Public Procurement Rules - Rs 344.764 million

Rule-9 of the Public Procurement Rules, 2004 provides that save as otherwise provided and subject to the regulation made by the Authority, with the prior approval of the Federal Government, a procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly without any splitting or regrouping of the procurements so planned. The annual requirements thus determined would be advertised in advance on the Authority's website as well as on the website of the procuring agency in case the procuring agency has its own website.

Rules 29 (Evaluation criteria), states that procuring agencies shall formulate an appropriate evaluation criterion listing all the relevant information against which a bid is to be evaluated. Such evaluation criteria shall form an integral part of the bidding documents. Failure to provide for an unambiguous evaluation criterion in the bidding documents shall amount to mis-procurement

A. Airport Manager IIAP, CAA, Islamabad procured stationery items, tonners, general items for Airport Services (APS), for general use and E&M Items for Rs 31.352 million and civil material such as

paints, tiles, etc., for Rs 19.335 million through stereotype piece meal work orders awarded to selected suppliers mostly on the same dates, through quotations, keeping each work order below Rs 200,000 restricting the estimates within the competency of the Airport Manager, instead of a consolidated estimate awarded through open competition to achieve competitive/economical rates which was violation of the Public Procurement Rules. This resulted in irregular expenditure of Rs 50.687 million. (DP. 414)

B. During scrutiny of accounts of Airport Manager, Faisalabad International Airport, CAA, for the year 2022-23, Audit observed the following:

Service Level Contract agreement (SLA) for “Janitorial & Cleaning Services at Faisalabad International Airport was awarded to M/s OPL for annual cost of Rs 152.249 million 54.91% above the estimated cost. The bid of the same contractor was rejected previously of Rs 115.31 million being on higher side. (DP. 145)

Service Level Agreement (SLA) for “Repair & Maintenance of Civil work / facilities at Faisalabad International Airport” to M/s Sarmik (Pvt) Ltd., for annual cost of Rs 33.854 million who was disqualified in tendering process due to non-compliance of conditions of tender documents. (DP. 146)

Service Level Agreement (SLA) for operations & maintenance of E/M & motor transport facilities at Faisalabad Airport to was awarded to M/s IMCOTS Wullar (JV) at a cost worth Rs 92.928 million who got 10 out of 20 marks in technical evaluation. (DP. 149)

APM Faisalabad executed various repair and maintenance works through quotations/splitting worth Rs 15.046 million during 2022-23. (DP. 151)

This resulted in irregular award of works for Rs 344.764 million (Rs 50.687 million + Rs 294.077 million).

Audit maintains that the irregularity occurred due to violation of rules.

Audit pointed out the irregularity in September and December 2023. The Authority replied in DP. 146 and 149 that the bid in both contracts was favourable to CAA with reference to estimated cost. The approval for award was sought from CAA HQ. In DP. 151 and 414 the Authority replied that approval of Airport Manager was obtained for award of petty works being the competent authority.

The reply was not accepted because the work was awarded to the firm disqualified during bid evaluation. The Service Level Agreements were awarded to ineligible and incompetent contractors. Works were awarded through quotations/splitting to avoid tendering against the rules.

Audit recommends investigation into the matter and action against those responsible for violation of rules besides ensuring non-occurrence of such irregularities in future.

(DP. 145,146,149, 151&414)

4.4.68 Doubtful expenditure on account of purchase of land and building - Rs 46.429 million

The land acquisition Act, 1894 states that pursuant to a notice given under section 9 to the measurements made under section 8, and into the value of the land, and into the respective interests of the persons claiming the compensation and shall make an award under his hand of the true area of the land and the compensation which in his opinion should be allowed for the land.

Project Director, New Gwadar International Airport Project, Civil Aviation Authority, for the financial year 2022-23, it was noted that expenditure of Rs 46,429,454 was made for purchase of land and building.

Audit observed that accounts i.e., registry, complete file of purchase of land and building was not forthcoming from the record produced to Audit. In the absence of such an important record, the expenditure incurred stands doubtful. This resulted in doubtful expenditure of Rs 46.429 million on account of purchase of land and building.

Audit maintains that the irregularity occurred due to inadequate mechanism weak financial/internal control.

Audit pointed out doubtful expenditure in September 2023. The Authority replied that the land for the construction of desalination was purchased from the DC Office, Gwadar. The demarcation of the land has been completed at the site jointly by all stakeholders. The payment for the purchase of land was made to the Deputy Commissioner's Office, Gwadar as per estimate. The mutation of the land is under process in the DC office and as soon as the mutation is completed the record will be verified to audit.

The reply was not tenable as the land purchased had not been mutated in the name of CAA.

The matter was discussed in DAC meeting held on 15-16 January, 2024. DAC directed the management of CAA to expedite the process of mutation and develop the SOPs on the analogy of NHA if do not exist in CAA.

Audit recommends that record of land purchased may be mutated in the name of CAA, besides maintaining/updating the land record under intimation to audit.

(DP. 240)

4.4.69 Overpayment due to acceptance of higher rate of Granular/sand cushion - Rs 43.558 million

According to accepted and quoted rate by contractor of sand cushion for the work Reconstruction of Main Runway of AIIAP Lahore granular material/sand was provided as 300 mm @ Rs 990 per Cu.m.

According to NHA specification item No 108.3.5 where embankments are to be placed in water logged areas and which are inaccessible to heavy construction equipment, a special working platform shall be first established, consisting of a blanket of fill material placed on top of the soft layer. The material of the working table shall consist of normal or processed granular fill, obtained from borrow excavation.

Item 108-4 provides that the thickness of the working table as prescribed above shall be approximately 0.5 meter (500mm) unless directed otherwise by the Engineer, and the width shall be that of the embankment. The placement and compaction of the working table shall be carried out by use of light equipment, as directed by the Engineer.

Audit noted that Planning & Development Pakistan Civil Aviation Authority, Headquarters Karachi awarded a work, "Construction of Greenfield Aerodrome for General Aviation Activities at Muridke, at agreement cost of Rs 1,784.623 million to M/s Shaanxi Construction Engineering Group Corp Ltd- Umer Jan & Co. (JV) on 26.10.2021. Total value of work done for Rs 1,188.554 million excluding escalation amount Rs 224.461 million was paid up to IPC 10. Time was allowed 12 months from the date of start.

Audit observed that the Project Director measured and paid sand cushion as granular material quantity 85,242 Cu.m @ 1,600 per Cum for Rs 136,387,908 up to IPC 10 for Sub Head Main

runway. Audit further observed that the CAA has already been accepted and paid the rate of Sand cushion as Rs 990 per cum for the same nature of project (Reconstruction of Main Runway of AllAP Lahore) which was awarded in August 2020 and still in progress. While the project of Construction of Greenfield Aerodrome for General Aviation Activities at Muridke was also under the preview of Lahore Airport awarded on October 2021 after 01 year. Therefore the authority was required to accept the rate of sand cushion as Rs 1,089 per cum (990+10% premium approximately) instead of 1,600 per cum because both estimates are based on NHA specification & NHA CSR 2014. This shows that the department preferred the undue benefit to the contractor and paid non rationalized rate. This has resulted in overpayment of Rs 43,558,662 (85,242 cum 1600-1089) due to acceptance of higher rate of sand cushion.

Audit maintained that overpayment was made due to violation of specification and weak financial system of CAA.

Audit pointed out overpayment in July 2023. The authority replied that Project was being executed as per Project Technical Specifications and not as per NHA Specifications. The “granular backfill” item was available amid BOQ. The estimates for project were extracted from NHA CSRs. As per NHA CSR 2014 the rates for item 107d granular backfill for Lahore was Rs 1,732.70 therefore, the rates of Rs 1,600 per cu.m was accepted and paid under GCC 60.2 & 60.10.

The reply of the Authority was not acceptable because the same item was provided and paid in the BOQ of allied work Reconstruction of Main Runway of AllAP Lahore @ Rs 990 per Cu.m. Therefore allowing higher rate in the same nature of work was inadmissible.

The matter was discussed in DAC meeting held on 15-16 January, 2024. DAC directed the management of CAA to conduct a Fact Finding inquiry at departmental level in the highlighted matter and report be shared with Audit through PAO.

Audit recommends compliance of DAC’s directive.

(DP. 231)

4.4.70 Overpayment due to execution of item of works in excess of the approved quantities - Rs 41.527 million

According to Para 56 of CPWD Code, a properly detailed estimate must be prepared for the sanction of competent authority. This sanction is known as technical sanction to the estimate. As its name indicates it amount to no more than a guarantee that the proposal is structurally sound and that the estimate is accurately calculated and based on the adequate data.

Audit noted Project Director, New Gwadar International Airport Project CAA that the work “Power Supply System along Fence, Security Control & Monitoring System and Watch Tower (Package-I)” was awarded to M/s Qavi Engineers (Pvt) Ltd vide acceptance letter dated 20.06.2022 at a bid cost of Rs 2,299,616,940 and total gross payment of Rs 1,050.147 million was made to the contractor up to IPC-06 date 19.06.2023.

Audit observed that some items under the sub head Electrical work were measured in excess of the BOQ quantities between the range of 2% to 180 % more than the approved quantity of BOQ. This also indicates that technically sanctioned estimate was not structurally sound and based on inadequate data. This resulted in overpayment of Rs 41.527 million.

Audit holds that abnormal increase in the quantities was due to failure of internal control.

Audit pointed out overpayment in September 2023. The Authority replied that the quantities of BOQs are estimated and need detailed deliberations at the site after checking levels/measurements at the site. The net quantities measured at the site for both Packages are only paid to the contractor after getting them measured/verified by the consultant. The overall financial impact of Contract Price would be ascertained/ reviewed further under contractual provisions right at the time of submission of “Statement at Completion” by the contractor including variations.

The reply of the authority was not tenable as the items of the sub head electrical have been enhanced up to 180% of the BOQ quantities without any approval of variation order.

The matter was discussed in DAC meeting held on 15-16 January, 2024. After detailed deliberation, the DAC directed the management of CAA to share details of quantities of items with type, provision of BOQ and actual executed along with certificate of Engineer regarding execution as per site requirement to PAO for decision.

Audit recommends that the excess payment may either be justified/approved or recovered.

(DP. 242)

4.4.71 Irregular payment on account of rent of CAA accommodation in contradiction to the fundamental rules - Rs 34.068 million

Directions issued vide O.M No.F.1 (38)-IMP-II/88, dated 11.07.1988, financial matters including revision of pay and allowances, etc., cannot be decided without prior concurrence of the Finance Division. Further, Ministry of Defense issued instructions vide letter No.11-2/2002-CAA dated 08.03.2007 that financial matters including financial implications particularly, increase in pay and allowances require prior clearance of the Finance Division. It is binding on the Authority to follow directives on the policy matters issued by the Federal Government under section of Civil Aviation Authority Ordinance 1982.

During audit of the accounts of Human Resources Directorate, CAA Karachi, it was noted that CAA Executive Committee in its 304th meeting held on 17.07.2019 approved standard rent of all CAA residential accommodation for CAA employees at the rate of 50% of running House Rent Allowance plus 5% maintenance charges with immediate effect as per their entitlement of category of accommodation. Accordingly, House Rent of CAA Accommodation was paid to the employees of CAA during the year 2022-23 to the extent of Rs 34,067,796 under head 5101288 – House Rent CAA Accommodation.

Audit observed that according to CAA Service Regulations 2014 (Revised-2019), the approving authority to amendments in HRA and others allowances, was CAA Board. Therefore, payment of standard rent at the rate of 50% of running House Rent Allowance plus 5% maintenance require prior approval of the CAA Board. Further, as per Fundamental Rule-45 and 45-A, the allottee of Government accommodation will pay only normal rent at the rate of 5% of the emoluments whereas, the Authority paid 50% of the House Rent Allowance to the allottees of CAA accommodation which was against the fundamental rules. This resulted in irregular payment of Rs 34.068 million on account of rent of CAA accommodation in contradiction to the fundamental rules.

The matter was also discussed against Para 4.4.19/AR 2021-22 in the DAC meeting held on 03-05.01.2022 wherein DAC directed CAA to review the accommodation policy and recommendations be presented to CAA Board for subsequent concurrence of the Finance Division, Government of Pakistan. No progress towards compliance of DAC decision was made by CAA.

Audit pointed out the matter in November 2023. The Authority did not reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends that the matter may be taken up with the Finance Division for effect recovery of house rent from the employees who are in occupation of official residences.

Note: The issue was also reported earlier in the Audit Report for Audit Year 2021-22 vide para number 4.4.19 having a financial impact of Rs 56.148 million. The recurrence of same irregularity is a matter of serious concern.

(DP. 313)

4.4.72 Overpayment to the contractor due to execution of non-BOQ item - Rs 33.840 million

CPWD code Rule 65 states that, ‘When the expenditure upon a work exceeds, or is found likely to exceed, the amount administratively approved for it by more than 10 per cent., or the limit prescribed in paragraphs 60 and 61, whichever is less, a revised administrative approval must be obtained from the authority competent to approve the cost, as so enhanced’

Rule 229 states that, ‘An advance payment for work actually executed may be made on the certificate of a responsible officer (not below the rank of Sub divisional Officer) to the effect that not less than the quantity of work paid for has actually been done, and the officer granting such a certificate will be held personally responsible for any overpayment which may occur on the work in consequence.’

Audit noted that CAA HQ awarded a work “Reconstruction & Up-gradation of Main Runway (18L/36R) at Allama Iqbal International Airport (AIIAP) Lahore” to M/s China Civil Engineering Construction Corporation (CCECC)–MATRACON Pakistan (Pvt.) Ltd. – Habib Construction Services (JV) at an agreement cost of Rs 6.450 millionmillion vide acceptance letter dated 07.08.2020 with completion period of 455 days. An amount of Rs 6,872.170 million was paid to the contractor up to 27th IPC.

Audit observed that as per agreement/BOQ of the project S. No. 14 “UPVC pipes and conduits for different cables for taxiway, runway, runway centerline and side row, etc., complete in all respects with all accessories” was provided for Rs 25.762 millionagainst which the Authority got executed and paid the work for Rs 28.145 million.

Audit further observed that the Authority measured and paid a non-BOQ item “providing and installation of UPVC cable ducts for main runway and taxiway crossing complete in all respects as per drawings” with a quantity of 12,538.152 linear meter @ Rs 2,699 per linear meter for Rs 33.840 million.

Audit is of the view that in presence of same item of work in estimate/BOQ there was no need for the Authority to get execute and pay a non- BOQ item. This resulted in overpayment of Rs 33.840 million to contractor due to execution of non-BOQ item.

Audit pointed out the overpayment during July-August 2023. The Authority replied that the shop drawings were issued by the engineer for AFL cable ducts across the main runway and taxiways. This varied item consists of multiple UPVC pipes and was not available in BOQ as per its drawing and requirement. Hence this non-BOQ item has been determined by the Engineer in accordance with clause 51.1 of GCC and its rate has been evaluated under clause 52.1.

The reply was not tenable. Execution of non-BOQ item in the presence of BOQ items without approval of rates was unjustified.

Audit holds that the overpayment to contractor was due to weak technical and internal controls.

The matter was discussed in DAC meeting held on 15-16 January, 2024 CAA explained that non-BOQ item UPVC pipes were required by the Engineer and varied item was paid on provisional rates till approval of the employer. However, non-BOQ item had been deducted finally. After detailed deliberation DAC directed CAA to provide record regarding final adjustment to Audit for verification.

Audit recommends compliance of DAC’s directive.

(DP. 184)

4.4.73 Unauthentic payment due to execution of below specification work - Rs 31.00 million

According to technical specification of item P-605 provided in BOQ, about joint sealing filler, the each shipment of lubricant shall be delivered to the jobsite in the manufacturer’s original sealed container. Each container shall be marked with the manufacturer’s name, batch or lot number and the date of manufacture and with certificate that the lubricant will meet the requirements. The compound shall be applied by means of pressure equipment that will force the sealing material to the bottom of the joint and

completely fill the joint without spilling the material on surface. For execution of work the joint sealants material must be of good quality.

Audit noted that CAA HQ awarded a work “Reconstruction & Up-gradation of Main Runway (18L/36R) at Allama Iqbal International Airport (AIIAP) Lahore” to M/s China Civil Engineering Construction Corporation (CCECC)-Matracon Pakistan (Pvt.) Ltd.-Habib Construction Services (JV) at an agreement cost of Rs 6,450.568 million vide acceptance letter dated 07.08.2020 with completion period of 455 days. An amount of Rs 6,872.170 million was paid to contractor up to 27th IPC.

Audit observed that the Project Director measured and paid a composite BOQ item P-501 “Portland cement concrete pavement (700 psi flexural strength with all kinds of joint including dowel bar, sealant, cutting filling, etc.) as per drawing and as directed by engineer incharge” to contractor for main runway, taxiway, curve improvement and for turn pad. The item also includes the execution of joint sealing in concrete work (rate of Rs 1,550 per linear meter was provided in BOQ for existing concrete).

Audit further observed that as per Director P&D letter dated 22.02.2022 regarding site visit that locally blended material of joint sealant was used with tin cans/pots and without specific machinery against specifications and authority directed that all payments in this regard be withheld. As per punch list revised on 16.03.2023, the list contained several observations for joint sealant issues.

Audit holds that as the said item was executed in shape of composite item so the quantity was needed to be taken for non-payment as per authority directions as 20,000 LM approx. from total quantity of item P-501. Non-following the directions of the Authority resulted in unauthentic payment for substandard work of Rs 31,000,000 (Rs 20,000 x 1,550).

Audit pointed out unauthentic payment during July-August, 2023. The Authority replied that the execution of joint sealant has been carried out strictly in accordance with drawings, technical specification and standards. Further, the contractor was liable to remedying defects which may arise during the defect liability period to the satisfaction of the engineer.

The reply was irrelevant. No action in the light of Director Planning and Development directive was initiated against the contractor and the engineer.

Audit holds that the irregularity was due to weak technical and internal controls.

DAC in its meeting held on 15-16 January, 2024 pended the para for discussion in next meeting with direction to CAA that detailed reply explaining technical aspects be provided to Audit for evaluation.

Audit recommends that action may be taken in the light of Director P&D under verification to Audit.

(DP. 178)

4.4.74 Non-concurrence of Finance Division prior to revision in pay packages and pension

Finance Division (Regulations Wing) letter No. F.4 (3) R-4/2011-Revision dated 31.10.2022 provides that no Division shall without previous consultation with the Finance Division, is authorized to issue any orders which will involve a change in the terms & conditions of service of Government servants, on their statutory rights and privileges, which have financial implications.

During audit of Human Resources Directorate, Civil Aviation Authority, (HQ) Karachi, Audit noted that Director Human Resource issued Admin Order No. 22/2022 dated 29.08.2022 with the approval of the DGPCAA to increase in net pension to PCAA pensioners who have retired/died till 30.06.2014 as below:

10% increase in pension w.e.f 01.07.2021

15% Increases in Pension w.e.f 01.07.2022 (after including the effect of 10% increases in pension w.e.f 01.07.2021

The above increases in pension will not be applicable to pensioners governed under PCAA Service Regulations 2014. DGPCAA also directed to release the pension of the PCAA employees, who have been retired on or after 01.07.2022 by deducting the previous increases as per Federal Government of Pakistan, Finance Division (Regulation Wing) Islamabad O.M dated 01.07.2022.

Audit observed that the Authority implemented the Federal Government notified rates of increases in pensions rates @ 15% during the year 2011, @ 7.55% during 2015 and @ 10% each during the year's 2016, 2017, 2018 and 2019 and ceases to exit (02) increases in pension for the years 2021 and 2022 although no increases in Pay & Allowances was made by the Authority during the last two years i.e., 2021 & 2022 which deprived the retired employees from such increases made by Federal Government. PCAA separate policy for pension was not forthcoming from the record. Audit holds that the act of stoppage of ibid four increments to the employees retired on or after

01.07.2022 and allowing two increments w.e.f 01.07.2021 and 01.07.2022 on net pension to PCAA pensioners who have retired/died till 30.06.2014 creates apprehension among the retired employees and also creates windows for litigation.

Audit further observed from Admin Order No.22/2022 issued on 29.08.2022 that DGCAA has sanctioned 10% increase in pension w.e.f. 01.07.2021 and 15% increase in pension w.e.f. 01.07.22 (after including the effect of 10% increase in pension w.e.f. 01.07.2021) but till date, concurrence of Ministry of Finance has not been obtained.

Similarly, PCAA Board in its 191st meeting held on 25.03.2022 approved the special pay & package for the Director Flight Standards (EG-09) and Flight Inspectors (EG-07) as under but the same was not forwarded to Finance Division for concurrence.

Position	Proposed Lump Sum Monthly Packages (Rs)
Director Flight Standards	1,400,000
Flight Inspectors	1,200,000
Flight Operations Inspector- General Aviation	750,000
Flight Inspector (Helicopter)	650,000

This resulted in irregular increase in pension and approval of special pay & package without concurrence of Ministry of Finance.

Audit is of the view that non-consultation with Finance Division prior to revision of pension and approval of special pay & packages as described above stands irregular.

Audit pointed out the irregularity in June & October 2023. The Authority replied that the management applied the Federal Government Pension Rules/ Regulations mutatis mutandis through its Service Regulations, 2000 and accordingly PCAA Employee's pension had been revised/ increased with the Federal Government increase in pension.

PCAA has been making payment of pension to pensioners who have retired after 01.07.2022 on provisional basis by withholding the previous five increases on analogy of Federal Govt. Final adjustment will be made in line with the decision of PCAA Board with regard to pension increase.

With respect to the Authority of PCAA Board, it is pertinent to mention here that the matter of Authority and Autonomy of PCAA Board has been discussed in PCAA Board's 187th Meeting held on 23.06.2021 wherein Additional Secretary Finance Division was also present as Board Member. The Board unanimously agreed that considering the interpretation of PCAA Ordinance 1982 by the Ministry of Law and Justice of April 2009 as well as the advice of Finance Division (Regulations Wing) of December 2011, the PCAA Board is fully competent to approve and implement the revision of pay scales and allowances of PCAA employees and does not require concurrence of Federal Government/ Finance Division.

The reply was not accepted because as per Finance Division regulations referred above, implementation of any change in pay & allowances as well as pension requires the prior approval of Federal Government.

The matter was discussed in DAC meeting held on 15-16 January, 2024. After detailed deliberation, the DAC directed that a comprehensive report be compiled and submitted on the matter based on:

Aviation Ministry inquiry
Court order
Senate Standing Committee directions

Audit recommends that the matter may be referred to Ministry of Finance for regularization.
(DP. 130, 140, 289)

4.4.75 Non-mutation of 2,409.94 acres of land in the name of Authority

Additional Director (Estates & Land Record) is responsible to provide adequate land for the purpose of airport, etc., he must ensure that the land is secure, mutated in the name of CAA, and free of litigation. In order to perform his duties, he must ensure proper acquisition of land as per Land Acquisition Act, 1894 or otherwise ensure proper processing of purchase of land through private negotiation. He must ensure, through his representatives, that there is no encroachment of CAA land.

Audit noted that Commercial and Estate Directorate, (HQ) Civil Aviation Authority, Karachi land measuring 25,573.12 acres is under the possession of Authority all over the Pakistan as evident from the details provided by the Estate Branch.

Audit observed that out of total land of 25,573.12 acres an area of land measuring 2,409.94 acres was not mutated in the name of Civil Aviation Authority till to date.

Audit holds that due to non-mutation of land the Authority compromise the risk of encroachment and litigations. This resulted in non-mutation of land measuring 2,409.94 acres in violation of rules and procedure.

Audit maintains that irregularity occurred due to weak internal controls.

Audit pointed out the non-mutation of land in December 2023. The Authority replied in DP. 301 that land measuring 4,072 kanals and 13 Marlas at Islamabad Airport had been mutated in the name of the authority. CAA was actively pursuing the case of transfer/mutation of remaining land measuring 1,075 kanals and 15 Marlas with Assistant Commissioner Fatehjang and progress regarding the same would be shared with Audit. In DP. 78, the Authority replied that the matter had been referred to HR Directorate, CAA for formulation of committee to deliberate/assess land requirement of Hyderabad Airport for operational or any other purpose. In other cases (DP. 6, 32, 202 and 385), the Authority did not reply.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 23.06.2023, 28.08.2023, 18.09.2023, 03.10.2023, 20.10.2023, 06.11.2023, 05.12.2023, 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends that land measuring 2,409.94 acres may be mutated in the name of authority without wastage of time under intimation to Audit besides fixing responsibility upon the persons for such negligence.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2020-21, 2021-22 and 2022-23 vide para numbers 4.5.7 (2020-21), 4.4.3 (2021-22) and 4.4.49 (2022-23) having a financial impact of Rs 6,499.31 million. The recurrence of same irregularity is a matter of serious concern.

(DP. 6, 32, 78, 202, 301 & 385)

4.4.76 Non-computerization of land record measuring 25,573.12 acres

As per amendment of Section 55 of Sindh Act No. XVII of 1967, in the said Act, in section 55, in sub-section (1), after clause (e), the following shall be added:

“(f) prescribing the forms of computerized record of rights including documents, records, data, information, communications, transactions, reports and maps in electronic, digital or computerized form.”

“Master plan & layout plan” means the approved scaled drawing of the airport, indicating current and proposed land use for each identifiable segment as approved and/or modified by the Authority from time to time;

Audit noted that Commercial and Estate Directorate, (HQ) Civil Aviation Authority, Karachi land measuring 25,573.12 acres is under possession of Pakistan Civil Aviation Authority all over the Pakistan as evident from the details provided by the Estate Branch.

Audit observed that out of the land measuring 25,573.12 acres some land was leased out to various concessioners for commercial purposes. Besides this, computerized record of rights including documents, records, data, information, communications, transactions, reports and maps in electronic, digital or computerized form has not been maintained in line with the Government policy. Moreover, "Master plan & layout plan" the approved scaled drawing of the airport, indicating current and proposed land use for each identifiable segment as approved and/or modified by the Authority from time to time also not prepared. In the absence of such an essential record, the Authority is unable to control over the encroachments and making master plan for commercialization of unattended land at the various airports for generation of non-aeronautical revenue.

Audit holds that non-adherence of the rules resulted in non-computerization of land record measuring 25,573.12 acres.

Audit pointed out the non-computerization of land in December 2023, but the Authority did not reply.

DAC meeting was not convened by PAO despite request made by Audit on 28.12.2023.

Audit recommends that the Authority may adopt early measures to computerize the land record to ascertained factual status of the land for commercial purposes as well as actual area of land leased out to the concessionaires.

(DP. 386)

4.4.77 In-adequate mechanism for handling of cargo at the airports as well as inconvenience for the ground handling agents

Para 4.1.3 (National Aviation Policy 2023) Development of Cargo Village Facilities defines as under:

PCAA and Pakistan Aviation Authority (PAA) shall institute measures for development of modern cargo villages for efficient and quick transit of cargo, comprising the following:

A single-window clearing mechanism.

Warehousing facilities having automated storage and retrieval systems.

Offices for air services operators, freight forwarders, Customs, Government and regulatory bodies, ground-handling agents, insurance and banking Facilities.

Points for multi-modal transport, cold storage centers, mechanized transport of cargo, dedicated express cargo terminals with airside and landside openings.

Para A1 (Civil Aviation Authority Land Lease Policy 2019) explains that PCAA has been established to promote and regulate the civil aviation activities and to develop airport infrastructure within Pakistan to ensure safe, efficient, adequate, economical and properly coordinated air transport services. Airports owned and controlled by PCAA are mostly sited in cities, which are hub of diversified commercial activities. It is vital to effectively utilize PCAA land to achieve sustainable economic development, up gradation of aviation services, adoption of upcoming aviation technologies, etc.

PCAA is obligated under law to generate revenue to meet its increasing requirements of infrastructure development, maintenance, operational cost and management cost, etc. This Policy will encourage private sector participation for optimum commercial exploitation of landside at airports as per the approved airport plans with an assurance that such exploitation shall not adversely affect future airport infrastructure developments such as Cargo Village, etc.

Audit noted that Commercial and Estate Directorate, (HQ) Civil Aviation Authority, Karachi National Aviation Policy stipulates promotion of import and export through air cargo village facilities.

Audit observed that Air cargo village facilities have not been established by PCAA at the international airports which are hub of diversified commercial activities so far despite the facts that the National Aviation Policy 2019 & 2023 repeatedly emphasized for development of modern cargo villages for efficient and quick transit of cargo.

Audit holds that non-adherence of National Aviation Policies resulted in inadequate mechanism for handling of cargo at the airports as well as inconvenience for the ground handling agents.

Audit pointed out the irregularity in December 2023 but the Authority did not reply.

DAC meeting was not convened by PAO despite request made by Audit on 28.12.2023.

Audit recommends that effective measures may be initiated to develop the modern cargo villages in line with the NAP-2023.

(DP. 395)

4.4.78 Unjustified delay in re-construction of runway for active flight operation

As per PC-I for reconstruction of runway at Jinnah International Airport (JIAP) Karachi, approved by CAA Board on 25.03.2022 for Rs 6,535.000 million, the airside infrastructure of JIAP requires to be improved. The existing secondary runway was in operation since 1961 and exceeded its design life. Being of vital importance the project was included in Annual Development Plan of CAA for the year 2022-22.

During scrutiny of the record of Director Planning & Development, CAA, Karachi, Audit observed that despite being a vital project, the execution was still not started in the financial year 2022-23.

Audit maintains that the runway which was operational even after expiry of its design life was not given priority of execution despite approval of PC-I and allocation of funds.

Audit is of the view that if timely action for re-construction (07L/25R) was taken, the Authority could save undue financial losses but also ensure availability of runway for sustained aircraft operations at JIAP for the next 25-30 years but shall also cater forecast traffic growth with for domestic and international flight operation.

Audit pointed out irregularity in August 2023. The Authority replied that design life and actual structural life of the pavement may change if the baseline assumptions changed during the operation. There are no operational losses to PCAA at JIAP since both runways are operational without any capacity constraints. The CAA Board in its 191st meeting held on 25.03.2022 approved PC-I for Rs 6,535.000 million and currently after successful bidding the contract negotiations are underway.

The reply was not acceptable. The life of airport pavements is an important matter which was not taken into account in letter and spirit. The execution of the project was still awaited.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends that the matter may be taken up with Federal Aviation Administration (FAA), being international pavement structural specialists, for endorsing the stance of the Authority, besides concrete measures may be taken to take up the project execution at the earliest

(DP. 375)

4.4.79 Loss to Authority due to non-utilization of 37 kanal land acquired by the CAA millions of Rupees

The Objective of the Civil Aviation Land Lease Policy, 2019 states that, 'PCAA felt the need to revise the existing land lease in light of vision of the National Aviation Policy to maintain financial self-sufficiency by revenue generation from land use'

Audit noted that as per detail of land provided by Estate Branch of Airport Manager (BKIAP) Peshawar, that 37 kanal land situated in Sector C-1, C-3 at Hayatabad Phase-V Peshawar were laying vacant and unutilized since its acquisition from 1986.

Audit observed that authority paid huge amount for acquisition of land in 1986 but the subject land still lying vacant without any utilization. It was further observed through inspection report prepared by the Superintendent Estate Peshawar Airport that some individuals/ encroachers running the commercial activities on said vacant space and earning the revenue without permission of CAA.

Moreover, Chief Operating Officer had also written letters in 2021 and 2023 with inputs that some residential accommodations may be constructed for officers and staff to facilitate the CAA employees but no action was initiated by the Authority.

Audit is of the view that subject land was lying vacant in posh area because Hayatabad Phase-V was established and fully developed area and the land of CAA have very importance in the area. The department was required to construct the Married officers' quarters and Bachelor officers' quarters to save the House rent allowance /Hiring allowance or leased out the subject land to private parties to run the business and generate the CAA revenue. But the department left the land vacant. This resulted in loss of millions of Rupees to Authority due to non-utilization of 37 kanal.

Audit maintains that loss occurred due to weak internal and financial control system of CAA.

Audit pointed out loss in October 2023. The Authority replied that this office had already taken up the case with HQCAA for utilization of 37 acres of land located at phase VI Hayatabad Peshawar as pointed out by Audit Authorities for establishment of Married Officer Quarters (MOQs), Bachelor Officer Quarters (BOQs), Guest House, Community Centre and other amenities and facilities. In addition to this other viable options are also under consideration for utilization of said vacant land. The decision is still awaited from HQCAA, upon receipt of the decision/ outcome, Audit Authorities would be apprised accordingly.

The contention of the department was not acceptable because no solid steps were taken by the management for utilization of land while private peoples are utilizing the land for commercial purpose.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 08.12.2023, 19.12.2023 and 28.12.2023.

Audit recommends that authority should take concrete steps to save the CAA land and start the construction activities for the purpose the plots were procured besides fix the responsibility against the person(s) at fault who failed to watch the public interest.

(DP. 257)

CHAPTER 5

PAKISTAN PUBLIC WORKS DEPARTMENT AND ESTATE OFFICE

(MINISTRY OF HOUSING AND WORKS)

5.1 Introduction

A. (i) Pakistan Public Works Department

Pakistan Public Works Department (Pak PWD) is an attached department of the Ministry of Housing and Works (Housing and Works Division). As per Rules of Business 1973, Housing and Works Division is responsible for the development of sites, construction, furnishing and maintenance of Federal Government buildings, except those under the Defence Division and Ministry of Foreign Affairs. Exemption is also allowed to Ministry of Foreign Affairs for the maintenance of Foreign Office and its allied buildings.

Pak PWD is responsible for construction and maintenance works (Buildings and Roads) of the Federal Government. It is headed by a Director General. The Director General is assisted by a Chief Administrative Officer who deals with administrative matters. There are four Chief Engineers for North, South, West and Central Zones in the country. They are assisted by Superintending Engineers and Executive Engineers/Assistant Executive Engineers. The matters relating to planning are dealt by the Chief Engineer (Planning). The accounts of the Pak PWD are departmentalized. The Budget and Accounts matters are dealt with by the Director Budget and Accounts, who prepares the annual Appropriation and Finance Accounts. Divisional office is the basic accounting unit of the department and is headed by the Executive Engineer. All payments related to work done and supplies are made in the divisional offices.

Detailed estimates are prepared at the sub-divisional level and technically sanctioned by the Executive Engineers, Superintending Engineers or the Chief Engineers according to their competency. Pre-audit is carried out by the Divisional Accounts Officers on behalf of the Director Budget and Accounts, who is responsible for maintaining the accounts of the department. Divisional Accounts Officers are also co-signatory of the cheques with the Executive Engineers.

(ii) Estate Office

Estate Offices situated at Islamabad, Lahore, Karachi, Quetta and Peshawar are under the administrative control of the Ministry of Housing and Works. These offices deal with allotment of government-owned accommodations, properties, recovery of rent, etc., from the allottees/occupants. The Estate Office management includes Director General assisted by Director, Deputy Director and Joint Estate Officers at the four provincial offices. Grant 52 relates to Estate Offices.

B. Comments on Budget and Accounts (Variance Analysis)

(i) Pakistan Public Works Department

Grant 50- Civil Works

The Grant includes establishment budget for the regular employees of the Department and maintenance budget for office/residential buildings of the Federal Government. In addition, the expenditure on annual/special repair, utility charges of these buildings are met from this Grant. The Department also maintains V.I.P buildings such as Prime Minister’s House, Prime Minister’s Secretariat, State Guest House, etc. The position of the Grant for the last two years is summarized below:

(Rs in million)

	2022-23	2021-22
Final Grant	5,221.433	4,679.771
Actual Expenditure	6,154.790	5,446.010
Excess/Saving(-)	933.357	766.239
Percentage	17.87%	16.37%

Source: Appropriation Accounts for the year 2022-23

Supplementary Grant amounting to Rs 1,261,758,000 sanctioned after 15.5.2023 was not accounted for in the printed Appropriation Accounts. A sum of Rs 16,155,902 was added through re-appropriation of fund and a sum of Rs 69,650,000 was withheld during the year. After taking into account the said amount, the Final Grant worked out to Rs 6,429,696,000 and excess converted into saving of Rs 274,906,461 which is 4.28% of the Final Grant.

Grant 50 Federal Lodges

The Department is also responsible for the maintenance and running of Federal Lodges all over the country. At present, thirteen Federal Lodges located at Islamabad/Rawalpindi, Lahore, Quetta, Karachi and Peshawar are being maintained by the Department. These Lodges provide economical and quality lodging facilities to the officers of the Government and Members of the Parliament. Expenditure relating to the operation of these lodges is met from this Grant. The allotment and the expenditure for the last two years under this Grant is given below:

(Rs in million)

	2022-23	2021-22
Final Grant	144.565	111.000
Actual Expenditure	132.784	117.500
Excess/Saving (-)	(11.781)	6.500
Percentage	8.15%	5.85%

Source: Appropriation Accounts for the year 2022-23

A sum of Rs 10,521,693 was withdrawn through re-appropriation of funds. After taking into the account the said amount, the Final Grant worked out to Rs 134,043,607 against which the expenditure amounting to Rs 132,783,764 had been incurred hence saving of Rs 1,259,843 which is 0.94% of the Final Grant.

Grant 128 Capital Outlay on Civil Works

The Grant is meant for original works financed through Annual Development Programme (ADP) of the Works Division. In addition to Housing & Physical Planning Sector, Development Schemes of other Ministries/Divisions are included in this Grant. Position of allotment and expenditure of this Grant for the last two years is as follows:

(Rs in million)

	2022-23	2021-22
Final Grant	74,681.336	33,900.805
Actual Expenditure	101,280.304	21,532.447
Excess/Saving (-)	26,598.968	(12,368.358)
Percentage	35.61%	36.48%

Source: Appropriation Accounts for the year 2022-23

Supplementary Grant amounting to Rs 28,098,029,000 were sanctioned after 15.5.2023 was not accounted for in the printed Appropriation Accounts. A sum of Rs 20,583,716,000 was surrendered within target date and Rs 7,627,000 was withheld during the year after accounting for the said account, the Final Grant comes to Rs 102,771,738,000 and, excess converted into saving Rs 1,491,433,734 which is 1.45% of the Final Grant.

Deposit Works (Other than Grant Capital Outlay)

	2022-23 (Rs in million)
Deposit Receipt	822.738
Expenditure	822.738
Excess/Saving (-)	0
Percentage	0

Source: Expenditure statement provided by Pak PWD

(ii) Estate Office

Budget allocation and expenditure of Estate Offices for the year 2022-23 is tabulated below:

(Rs in million)

Final Grant	Expenditure	Excess/(Saving)	%
135.741	133.793	(1.948)	(1.4%)

Receipts

(Rs in million)

Head & Description	Estimated Receipt	Actual Receipt	Excess/(Shortfall)	%
C 02701 – Works Building Rent	800.000	886.501	86.501	10.81%

C. Audit Profile of Pak PWD

(Rs in million)

Sr. No.	Description	Total Nos	Audited	Expenditure audited FY 2022-23	Revenue Audited 2022-23	FY
1	Formations	58	42	105,276.060	72.92	

Audit Profile of Estate Office

(Rs in million)

Sr. No.	Description	Total	Audited	Expenditure audited FY 2022-23	Revenue/ Receipts audited 2022-23	FY
1	Formations	05	05	133.793	886.501	

Note: In addition to above, results of Audit of Estate Office Islamabad, conducted during 2022-23 have also been incorporated in this report.

5.2 Classified summary of audit observations

Audit observations amounting to Rs 188,938.829 million were raised in this audit report. This amount also includes recoveries of Rs 3,173.064 million, pointed out by the Audit. Summary of the audit observations classified by nature is as under:

Overview of audit observations

S. No.	Classification	Amount (Rs in million)
1	Irregularities	
A	HR related issues	386.304
B	Procurement related irregularities	12,888.113
C	Execution of works, contract agreement	166,894.769
D	Management of accounts/balances	7,792.762
E	Revenue management	929.102
2	Others	47.779
Total		188,938.829

Note: Amount of audit observations exceeds audited outlays due to issues like award of works which involve future spending, amount covering multiple previous years of spending, multiple reckoning of monetary impact in different audit observations pertaining to same transaction, etc.

5.3 Brief comments on the status of compliance with PAC's directives

Compliance position of PAC's directives on Audit Reports relating to Pakistan Public Works Department/Estate Offices are as under:

Year	Total Paras	No. of Paras Discussed	Compliance Made	Compliance Awaited	Percentage of Compliance
1985-86	06	06	01	05	16.67
1986-87	02	02	01	01	50
1987-88	09	09	01	08	11.11
	1 SAR	1 SAR	-	1 SAR	0

Year	Total Paras	No. of Paras Discussed	Compliance Made	Compliance Awaited	Percentage of Compliance
1988-89	1 PAR	1 PAR	01	-	100
1989-90	37	37	13	24	35.13
	1PAR	1PAR	-	1PAR	0
1990-91	17	17	15	2	88.24
	1 PAR	1 PAR	-	1 PAR	0
1991-92	63	63	18	45	28.57
	1 PAR	1 PAR	-	1 PAR	0
1992-93	50	50	45	05	88.23
	1 PAR	1 PAR	-	1 PAR	0
1993-94	64	64	31	33	48.44
1994-95	24	24	15	09	62.5
1995-96	24	24	15	09	62.5
1996-97	69	69	50	19	72.46
1997-98	176	176	128	48	72.72
	1 SAR	35	33	02	94.29
1998-99	175	175	89	86	50.85
1999-2000	106	106	69	37	65.09
2000-01	60	60	48	12	80
2001-02	32	32	28	04	87.50
2002-03	9	9	3	6	33.33
2003-04	21	21	14	07	66.66
2004-05	18	18	07	11	38.89
2005-06	38	38	19	19	50
2006-07	45	45	17	28	37.77
2007-08	27	27	10	17	37.03

Year	Total Paras	No. of Paras Discussed	Compliance Made	Compliance Awaited	Percentage of Compliance
2008-09	29	29	21	08	72.41
2009-10	09	09	04	05	44.44
2010-11	64	64	27	38	42.18
2013-14	77	77	16	61	20.77
2014-15	18	08	01	17	5.55
2015-16	39	39	04	35	10.25
2016-17	146	146	03	143	02
2017-18	82	18	0	18	0
2018-19	38	12	02	10	5.55
2019-20	57	11	1	10	9.09
2021-22	52	1	1	-	-

Note: Audit Reports for 2011-12, 2012-13, 2020-21 and Special Audit Reports for 2017-18 were not discussed by PAC till the finalization of this Audit Report. Audit Reports for 2014-15, 2017-18, 2018-19, 2019-20 and 2021-22 have been partially discussed.

5.4 AUDIT PARAS

Pakistan Public Works Department

5.4.1 Execution of works without non-duplication and O&M certificates, mutations of projects worth Rs 39,989.518 million

Para 7.22(a) of Pak PWD Code, 1982 provides that a consolidated completion statement should be prepared monthly of all completed works.

As per approval of the Cabinet Division regarding Sustainable Development Goals Achievement Programme (SAP), 2022, para 4(iii) (b &c) and (iv):

The Provincial Government and Federal Ministries/ Divisions will ensure that no executing agency has undertaken or is undertaking the same scheme(s) in the area.

Federal Executing Agencies will obtain NOC from the Provincial Governments/District Governments that they will bear Operation and Maintenance (O&M) and recurring cost of the schemes after completion.

Land for the purpose of development scheme(s), where applicable, shall not form part of the cost estimates of the scheme. In case private land is offered by the community, its mutation in the name of designated government agency shall be effected prior to execution of the scheme. In exceptional cases, land acquisition will be processed under the provisions of Land Acquisition Act, 1894, with approval of the Steering Committee.

Audit noted during scrutiny of accounting records of different Pak PWD Formations/Divisions that an amount of Rs 39,989.518 million was paid to different contractors against 2,955 works under the SDGs schemes during the financial year 2022-23 (**Annexure-AG**).

Audit observed that:

Non-Duplication Certificates were not obtained by the divisions before execution;

O&M certificates from provincial/district governments were not obtained by the concerned Federal divisions;

Mutation of land was not made in the name of Government (details of government or private land were not available in the record); and

Non-handing over of completed schemes to provincial government/TMA for operation and maintenance.

Audit maintains that these irregularities occurred due to weak enforcement of the prescribed operational, supervisory and regulatory controls.

Audit pointed out the irregularities during September- November 2023. Executive Engineers of Central Civil Division, Pak PWD, Gujranwala and Central Civil Division-I, Pak PWD, Lahore replied that provincial executing agencies were being approached for issuance of non-duplication certificate against all the schemes executed by Pak PWD. The certificates shall be produced to audit in due course of time.

The Department accepted the irregularity in the reply that all schemes were executed without obtaining the non-duplication certificate from other executing departments. This is a serious irregularity on the part of department but no action has been taken against the officials responsible.

The matter was discussed in DAC meeting held on 24.01.2024. Audit contended that Cabinet Division's instructions regarding obtaining Non-Duplication Certificate, NOC, O&M Certificate from Provincial Government/District Government concerned were not observed by the executing department. Further, if a private land is used in the project it should be mutated in favour of the government concerned, but status of land and its mutation was not made available to Audit.

Pak PWD explained that Non-Duplication Certificates and O&M Certificates are prerequisites which are ensured at the time of PC-I approval. Audit was not satisfied with the explanation as required documents were not provided.

The DAC directed the department to provide the requisite information to the Audit within 30 days on prescribed format:

Name of scheme	Cost of project	Non-duplication certificate/NOC issued by	O&M Certificate	Scheduled date of completion
1	2	3	4	5

Actual date of completion	Handing over of project (Done/efforts made)	Status of land (Government owned/Private), if private, status of mutation
6	7	8

Audit recommends obtaining in the earliest the requisite non-duplication certificates, O&M certificates and mutations of land. Furthermore, audit recommends taking disciplinary action for failing to perform official duties to obtain prerequisites for execution of works against officers concerned, that is, Executive Engineers primarily responsible and Chief Engineers responsible for oversight of execution of these SAP works at the 22 formations concerned. Projects Wing of the Planning Commission should proactively review the periodic PC-III reports to ensure timely compliance with prescribed prerequisites for executing SAP works contracts.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2021-22 and 2022-23 vide para numbers 5.4.2 (2021-22), 5.4.2 (2022-23) having a financial impact of Rs 3,058.20 million. The recurrence of same irregularity is a matter of serious concern.

(DP.16, 55, 67, 78, 80, 88, 118, 130, 168, 171, 188, 231, 244, 267, 277, 280, 296, 321, 334, 352, 391, 460, 462, 477, 479, 521, 547, 549 & 564)

5.4.2 Non-preparation of PC-IV and non-handing over of the completed projects worth Rs 36,853.345 million

Para 3.33 of Planning Commission's Guidelines for Project Management, 2008 provides that the final stage of the project is its completion. The project is considered to be completed/closed when all the funds have been utilized and objectives achieved, or abandoned due to various reasons. At this stage the project has to be closed formally, and reports to be prepared on its overall level of success, on a proforma PC-IV and forwarded to the Projects Wing of Planning Commission. Para 3.34 further provides that project closure involves handing over the deliverables to the concerned authorities, closing of suppliers' contracts, closure of bank account, releasing security money, staff and equipment and informing stakeholders of the closure of the project. However, the closure of the project may not be delayed on account of security money.

As per Pak PWD Code, 1982, paras 7.22 to 7.24, a consolidated completion statement in Central P.W.A. Form No. 45 should be prepared monthly of all completed works. This report should give a comparison and explanation of difference between the quantity, rate and cost of work executed and those entered in the estimate. On the completion of any work, a completion report or statement is required, such report or statement should be forwarded by the Divisional Officer to the Director Budget and Accounts.

Audit noted that various formations of Pak PWD awarded schemes to different contractors under the Global SDGs Achievement Programme (SAP) during the financial year 2022-23 and made payment of Rs 36,853.345 million against these works (**Annexure-AH**).

Audit observed that despite lapse of considerable time after completion of these schemes, Pak PWD did not finalize the accounts of the said projects and PC-IV and PC-V have also not been prepared for submission to Planning Commission as required. Further, the Department was required to hand over the completed schemes to District Administration/Authorities but the same was not done. This resulted in non-finalization of accounts and non-preparation of PC-IV and PC-V of completed works worth Rs 36,853.345 million.

Audit maintains that the irregularity of non-finalization of accounts and non-preparation of PC-IV and PC-V of completed works occurred due to weak enforcement of the prescribed operational, supervisory and regulatory controls.

Audit pointed out the matter during September - November 2023. Executive Engineer, Central Civil Division, Pak PWD, Jhang replied that C.P.W.A. Form 45 is used in cases where the actual expenditure is not in excess of the sanctioned estimates. Hence, completion report on Form C.P.W.A. 45 was not involved. Moreover, due to the non-provision of 2% O&M charges, the maintenance departments were reluctant to take over the schemes.

The reply was not acceptable. As per policy, Pak PWD was required to obtain NOC/non-duplication certification and O&M certificates before execution of schemes. They were not obtained and completed works were not handed over to maintenance departments (TMAs/District Governments) after preparation of completion reports. Release of security deposits before finalization of accounts of works needs justification.

Executive Engineer, Central Civil Division, Pak PWD, Gujranwala revealed that the project is not related with PSDP of Federal Government. The funds are released to Pak PWD for execution of works through their own funds of National Highways and Motorways Police (NHMP) as deposit work. All the four sub-heads of work have been physically completed, but contractor's account could not be finalized for want of approvals/completion of pending codal formalities. The same shall be finalized on receipt of approval of final weightages for price adjustment and extra/ sub-item statement by the competent authority. The relevant record shall be produced to audit in due course of time. The department submitted an interim reply and stated that accounts of the contractors are not yet closed due to certain codal formalities. Audit is of the view that building has already been under utilization of Motorway Police since 15.11.2021 without proper handing/taking over between the departments and despite the lapse of considerable time, the department has not completed the formalities so far.

The matter was discussed in DAC meeting held on 24.01.2024. The DAC directed the department to provide the PC-IV and documentary evidence of handing over of completed projects and information the following template to Audit within 30 days.

Name of scheme	Approved Cost of project	Actual Cost	Scheduled date of completion	Actual date of completion
1	2		3	4

Date of Handing over of project (If not, details of efforts made with dates)	PC-I status (Prepared/Not prepared)	Date of submission of PC-IV to authority concerned/Planning Commission
5	6	7

Audit recommends finalization in the earliest of the accounts (including inventory, punch lists and defects), PC-IV and PC-V of the completed works, and taking disciplinary action for failing to perform official duties in closing works' projects against officers concerned, that is, Executive Engineers primarily responsible and Chief Engineers responsible for oversight of execution of these SAP works at the 21 formations concerned. Further, Projects Wing of the Planning Commission should proactively review the PC-III, PC-IV and PC-V reports to ensure timely compliance with administrative instructions for closing SAP works contracts.

(DP.22, 36, 48, 69, 82, 167, 183, 205, 230, 245, 262, 282, 299, 336, 378, 464, 481, 495, 502, 523, 551, & 568)

5.4.3 Failure of Superintending Engineer to perform duty to inspect works in progress worth Rs 30,933.806 million

Para 4.08(iv) of Pak PWD Code, 1982 provides that it shall be the duty of the Superintendent Engineer to inspect the various works in progress within his circle and to satisfy himself that the system of management prevailing is efficient and economical. The SE shall spend 25% of his time on inspection of works. An inspection report shall invariably be issued by him to the Executive Engineer after each inspection and a copy of the report shall also be endorsed to his controlling office.

Audit noted that different formation of Pak PWD awarded various development schemes under the Sustainable Development Goals Achievement Programme (SAP) with the amount of Rs 30,933.806 million during the financial year 2022-23 (**Annexure-AI**).

Audit observed during the review of the accounts record of these schemes that Site Inspection Notes and Supervisory Site Reports were neither prepared nor placed in the record produced to audit. Audit further observed that Inspection Notes were not maintained by the Executive Engineer. In the absence of inspection, quality and specification of the works carried out by the Superintending Engineer/Executive Engineer were compromised which resulted in Un-authentic payment for works in progress worth Rs 30,933.806 million.

Audit maintains that non-carrying out of site verification by Superintending Engineer of PSDP and SAP works was due to weak enforcement of the prescribed monitoring and corrective controls by the senior management.

Audit pointed out the matter in September-November 2023. The Department did not reply.

The matter was discussed in DAC meeting held on 24.01.2024. Audit informed the Committee that it is a codal requirement that SE shall inspect the sites and issue inspection notes to the XEN. Site inspections are an integral part of quality assurance but site inspection notes were not provided to Audit to ascertain that this exercise was carried out. Pak PWD explained that site inspections were carried out regularly.

The DAC directed the department to submit the evidence of site inspections carried out by Superintending Engineer to the Audit for verification within one month along with summarized information in following tabular form:

Name of scheme	Cost of scheme	Date of inspection	Major actionable points/deficiencies	Remedial action taken
----------------	----------------	--------------------	--------------------------------------	-----------------------

			pointed out in inspection notes	

Audit recommends provision of notes of official inspection duties, besides strengthening of monitoring and corrective controls of the Department to improve performance of its supervisory functions.

(DP. 08, 51, 66, 114, 174, 204, 232, 285, 322, 335, 461, 478, 518, 548 & 554)

5.4.4 Unauthorized payments without approval of contract agreements for works - Rs 21,909.136 million

Para 7.12(c) of Pak PWD Code, 1982 provides that the agreement with the contractors selected must be in writing and should be precisely and definitely expressed.

Clause 33 of Instructions to Bidders (IB), provides that within 14 days from the date of furnishing of acceptable performance security under the conditions of contract, procuring agency will send the successful bidder the contract agreement in the form provided in the bidding documents, incorporating all agreements between the parties. The formal agreement between the procuring agency and the successful bidder shall be executed within 14 days of the receipt of contract agreement by the successful bidder from the procuring agency.

Acceptance of Tender by the Chief Engineers (South) provides that the agreement may be approved within two weeks from the date of issuance of acceptance letter.

Audit noted during the scrutiny of accounting records of different Pak PWD Formations/Divisions that payments of Rs 21,909.136 million were made to different contractors for the financial year 2022-23 **(Annexure-AJ)**.

Audit observed that the works were awarded to contractors without approval of contract agreements by the competent authority, i.e., Superintending Engineer/Chief Engineer, resulting in unauthorized payments amounting to Rs 21,909.136 million.

Audit maintains that the unauthorized payments occurred due to weak enforcement of the prescribed operational, supervisory and regulatory controls.

Audit pointed out the irregularity in August-November 2023. The Department only replied in DP. 497 that the agreements had been submitted for formal approval of the Competent Authority and Audit will be apprised when all the agreements had been formally approved. The Department thus admitted non-approval of agreements. Irregular payments without approval of agreements needs justification/clarification even after lapse of considerable time. Approved agreements need to be verified by Audit.

The matter was discussed in DAC meeting held on 24.01.2024 wherein Audit informed the committee that as per administrative instructions, formal approval of contract agreement by the competent authority (Chief Engineer/Superintending Engineer) is mandatory and second payment to the contractor is to be made only after formal approval of contract agreement. However, in most of the cases, formal approval of the contract agreement has not been made.

The DAC directed the department to provide the consolidated information to the PAO M/o H&W and Audit as under:

Name of scheme	Contract cost	Date of award	Date of drawing up of agreement	Date of submission of agreement to SE
1	2	3	4	5

Date of approval by SE/CE	Delay	Any correspondence between XEN and SE with dates	Amount paid before approval of agreement & No. of IPC
6	7	8	9

Audit recommends approval of the contract agreements by the competent authority in the earliest, and taking disciplinary action for failing to perform the said official duties against officers concerned, that is, Executive Engineers primarily responsible and Chief Engineers responsible for oversight of works' execution at the 24 formations concerned. Further, Planning Commission and

PPRA should strengthen their monitoring functions to ensure lawful award of public procurement contracts.

Note: The issue was reported earlier also in the Audit Reports for Audit Years 2019-20, 2020-22 and 2022-23 vide para numbers 5.5.4 (2019-20), 5.5.5 (2020-21), 5.4.1 (2022-23) having a financial impact of Rs 5,581.72 million. The recurrence of same irregularity is a matter of serious concern.

(DP. 06, 31, 50, 77, 81, 106, 110, 162, 169, 186, 196, 199, 241, 253, 273, 289, 301, 320, 324, 332, 346, 353, 405, 454, 463,

480, 497, 506, 520, 550 & 569)

5.4.5 Irregular awards of works in violation of the Public Procurement Rules, 2004 of projects worth Rs 12,136.39 million

Rule 4 of the Public Procurement Rules, 2004 provides that procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical. Further, Rule 20 provides that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works. Furthermore, Rule 50 states that any unauthorized breach of these rules shall amount to miss-procurement.

Rule 9 of the said Rules provides that a procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly without any splitting or regrouping of the procurements so planned. The annual requirements thus determined would be advertised in advance on the Authority's website as well as on the website of the procuring agency in case the procuring agency has its own website.

Audit observed that Executive Engineers of various Pak PWD Divisions awarded works valuing Rs 12,136.39 million in violation of the aforesaid Rules, as detailed below:

Non-announcement of results of bid evaluation/final bid evaluation report giving justification for acceptance or rejection of bids (DP. 64, 75, 455)

Procurement without advertising on PPRA's website as department could not produce evidence for uploading of schemes on PPRA website/ comparative statements authenticated by committee (DP. 112)

Limited competition due to qualification of only one bidder and disqualification of other bidders (DP. 139, 524)

Splitting in piecemeal and avoiding open competitive bidding (DP. 159, 161, 445, 505)

Division of works in small groups for tendering instead of consolidated tender (DP. 308)

Call of tenders of the works before sanction of estimates and release of funds (DP. 496)

Award of work without open competition and subsequent enhancement from Rs 9 million to Rs 45 million (DP. 513)

This resulted in irregular award of contracts worth Rs 12,136.39 million (**Annexure-AK**).

Audit pointed out the irregularity in October 2023. The Department did not reply.

Audit maintains that doubtful pre-qualification process and irregular award of works was due to weak enforcement of the prescribed operational, supervisory and regulatory controls.

The matter was discussed in DAC meeting held on 24.01.2024. The DAC directed the department to conduct Fact Finding Inquiry and submit the inquiry report to the Audit within 30 days. (DP. 159, 160, 513). The DAC further directed the department to provide breakup of works with nature, number of contractors engaged, dated requisitions, basis/evaluation of rates, registration of JV with SECP/PEC, basis of disqualification (PDP-524), bid evaluation reports, annual plans, tender registers, etc., to the Audit for verification. In case of DP. 308, a comprehensive report may be shared with Audit through PAO.

Audit recommends mitigation measures to review and recoup losses from these irregular awards of works, and taking disciplinary action for failing to perform official duties in awarding works' contracts against officers concerned, that is, Executive Engineers primarily responsible and Chief Engineers responsible for oversight of awards of these works at the 10 formations concerned. Further, Planning Commission and PPRA should strengthen their monitoring functions to ensure lawful award of public procurement contracts.

(DP 64, 75, 112, 139, 159, 160, 308, 445, 455, 496, 505, 513 & 524)

5.4.6 Unauthentic payments to contractors for materials without requisite lab test reports - Rs 11,561.03 million

As per Clause 19.3 of Specification - Special Provisions “Testing Laboratory Certificates”, the Engineer may accept a certificate from a commercial testing laboratory, satisfactory to him, certifying that the product has been tested within the period acceptable to the Engineer and that it confirms to the requirements of these specification.

According to paras 26 and 27, Additional Terms and Conditions, Tender Form CPWD-7 of Pak PWD, strength of cubes tested according to B.S.S. code shall be 3000 psi or 5000 psi as specified in the nomenclature of the items, in case of work cubes. Strength at 7 days should not be less than 70% of the above and if test show strength less than 90% after 28 days the work shall be dismantled and redone by the contractor at his cost. During the progress of the work, testing of the concrete work will be carried out by the executive Engineer, the result of such test should conform with the standard cube test.

Audit noted that various Executive Engineers of Pak PWD divisions awarded 952 works to different contractors under the Sustainable Development Goals Achievement Programme (SAP) and made payment of Rs 11,561.03 million against different items during the financial year 2022-23 (**Annexure-AL**).

Audit observed that these payments were made without obtaining lab test reports of such items of works as PCC, Tuff Paver, Steel, RCC works, etc. This resulted in an unauthentic payment of Rs 11,561.03 million without lab test reports.

Audit maintains that the irregularity occurred due to weakness of internal controls for sanctions and pre-audit of contractors’ bills.

Audit pointed out the unauthentic payment in September-November 2023. The Department did not reply.

The matter was discussed in DAC meeting held on 24.01.2024. Audit informed the committee that various tests required before payment to ascertain the quality of work, like strength test of concrete, compaction tests of earth and aggregate work, asphalt test corresponding to JMF ratio, etc., were not provided during audit. Pak PWD explained in certain cases that quality tests were obtained from UET and test checks were also exercised by AEE and XEN in the MBs and payment is made after lab tests. Audit contended that authentic test reports are to be provided clearly synchronizing the timelines of activity performed. Further, in one case (PDP 340), concrete test of tuff pavers have been provided during verification of record which indicated that in 31 works, yield strength was 5000 psi against the required strength of 7000 psi. Pak PWD explained that tuff pavers of 7000 psi are provided in Schedule of Rates whereas 5000 psi are adequate as per site requirement and therefore accepted. Audit stressed that rate of the item should have been adjusted according to the actual executed work if tuff pavers of 5000 psi are acceptable. DAC directed that due recovery in PDP-340 be made and be verified from Audit. In other

cases, DAC directed the department to submit division-wise evidence of lab test carried out as per laid down procedure/guideline to the Audit for verification.

DAC further directed that summarized information in following pattern may also be provided to Audit.

Name of Works	Cost	Item of work	Date of Measurements in MB	Nature of Tests performed
1	2	3	4	5

Date of submission of sample with evidence	Date of Lab Test Report	JMF approval status with date	Date of execution of bituminous item	Lab test report with covering letter
6	7	8	9	10

Audit recommends mitigation measures to review and recoup losses from these irregular payments without requisite lab test reports, and taking disciplinary action for failing to perform official duties in sanctioning payments requiring lab test reports against officers concerned, that is, Executive Engineers primarily responsible and Chief Engineers responsible for oversight of execution of these SAP works at the 16 formations concerned.

(DP. 05, 19, 34, 38, 85, 102, 105, 108, 163, 173, 304, 319, 340, 362 423, 439, 442, 465, 472, 483, 516, 560, 561 &563)

5.4.7 Wasteful expenditure due to non-completion within time or abandonment of works - Rs 4,966.113 million

According to the instructions contained in acceptance letters, additions/alterations are not allowed without prior approval of competent authority. The work must be carried out strictly in accordance with the approved drawings/design.

Rule 23 of GFR, Vol-I provides that every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

Clause 3.4 of Contract for Engineering Consultancy Services states that the consultants are liable for the consequence of errors and omissions on their part or on the part of their employees in so far as the design of the project is concerned to the extent and with the limitations as mentioned herein below.

If the client suffers any losses or damages as a result of proven faults, errors or omissions in the design of a project, the consultants shall make good such losses or damages, subject to the conditions that the maximum liability as aforesaid shall not exceed twice the total remuneration of the consultants for design phase in accordance with the terms of the contract.

Audit noted that various formation of Pak PWD awarded different works to different contractors with stipulated time for completion and made payment against the work done under SAP and PSDP works during the financial year 2022-23 (**Annexure-AM**).

Audit observed that the contractors could only achieve physical progress of 08% to 50% of carpet road and flyover, respectively and thus failed to complete the work in stipulated period. A scrutiny of the record in one case further revealed that the contract agreement of the work had been closed without completion. On the recommendations of concerned Superintendent Engineer and Executive Engineer (and by the Chief Engineer (CZ) in some cases), contractors were paid huge amounts for work to be done but they abandoned the works before completion, causing wasteful expenditure. This resulted in wasteful expenditure of Rs 4,966.113 million due to incomplete execution of work.

Audit maintains that the irregularity occurred due to weak enforcement of the prescribed operational, supervisory and regulatory controls.

Audit pointed out the irregularity in September-November 2023. 08 formations did not reply. In DPs 380 and 388, the Department replied that the Project was unfunded since fiscal year 2017-18 and contractor did not mobilize at site so far. Further, the Department failed to encash the Mobilization Advance Guarantee and Performance Security within due date which caused some recovery made from the contractor security and amount of mobilization advance and balance of Rs 30.570 million are laying outstanding in DP 388 against the contractor. This reply was not accepted because the Department failed to take action against the contractor according to agreement clauses, and even joint measurement of executed works could not be made so far.

The matter was discussed in DAC meeting held on 24.01.2024. The directed as under:

DP-1 CCD Sialkot:

The DAC directed the department to workout way forward and a comprehensive proposal be made for implementation of project. The matter may be taken up with DC Gujrat for resolution of the impeding factors for early completion of the project.

DP-184 CCD Sargodha:

The DAC directed the department to take measures to expedite the works for completion and outcome be shared with Audit.

DP-274 CCD, Sahiwal:

The DAC directed the department to take suitable measures for arrangement of funds for completion of abandoned project.

PDP-294 PCD, Batkhela:

DAC pended the para as record of subject para has not been submitted to the Audit for verification and the officer concerned did not attend the DAC meeting.

PDP-331 CCD, Lahore:

DAC directed the department to provide detail of funds, status of mobilization advance, physical progress, etc., to Audit for evaluation.

PDP-342 CCD, Mirpurkhas:

The DAC directed the department to submit the comprehensive report including feasibility study/approved PC-II of the project to the PAO for appropriate decision.

Audit recommends funding and execution of the incomplete and abandoned works in the earliest to avoid further time and cost overruns, and taking disciplinary action for failing to perform official duties to timely complete works' execution against officers concerned, that is, Executive Engineers primarily responsible and Chief Engineers responsible for oversight of works' execution at the 10 formations concerned. Further, Projects Wing of the Planning Commission should proactively review the PC-III, PC-IV and PC-V reports to ensure timely funding, execution and closing of works contracts.

(DP. 1, 124, 184, 274, 294, 331, 342, 380, 388, 471 & 530)

5.4.8 Financial indiscipline through lapse of funds - Rs 5,766.408 million

Rule 95 of GFR, Vol-I provides that all anticipated savings should be surrendered to Government immediately as these are foreseen but not later than 31st May of each year in any case, unless they are required to meet excesses under some other unit or units which are definitely foreseen at the time.

However, savings accruing from funds provided through supplementary grant after 15th May shall be surrendered to Government immediately as these are foreseen but not later than 30th June of each year. No savings should be held in reserve for possible future excesses.

Para 4.6 of Planning Commission's Guidelines for Project Management, 2008 provides that the last date for surrendering of funds from a scheme is 31st May of each year. The surrender order must be communicated to AGPR and Finance Division with the approval of FA Organization of the respective Ministry/Division.

Audit noted that different Executive Engineers of Pak PWD were allocated funds under the SAP and PSDP works during the financial year 2022-23. The formations were required to fully utilize the allocated funds but, at the end of the financial year, they had an unspent balance of Rs 5,766.408 million that lapsed as per rules (**Annexure-AN**).

Audit observed that 15 formations failed to utilize or timely surrender funds allocated for execution of SAP and PSDP works, which lapsed as a result. This is financial indiscipline affecting developments works worth Rs 5,766.408 million.

Audit maintains that the irregularity occurred due to weak enforcement of the prescribed operational and supervisory controls.

Audit pointed out the financial indiscipline during September-November 2023. In DP 165, the Department replied that funds amounting to Rs 450.000 million for execution of development schemes under SAP (2022-23), District Gujranwala, were released from the Directorate of Budget & Accounts, Pak PWD, Islamabad dated 26.06.2023 and credited into PLA-I of Divisional Accounts dated 27.06.2023. Therefore, funds amounting to Rs 450.000 million were surrendered to Government along with un-utilized funds after completion of development schemes under SAP 2022-23 for six different constituencies. There is no financial indiscipline involved on the part of executing agency as pointed out by the audit.

In DP 389, the Department replied that detailed position of surrender/lapsed funds as on 30.06.2023 is as under:

Funds were credited into PLA-I of Divisional Accounts on 27.06.2023 (last working day of financial year 2022-23). Therefore, funds amounting to Rs 1,300.000 million were surrendered to Government for re-validation during the financial year 2023-24.

Expenditure amounting to Rs 4,485,497,545 has been incurred against release of funds amounting to Rs 4,500,000,000 under SAP 2022-23, leaving un-spent balance funds amounting to Rs 14,502,455.

Expenditure amounting to Rs 155,090,200 has been incurred against release of funds amounting to Rs 155,101,379 under PSDP 2022-23, leaving un-spent balance funds amounting to Rs 11,179.

Expenditure amounting to Rs 199,024,584 has been incurred against release of funds amounting to Rs 225,924,897 under Deposit Works of other Department, leaving un-spent balance funds amounting to Rs 26,900,313. Major portion of funds has lapsed, i.e., Rs 19,820,785, due to non-approval of tenders for NSPP/CSA and Rs 7,000,000 were released on 15.06.2023.

In addition, funds amounting to Rs 78.985 million were released on 12.06.2023. It was not possible to re-start the construction activities on abandoned work since 2017 and complete works worth Rs 78.985 million within last 10 days before close of fiscal year 2022-23, so re-appropriation was approved by the competent authority and funds amounting Rs 78.985 million were transferred to CCD, Pak PWD Sargodha on 27.06.2023.

In other cases, the Department replied that funds were released in June 2023 and lapsed due to inadequate time for tendering process and to avoid hasty expenditure.

The reply was not accepted as department failed to utilize the funds or surrender the same before close of financial year as per above rule.

DAC meeting was not convened by PAO despite requests made by Audit on 10.11.2023, 05.12.2023, 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends taking disciplinary action for failing to utilize or timely surrender funds allocated for execution of SAP and PSDP works against officers concerned, that is, Executive Engineers primarily responsible and Chief Engineers responsible for oversight of works' execution at the 10 formations concerned. Further, Pak PWD should strengthen its monitoring and corrective controls at the level of the senior management to prevent lapse funds in future.

(DP. 11, 95, 117, 166, 236, 265, 305, 316, 343, 350, 389, 418, 468, 486 & 552)

5.4.9 Unjustified expenditure on SAP Schemes without required formalities - Rs 4,068.292 million

As per approval of the Cabinet Division dated 13.06.2022 regarding SDGs achievement program the executing agencies will obtain NOC from the Provincial Governments / District Governments that they will bear Operation and Maintenance (O&M), and recurring cost of the schemes after completion. Mutation of Land (free of cost) would be made in the name of government before award of work.

As per general instruction of Chief Engineer (South) Pak PWD, Karachi for schemes under SAP for the year 2022-23 explains that No Objection Certificate, Operation & Maintenance Certificate and Non-duplicate Certificate may be ensured before issuance of Work Order.

Para 7.12 (c) of Pakistan Public Works Department Code, 1982 provides that the agreement with the contractors selected must be in writing and should be precisely and definitely expressed. Para 4.08(iv) of Departmental Code Pak PWD 1982 provides that it shall be the duty of the Superintendent Engineer to inspect the various works in progress within his circle and to satisfy himself that the system of management prevailing in efficient and economical.

As per PC-Is of the SAP schemes, the completed schemes were required to be completed and handed over to District Administration concerned.

Audit noted that following 04 Executive Engineers, Central Civil Divisions Pak. PWD awarded and executed 313 SAP schemes for Rs 4,068.292 million:

(Rs in million)

S. No	Reference to Para No.	Formations	No. of Schemes	Expenditure
1	Para 01 to 10 of LAIR	Executive Engineer, Central Civil Division Pak. PWD Larkana	135	1,847.657
2	Para 01, 02, 03, 04 &05 of LAIR	Executive Engineer, Central Civil Division Pak. PWD Nawabshah (SBA)	89	1,209.03
3	Para 05, 08, 09 &10 of LAIR	Executive Engineer CCD-I Pak PWD Karachi	19	499.750
4	Para 14&16 of LAIR	Executive Engineer Central E/M-II Pak PWD Karachi	70	511.855
Total			313	4,068.292

Audit observed that:

The works were executed without obtaining non-duplication certificates from the departments/agencies that no other executing agency has undertaken or is undertaking the same scheme in the area.

Operation and Maintenance Certificates from agencies responsible for maintenance of the schemes was not available in the record produced to Audit.

No record/detail of land was available in record produced to audit to authenticate the position that either the land was government owned, provided by the locals or purchased through land acquisition. Moreover, the mutation of land wherein the schemes were executed was also not available in record to authenticate the factual position.

The payments were made without approval/Signing of contract agreements by the competent authority, i.e., Superintending Engineers / Chief Engineer.

Site Inspection Notes, Supervisory Site Inspection Reports were neither carried out nor placed in the record produced to audit.

The completed schemes were not handed over and accounts were not finalized.

In all the cases, works were awarded in the last quarter of the financial year and were measured in full in the month of May-June 2023. Meaning thereby that the rendering award of contracts and work execution process was completed within a short span of 1-1/2 months.

This resulted in unjustified expenditure without required formalities for Rs 4,068.292 million.

Audit pointed out irregularity in December 2023, but the department did not reply.

The similar issue was discussed in DAC meeting held on 24.01.2024. The DAC directed the department to provide the requisite information to the Audit within 30 days on prescribed format:

Name of scheme	Cost of project	Non-duplication certificate/NOC issued by	O&M Certificate	Scheduled date of completion
1	2	3	4	5

Actual date of completion	Handing over of project (Done/efforts made)	Status of land (Government owned/Private), if private, status of mutation
6	7	8

The DAC further directed the department to provide the PC-IV and documentary evidence of handing over of completed projects and submit the evidence of site inspections carried out by Superintending Engineer to the Audit for verification within one month.

Audit recommends obtaining in the earliest the requisite non-duplication certificates, O&M certificates and mutations of land, and taking disciplinary action for failing to perform official duties to obtain prerequisites for execution of works against officers concerned, that is, Executive Engineers primarily responsible and Chief Engineers responsible for oversight of execution of these works.

5.4.10 Non-revalidation of performance securities in shape of bank guarantee/performance bond - Rs 2,684.472 million

Clause 10.1 of the Conditions of Contract, Part-II provides that the Contractor shall provide Performance Security to the Employer in the prescribed form. The said Security shall be furnished or caused to be furnished by the Contractor within 28 days after the receipt of the Letter of Acceptance. The Performance Security shall be of an amount equal to 10% of the Contract Price stated in the Letter of Acceptance. Such Security shall be in the form of (a) bank guarantee from any Scheduled Bank in Pakistan or (b) bank guarantee from a bank located outside Pakistan duly counter-guaranteed by a Scheduled Bank in Pakistan. As per Appendix-A to Bid, Ten percent (10%) of contract price stated in the letter of acceptance in the form of an unconditional and irrevocable bank guarantee from any Schedule Bank of Pakistan, valid up to the issuance of DLP is required.

Clause 23.2 of the same Conditions provides that the contractor shall insure the work together with material and plant for incorporation therein, to the full replacement cost up to the defect liability period. The contractor is bound to provide minimum 1% of tender cost as the insurance guarantee. Cost of such insurances shall be borne by the contractor.

Audit noted that Executive Engineers of various Pak PWD divisions awarded several works to different contractors.

Audit observed that the Performance Securities in the shape of bank guarantees/performance bonds provided by the contractors, as per contract clauses, had lost their validity period but they were not revalidated by the contractors because the works were in progress. Audit further observed that work insurance policies/ performance securities were neither obtained from the contractors nor effected by the department itself for the works. Clause regarding work insurance was not invoked in this situation, which is tantamount to giving undue benefit to the contractors. This resulted in non-obtaining of insurance policies/ performance securities for the works worth Rs 724.698 million and extending undue benefit of Rs 7.247 million (Rs 724.698 million x 1%) to the contractors as they saved built-in charges to maintain the insurance cover up to 1% of contract cost. Thus, in absence of valid performance securities and insurance coverage, prospects of successful completion of projects were jeopardized.

This resulted in non-revalidation of performance securities and non-obtaining of insurance policies worth Rs 2,684.472 million (**Annexure-AO**).

Audit maintains that performance bond and insurance were not obtained due to weak enforcement of the prescribed operational, oversight and regulatory controls.

Audit pointed out the irregularities in September-November 2023. The Department replied in DP. 12, 90, 175, 203, 222, 243 that the required performance securities were obtained. In DP. 453, the Department replied that an amount of Rs 2,213,000 was recovered from the contractor. In other cases the Department replied that the contractors were asked to furnish the required performance guarantees and the same would be verified from Audit.

The reply was not accepted because required performance guarantees with expiry date till the defect liability period were not obtained and verified from Audit.

DAC meeting was not convened by PAO despite requests made by Audit on 10.11.2023, 05.12.2023, 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends obtaining requisite performance securities and insurance policies worth Rs 2,684.472 million in the earliest, and taking disciplinary action for failing to perform official duties to obtain such security and insurance for execution of works against officers concerned, that is, Executive Engineers primarily responsible and Chief Engineers responsible for oversight of works' execution at the 16 formations concerned. Furthermore, Projects Wing of the Planning Commission should proactively review the periodic PC-III reports to ensure timely compliance with securities and insurance provisions of works contracts.

(DP. 12, 40, 46, 90, 119, 175, 185, 189, 190, 191, 201, 203, 222, 243, 249, 272, 453, 458, 469, 488, 528 & 567)

5.4.11 Unjustified advance payments without execution of work at site - Rs 2,382.334 million

According to Accounting Policy and Procedure Manual, para 4.2.5.1, a prescribed claim voucher form (bill form 4B) must be prepared by the incurring officer for supplies, services rendered and work done under a contract or other arrangement over the specified limit.

Para 208 of CPWA Code provides that, unless in any case the administration after consultation with Accountant General direct otherwise, payments for all work done are to be made on the basis of measurements recorded in the MB as a permanent record issued to supervisory officer to record date wise activity, mandatory tests at site.

Audit noted that 08 Executive Engineers of Pak PWD awarded various works to different contractors for Rs 2,382.334 million (**Annexure-AP**).

Audit observed that Divisional Officers made advance payments to contractors without work done. This resulted in unjustified advance payment without execution of work at site amounting to Rs 2,382.334 million.

Audit maintains that unauthentic payments were made due to weak enforcement of the prescribed operational, supervisory and pre-audit controls.

Audit pointed out unjustified advance payment in October-November 2023. The Department replied in DP. 2 that detailed measurements could not be recorded in the Measurement Books due to shortage of time as the funds were received on the last day of the financial year. In DP. 30, the record pertaining to expenditure of Rs 1,000.000 million was not available due to inquiry on the subject matter. In DP. 338, the Department replied that the works were executed on war footing basis. In other cases the department replied that the payments were made after actual execution of works. In DP. 293 (PCD, Pak PWD, Batkhela), the department did not reply.

The reply was not accepted because payments were made without recording detailed measurements in Measurement Books in violation of rules and in hasty manner. Non-availability of record in support of actual execution of work to the tune of Rs 1,000.00 million was not justified. It was merely an effort of concealment of facts regarding actual execution of works at site.

DAC meeting was not convened by PAO despite requests made by Audit on 10.11.2023, 05.12.2023, 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends mitigation measures to review and recoup losses due to advance payments without execution of works amounting to Rs 2,382.334 million, and taking disciplinary action for failing to perform official duty to not make such payments against officers concerned, that is,

Executive Engineers primarily responsible and Chief Engineers responsible for oversight of works' execution at the 08 formations concerned.

(DP. 02, 30, 293, 317, 338, 359, 425 & 557)

5.4.12 Excess payment beyond 15% of Technical Sanction Estimate without approval - Rs 2,053.787 million

Para 6.17 of Pak PWD Code provides that when the expenditure upon a work exceeds or is found likely to exceed the approved cost by more than 15%, a revised approval must be obtained from the authority competent to approve the cost, as so enhanced. Para 6.19 of the same Code also provides that revised estimate must be prepared where the sanctioned estimate is likely to be exceeding by more than 15%.

Audit noted that Executive Engineers of three (03) divisions of Pak PWD awarded different contracts to different contractors during the financial year 2022-23.

Audit observed that Divisional Officers paid the amount of work done against the agreement amounts beyond 15% of estimated amount without revision of Technical Sanction estimate ("TS estimate"). This resulted in an unauthorized payment for execution of works amounting to Rs 2,053.787 million.

Audit pointed out the irregularity in October 2023. In DP 260, the Department replied that it is revealed that the lowest bid calculated to Rs 520.821 million was most advantageous bid and approved by the competent authority against the TS estimate cost of Rs 413.721 million. Revised PC-I of the project amounting to Rs 772.522 million was approved by the competent forum of DDWP in its meeting held on 06.06.2022 but the project was not completed due to release of funds according to original approved cost of the project, i.e., Rs 452.910 million. Funds amounting to Rs 319.612 million were allocated/released according to revised PC-I during the financial year 2022-23. The revised estimate for technical sanction by the competent authority, i.e., the Chief Engineer (CZ), Pak PWD, Lahore is under process of approval and the same will be produced to audit in due course of time. There is no irregular expenditure involved due to non-revision of TS estimate as pointed out by the Audit.

In other para, the Department replied that the revised cost of the project has since been submitted to the NHMP for accord of approval by the competent forum of NHMP and release of funds. The revised estimate of the work shall be prepared on completion of work and submitted to the office

of the Chief Engineer (CZ), Pak PWD, Lahore for accord of technical sanction by the competent authority. The Audit office shall be informed in due course of time.

The reply is not tenable because works were awarded beyond the 15% permissible limit of TS Estimate and excess expenditure was incurred without approval/revision of TS estimates from the competent authority so far.

Audit holds that the excess payment beyond 15% of TS estimate without requisite approval occurred due to weak enforcement of the prescribed operational, supervisory and pre-audit controls.

DAC meeting was not convened by PAO despite requests made by Audit on 05.12.2023, 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends securing requisite approvals for the revised TS estimates in the earliest, and taking disciplinary action for failing to perform official duty to timely seek approval of revised TS estimates against officers concerned, that is, Executive Engineers primarily responsible and Chief Engineers responsible for oversight of works' execution at the 04 formations concerned.

(DP 141, 260, 376 & 377)

5.4.13 Irregular execution without conducting feasibility study (PC-II) of a project - Rs 1,446.224 million

Para 3.3 of Planning Commission's Guidelines for Project Management, 2008 provides that it is mandatory that the projects of infrastructure sector and production sector costing Rs 300.00 million and above should undertake proper feasibility studies before the submission of PC-I.

Audit noted that the Executive Engineer, CCD-IV Division Pak PWD, Islamabad awarded contract for Construction of Legal Facilitation Centre at Islamabad High Court to M/s City Traders Builders and Contractors at agreement cost of Rs 1,446.224 million. Total payment made to the contractor up to the 13th Running bill was Rs 792.773 million.

Audit observed that feasibility study of the project was not conducted which resulted in the entire BOQ being prepared on market rates, slow progress of work, variations and excess in quantities and execution of extra items without prior approval. The Department was required to sort out all

these strategic points well in advance in coordination with the concerned quarters to avoid time and cost overruns. This resulted in irregular award of work and execution of project of Rs 1,446.224 million because of non-preparation of mandatory feasibility study (PC-II).

Audit holds that feasibility study of the project was not conducted due to overall weak management on the part of Pak PWD.

Audit pointed out the irregularity in October 2023. The Department replied that PC-II was prepared and PC-I was submitted to CDWP who approved in its meeting dated 31.05.2021. The variations in quantities occurred as per actual which would be incorporated in the Revised PC-I.

The reply was not accepted because appointment of design consultant for the work under observation, feasibility study report/PC-II, working papers submitted to CDWP, detailed justification for variations from planned/approved scope of work were not produced in support of reply.

DAC meeting was not convened by PAO despite requests made by Audit on 05.12.2023, 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends provision of record of appointment of design consultant for the work, feasibility study report/PC-II, working papers submitted to CDWP and detailed justification for variations from planned/approved scope of work. Responsibility be fixed for defective planning and designing of the work.

(DP. 142)

5.4.14 Irregular payment for items without establishing Job Mix Formula (JMF), lab tests - Rs 1,161.715 million

Pak PWD Composite Schedule of Rates (CSR) 2022, Chapter 127 regarding Road and Runways contains separate item for bituminous road for carpeting and similar road and another item for runway pavement.

As per Standard Specification/engineering practice, a Job Mix Formula (JMF) for the asphaltic hot mix bitumen concrete pavement, mixture or mixtures to be used for the

project, shall be established jointly by the Engineer and the Contractor. Prior to final approval, the proposed job mix, with a bitumen content at the permissible upper percentage limit determined in JMF, shall be compacted and air voids in the mix shall not be less than two percent. The Contractor shall prepare a trial section before the start of work considering the prescribed procedure.

Audit noted that the Executive Engineers of five (05) divisions of Pak PWD awarded different contracts of Metaled Road works during financial year 2022-23, as detailed below:

S No.	DP. No.	Formation/Division	No of Works	Quantity executed in tons	Amount Paid (Rs in million)
1	24	CCD, Bahawalpur	02	811.600	104.074
2	83	CCD-III, Karachi	38	9879.000	595.026
3	100	CCD, Abbottabad	02	1955.45	26.747
4	466	CCD Hyderabad	15	16,216	199.51
5	484	CCD-II, Quetta	04	-	236.358
		Total	196		1,161.715

Audit observed that the Department measured and paid an item of work - i.e., providing and laying hot mix bituminous concrete runway pavement laid with mechanical paver and mixed in central mixing plant in required thickness and density rolled hot with different types of rollers complete as per specifications and job mix formula and design - without preparation and approval of Job Mix Formula (JMF) by the competent authority. Furthermore, neither source of the bitumen and invoices were available in office record, nor a single test for bitumen was carried out from the approved/independent laboratories, which was against the Pak PWD specification. This resulted in irregular payments due to execution of bituminous item without establishing Job Mix Formula and requisite lab tests amounting to Rs 1,161.715 million.

Audit maintains that the irregularity occurred due to weak operational, supervisory and pre-audit controls.

Audit pointed out the irregularity in October 2023. The Department replied that the Job Mix Formula for the asphaltic hot mix bitumen concrete pavement was established before production of hot-mix bituminous concrete. Lab test reports were obtained for these works.

The reply was not accepted because process of preparation and approval of JMF, source of procurement of bitumen and lab test reports were not produced to Audit for verification.

DAC meeting was not convened by PAO despite requests made by Audit on 10.11.2023, 05.12.2023, 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends mitigation measures to review and recoup losses due to payments for items without Job Mix Formula and lab tests amounting to Rs 1,161.715 million, and taking disciplinary action for failing to perform official duty to establish JMF and obtain lab test reports for works items against officers concerned, that is, Executive Engineers primarily responsible and Chief Engineers responsible for oversight of works' execution at the 05 formations concerned.

(DP. 24, 83, 100, 466 & 484)

5.4.15 Non-deposit of bid security of unsuccessful bidders in PWD account - Rs 1,032.054 million

According to Rule 44 of CPWA Code, the Divisional Officer is the primary disbursing officer of the division, and all realization and payment on Government account made by his subordinates are made on his behalf and on his responsibility. Further, as per Rule 63, when money is received by a Government Officer on behalf of Government, it should at once be brought to account in the Cash Book.

As per invitation for bids dated 03.11.2022, condition No. 07, all CDRs once received will be credited into the government account, and will be refunded through government cheques. According to condition No. 08, CDRs of 1st, 2nd and 3rd lowest bidders will be retained till acceptance of tender and will be refunded after acceptance of tenders.

Audit noted that the Executive Engineers of the various Divisions of Pak PWD awarded different schemes under Sustainable Development Goals Achievement Programme (SAP) to various contractors during the financial year 2022-23 (**Annexure-AQ**).

Audit observed that the Department failed to deposit in the PWD Accounts the earnest money amounting to Rs 1,032.054 million of the unsuccessful bidders (2nd and 3rd participants) who participated in bidding process. Instead, the same moneys were retained in chest and were released by hand instead of cheques. Violation of quoted rules resulted in doubtful process of tendering due to non-deposit of bid security into government account of Rs 1,032.054 million

Audit pointed out the irregularity in September-November 2023. In two cases (DP. 74 and 565) the Department replied that the bid security was deposited in government account and returned back to the unsuccessful bidders. In DP. 295 the Department did not reply. In other cases the Department replied that the bid security of unsuccessful bidders was returned back after announcement of first lowest/successful bidder.

The reply was not accepted because evidence of deposit of bid security in government account was not provided. Further, in other cases the procedure of deposit of bid securities of the participant bidders was not followed. The genuineness of the bid securities/CDRs were not verified through banks.

Audit maintains that the irregularity occurred due to weak enforcement of the prescribed operational, supervisory and accounting controls.

DAC meeting was not convened by PAO despite requests made by Audit on 05.12.2023, 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends taking disciplinary action for failing to perform official duty to deposit bid securities of unsuccessful bidders in government account amounting to Rs 1,032.054 million against officers concerned, that is, Executive Engineers primarily responsible and Chief Engineers responsible for oversight of works' execution at the 08 formations concerned.

(DP. 74, 182, 276, 295, 476, 494, 546 & 565)

5.4.16 Unauthorized payments for extra/substitute items without requisite approval - Rs 1,020.952 million

Para 6.09 of Pak PWD Code, 1982 states that a proper detailed estimate must be prepared for the sanction of the competent authority for each individual work proposed to be carried out. This sanction was known as the Technical Sanction to the estimate and must be obtained before the construction of work was commenced. As its name indicates, it amounts to no more than a guarantee that the proposal is structurally sound, and that the estimates are accurately calculated and based on adequate data.

As per condition of acceptance letter, no extra/substitute item should be allowed to be executed at site without prior approval of the competent authority. Further, additions/ alterations are not

allowed without prior approval of the competent authority. The work must be carried out strictly in accordance with the approved drawing/ design.

Audit noted that the various divisions of Pak PWD executed infrastructure projects/ works relating to construction of buildings, roads, street lights and solar during the financial year 2022-23.

Audit observed during the scrutiny of the accounts record that extra items of works were measured and paid to the contractors beyond the provision in TSE/BOQ without prior approval of the competent authority. This shows that detailed estimates of the works were not prepared after proper survey and keeping in view the requirement of the sites. Execution of extra/substitute items beyond the provision of TSE/BOQ resulted in unauthorized payment of Rs 1,020.952 million (**Annexure-AR**).

Audit maintains that the irregularity occurred due to weak enforcement of the operational, supervisory and pre-audit controls.

Audit pointed out the matter in September-November 2023. The Department replied that SAP is a community-based development programme and the work was executed as per requirements and in consultation with the local community to facilitate more inhabitants of the area within the approved cost.

The reply was not accepted as the estimation of the projects/ works was always based on adequate data and prepared after proper survey and keeping in view the requirement of the sites. Execution of extensive extra/substitute items proved poor estimation and non-compliance of agreement scope of work.

DAC meeting was not convened by PAO despite requests made by Audit on 10.11.2023, 05.12.2023, 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends mitigation measures to review and recoup losses due to unauthorized payment for extra/substitute items beyond the provision of TSE/BOQ amounting to Rs 1,020.952 million, and taking disciplinary action for failing to perform official duty to obtain approval for payment for extra/substitute items against officers concerned, that is, Executive Engineers primarily responsible and Chief Engineers responsible for oversight of works' execution at the 14 formations concerned.

(DP. 23, 25, 87, 92, 177, 187, 200, 227, 255, 318, 327, 381, 382, 395, 420, 428, 437, 450, 503 504, 515, 533, 536 & 538)

5.4.17 Unauthorized payment due to execution of excess quantities without approval - Rs 958.247 million

As per conditions 1 and 2 of the acceptance letters, the works should be executed strictly in accordance with the specifications/ standards stipulated in the agreements and no excess over the quantities given in the BOQ should be permitted in respect of all items of work.

Audit noted that the various divisions of Pak PWD awarded infrastructure projects/works relating to construction of buildings, roads and drinking water supply schemes during the financial year 2022-23.

Audit observed that Pak PWD formations paid for quantities of certain items of works in excess of the approved BOQ, estimate and revised PC-I of works amounting to Rs 958.247 million without approval of the competent authority. This resulted in an excess payment of Rs 958.247 million (**Annexure-AS**).

Audit maintains that the irregularity occurred due to weak enforcement of the prescribed operational, supervisory and pre-audit controls.

Audit pointed out the excess payment during October-November 2023. The Department replied that the extra items were cropped up as per site requirements and payments were made as per actual work done at site.

The reply was not accepted because major deviations in the agreed scope of work depicted that planning and estimation process was made without actual site surveys. Moreover, necessary approvals of such variations were not provided to Audit for verification.

DAC meeting was not convened by PAO despite requests made by Audit on 10.11.2023, 05.12.2023, 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends mitigation measures to review and recoup losses due to unauthorized payment for quantities in excess of specifications in TSE/BOQ/PC-I amounting to Rs 958.247 million, and taking disciplinary action for failing to perform official duty to obtain approval for such excess payments against

officers concerned, that is, Executive Engineers primarily responsible and Chief Engineers responsible for oversight of works' execution at the 22 formations concerned.

(DP. 26, 41, 57, 59, 91, 98, 120, 129, 133, 136, 143, 158, 221, 223,
235, 246, 268, 281, 284, 287, 300, 311, 313, 328, 348, 349, 354,
357, 358, 363, 364, 368, 390, 400, 406, 422, 430, 526,529 & 531)

5.4.18 Non-recovery of liquidated damages due to non-completion of works on time - Rs 845.854 million

According to clause 47.1 of the Contract Agreement, liquidated damages @ 0.1% of contract price for each day of delay in completion of the work subject to maximum of 10% of contract price was to be charged for delay in completion of the work within stipulated period.

Audit noted that Executive Engineers of various Pak PWD divisions awarded different works to different contractors for Rs 8,458.541 million (**Annexure-AT**).

Audit observed that the contractors could not complete the works within stipulated period as stated in the Letter of Acceptance. The contractors were liable to pay liquidated damages amounting to Rs 845.854 million (Rs 8,458.541 million contract cost × 10%). Department neither granted EOT nor recovered liquidated damages from contractors for delay in completion of the said works.

Audit maintains that the irregularity occurred due to weak enforcement of the prescribed operational, supervisory and regulatory controls.

Audit pointed out the irregularity in September-November 2023. The Department replied that extension of time in most of the cases was already approved. The extension in time was mainly due to slow funding. In DP. 32 (CCD-II, Peshawar), the department replied that record was not available due to inquiry.

The reply was not accepted because extension in time on justified grounds with reference to year-wise break-up of budget demands/allocations, work plans, progress reports of works with planned

and actual physical and financial progress, completion reports, etc., were not provided in support of reply.

DAC meeting was not convened by PAO despite requests made by Audit on 10.11.2023, 05.12.2023, 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends early recovery of liquidated damages owed by the contractors amounting to Rs 845.854 million, and taking disciplinary action for failing to perform official duties to recover the said liquidated damages against the officers concerned, that is, Executive Engineers primarily responsible and Chief Engineers responsible for oversight of works' execution at the 18 formations concerned. Further, Projects Wing of the Planning Commission should proactively review the PC-III, PC-IV and PC-V reports to ensure timely recovery of liquidated damages owed by the contractors.

(DP.32, 37, 39, 115, 116, 137, 176, 219, 290, 302, 360, 367, 401, 429, 434, 436, 441, 467, 485, 509, 535 &540)

5.4.19 Unjustified payment for items of works without recording location and date of execution - Rs 806.137 million

Conditions (i) (ii) & (viii) of the contract agreement/ acceptance letter provide that no excess over and above the quantities given in the BOQ shall be executed in respect of all items of work. The work should be executed strictly in accordance with specification/standard stipulated in the agreement and work should be executed according to agreement provision and field tests must be conducted as per requirement at site.

According to Para 209(d) of CPWA Code, all payments for work done or supplies are made on the basis of quantities recorded in the Measurement Book. It is incumbent upon the person taking measurements to record the quantities clearly and accurately. He would also work out and enter in the measurement book the figure for the contents or area column.

Audit noted that the Executive Engineers of three (03) divisions of Pak PWD awarded following development schemes during the financial year 2022-2023:

S No.	DP. No.	Formation/Division	No of Works	Contract Cost (Rs in million)	Up to date Exp (Rs in million)
1	18	CCD Bahawalpur	1	42.514	46.969
2	404	E&M Islamabad	169	182.274	169.255
3	470	CCD Hyderabad	26	740.568	589.913
		Total	196	965.356	806.137

Audit observed that the Department measured and paid for items of work without recording the exact locations and without exact date of measurement as per approved estimate/plan in 196 projects. Audit is of the view that funds were required to be utilized only for those locations/places against which funds were received. Therefore, utilization of funds other than approved locations and dates was not justifiable.

This resulted in an unjustified payment for items of works without recording location or dates of their use amounting to Rs 806.137 million.

Audit maintains that the irregularity occurred due to weak enforcement of the prescribed operational, supervisory and pre-audit controls.

Audit pointed out the irregularity in September-November 2023. The Department replied that the works were not carried out in unspecified and unknown locations. The execution of these works were duly verified by the Assistant Executive Engineer, Executive Engineer and site staff.

The reply was not accepted because items of work were measured without recording the exact locations and without exact date of measurement as per approved estimate/plan.

DAC meeting was not convened by PAO despite requests made by Audit on 10.11.2023, 05.12.2023, 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends mitigation measures to review and recoup losses due to unjustified payment for items without recording location or date of their execution amounting to Rs 806.137 million in 196 projects, and taking disciplinary action for failing to perform official duty to record such location and dates of use of items against officers concerned, that is, Executive Engineers primarily responsible and Chief Engineers responsible for oversight of works' execution at the 03 formations concerned.

(DP. 18, 404 & 470)

5.4.20 Non-preparation of rate analysis of non-scheduled items prior to award of contract - Rs 609.717 million

As per para 296 of CPWA Code, to facilitate the preparation of estimates, as also to serve as a guide in settling rates in connection with contact agreements, a schedule of rates for each kind of work commonly executed should be maintained in the division and kept up to date. It should be prepared based on the rates prevailing in each locality and necessary analysis of the rates for each description of work and for the varying conditions thereof should, so far as may be practicable, be recorded.

Audit noted that Executive Engineers of four (04) divisions of Pak PWD awarded following works under SAP comprised of scheduled and non-scheduled items for Rs 639.717 million:

S. No.	DP. No.	Formation/Division	No. of Works	Contract Cost	Amount involved (Rs in million)
1	73	E&M, Pak PWD Quetta	02	761.979	29.706
2	209	E&M-I, Pak PWD Karachi	04	85.393	85.393
3	396	Project E&M, Pak PWD, Islamabad	01	331.735	225.543
4	416	CEM-I, Pak PWD, Lahore	13	419.044	269.075
		Total	20	1,598.151	609.717

Audit observed that non-scheduled items were based on prevailing market rates whereas rate analysis duly supported with quotations were not found attached with the estimate. Audit holds that, in the absence of rate analysis, rates put in tender were unauthentic/ uneconomical. This resulted in non-preparation of rate analysis of non-scheduled items involving irregular payment for Rs 609.717 million.

Audit pointed out the irregularity in September-November 2023. The Department replied that the rate analysis of all non-scheduled items were prepared and got approved in the Technical Sanctioned Estimates.

The reply was not accepted because rate analysis, based on three quotations from the open market, were not produced in support of reply.

Audit maintains that the irregularity occurred due to overall weak management on the part of Pak PWD.

DAC meeting was not convened by PAO despite requests made by Audit on 05.12.2023, 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends mitigation measures to review and recoup losses due to non-preparation of rate analysis of non-scheduled items worth Rs 609.717 million and taking disciplinary action for failing to perform official duty to prepare such rate analysis against the officers concerned, that is, Executive Engineer primarily responsible and Chief Engineer responsible for oversight of works' execution at the 04 formations concerned. Further, Planning Commission and PPRA should strengthen their monitoring functions to ensure preparation of rate analysis of non-scheduled items prior to award of contracts.

(DP 73, 209, 396 & 416)

5.4.21 Payment of 3% contingency funds to contractors against work done instead of saving the same - Rs 569.037 million

According to bid acceptance letters issued by the Chief Engineer (CZ), Pak PWD, Lahore, para xv, all the Executive Engineers/Divisional Accounts Officers will ensure saving 3% for contingencies.

Audit noted that Pak PWD awarded PSDP and SAP schemes to contractors with different contract costs with completion period of 180 days during the financial year 2022-23.

Audit observed that an amount of Rs 18,650.613 million was paid to contractors for work done, including 3% contingencies, which was part of Rs 569.037 million TSE/PC-I against the released amount. According to codal instructions, the Divisional Officer was responsible for saving the 3% contingent amount but the same was utilized under the work done in violation of above instruction. This resulted in non-compliance with financial responsibilities amounting to Rs 569.037 million **(Annexure-AU)**.

Audit holds that utilization of contingencies amount occurred due to weak enforcement of the prescribed operational, supervisory and pre-audit controls.

Audit pointed out the irregularity in September-November 2023. The Department replied that the amount under sub-head “contingencies” of the PC-I/Engineer’s Estimates was incurred for execution of unforeseen works.

The reply was not accepted because the provisions of PC-I and engineer’s estimates were violated. The instructions of the respective Chief Engineer were also not observed.

DAC meeting was not convened by PAO despite requests made by Audit on 05.12.2023, 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends mitigation measures to review and recoup losses due to non-saving of contingency expenditure amounting to Rs 569.037 million and taking disciplinary action for failing to perform official duty to make such savings against the officers concerned, that is, Executive Engineers primarily responsible and Chief Engineers responsible for oversight of works’ execution at the 06 formations concerned.

(DP. 96, 233, 283, 307, 325, 347 & 355)

5.4.22 Non-surrendering of funds at year end and preventing their lapse - Rs 566.017 million

According to the policy guidelines of the Cabinet Division for SAP, “if scheme(s) is/are not started within two months of date of issuance of administrative approval, the funds will be immediately surrendered to Federal Government/Cabinet Division. The savings against schemes completed shall be surrendered immediately on completion, without waiting for closing of the financial year. No new scheme shall be entertained against savings of the originally funded schemes.”

Audit noted that Executive Engineers of four (04) divisions of Pak PWD kept an amount of Rs 303.627 million pertaining to SAP in non-lapsable account and transferred an amount of Rs 262.390 million to other divisions for the financial year 2022-23.

Audit observed in two cases that the funds of development schemes were released for SAP works. The department was required to complete the work within the financial year of award of works. But the department could not execute/ complete the works timely and retained the amount as unspent balances in PLA-IV. Audit further observed in two other cases that an amount of Rs 262.390 million was transferred to other divisions of Pak PWD in the last week of June, just to avoid their lapse. The resulted in unjustified retention of Rs 303.627 million in non-lapsable account and irregular transfer of funds to other divisions amounting to Rs 262.390 million.

Audit pointed out the irregularity in October 2023. The Department replied in DP. 103, 238 that funds were retained relating to ongoing schemes. In DP. 97 and 248, the Department replied that funds were surrendered instead incurring hasty expenditure.

The reply was not accepted because retention of lapsable development funds in two cases was violation of financial rules. Evidence of delayed release of funds and their in time surrender of funds was not provided to Audit.

DAC meeting was not convened by PAO despite requests made by Audit on 05.12.2023, 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends mitigation measures to review and recoup losses due to non-surrendering of funds and preventing their lapse amounting to Rs 566.017 million, and taking disciplinary action for failing to perform official duty to maintain financial discipline at year end against the officers concerned, that is, Executive Engineers primarily responsible and Chief Engineers responsible for oversight of works' execution at the 04 formations concerned.

(DP 97, 103, 238 & 248)

5.4.23 Non-deposit of income tax deducted from payments to contractors into treasury - Rs 513.551 million

Section 153(1)(c) of Income Tax Ordinance, 2001 provides that every officer authorized to make payments on behalf of Government is required to deduct income tax @ 7.5% from payment of work done or services rendered and timely deposited into treasury at the end of every month.

Audit noted that various formations of Pak PWD department awarded different works of PSDP during the year 2021-23 (**Annexure-AV**).

Audit observed that the Department deducted income tax amounting to Rs 513.551 million (7.5%) from payments to contractors, while in some cases, income tax was not deducted giving undue favour to such contractors. Further, deducted tax was not deposited into the government treasury at the end of the month.

Audit maintains that irregularity occurred due to weak enforcement of the prescribed operational, supervisory and accounting controls.

Audit pointed out the irregularity in October and November 2023. The Department replied in DP. 123, 151 and 314 that the payments were made to the contractor without deduction of income tax due to tax exemption areas. In other eight cases, the Department replied that the deducted income tax was deposited with the income tax authorities.

The reply was not accepted because tax exemption certificates and computerized payment receipts with reference to deposited income tax were not provided in support of reply.

DAC meeting was not convened by PAO despite requests made by Audit on 05.12.2023, 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends early remittance to treasury of income tax deducted from payments to contractors amounting to Rs 513.551 million, and taking disciplinary action for failing to perform official duty to make such remittances against the officers concerned.

(DP. 45, 62, 113, 123, 151, 208, 314, 344, 433, 452 & 562)

5.4.24 Release of security deposit of contractors without completion statement/ report of works - Rs 398.511 million

According to Rule 284, GFR Vol-I, the percentage deductions from bills held as security in connection with contracts to execute works should not be refunded till the final bill has been prepared and passed.

As per paras 7.22 and 7.24 of Pak PWD Code, a consolidated completion statement in Central PWA Form No. 45 should be prepared monthly of all completed works. This report should give a

comparison and explanation of difference between the quantity, rate and cost of work executed and those entered in the estimate. On the completion of any work of which a completion report or statement is required, such report or statement should be forwarded by the Divisional Officer to the Director Budget and Accounts who shall, after verification of the figures, transmit it to the Superintending Engineer concerned. On the completion of a project, studies shall be conducted from the technical point of view by the Divisional Officer concerned in consultation with the Structural and Quantity Surveying Sections and an evaluation report shall be prepared for the evaluation of the work and the work procedure. These evaluation reports shall be utilized for future guidance.

Audit noted that different formation of Pak PWD released an amount Rs 398.511 million of security deposit of contractors for different schemes/works during 2022-23 without final accounts (**Annexure-AW**).

Audit observed that the contractors had completed the works/ development schemes up to 100% and payments were made accordingly but the Divisional Office did not prepare final accounts/ bills and completion statement of works for onward submission to higher authorities. Audit further observed that the Divisional Office released the securities of the contractors without finalizing the accounts of the works and without making any kind of adjustments. The evaluation reports of the works were also not prepared for future guidance in same type of works as per quoted rules. This resulted in unjustified release of securities of the contractors due to non-preparation of completion statements/ reports of works of Rs 398.511 million.

Audit maintains that irregularity occurred due to weak enforcement of the prescribed operational, supervisory and pre-audit controls.

Audit pointed out unjustified release of securities in October and November 2023. The Department replied that in certain cases (DP. 134, 146, 432) security deposit was released due to slow funding issue. In other cases, the security deposit was released against completed works.

The reply was not accepted because the security deposit was to be retained till expiry of the defect liability period after completion. Moreover, formalities of preparation of PC-IV, obtaining of non-duplication certificates and final bills of the works were also not fulfilled before release of security deposit.

DAC meeting was not convened by PAO despite requests made by Audit on 10.11.2023, 05.12.2023, 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends mitigation measures to review and recoup losses due to unjustified release of security deposits before completing prerequisite codal formalities amounting to Rs 398.511 million, and taking disciplinary action for failing to perform official duty to complete such formalities against the officers concerned.

(DP. 35, 134, 146, 247, 432 & 534)

5.4.25 Unjustified expenditure due to non-utilization of services of maintenance staff - Rs 386.304 million

As per para 2.03 of Pak PWD Code, 1982, the work charged establishment includes such establishment as is employed upon the actual execution, as distinct from the general supervision, of a specific work or of sub-works of a specific project or upon the subordinate supervision of departmental labour, stores and machinery in connection with such a work or sub-works. Further, the work charged staff shall not be engaged on any work unless provided for in the estimate as a separate sub-head of the estimate for that work.

Audit noted that Executive Engineers of three (03) divisions of Pak PWD, Islamabad are operating twenty-six (26) enquiry offices wherein 632 employees are deployed for providing maintenance services to government-owned accommodations and offices located at different places of Islamabad.

Audit observed that an expenditure of Rs 326.931 million was incurred up to June 2023 on account of salaries of maintenance staff without assigning any duty as no material was procured during the year 2022-23. Further, all repair and maintenance works of routine nature are being executed through private contractors and an amount of Rs 251.282 million was shown incurred on account of repair and maintenance works through contracts. This resulted in an unjustified expenditure due to non-utilization of services of maintenance staff amounting to Rs 326.931 million.

Audit pointed out the irregularity in October and November 2023. The Department replied that the salary of the regular maintenance staff could not be stopped due to no-fault at their part. If sufficient funds were released by Finance Division for maintenance, the material would have been purchased to carry out repair of government houses.

The reply was not accepted because Pak PWD did not plan any way forward for utilization of idle maintenance staff. Chances of ghost/absent employees due to no work were there

and condition of government owned houses has also been deteriorating day-by-day due to non-maintenance.

DAC meeting was not convened by PAO despite requests made by Audit on 05.12.2023, 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends that a comprehensive report may be prepared regarding formation-wise sanctioned and available strength of maintenance staff, daily attendance reports, list of ghost employees, maintenance complaints received, complaints attended with acknowledgements, break up of cost on purchase of material and salary expense, etc., and report may be shared with Audit.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2021-22 vide para number 5.5.20, having a financial impact of Rs 115.026 million. The recurrence of same irregularity is a matter of serious concern.
(DP 164, 379 & 444)

5.4.26 Unjustified payment due to execution of additional works on already completed schemes - Rs 310.257 million

Rule 56 of CPWA Code provides that properly detailed estimate must be prepared for the sanction of competent authority, this sanction is known as the technical sanction to the estimate and, except in cases such as are referred to in paragraphs 58 and 75, must be obtained before the construction of the work is commenced. As its name indicates, it amounts to no more than a guarantee that the proposals are structurally sound, and that the estimates are accurately calculated and based on adequate data.

Sub-clause 43.1 of the General Condition of Contract provides that the works shall be completed on or before the date stated in Appendix-A to Bid. The bidder shall provide as Appendix-E to Bid the construction schedule in the bar chart showing the sequence of work items and the period during which he proposes to complete each work item in such a manner that his proposed programme for completion of the whole works and parts of the works may meet Employer's completion targets.

Audit noted that the Executive Engineer, Central Civil Division, Pak PWD, Gujranwala awarded the work "Pavement of Streets, Soling, System in 15 different areas of district Gujranwala" to the contractor on 24.10.2022 with agreement amount of Rs 497.368 million with completion period of 12 months. The total value of work done paid to the contractor up to the 8th running bill was Rs 310.257 million.

Audit observed that the original PC-I of the said work was approved for Rs 290.00 million on 20.05.2020. After completion of original scope of work, the additional scope was added and PC-I was revised to Rs 874.627 million and estimate was technically sanctioned by the Chief Engineer (CZ), Pak PWD, Lahore for additional scope amounting Rs 497.601 million without approved site plan and requirement. Audit is of the view that after completion of schemes as per original scope of work, the revision, by adding the additional scope on same schemes, was not justifiable because works/ schemes as per original scope had already been completed. This resulted in an unjustified payment of Rs 310.257 million.

Audit pointed out the unjustified payment during November 2023. The Department replied that the original PC-I was approved by the competent forum of DDWP for 15 different Union Councils with limited villages. According to demand of the local community members, the scope of work increased in the same villages as well as other villages falling under 15 Union Councils.

The reply was not accepted because works/ schemes as per original PC-I had already been completed and, after completion of schemes, the scope of same was enhanced without proper survey at site and without approved site plan and requirements and all work was executed against the defined and approved scope by DDWP.

Audit maintains that unjustified payment occurred due to weak enforcement of the prescribed operational, supervisory and regulatory controls.

DAC meeting was not convened by PAO despite requests made by Audit on 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends mitigation measures to review and recoup losses due to payments for additional works without approved site plan amounting to Rs 310.257 million, and taking disciplinary action for failing to perform official duties to prepare such site plan against the officers concerned, that is, Executive Engineers primarily responsible and Chief Engineers responsible for oversight of works' execution at Central Civil Division, Pak PWD, Gujranwala. Further, Projects Wing of the Planning Commission should proactively review the PC-III, PC-IV and PC-V reports to prevent unjustified additions to scope of works.

(DP. 256)

5.4.27 Irregular award of work through defective estimates – Rs 258.794 million

Para 56 of CPWA Code provides that properly detailed estimate must be prepared for the sanction of competent authority, this sanction is known as the technical sanction to the estimate and, except in cases such as are referred to in paragraphs 58 and 75, must be obtained before the construction of the work is commenced. As its name indicates, it amounts to no more than a guarantee that the proposals are structurally sound, and that the estimates are accurately calculated and based on adequate data.

As per Office Memorandum No. CEN/W-3/1647/7219 dated 04.10.2019, (Estimate No. CEN/152 of 2019-20), estimate was accorded technical sanction subject to following conditions: the Scope of work as specified in the technically sanctioned estimate shall not be changed without prior approval of the office; the Executive Engineer and Superintending Engineer shall personally ensure that the design and drawing are proper in order and approved by the competent authority concerned; the quantities as incorporated in the technically sanctioned estimate for any item/items of work shall not be enhanced/curtailed beyond 15% limit without prior approval of this office.

Audit noted that the Executive Engineer, CCD-III, Pak PWD Islamabad awarded the work "Construction of Model Addiction Treatment and Rehabilitation Center (MATRC), Humak" to M/s Ch. Mubarak Ali Contractor at agreement cost of Rs 258.794 million, which was 96.90% above on scheduled rate items and 11.50% above on non-scheduled rate items than the approved estimate/NIT amount for Rs 170.810 million.

Audit further observed that the estimate was prepared by adding premium of 50% to 60% on schedule rates. The bid was accepted at 96.90% above on schedule rates and work was awarded at higher rates to give undue benefit to the contractor.

Audit holds that the irregularity occurred due to overall weak management on the part of Pak PWD.

Audit pointed out the irregularity in November 2023. The Department replied that work was awarded 96.90% above on scheduled rate items and 11.50% above on non-scheduled rate items than the approved estimate of Rs 234.991 million.

The reply was not accepted because higher rates of more than 15% above the engineer's estimate were accepted without revision of PC-I/TS estimate.

DAC meeting was not convened by PAO despite requests made by Audit on 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends mitigation measures to review and recoup losses due to award of contract at a cost significantly greater than the approved estimate/NIT amount, and taking disciplinary action for failing to perform official duties to be financially vigilant in award of contracts against the officers concerned, that is, Executive Engineers primarily responsible and Chief Engineers responsible for oversight of works' execution at CCD-III, Pak PWD Islamabad. Further, DG, PWD Technical Wing should strengthen their monitoring controls to ensure proper evaluation of Engineer Estimates.

(DP. 440)

5.4.28 Advance payment to Pakistan Railways and Director FDA without vouched account - Rs 227.91 million

As per para 72 of CPWA Code, as a general rule, every payment, including repayment of money previously lodged with Government for whatever purpose, must be supported by a voucher setting forth full and clear particulars of the claim and all information necessary for its proper classification and identification in the accounts. The full name of the work as given in the estimate and other particulars specified in paragraph 198 or the head of account, to which the charges admitted on a voucher are debit able, or to which the deductions or other credits shown in the voucher are creditable, should be clearly indicated on it in the space provided for the purpose or in some prominent position.

Audit noted that Executive Engineers, CCD, Multan and Faisalabad made advance payments, respectively, to Pakistan Railways and Director FDA of Rs 180.660 million and Rs 47.250 million for construction of underpass at railway track and purchase of land during the financial year 2022-23.

Audit observed that the Department made payments amounting to Rs 227.91 million without obtaining details of the disbursement to the owner, utilization report and vouched account from the concerned. This resulted in unjustified payment credited in favour of Director FDA and Pakistan Railways without obtaining of vouched account amounting to Rs 227.91 million.

Audit pointed out the irregularity during October and November. The Department replied that the vouched account would be obtained and produced to Audit for verification.

DAC meeting was not convened by PAO despite requests made by Audit on 05.12.2023, 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends mitigation measures to review and recoup losses due to payment without obtaining details of the owners, utilization report and vouched accounts amounting to Rs 227.91 million, and taking disciplinary action for failing to perform official duty to obtain such prerequisite

for payments against the officers concerned, that is, Executive Engineers primarily responsible and Chief Engineers responsible for oversight of these payments at the 02 formations concerned.

(DP 128 & 170)

5.4.29 Unauthorized excess payment of price escalation beyond the provision in PC-I - Rs 211.616 million

According to Part-I, clause-(A) 1 of the Procedure for Payment of Price Adjustment, the provisions for Price Adjustment shall be applicable to the projects to be executed. For the ongoing contracts, the existing provisions provided in the contract shall continue to apply, until and unless a mutually agreed amendment to the contract is signed by the parties to the contract, thereby incorporating a Price Adjustment clause, provided the Federal Government has issued such Notification from time to time for those contracts having no Price Adjustment provisions

Audit noted that Executive Engineers, CCD-IV and CCD-II divisions of Pak PWD, Islamabad and CCD, Pak PWD, Muzaffargarh awarded contracts for Construction of Legal Facilitation Centre at Islamabad High Court to M/s City Traders Builders and Contractors at an agreement cost of Rs 1,446.224 million; for capacity building of field offices for Election Commission at Jhelum with agreement cost of Rs 91.259 million; and construction of Musa Khail Taunsa Road-35km (Package-I,II & III) to M/s Habib Construction Co and M/s Sherjan Musal Khail & Sons during financial year 2022-23.

Audit observed that total amount of escalation/price adjustment paid to contractor was Rs 425.546 million whereas the portion of escalation fixed/approved in PC-I of the project was Rs 217.922 million, which is in excess of Rs 207.624 million. Furthermore, Audit observed that CCD-IV, Pak PWD, Islamabad paid escalation of Rs 101.008 million up to 13th bill against actual calculation of Rs 97.016 million, causing excess payment of Rs 3.992 million. This resulted in an unauthorized excess payment to contractor for price escalation beyond the approved provision in PC-I amounting to Rs 211.616 million, as detailed below:

DP	PC-I Provision (Rs in million)	Escalation paid (Rs in million)	Excess escalation (Rs in million)
149	38.679	101.008	62.329
161	Actual calculation up to 13 th bill 97.016	Paid 101.008	3.992

DP	PC-I Provision (Rs in million)	Escalation paid (Rs in million)	Excess escalation (Rs in million)
251	175.000	317.049	142.049
539	4.243	7.489	3.246
Total			211.616

Audit pointed out the irregularity in October-November 2023. The Department replied in DP. 149 that price adjustment would be revised after completion of work as per agreement. In DP. 251, the Department replied that the revised PC-I was in process. In DP. 539, the Department replied that the price adjustment was within the limits of approved PC-I. In case of DP. 161, the Department did not reply.

The reply was not accepted because justification for the excess payment of price escalation with reference to PC-I/contract provisions, basis of provisions in PC-I/contract agreement, work plans, measurements, etc., were not provided to Audit.

DAC meeting was not convened by PAO despite requests made by Audit on 05.12.2023, 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends recovery of Rs 211.616 million from contractors for undue excess payments of price escalation, and taking disciplinary action for failing to perform official duty to pay for price escalation as per PC-I against the officers concerned, that is, Executive Engineers primarily responsible and Chief Engineers responsible for oversight of these payments at the 02 formations concerned.

(DP 149, 161, 251 & 539)

5.4.30 Overpayment due to non-deduction of sorting and stacking charges - Rs 195.176 million

According to item 28.01.11 of Pak PWD specifications, excavated material is required to be stacked near the site of the work and use in work. If stacking is not possible, then the quoted rate would be reduced by 50% and material obtained from excavation will be the property of Pak PWD. Serviceable material was to be stacked in place pointed out by Engineer in charge.

Further, the composite rate for an item of work excavation or cutting in hard rock by blasting including sorting and stacking the excavated stuff complete within lift of 5 feet and lead up to 100 feet was payable @ Rs 4,075.83% cft. Excavation or cutting in soft rock by blasting including sorting and stacking the excavated stuff complete within lift of 5 feet and lead up to 100 feet was payable @ Rs 2,034.35% cft.

Audit noted that the Executive Engineers, Central Civil Division, Pak PWD, D.I. Khan and Batkhela awarded various development schemes to contractors with different contract costs during the financial year 2022-2023.

Audit observed that the items of works “Excavation or cutting in hard & soft rock” were measured and paid as per quoted rates but neither the serviceable stone obtained from excavation by blasting was sorted, stacked and taken on stock for issuance to this work or any other work for utilization, nor the stacking charges @ 50% were deducted while making payment to contractors, amounting to Rs 195.176 million. This resulted in overpayment of Rs 195.176 million.

Audit pointed out the overpayment in November 2023. The Department did not reply.

Similar issue regarding non-deduction of sorting and stacking charges was discussed in DAC meeting held on 29.11.2023 wherein the DAC directed the department to recover the overpaid amount on account of sorting and stacking charges within 15 days.

Audit recommends recovery of Rs 195.176 million from contractors for overpayment due to non-deduction of stacking charges, and taking disciplinary action for failing to perform official duty to deduct such charges against the officers concerned, that is, Executive Engineers primarily responsible and Chief Engineers responsible for oversight of these payments at the 02 formations concerned.

(DP 292, 297 & 555)

5.4.31 Unjustified payment due to lack of re-fixation of rates for excessive quantities in revised PC-I - Rs 188.701 million

As per clause 52.2 of the Contract Agreement, no change in the contract shall be considered unless such item accounts for an amount more than 2 percent of the contract price as stated in the letter of acceptance and the actual quantity of work executed under the item exceeds or fall short of the quantity set out in the bill of quantity by more than 30 percent.

Audit noted that Executive Engineer, Pak PWD, Faisalabad awarded a work “Construction of Bridge Over River Ravi at Mal Fatyana” to M/s Sh. Abdul Razzaq & Co (Pvt) Limited, with contract cost of Rs 1,189.153 million. The contract cost was revised up to Rs 1,910.737 million through 2nd Revised PC-I in 2019. Total value of work done paid up to 33rd running bill was Rs 1,117.675 million.

Audit observed that quantities of four (04) items of work were increased from 108% to 146% of the approved BOQ quantities, which was more than 30% of the item but the same were not considered for reconsideration of rates. Audit is of the view that items against which the contractor quoted rate much higher than the estimated rate was increased manifold and it was qualified for re-fixing of rate conditions. Therefore, the Department was required to make payment of these items after re-rating which was not done. This resulted in an unjustified payment due to non-re-fixing of the rates for excessive quantities amounting to Rs 188.701 million.

Audit pointed out the unjustified payment in October 2023. The Department replied that the consultant had not conveyed any reservations with regard to rates and quantities executed at site.

The reply was not accepted because re-fixation of rates as per provision of contract referred above were not followed.

DAC meeting was not convened by PAO despite requests made by Audit on 05.12.2023, 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends recovery after rerating of items from the contractor for being unjustified overpayment and taking disciplinary action for failing to perform official duty to re-fix the rates of excessive quantities as specified in the Contract against the officers concerned, that is, Executive Engineers primarily responsible and Chief Engineers responsible for oversight of works’ execution at Pak PWD, Faisalabad. Further, Projects Wing of the Planning Commission should proactively review the periodic PC-III reports to ensure re-fixing of rates for excessive quantities as specified in the Contract.

(DP. 178)

5.4.32 Execution of repair and maintenance without availability of requisite funds incurring liability - Rs 181.717 million

As per para 58 of CPWA Code, it is a fundamental rule that no work shall be commenced or liability incurred in connection with it until administrative approval has been obtained, a properly detailed design and estimate have been sanctioned, expenditure sanction has been accorded and allotment of funds made.

Audit noted that the Executive Engineer, CCD-III, Pak PWD, Islamabad executed repair and maintenance works during financial years 2020-21 to 2022-23.

Audit observed that an annual maintenance plan was required to be prepared and approved for seeking funds and their effective and efficient utilization. Audit further observed that the said formation executed repair and maintenance work of Minister's Enclaves, F-5/2, Islamabad for Rs 181.717 million without funds. Executive Engineer of the said formation has created a huge amount of pending liabilities in violation of the aforementioned guidelines for financial viability.

Audit pointed out the irregularity in November 2023. The Department replied that the expenditure on the residences in Ministers Enclave, was incurred as per available allocation. The liability of the contractor would be cleared on receipt of funds under supplementary grant.

The reply was not accepted because expenditure was incurred and liability created without availability of funds against the rules.

DAC meeting was not convened by PAO despite requests made by Audit on 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends taking disciplinary action for failing to perform official duty to undertake financially viable projects against the officers concerned, that is, Executive Engineer primarily responsible and Chief Engineer responsible for oversight of works' execution at CCD-III, Pak PWD, Islamabad.

(DP. 446)

5.4.33 Award of works without fair competition in the bidding process - Rs 112.080 million

Rule 4 of the Public Procurement Rules, 2004 provides that procuring agencies, while engaging in procurements, shall ensure that procurement brings value for money to the agency and the procurement process is efficient and economical, Rule-20 ibid states that procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

Audit noted that the Executive Engineer, Central Civil Division Pak. PWD Nawabshah, Shaheed Benazirabad (SBA) awarded 89 development schemes under Sustainable Development Goals Achievement Program (SAP) to different contractors at bid cost of Rs 1,273.57 million and incurred an expenditure of Rs 1,209.03 million during the financial year 2022-23.

During scrutiny of the tendering process of thirteen (13) development schemes for Rs 112.080 million out of 89, Audit observed that in nine (9) cases two bidders while in other four (4), single bidder participated in tendering process. M/s Ch. Iftikhar Ahmed & Co was awarded four (4) contracts, and M/s Salcon Construction was awarded three (3) contracts.

This indicated that a group of bidders gripped the whole process and impaired the objectivity of most competitive rates through open tendering and bringing value for money. This resulted in award of works without fair competition in the bidding process amounting to Rs 112.08 million.

Audit is of the view that lesser/ limited competition can result in higher prices and reduced efficiency, as there's less pressure on bidders to offer the most competitive rates.

Audit pointed out the irregularity in December 2023 but the Department did not reply.

The similar issue was discussed in DAC meeting held on 24.01.2024. The DAC directed the department to conduct Fact Finding Inquiry and submit the inquiry report to the Audit

within 30 days. The DAC further directed the department to provide breakup of works with nature, number of contractors engaged, dated requisitions, basis/evaluation of rates, bid evaluation reports, annual plans, tender registers, etc., to the Audit for verification.

Audit recommends that appropriate steps may be initiated to promote healthy competition, transparency, and fairness. Encouraging multiple bidders can enhance the overall effectiveness and efficiency of the tendering process.

(Para 09 of LAIR)

5.4.34 Non-adjustment/utilization of serviceable material - Rs 93.334 million

Para 6.09 of Pak PWD Code, 1982 states that a proper detailed estimate must be prepared for the sanction of the competent authority for each individual work proposed to be carried out. This sanction was known as the Technical Sanction to the estimate and must be obtained before the construction of work was commenced. As its name indicates, it amounts to no more than a guarantee that the proposal is structurally sound, and that the estimates are accurately calculated and based on adequate data.

Audit noted that the Department awarded different contracts under the PSDP and SAP schemes pertaining to construction of buildings and roads during the financial year 2022-23.

Audit observed during scrutiny of account records of different formations of Pak PWD that the contractors were paid items like excavation of earth, cutting of hard rock and scarifying sub base and base course without utilizing/ adjusting the serviceable material. This resulted in non-utilization/adjustment of serviceable material worth Rs 93.334 million (**Annexure-AX**).

Audit pointed out the irregularity in October and November 2023. The Department replied that the stone, earth, bricks, etc., obtained from excavation/dismantling were not re-usable and disposed of accordingly.

The reply was not accepted because evidence regarding surplus material disposal under orders of the Engineer incharge with site map/lead chart showing the disposal of the excavated/dismantled material were not provided in support of the reply.

DAC meeting was not convened by PAO despite requests made by Audit on 05.12.2023, 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends recovery of Rs 93.334 million from the contractors as adjustment for serviceable materials, and taking disciplinary action for failing to perform official duty to utilize/adjust serviceable materials against the officers concerned, that is, Executive Engineers primarily responsible and Chief Engineers responsible for oversight of works' execution at the 06 formations concerned.

(DP. 135, 155, 157, 172, 228, 309 & 371)

5.4.35 Non-obtaining insurance coverage and non-recovery of premium @ 1% of contract cost - Rs 77.217 million

Clause 21.1.25 of the Agreement provides for insuring the works together with materials and plant by the contractor, who was also required to get third party insurance (including Employer's property) against liabilities for death of or injuries to any person or loss or damages to the property arising out of the performance of the contract and provide such evidence to the Employer prior to start of work. The bid rates shall be deemed to have included all such obligations required under the clause and no separate payment shall be made to the contractor for such insurance. In case of failure of the contractor to keep enforced any of the insurances required, the Employer was to effect and keep enforced the insurances by paying premium and recovery from the payments due to the Contractor.

Audit noted that the Pak PWD awarded various project/ works to different contractors involving agreement cost of Rs 7,721.775 million (**Annexure-AY**).

Audit observed that the department did not obtain the required insurance policies from the contractors. Insurances were not invoked which not only resulted in undue benefit to the contractors but also put the entire works, equipment, property and labour at risk. This resulted in non-obtaining of insurance coverage for the works valuing Rs 7,721.775 million and non-recovery of inbuilt cost of premium of Rs 77.217 million.

Audit pointed out the irregularity in September-November 2023. The Department replied that insurances were obtained as required.

The reply was not accepted because original insurance cover with evidence of insurance premium payments were not produced in support of reply.

DAC meeting was not convened by PAO despite requests made by Audit on 10.11.2023, 05.12.2023, 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends recovery of Rs 77.217 million as insurance premium from the contractors concerned, and taking disciplinary actions for failure to perform official duty to recover insurance premium under the Contract against the officers concerned.

(DP. 13, 52, 68, 194, 242, 427, 459, 475, 489, 532, 543 & 545)

5.4.36 Execution of works without appointment of consultant - Rs 70.808 million

According to para 2.3 of Planning Commission's Guidelines for Project Management, 2008, in case of mega projects, consultants should be appointed for preparation and supervision of work. Consultants should be associated from the stage of preparation of the project. Donor agencies generally insist on appointment of consultants in accordance with their own procedures. Government of Pakistan should endeavor to employ Pakistani consultants, who should work with devotion and responsibilities. In case it is not acceptable to a particular donor agency, we should insist that our local consultants should work jointly with foreign consultants at equal status and reasonable salary structure comparable with their counterparts, except for the top positions where foreign consultants may continue to operate.

Audit noted that the Executive Engineer, CCD-IV Division, Pak PWD, Islamabad awarded contract for Construction of Legal Facilitation Centre at Islamabad High Court to M/s City Traders Builders and Contractors at an agreement cost of Rs 1,446.224 million. Total payment made to contractor up to 13th Running bill for was Rs 792.773 million.

Audit observed that, as per approved PC-I of the project, the portion of consultant charges @ 4.25% was approved for Rs 70.808 million, whereas the Department executed the work without appointment of a consultant. Audit further observed that due to non-appointment of consultant, the project was implemented by the Department with a lot of variation, i.e., the entire BOQ was prepared on market rates, prequalification and tendering process was poor, execution of hard rock work/extra items was done without open tender, there was non-inspection of construction work activities, etc. This resulted in execution of project without appointment of project consultant for Rs 70.808 million.

Audit maintains that the irregularity occurred due to overall weak management on the part of Pak PWD, including its operational and supervisory controls.

Audit pointed out the irregularity in October, 2023. The Department replied that the work was supervised by qualified/ experienced engineers of the department. The cost of consultancy charges was saved.

The reply was not accepted because as per PC-I provisions, the work execution was to be supervised through independent consultancy firm.

DAC meeting was not convened by PAO despite requests made by Audit on 05.12.2023, 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends mitigation measures to review and recoup losses due to non-appointment of consultant as approved in PC-I, and taking disciplinary actions for failure to perform official duty to appoint the consultant against the officers concerned, that is, Executive Engineer primarily responsible and Chief Engineer responsible for oversight of works' execution at CCD-IV Division, Pak PWD, Islamabad. Further, Projects Wing of the Planning Commission should proactively review the periodic PC-III reports to ensure timely appointment of prescribed consultants for works contracts.

(DP. 152)

5.4.37 Acceptance of fake/bogus Call Deposit Receipts and award of work to non-responsive bidder - Rs 70.592 million

According to Instructions to Bidders, IB.15, each bidder shall furnish, as part of his bid, a Bid Security in the amount stipulated in the Bidding Data in Pak Rupees or an equivalent amount in a freely convertible currency. The Bid Security shall be, at the option of the bidder, in the form of Deposit at Call or a Bank Guarantee issued by a Scheduled Bank in Pakistan or from a foreign bank duly counter guaranteed by a Scheduled Bank in Pakistan or an insurance company having at least AA rating from PACRA/JCR in favour of the Employer valid for a period of 28 days beyond the Bid Validity date.

Audit noted that the Executive Engineer, CCD-IV Division, Pak PWD, Islamabad awarded contract for construction of Legal Facilitation Centre at Islamabad High Court to M/s City Traders Builders and Contractors at an agreement cost of Rs 1,446.224 million; Executive Engineer, CCD, Multan floated tenders for (03) schemes on 24.02.2023 in which M/s Yousaf Randhawa submitted call deposit receipts (CDRs) amounting to Rs 3.00 million with his bid; and Executive Engineer, CCD-V, Islamabad awarded contract for establishment of Cancer Hospital at PIMS, Islamabad to M/s M. Saleem & Co at agreement cost of Rs 1,995.960 million.

Audit observed during scrutiny of accounts record that:

Bidder M/s City Traders Builders and Contractors submitted CDR with bid of Rs 30.00 million bearing CDR No. 62777762 dated 23.04.2022 issued by Allied Bank Limited (0666), G-8 Markaz, Islamabad, which bank does not exist in G-8 Markaz. (DP. 140)

M/s Ch. Muhammad Yousaf Randhawa purchased tenders of said three works and submitted the tenders in division along-with CDRs of MCB amounting to Rs 6.350 million. The Department deposited all CDRs in National Bank of Pakistan for clearance on 02.06.2023. However, NBP Operation Manager informed the Department that CDRs of the contractor M/s Ch. Muhammad Yousaf Randhawa were declared bogus/fake. (DP. 127)

Tenders for the abovementioned work were invited on 21.10.2022 and participating bidders were required to furnish CDRs amounting to Rs 34,242,291 along with application as approved notice for inviting tender. M/s Friends Corporation Syndicate (Pvt.) Ltd. furnished a CDR bearing No. 2287897 having PO No.003227925 dated 11.11.2022 issued by the Bank of Punjab, Lahore. The State Bank of Pakistan lodges CDRs in outward clearing for collection as per laid down procedures and the instrument in question proved as fake as conveyed by the State Bank of Pakistan letter dated 21.11.2022. (DP. 225)

This resulted in unauthorized acceptance of fake/bogus CDRs submitted by contractor with bid and award of work to non-responsive bidder amounting to Rs 70.592 million (Rs 30 million +Rs 6.350 million +Rs 34.242 million).

Audit holds that award of work to non-responsive contractor and acceptance of fake/bogus CDR was due to weak enforcement of the prescribed operational and supervisory controls.

Audit pointed out the irregularity in October 2023. The Department replied in DP. 140 that DG Pak PWD debarred the contractor by imposing penalty. In DP. 127, the Department replied that the warning was issued to the contractor. As regards DP. 225, on being found fake the bidding documents were not issued to the respective firm and the case for further action was referred to Pakistan Engineering Council.

DAC meeting was not convened by PAO despite requests made by Audit on 05.12.2023, 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends mitigation measures to review and recoup losses due to acceptance of fake/bogus CDRs and award of work to non-responsive bidder, and taking disciplinary actions for failure to perform official duty to verify the genuineness of CDRs against the officers concerned, that is, Executive Engineer primarily responsible and Chief Engineer responsible for oversight of works' execution at the 03 formations concerned. Further, Planning Commission and PPRA should strengthen their monitoring functions to ensure lawful award of public procurement contracts.

(DP.140, 127 & 225)

5.4.38 Non-crediting of unclaimed security deposits to government revenue - Rs 62.886 million

Para 399 (iii) of Pak PWD Code states that balances unclaimed for more than three complete account years in the public works deposits account should be credited to Government as lapsed deposits.

Audit noted from accounts record maintained in office of the Executive Engineer, Central Civil Division-I, Pak PWD, Lahore that an amount of Rs 62.886 million of Cash Deposit of contractors as security were lying unclaimed as shown in the form CPWA-80 of Monthly Account of June 2023.

Audit observed that the said amounts of security deposits were not credited to Government revenue account as lapsed deposits. Audit further observed that Security Deposit Registers were not properly maintained as balances were not properly worked out at the end of each month/year. This resulted in non-credit of unclaimed security deposits of the contractors to revenue amounting to Rs 62.886 million.

Audit pointed out the irregularity in November 2023. The Department replied that three different references are under trial with NAB Court, Lahore against the then Officers / Officials and contractors of Central Civil Division No.I, Pak PWD, Lahore. The amount of security deposit is retained, whose contracts are involved in NAB references and some of them pertained to the running accounts of defunct people works programme (2008-13). However, the amount of security deposit is being sorted out and the actual amount of un-claimed security deposits shall be remitted to the DBA, Pak PWD, Islamabad for credit into

revenue receipt head of account. The audit office will be informed in due course of time. The Department thus admitted that unclaimed security deposits was being sorted out and shall be remitted to Government.

Audit maintains that the irregularity occurred due to weak enforcement of the prescribed operational, supervisory and accounting controls.

DAC meeting was not convened by PAO despite requests made by Audit on 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends remitting unclaimed security deposits to Government as lapsed deposits in the earliest under intimation to Audit, and taking disciplinary action for failing to perform official duty to timely deposit unclaimed security deposits into government account against officers concerned, that is, Executive Engineers primarily responsible and Chief Engineers responsible for oversight of works' execution at Central Civil Division-I, Pak PWD, Lahore.

(DP. 394)

5.4.39 Irregular payment for price escalation - Rs 59.956 million; overpayment for escalation for bricks - Rs 12.934 million

As per procedure for price adjustment laid down in Standard Procedure and Formula for Price Adjustment issued by Pakistan Engineering Council, also given in clause 70 of Contract, Part-D, the billed amount of the Works for each calendar month will be obtained from the checked bills submitted by the Contractor. In case the billed amount is for more than one month, the amount of the bill shall be segregated for actual work done in each month. As per Appendix-C to Bid, Note. 3, fixed portion shown here is for typical road project, employer to determine the weightage of fixed portion considering only those cost elements having cost impact of seven (7) percent or more on his specific project. As per Appendix-C to bid, the weightage of the bricks was provided as 0.05.

Audit noted that Executive Engineer, Central Civil Division, Pak PWD, Sargodha awarded the work "Construction of Regional Tax Office Sargodha (sub-head civil works)" to M/s Shalimar Construction Company for Rs 358.215 million. The total value of work done and escalation up to 7th running bill was Rs 277.289 million.

Audit observed that price escalation was calculated and paid on the average of cumulative work done of different month bills instead of individual month basis in clear violation of the said PEC rule. This resulted in unjustified payment of Rs 59.956 million.

Audit further observed that against BOQ provisions regarding bricks items, escalation for bricks was not admissible and variable factor of bricks was 0.05. But the authority paid escalation to contractor on bricks in violation of quoted rules. This resulted in overpayment of Rs 12.934 million.

Audit pointed out overpayment in October 2023. The Department replied that price adjustment would be revised after completion of work.

Audit holds that overpayment occurred were due to weak enforcement of the prescribed operational and supervisory controls.

DAC meeting was not convened by PAO despite requests made by Audit on 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends recovery of Rs 12.934 million from the contractor on account of unauthorized payment for escalation for bricks besides calculation of escalation on actual monthly work done, mitigation measures to review and recoup losses due to unjustified payment of price escalation on non-monthly basis, and taking disciplinary actions for failure to perform official duty to make correct payments against the officers concerned, that is, Executive Engineer primarily responsible and Chief Engineer responsible for oversight of works' execution at Central Civil Division, Pak PWD, Sargodha. Further, Projects Wing of the Planning Commission should proactively review the periodic PC-III reports to ensure correct payments for escalations as prescribed in works contracts.

(DP. 195)

5.4.40 Non-provision of contractual office and transport facilities to employer by contractors - for Rs 50.00 million

As per Special Provisions of Contract, clauses 6 to 8, with regards to employer offices and maintenance of employer office and vehicles, the contractor shall provide the facilities to be provided to the employer/engineer at free of cost and no payment shall be paid to contractor; all costs and connections with the special provision shall be borne by the contractor and included in the bid price; in case of failure to provide the facilities by the contractor, deduction/ recovery be made from contractor running bills. Further, according to clause 73.3, the contractors shall provide, operate and maintain one (01) No. vehicle (660 CC, Suzuki Alto AGS top variant, air-conditioned) for the exclusive use of the employer/engineer and

engineer representative to meet the transportation needs in connection with the project. The vehicle shall be new and of latest model as on the commencement date and registered in Islamabad in the name of Executive Engineer, Central Civil Division No. II, Pak PWD, Islamabad.

Audit noted that Executive Engineers, CCD-IV and CCD-II Division Pak, PWD, Islamabad awarded contract for “Construction of Legal Facilitation Centre at Islamabad High Court” to M/s City Traders Builders and Contractors at an agreement cost of Rs 1,446.224 million and construction of capacity building of the field offices of ECP, Attock and Jhelum to different contractors with cumulative agreement cost of Rs 82.235 million during the financial year 2022-23.

Audit observed that the contractors did not provide two (02) vehicles, facilities to the Employer and construct site offices, as per special provisions of the contract agreement. This resulted in non-provision of facilities to the employer by the contractor worth Rs 50.00 million.

Audit pointed out the non-provision of facilities in October-November 2023. The Department replied that the required vehicles and offices were provided by the contractors.

The reply was not accepted because record in support of reply was not provided.

DAC meeting was not convened by PAO despite requests made by Audit on 05.12.2023, 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends early recovery of Rs 50.00 million from contractors for non-provision of contractual office and transport facilities to the employer Department, and taking disciplinary actions for failure to perform official duty to obtain such facilities from contractors against the officers concerned, that is, Executive Engineer primarily responsible and Chief Engineer responsible for oversight of works’ execution at the two formations concerned. Further, Projects Wing of the Planning Commission should proactively review the periodic PC-III reports to ensure provision of contractual office and transports facilities to the employer Department by contractors.

(DP 153, 537)

5.4.41 Loss due to late payment of electricity and gas bills - Rs 47.779 million

According to Rule 10(i) and (ii) of GFR, Vol-I regarding standards of financial propriety, every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money. The expenditure should not be prima facie more than the occasion demands.

Audit noted during examination of accounts record for the financial years 2021-22 and 2022-23 of Store & Workshop Division, Pak PWD, Islamabad that utility charges (electricity and gas) of various government buildings such as Prime Minister's Secretariat, Supreme Court, Judges' Residences, Kohsar Block and Shaheed-e-Millat Secretariat are being paid by the Division.

Audit observed during scrutiny of the paid vouchers that electricity bills of various months were paid very late or a few days after due dates of the bills. These bills are required to be paid expeditiously in order to avoid late payment charges which were undue burden on the government exchequer. The utility bills were paid after due dates due to unjustified delay and mismanagement by the divisional authorities. This resulted in loss of Rs 47.779 million.

Audit maintains that late payment of utility bills occurred due to weak enforcement of the prescribed operational, supervisory and pre-audit controls.

Audit pointed out the loss in November 2022. The Department replied that delay in payment of surcharge was beyond the control due to delay in release of funds.

The reply was not accepted because efforts were not made to get the waiver of surcharge. Moreover, the record relating to demand and release of funds in support of reply was not provided.

DAC meeting was not convened by PAO despite requests made by Audit on 18.12.2023 and 03.01.2024.

Audit recommends taking disciplinary action for failing to perform official duty to timely deposit electricity and gas bills and incurring loss of Rs 47.779 million thereby against the officers concerned, that is, Executive Engineer primarily responsible and Chief Engineer responsible for oversight of administration at Store & Workshop Division, Pak PWD, Islamabad.

(DP. 511)

5.4.42 Unauthentic payment of bitumen items without verification of source, sales tax invoices - Rs 40.188 million

As per clause 36.6 of particular condition of contract, the contractor shall, so far as may be consistent with the contract, make the maximum use of materials, supplies, plant and equipment indigenous to or produced or fabricated in Pakistan and services, available in Pakistan provided such materials, supplies, plant, equipment and services shall be of required standard.

As per Schedule E to Bid, the bidder shall provide a program in bar-chart showing the sequence of work items by which he proposes to complete the works of the entire contract. The program should indicate the sequence of work items and the period of time during which he proposes to complete the works including the activities like designing, schedule of submittal of drawings, ordering and procurement of materials, manufacturing, delivering, construction of civil works, erection, testing and commissioning of works to be supplied under the contract.

Audit noted that the Executive Engineer, Central Civil Division II, Pak PWD, Lahore awarded two works of "Construction of Carpet/PCC" for different roads as SAP schemes in districts Lahore and Sheikhpura.

Audit observed that the Divisional Office paid Rs 20.969 million (14,141,165+48.25% above) for an item "Hot mix bitumen" for 1st work and Rs 19.220 million (13,631,155 x 41% above) for 2nd work. However, source of bitumen was not confirmed to ensure the specified quality of the executed items. Audit further observed that the Department failed to obtain the sale tax invoices from the contractor for the quantity of the Bitumen that the contractor possesses. This resulted in unauthentic payment of the bituminous items without verification of source and obtaining sales tax invoices amounting to Rs 40.188 million. (Rs 20.969 million + Rs 19.219 million).

Audit maintains that the unauthentic payment occurred due to weak enforcement of the prescribed operational, supervisory and pre-audit controls.

Audit pointed out the irregularity in November 2023. The Department replied that sales tax invoices were not necessary as per Pak PWD specifications. Lab test reports were obtained for assuring quality of works.

The reply was not accepted because process of preparation and approval of JMF, source of procurement of bitumen and lab test reports were not produced to Audit for verification.

DAC meeting was not convened by PAO despite requests made by Audit on 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends taking disciplinary action for failing to perform official duty to obtain verification of source and sale tax invoices for payment of the bituminous items amounting to Rs 40.188 million against the officers concerned, that is, Executive Engineer primarily responsible and Chief Engineer responsible for oversight of works' execution at Central Civil Division II, Pak PWD, Lahore.

(DP. 326)

5.4.43 Non-deduction of material cost from the rate paid for soil aggregate - Rs 39.284 million

According to clause 28.2, General Conditions, PEC Standard Agreement, the contractor shall make his survey/ enquires regarding the suitable and nearest borrow areas for embankment, granular fill, sand, base and sub-base materials, etc., and shall apply to the Engineer for approval for the use of the borrow area. It will be the responsibility of the contractor to acquire the borrowed areas approved by the Engineer and pay for all royalties/ Malkana and all other costs of material.

As per clause 36.1 of Contract Agreement, all the materials, plant and workmanship shall be of the respective kinds described in the contract and in accordance with the Engineer's instructions. Further clause 36.6 provides that the contractor shall, so far as may be consistent with the contract, make the maximum use of materials supplies, plant and equipment indigenous to or produced or fabricated in Pakistan.

Audit noted that Executive Engineers of three (03) divisions of Pak PWD awarded different works to the contractors with different contract cost under SAP and PSDP schemes and paid for an item "making earthen embankment" in different quantities.

Audit observed that the Executive Engineers neither approved the borrow area reports made by the contractor from where the material would be obtained nor any record was available showing any payment (royalty) of material for making earthen embankment from borrow pit area and soil aggregate obtained for embankment by the contractor to the private owners. This indicates the material was arranged free of cost either from the borrow area or from the project site excavation, therefore, the cost of material, royalty and local taxes were liable to be adjusted/ decreased from the rate of the item because the contractor quoted their rate including material cost. Due to non-adjustment of the cost of material, an extra rate was paid to the contractor. This resulted in overpayment to the contractor without deduction of the cost of material of Rs 39.284 million.

Audit pointed out the overpayment in September-November 2023. The Department replied that payment was mad against the items of works provided in approved PC-I/TS Estimates.

The reply was not accepted because the rates of earthworks included royalty/malkana and no evidence for this cost component was obtained from the contractors.

DAC meeting was not convened by PAO despite requests made by Audit on 10.11.2023, 05.12.2023, 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends recovery of Rs 39.284 million from the contractors as overpayment due to non-deduction of cost of materials, and taking disciplinary action for failing to perform official duty to deduct the said cost of materials against the officers concerned, that is, Executive Engineers primarily responsible and Chief Engineers responsible for oversight of works' execution at the three divisions concerned.

(DP 17, 361 & 519)

5.4.44 Unjustified expenditure on repair of road as a SAP Scheme -Rs 35.827 million

According to para 2 on page 2 of the Director General PWD letter dated 17.05.2019, for SAP, only new schemes are to be identified under SAP as per its approved guidelines. There is no provision of rehabilitation/improvement/reconditioning of old schemes.

Audit noted that Executive Engineer, Project Civil Division, Pak PWD, Sahiwal awarded the work “repair of road from Faisalabad Okara Road Adda Fatah Pur to Chak Khan Muhammad Via Qaberstan Imam Shah Tehsil and District Okara” to M/s Mian Sajjad Haider for Rs 34.129 million under SAP in district Okara on 08.03.2023.

Audit observed that the Department paid total value of work done up to 2nd running bill amounting to Rs 35.827 million. As per directions of the Department’s own Director General, only new development works/schemes were to be executed under SAP but in this case the work of repair of road (pertains to operation and maintenance activity) was awarded to contractor as development scheme. Violation of official orders resulted in unjustified expenditure of Rs 35.827 million.

Audit pointed out the unjustified expenditure in October 2023. The Department replied that the scope of work consistent on overlay of base course which was not maintenance and repair work.

The reply was not accepted because the work under observation was maintenance type of work instead a new work.

DAC meeting was not convened by PAO despite requests made by Audit on 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends taking disciplinary action for failing to perform official duty to execute only new schemes under SAP against the officers concerned, that is, Executive Engineer primarily responsible and Chief Engineer responsible for oversight of works’ execution at Project Civil Division, Pak PWD, Sahiwal.

(DP. 269)

5.4.45 Wasteful expenditure on execution of high-rate item 1:4:8 instead of low-rate 1:6:12 for PCC 4” - Rs 30.81 million

According to Pak PWD Composite Schedule of Rates (CSR) 2022, item “Providing and Laying 1:6:12 (1 cement 6 sand and 12 coarse aggregate) cement concrete using graded stone ballast 2 inches (51 mm) and down gauge in foundation including leveling, compacting and curing etc., complete” was provided @ Rs 18,506 per % cft.

Audit noted that the Executive Engineer, Central Civil Division, Pak PWD, Bannu awarded two (02) works for construction of PCC Road/Streets in various places/ villages of Tehsil and District Lakki Marwat and North-Waziristan Tribal District as SAP schemes during the financial year 2022-23.

Audit observed that the Divisional Officer prepared estimate for PCC 4” (Sub Head PCC) and included the high-rate item “Providing and laying 1:4:8 (1 cement 4 sand and 8 coarse aggregate) cement concrete using graded stone ballast 2 inches (51 mm) and down gauge in foundation including leveling, compacting and curing etc., complete” @ Rs 27,877.27 P% cft. and paid quantity 123,264 cft. and 181,585 cft. However, in the CSR, 2022, an item “providing and laying 1:6:12 (1 cement 6 sand and 12 coarse aggregate) cement concrete using graded stone ballast 2 inches (51 mm) and down gauge in foundation including leveling, compacting and curing, etc.” was available @ Rs 18,506 P% cft., which was sufficient in the dry area, but the Divisional Officer included high-rate item which shows that overpayment occurred due non-execution of low-rate item. This inference is corroborated by the fact that other Pak PWD divisions like CCD, Faisalabad and CCD-II, Lahore are using item “Providing and Laying 1:6:12 (1 cement 6 sand and 12 coarse aggregate) cement concrete” under the 4” PCC. Further there was no evidence regarding execution of 1:4:8 (1 cement 4 sand and 8 coarse aggregate) because no test was done by the concerned.

Non-adherence to public interest in execution of works has resulted in wasteful expenditure on execution of high-rate item amounting to Rs 30.81 million

Audit pointed out overpayment in November 2023. The Department replied that the work was executed as per provision of PC-I/TS Estimate.

The reply was not accepted because rich specification of work involving higher cost was adopted in violation of the provisions of Pak PWD Schedule of Rates. Moreover, the execution of cement concrete with ration of 1:4:8 was not supported with test reports and check requests of the contractors.

DAC meeting was not convened by PAO despite requests made by Audit on 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends recovery of Rs 30.81 million from the contractors as overpayment against non-proven execution of high-rate item instead of low-rate item for PCC 4”, and taking disciplinary action for failing to perform official duty to choose low-rate rather than high-rate items for works

against the officers concerned, that is, Executive Engineer primarily responsible and Chief Engineer responsible for oversight of works' execution at Central Civil Division, Pak PWD, Bannu.

(DP 356, 365)

5.4.46 Loss due to payment of premium on non-scheduled items in award of contract - Rs 27.098 million

According to clause 10(i) of GFR, every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public funds as a person of ordinary prudence would exercise in respect of expenditure of his own money. The expenditure should not be prima facie more than the occasion demands.

Audit noted that the Executive Engineer, Central Civil Division, Pak PWD, Gujranwala awarded work for "Construction of Bridge at Zero Line for Kartarpur Sahib Corridor at Zero Line on Kartarpur Corridor, District Narowal, Punjab" to M/s MSK International with agreement cost of Rs 520.821 million. Audit further noted that the estimate of said project was based on Schedule of Rates 2012 for schedule items while non-scheduled items were based on analysis of rates prepared by the consultant on basis of prevailing market prices.

Audit observed that the competent authority approved tenders by accepting the premium, i.e., 25% above on earth work, 74% above on scheduled items and 39% above on non-scheduled items. Audit further observed that the Department paid non-scheduled items amounting Rs 69.483 million (Rs 60.746 + Rs 8.736 million) in IPC No. 9 and paid premium of Rs 27.098 million (Rs 69.483 million x 39%). Audit is of the view that the rate analysis of non-schedule items was prepared by the consultants were already on the higher side and further accepting and paying 39% premium on non-schedule items was not justifiable. This resulted in loss to the Department due to payment of premium on non-scheduled items of Rs 27.098 million.

Audit pointed out the loss during October-November 2023. The Department replied that the non-scheduled items were calculated to be Rs 71.315 million in the estimate technically sanctioned by the competent authority on 23.11.2021. The most advantageous bid was accepted by the competent authority according to prevailing market rates, i.e., 25% above on earth work, 74% above on schedule rates items based on CSR Pak PWD 2012 and 39% above non-scheduled items on 11.11.2021. The non-scheduled items are paid according to the rates accepted by the employer and no loss to government is involved as pointed out by the Audit.

The reply was not accepted because non-scheduled items were put into estimate after preparation of the analysis of rates on the basis of current market rates, including contractor's profit and all overheads. Therefore, allowing further premium on non-scheduled items was not justifiable.

Audit maintains that overpayment was made due to weak enforcement of the prescribed operational, supervisory and regulatory controls.

DAC meeting was not convened by PAO despite requests made by Audit on 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends mitigation measure to review and recoup loss of Rs 27.098 million from contractors due to unjustified payment of premium on non-scheduled items in tender approval, and taking disciplinary action for failing to perform official duty to avoid paying such premium against the officers concerned, that is, Executive Engineer primarily responsible and Chief Engineer responsible for oversight of works' execution at Central Civil Division, Pak PWD, Gujranwala. Further, Planning Commission and PPRA should strengthen their monitoring functions to ensure compliance with consultants' rate analysis for non-scheduled items in award of public procurement contracts.

(DP. 261)

5.4.47 Irregular and unjustified expenditure on luxury items as maintenance work on two residences – Rs 18.430 million

According to Rule 10(i) and (ii) of GFR Vol-I regarding standards of financial propriety, every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money. The expenditure should not be prima facie more than the occasion demands.

Audit noted that the Executive Engineer, PCD-II, Pak PWD, Islamabad awarded twenty-two (22) and ten (10) piecemeal works for Refurbishment and Rehabilitation for two houses, respectively, in Islamabad in the months of May-June, 2023, through notice board, keeping the amount of each work order/ estimate within Rs 500,000 to avoid open tendering, awarding works to the same contractor M/s Umar Ahmad, and making payment of Rs 18.430 million (Rs 10,673,858+ Rs 7,755,807).

Audit observed that the said expenditure was incurred for luxurious items under the cover of maintenance work. Further, the expenditure incurred on repair and maintenance of government houses was charged to PSDP fund No. 546 allocated under Demand No. 124-Capital Outlay on Civil Works for the year 2022-23 which was also unauthorized. Moreover, the maintenance cost was more than the capital cost of the house, which was not covered under rules. This resulted in unjustified and unauthorized expenditure of Rs 18.430 million.

Audit pointed out the irregularity in November 2023. The Department replied that the work was carried out in the official residences of federal secretaries and completion certificates as a proof of works were available.

The reply was not accepted because the expenditure was not justified with reference to authorization limit and actual expenditure against each residence besides previous repair maintenance works. The expenditure was incurred through piecemeal work orders.

DAC meeting was not convened by PAO despite requests made by Audit on 18.12.2023 and 03.01.2024.

Audit recommends mitigation measures to review and recoup loss of Rs 18.430 million due to unjustified expenditure on luxury items under the cover of maintenance work on two residences, and taking disciplinary action for failing to perform official duty to maintain financial integrity and discipline in awarding works against the officers concerned, that is, Executive Engineer primarily responsible and Chief Engineer responsible for oversight of works' execution at PCD-II, Pak PWD, Islamabad. Further, Planning Commission and PPRA should strengthen their monitoring functions to prevent misrepresentations in award of public procurement contracts.

(DP. 517)

5.4.48 Irregular execution and payment of items of work on already functional tubewell - Rs 17.951 million

BOQ item No. 01 is "Providing and fixing 2 inches dia 10 swg pipe with quantity of 7500 rft @ Rs 887 per rft for Rs 6.652 million" and item No. 02 is "Providing and fixing of submersible pumping set comparing of pumping machinery of 10-HP electric 3-phase @ Rs 1614080 for Rs 11.298 million" for all seven existing tubewells.

Audit noted that the Executive Engineer, Project E&M, Pak PWD, Islamabad awarded contract for “Solarization of Existing Seven (07) Tubewells in South Waziristan” to M/s Renewable Energy Private limited at agreement cost of Rs 32.725 million. Total payment was made to contractor for Rs 29.795 million up to 1st running bill.

Audit observed that the work was executed to substitute the energy source and to operate them through solar energy due to heavy load shedding and low voltage. The Department executed two (02) items of work “providing and fixing 2 inches dia sewerage pipe” and “providing and fixing of submersible pumping set” on already constructed and functional tubewell without providing the record and status of the previous pumping machinery installed. Further, no adjustment was made from contractor for dismantled pumping machinery. This resulted in irregular execution and payment of items of work on already constructed and functional tubewell amounting to Rs 17.951 million.

Audit pointed out the irregularity in October 2023. The Department replied that the tubewell bore already existed without pumping machinery which was made functional.

The reply was not accepted because evidence of previous execution of tubewell boring work without pumping machinery was not verified in support of the reply. Physical verification/site inspection report by Executive Engineer and Superintending Engineer was also not on record.

DAC meeting was not convened by PAO despite requests made by Audit on 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends recovery of Rs 17.951 million from the contractor as overpayment for items of work needing adjustment for installed items, and taking disciplinary action for failing to perform official duty to make the said adjustment against the officers concerned, that is, Executive Engineer primarily responsible and Chief Engineer responsible for oversight of works’ execution at Project E&M, Pak PWD, Islamabad.

(DP. 399)

5.4.49 Import of lift without contractual pre-shipment inspection and performance test or recovery thereof - Rs 3.00 million

According to clause 5.2 of Special Provisions of the Contract, pre-shipment inspection and performance test of all imported equipment shall be duly certified by one employer and one Engineer's representative prior to its shipment and the contractor/ supplier/ manufacturer shall arrange all such facilities, including traveling, boarding, lodging and visa expense for 02 persons. The pre-shipment inspections shall be one time for complete Lifts at its point of origin manufacture. In addition, the contractor shall provide daily allowance of US\$ 200/man day for out-of-pocket expenses to each of employer and engineer nominated for inspection. The daily allowance shall be provided at hometown before start of travel.

Audit noted that the Executive Engineer, Store & Workshop Division, Pak PWD, Islamabad awarded a work for "Replacement of Existing 01 Passenger Lift at Supreme Court of Pakistan Building Islamabad" to M/s Merin (Pvt.) Ltd. at contract cost of Rs 14.010 million. The contractor was last paid up to the 4th running bill for Rs 14.183 million.

Audit observed that the Department paid an amount of Rs 9.386 million as 70% of contract price to the contractor against the imported lift. The Departmental engineer was required to visit abroad for testing/inspection of "Lifts" at manufacturer's premises but neither the contractor arranged the visit for pre-shipment inspection and performance test nor the department deducted the inbuilt cost of the visit from the contractor's bill in violation of agreement.

This resulted in non-recovery of inbuilt cost of Rs 3.00 million approximately, on account of pre-shipment inspection and performance test of the lift.

Audit maintains that the irregularity occurred due to weak enforcement of the prescribed operational and supervisory controls.

Audit pointed out the irregularity in November 2023. The Department replied that pre-shipment inspection was not feasible due to restriction of international travel. However, the third-party evaluation was executed.

The reply was not accepted because no evidence in support of reply was produced.

DAC meeting was not convened by PAO despite requests made by Audit on 18.12.2023 and 03.01.2024.

Audit recommends recovery of Rs 3.00 million from the contractor as inbuilt cost of the contract for pre-shipment inspection and performance test, and taking disciplinary action for failing to perform official duty to undertake the said inspection or recover the cost thereof against the officers concerned, that is, Executive Engineer primarily responsible and Chief Engineer responsible for oversight of works' execution at Store & Workshop Division, Pak PWD, Islamabad.

(DP. 508)

5.4.50 Overpayment on account of sales tax on consultancy services - Rs 2.525 million

According to clause 1.7, Standard Form of Bidding Documents for Consultancy Contracts, unless specified in the SC, the Consultants, Sub consultants, and their Personnel shall pay such taxes, fees, and other impositions as may be levied under the Applicable Law.

Audit noted that the Executive Engineer, CCD-II, Pak PWD, Peshawar, awarded the contract for consultancy services for the project "Construction of Camp Office for Federal Shariat Court Peshawar" to M/s NESPAK with an agreement amount of Rs 9.192 million (design fee as 2.5% and supervision fee as 2.5% of cost of works of Rs 183.847 million). The total payment to the consultant up to 14th R/bill was Rs 18.521 million, including sales tax of Rs 2,524,789.

Audit observed that sales tax was included in bill in violation of contract agreement, as the contract agreement cost should be inclusive of all taxes. So unlawful payment of sales tax made to consultant resulting in overpayment of Rs 2.525 million.

Audit maintains that sales tax on service was added in bills in violation of consultancy contract agreement and this irregularity occurred due to weak enforcement of the prescribed operational, supervisory and pre-audit controls.

Audit pointed out the irregularity in October 2023. The Department replied that the record was not available due to inquiry.

DAC meeting was not convened by PAO despite requests made by Audit on 10.11.2023, 05.12.2023, 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends recovery of Rs 2.525 million from the contractor as overpayment against inbuilt sales tax cost of the contract, and taking disciplinary action for failing to perform official duty to not make overpayment to contractors on account of sales tax against the officers concerned, that is,

Executive Engineer primarily responsible and Chief Engineer responsible for oversight of works' execution at CCD-II, Pak PWD, Peshawar.

(DP. 42)

5.4.51 Non-encashment of performance security bond on contractor's default - Rs 1.070 million

According to Clause 10.1 of the Agreement, the contractor shall provide a Performance Security in the prescribed Form. The said Security shall be furnished by the Contractor within 28 days after the receipt of Letter of Acceptance. The Performance Security shall be of an amount equal to 10 percent of the Contract Price in the currency of the Contract in the form of Bank Guarantee from any Scheduled Bank in Pakistan duly counter-guaranteed by a Scheduled Bank in Pakistan or an Insurance Company having at least AA rating from PACRA/ JCR. The cost of complying with the requirements of this sub-clause shall be borne by the contractor.

Audit noted that the Executive Engineer, Store & Workshop Division, Pak PWD, Islamabad awarded a work for "Replacement of Existing 01 No. Passenger Lift at Supreme Court of Pakistan Building Islamabad" to M/s Riaz & Sons at contract cost of Rs 10.701 million. The contractor failed to start the work despite lapse of considerable time. Consequently, Chief Engineer, on the recommendations of the XEN and SE, revoked the contract with the direction to retender the work.

Audit observed that Performance Security Bond of the said revoked work was not encashed within the validity period of the bond. This resulted in non-encashment of Performance Security Bond for Rs 1.070 million on default of the contractor.

Audit pointed out the irregularity in November 2023. The Department replied that case for encashment of performance security was initiated but the contractor went to court of law.

Audit holds that non-forfeiture of Performance Security Bond as per contract provisions occurred due to weak enforcement of the operational and supervisory controls.

DAC meeting was not convened by PAO despite requests made by Audit on 18.12.2023 and 03.01.2024.

Audit recommends taking disciplinary actions for failure to perform official duty to timely encash the overdue performance security bond against the officers concerned, that is, Executive Engineer primarily responsible and Chief Engineer responsible for oversight of works' execution at Store & Workshop Division, Pak PWD, Islamabad.

(DP. 507)

5.4.52 Irregular issuance of 1,275 measurement books without observing rules and instructions

Para 208 of CPWA Code states that payments for all work done and for all supplies are made on the basis of measurements recorded in Measurement Books, Form 23, in accordance with the rules in paragraph 209. The Measurement Books should, therefore, be considered as very important account records. All the books belonging to a division should be numbered serially and a register of them should be maintained in Form 92 in the divisional office showing the serial number of each book, the names of the sub-divisions to which issued, the date of issue and the date of its return, so that its eventual return to the divisional office may be watched. A similar register should also be maintained in the sub-divisional office showing the names of the Sub-divisional Officer and Sectional officers to whom measurement books are issued. Books no longer in use should be withdrawn promptly even though not completely written up.

Audit noted that at the office of Executive Engineer, Central Civil Division, Pak PWD, Bahawalpur, Head Clerk issued 1,275 measurement books to Sub-Division-I, II, III & IV. In this connection, following audit points need attention:

The measurement books were not properly issued to the concerned as per instructions given in the preface of each measurement book.

New measurement books were issued without 100% utilization of already issued MBs.

Not a single measurement book out of 1,275 MBs was received back from the concerned Officers/Officials.

500 new measurement books were purchased during financial year 2022-23 through quotations without genuine requirement.

Many measurement books are under custody of contractors instead of department.

Many measurement books are misplaced but no action was taken against the responsible staff according to rules.

Form-92 was not maintained because handing/taking over of measurement books was not on record.

Head Clerk issued letter dated 26.09.2023 to all Sub-Divisions for return of 900 measurement books issued up to 30.06.2023, but no single measurement book is returned back from the concerned Sub-Divisions.

In the light of the above irregularities, Audit observed that the Department fail to properly maintain the record of measurement books and measurement books were issued without following the rules and instructions which is a serious irregularity on part of the Department. This resulted in an irregular issuing of 1,275 measurement books without observing the relevant rules and instructions.

Audit pointed the matter during September-October 2023. The Department replied that 1275 MBs were issued and used against 722 works during the years 2016-17 to 2023-24.

The reply was not accepted because details of issuance of MBs, receipt back in Divisional Office and record of handing/taking over of MBs were not produced in support of reply

DAC meeting was not convened by PAO despite requests made by Audit on 10.11.2023, 05.12.2023, 12.12.2023, 18.12.2023 and 03.01.2024.

Audit recommends taking disciplinary actions for failure to perform official duty to properly maintain measurement books against the officers concerned, that is, Executive Engineer primarily responsible and Chief Engineer responsible for oversight of works' execution at Central Civil Division, Pak PWD, Bahawalpur.

(DP. 29)

Estate Offices

5.4.53 Non-recovery of outstanding rent from unauthorized/ defaulting occupants - Rs 856.957 million

Rule 16 of the Accommodation Allocation Rules, 2002 (AAR, 2002) provides that the accommodation shall not be sublet by the allottee. If an allottee is found guilty of subletting his accommodation the allotment shall be cancelled from the date of taking over possession of the house and he shall be charged monthly rent at the rate of one rental ceiling of his entitlement for the entire period. If an allottee or illegal tenant is a FGS, he shall be liable to disciplinary action for misconduct under the relevant rules or laws and such allottee shall be disqualified for future allotment of accommodation for five years. On becoming eligible for Government accommodation, his name shall be placed at the bottom of the GWL on that date, provided he applies.

Rule 15(2) of the same Rules provides that an allottee, on his retirement or expiry of contract period shall be entitled to retain the accommodation under his occupation for a period not exceeding six months, on payment of normal rent and this facility will be available to FGS once only.

Rule 25(4)(a) of the same Rules states that, in case of unauthorized retention of house beyond legally allotted period, rent equivalent to one rental ceiling of the category of his entitlement or the category of the house under occupation, whichever is more, shall be charged for each month for the entire period of unauthorized occupation.

Audit noted that Estate Offices did not recover an amount of Rs 856.957 million (**Annexure-AZ**) as outstanding rent from unauthorized occupants.

Audit observed that Estate Office, Islamabad vacated eighty-five (85) houses at Islamabad during the financial year 2021-22 because they were sublet to unauthorized occupants. In other cases, at Lahore, Peshawar, Quetta and Karachi formations of the Estate Office, it was observed that no strenuous efforts were made to pursue the recovery of outstanding dues from retired/in-service Federal Government Employees/ unauthorized occupants.

Audit maintains that subletting of government accommodations and non-pursuing the recovery/ disciplinary proceeding against the ex-allottees occurred due to non-adherence to the government rules and ineffective implementation of monitoring and corrective controls.

Audit pointed out the recovery in December 2022 and November-December 2023.

DP.01 & 10 were discussed in DAC meeting dated 20.12.2023 wherein Estate Office explained that recovery started from pension w.e.f. 01.07.2023. Ministry informed that matter regarding ICT Police was being pursued and ICT Police was directed to take final action by 10.01.2024. The DAC directed the department to expedite the recovery from unauthorized occupants of ICT Police and vacation of houses as already directed by PAC. DAC directed to ensure full recovery and get the record verified from Audit.

In other cases, DAC meeting was not convened by PAO despite requests made by Audit on 21.12.2023 and 31.12.2023.

Audit recommends recovery of Rs 856.957 million as outstanding dues from unauthorized occupants, securing vacation of sublet government accommodations, disciplinary action for misconduct against FGS allottees under Rule 16 of AAR, 2002 for indulging in sub-letting, fixing responsibility against officers concerned for failing to oversee government accommodations and strengthening of monitoring and corrective functions of the Estate Office to prevent sub-letting and unauthorized occupation in future.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2019-20, 2020-21, 2021-22 and 2022-23 vide para numbers 5.5.48 (2019-20), 5.4.17 (2020-21), 5.4.44 (2021-22) and 5.4.42 & 5.4.43 (2022-23), having a financial impact of Rs 3,255.94 million. The recurrence of same irregularity is a matter of serious concern.

(DP. 01, 10, 36, 47, 54, 65 & 69)

5.4.54 Non-allotment of vacant government accommodation and non-recovery of rent from trespassers - Rs 24.623 million

Rule 23 of GFR Vol-I provides that every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

Rule 25 (4)(b) of Accommodation Allocation Rules, 2002 provides that in case of trespassing or unauthorized occupation, rent equivalent to two rental ceilings of the category of his entitlement or the category of the house occupied, whichever is more, shall be charged for each month for the entire period of unauthorized occupation.

Audit noted that House No. 13/1-F (New 10/1F), Islamabad was trespassed by Dr. Aman Ullah Khan, Assistant Executive Director, Poly Clinic Hospital Islamabad for the period 30.11.2014 to 27.09.2018 as evident from the Estate Office dated 07.02.2019 under which notice for recovery of outstanding dues was served. Further, Estate Office, Islamabad vacated various government accommodations during 2021-22.

Audit observed in the first case that Rs 1.809 million of the said quarter was not recovered for unauthorized period. In the second case, Audit observed from the tracking reports of concerned Government accommodations that after vacation of these accommodations by the previous allottees the same remained un-allotted for a period from 09 months to 48 months. It meant that accommodations were trespassed by some ones instead of remaining vacant for such considerable period under the situation when about thousands of houses were being allotted to the FGE early in advance subject to vacation of the houses.

This resulted in loss to government due to non-allotment of vacant government accommodation and non-recovery of rent from trespassers of Rs 24.623 million (Rs 1.809 million + Rs 14.398 million + Rs 8.416 million).

Audit maintains that the loss occurred due to non-adherence to the government rules and ineffective implementation of monitoring and corrective controls.

Audit pointed out the loss in December 2022 and January and November 2023.

DP.02 & 04 were discussed in DAC meeting dated 20.12.2023 wherein the Department explained (DP.02) that court directed to consider the case and allotment was regularized by Ministry. Audit contended that allotment was regularized from 2018 whereas the accommodation was occupied since 2014. The Committee directed the department to submit the comprehensive case to the Competent Authority/Secretary H&W for review of the case. Outcome be shared with Audit. The department explained (DP. 04) that due to poor condition of accommodations, allottees are not willing to take the possession. The DAC directed that Ministry may take appropriate step for approval of PSDP scheme and release of funds for repair and maintenance of Government Accommodations. DAC directed to ensure full recovery and get the record verified from Audit.

In DP. 51, DAC meeting was not convened by PAO despite requests made by Audit on 21.12.2023 and 31.12.2023.

Audit recommends recovery of Rs 24.623 million from trespassers of government accommodations concerned, fixing responsibility against officers concerned for allowing such trespass and strengthening of monitoring and corrective controls of the Estate Office to prevent trespass in future.

(DP. 02, 04 & 51)

5.4.55 Non-recovery of interest of government accommodation from S&GAD, Government of Balochistan - Rs 16.968 million

As per Ministry of Housing and Works letter dated 21.10.2006, the Prime Minister approved the summary for transfer of 169 quarters of F.G. Colony, Sariab Road, Quetta to Balochistan Constabulary on payment of Rs 202 million. First installment of 25% was to be paid before handing over the quarters, whereas remaining payment was to be paid in three equal installments on yearly basis.

According to Para 02(ii) of the Agreement Deed prepared by the Estate Office, Quetta, interest @ 0.7% per month will be recovered from S&GAD, Government of Balochistan in case of failure to pay the installment.

Audit noted that Estate Office, Quetta did not finalize the agreement with S&GAD, Government of Baluchistan, despite the fact that all vacant quarters are already occupied by Balochistan Constabulary since 2010.

Audit observed that all 169 quarters are still under occupation of Balochistan Constabulary but neither Rs 202 million was recovered from S&GAD nor 0.7% interest was recovered from the provincial Government. This resulted in non-recovery on account of interest @ 0.7% per month for Rs 16.968 million for the period 2022-23 (Rs 202 million x 0.7% x 12 months).

Audit maintains that rent of quarters transferred to Balochistan Constabulary was not recovered as per Agreement Deed due to weak internal and financial controls.

Audit pointed out non-recovery in November 2023. The Department did not reply.

DAC meeting was not convened by PAO despite requests made by Audit on 21.12.2023 and 31.12.2023.

Audit recommends recovery of Rs 16.968 million from S&GAD, Government of Balochistan as prescribed annual interest for the financial year 2022-23 over the unpaid transfer price of government accommodations concerned. Audit also recommends recovery of the principal amount and earlier outstanding interest, fixing responsibility against Estate Office's officers concerned for not diligently pursuing recovery, and strengthening of recovery function of the Estate Office in general.

(DP. 44)

5.4.56 Non-recovery of rent/ advance rent from Shops and Petrol pumps worth Rs 16.502 million and non-implementation of Shops Rental Auction Policy

Ministry of Housing & Works issued Shop Rental Auction Policy 2017 dated 27.03.2017 conveying the policy guidelines for rental auction of shops owned by Ministry of Housing & Works at Lahore, Peshawar, Karachi and Quetta.

According to condition No. ii & iv of aforementioned policy, existing rents be enhanced @ 25% after every three years and should be a regular feature. The present occupants be given chance to accept enhanced rates by signing revised lease agreements with payment of one-year advance rent.

Para 26 of General Financial Rules, Volume-I provides that it is duty of the department controlling officers to see that all sums due to government are regularly and promptly assessed, realized and duly credited into Public Account.

Audit noted that Additional/Joint Estate Officers at Estate Office, Karachi and Peshawar did not recover Rs 16.502 million as rent/advance rent of shops and petrol pumps for the year 2022-23. Audit further noted that Shop Rental Auction Policy bearing various guidelines to be implemented for the auction and assessment of rent of shops under the jurisdiction/possession of Estate Offices, at different stations.

Audit observed that the monthly rent of shops and petrol pumps were not recovered on regular basis by the Estate Offices from different shop holders and the defaulters were also not served one month cancellation notice. Audit further observed that Additional Estate Officer, Estate Office, Peshawar did not implement the aforementioned policy in letter and spirit. Consequently, one-year advance rent of shops from the existing shop holders/allottees was not recovered besides signing revised lease agreements with payment of one-year advance rent.

This resulted in non-recovery of rent/ advance rent of shops and petrol pumps amounting to Rs 16.502 million and non-implementation of Shops Rental Auction Policy.

Audit is of the view that the aforementioned policy may be implemented without any further delay. Moreover, policy for recovery of outstanding liabilities may also be devised.

Audit pointed out the matter in November-December 2023. The Management of Estate Office, Karachi did not reply while Estate Office, Peshawar replied that rent recovery notices were issued as per interim order of Peshawar High Court. The Department admitted irregularity and agreed to recover the outstanding rent from the quarters concerned.

DAC meeting was not convened by PAO despite requests made by Audit on 21.12.2023 and 31.12.2023.

Audit recommends early recovery of outstanding rent/ advance rent of Rs 16.502 million, fixing responsibility on officers of Estate Office for not recovering the same in time, and strengthening of recovery function of the Estate Office in general.

(DP. 62, 63 & 70)

5.4.57 Non-recovery of rental ceiling from the allottee of non-entitled department - Rs 4.098 million

Rule 3(1) of the Accommodation Allocation Rules, 2002 provides that all married FGS in the Ministries or Divisions and their Attached Departments, except those maintaining their own pool of accommodation or funds for hiring of houses, shall be eligible for accommodation from the Estate Office.

Rule 24 of the same Rules provides that the Government may, at any stage, cancel the allotment made in violation of the rule in favor of Federal Government Servant including those made to the employees of non-entitled departments.

Para 26 of GFR, Vol-I provides that it is the duty of the departmental controlling officers to see that all sum due to government are regularly and promptly assessed realized and duly credited in the public account.

Audit noted that Additional/Joint Estate Officer, Lahore allotted a House No. 5-A, Wafaqi Colony, Lahore to Mrs. Noureen Ahmad Tarar, Deputy Director, Customs Department, Lahore on 25.10.2008, subject to vacation on rental ceiling basis being non-entitled department. Audit further noted that the possession of said house was handed over on 01.02.2010.

Audit observed that the Department neither recovered the rental ceiling from the allottee nor cancelled the allotment of the said house. This resulted in non-cancellation of allotment and non-recovery of rental ceiling from the allottee amounting to Rs 4.098 million.

Audit maintains that allotment in violation of rules was due to weak internal controls.

Audit pointed out non-recovery in September-October 2023. The Department replied that efforts were being made for recovery of outstanding dues from the allottee. The Department has accepted the audit observation and agreed to recover the outstanding dues. Audit stressed for early recovery of the outstanding amount as it has been accumulated since a long period.

DAC meeting was not convened by PAO despite requests made by Audit on 21.12.2023 and 31.12.2023.

Audit recommends early recovery of Rs 4.098 million as rental ceiling from the allottee under terms of allotment or securing vacation of the government accommodation concerned, besides strengthening of recovery function of the Estate Office.

(DP. 37)

5.4.58 Non-cancellation of accommodation due to double allotment and non-recovery of rental ceiling - Rs 3.827 million

Rule 17 of the Accommodation Allocation Rules, 2002 (“AAR, 2002”) provides that no FGS shall keep more than one accommodation at the same time in his possession. If a FGS is found in possession of more than one accommodation at the same time, the allotments of all the houses or flats in his possession shall be cancelled. He shall be charged rent at the rate of one rental ceiling per month of his entitlement for possessing any additional accommodation over and above his entitlement. He shall be liable to disciplinary action for misconduct under the relevant rules or laws. A FGS who is found guilty under sub-rule (4) shall be disqualified for any allotment in future, for ten years. On becoming eligible for government accommodation, his name shall be placed at the bottom of the GWL on that date, provided he applies.

Rule 26 of General Financial Rules, Vol-I provides that subject to any special arrangement that may be authorized by competent authority with respect to any particular class of receipts, it is the duty of the departmental controlling officers to see that all sums due to Government are regularly and promptly assessed, realized and duly credited in the Public Account.

Audit noted during scrutiny of record of Estate Office, Islamabad that House No. 2/8, Cat-III, I-9/4 was allotted to Mrs. Babra Zaheer (Assistant Director, BPS-17), an employee of Capital Administration and Development Division, on 29.06.2006, who occupied the house on 03.05.2006 and vacated it on 30.04.2020. Audit further noted that another Government accommodation, i.e., House No. 238-Type-E, G-6/2, also in Islamabad, was allotted to her on 26.07.2012 which was occupied on 01.08.2012.

Audit observed that the aforementioned officer retained two government accommodations for almost eight years, from 01.08.2012 to 30.04.2020. However, the Estate Office, Islamabad neither cancelled the double allotment during this long period nor recovered rental ceiling from her, which now amounts to Rs 3.827 million (93 months @ Rs 41,147 per month).

Audit maintains that double allotment was due to weak administrative, operational and monitoring controls.

Audit pointed out the recovery in December 2022 and January 2023.

The matter was discussed in DAC meeting dated 20.12.2023 wherein the Committee directed the department to conduct inquiry and submit Inquiry Report within 15 days. The compliance of DAC directives was not conveyed till finalization of the report.

Audit recommends immediate cancellation of both allotments, recovery of Rs 3.827 million from the FGS allottee as rental ceiling and disciplinary action against her for misconduct under Rule 17 of AAR, 2002 for indulging in double allotment, fixing responsibility on officers of Estate Office, Islamabad for allowing such double allotment, and strengthening of operational and monitoring controls of the Estate Office to prevent double allotments in future.

(DP. 12)

5.4.59 Unauthentic allotment to Federal Government Employees and non-recovery of house rent - Rs 2.456 million

Rule 6(6) of the Accommodation Allocation Rules, 2002 ("AAR, 2002") provides that if an allottee is transferred or sent on deputation to out-station to an eligible department, he shall carry his seniority with him and shall be allotted accommodation at the new station of his posting based on his date of entitlement to the class of accommodation.

Rule 7(1) of the same Rules states that the allotment of Government owned accommodation shall be made to the most senior FGS on GWL of a particular class or category of accommodation.

Rule 25(4)(b) of the same Rules provides that in case of trespassing or unauthorized occupation, rent equivalent to two rental ceilings of the category of his entitlement or the category of the house occupied shall be charged for each month for entire period of unauthorized occupation.

Audit noted that Estate Offices, Islamabad and Quetta allotted various Quarters to different allottees without reference to GWL and AAR, 2002.

Audit observed that allotments were made in absence of the requisite information about the employees, i.e., appointment letter, joining report, application for allotment, seniority in GWL, reference to AAR, 2002, pay slips, transfer orders, LPC, charge relinquishing/ assumption reports, etc. Due to such allotments, the Management of the Estate Offices not only allotted government accommodations to the said officials out of their turn but also usurped the rights of eligible government employees.

This resulted in unauthentic allotment of houses to federal government employees and non-recovery of house rent amounting to Rs 2.456 million.

Audit maintains that unauthentic allotment was made due to non-adherence to AAR, 2002 and ineffective operational and supervisory controls.

Audit pointed out unauthentic allotments in December 2022 and January/November 2023.

DP. 07 was discussed in DAC meeting dated 20.12.2023 wherein the Committee directed the department for cancellation/vacation of Un-authentic allotments. The compliance of DAC directives was not conveyed till finalization of the report.

In DP. 46, DAC meeting was not convened by PAO despite repeated requests made by Audit on 21.12.2023 and 31.12.2023.

Audit recommends cancellation of these allotments without requisite documentation and information, recovery of rental ceiling from such allottees for the entire period of allotment, fixing responsibility against officers concerned for allowing such allotments, besides strengthening of operational and supervisory controls to prevent such allotments in future.

(DP. 07 & 46)

5.4.60 Non-recovery of 5% House Rent - Rs 2.200 million

Rule 3(1) of the Accommodation Allocation Rules, 2002 ("AAR, 2002") provides that all married FGSs in the Ministries or Divisions and their attached department, except those maintaining their own pool of accommodation, shall be eligible for accommodation from the Estate Office.

Para 26 of GFR, Vol-I provides that, subject to any special arrangement that may be authorized by the competent authority with respect to any particular class of receipts, it is the duty of the department controlling officers to see that all sum due to government are regularly and promptly assessed, realized and duly credited in the Public Account.

Audit noted that Joint Estate Officer, Estate Office, Peshawar allotted various types of quarters/houses in Hayatabad Colony and Hassan Garhi Colony, Peshawar to the officials/officers eligible for the allotment of said quarters/houses on normal rent (5% deduction) from their pay.

Audit observed that the allottees of the houses were not being paid house rent @ 5% of their running basic pay on regular basis which leads to accumulation of recoverable amount.

This resulted in non-recovery of 5% house rent amounting to Rs 2.200 million.

Audit pointed out the matter in November-December 2023. The management replied that rent recovery notices had been issued to recover the outstanding rent. The Department admitted audit observation and agreed to recover the outstanding rent from the quarters concerned.

DAC meeting was not convened by PAO despite request made by Audit on 31.12.2023.

Audit recommends early recovery of Rs 2.200 million from defaulters of normal house rent of 5% on government accommodations, fixing responsibility against officers of Estate Office for not diligently pursuing recovery, and strengthening of recovery function of the Estate Office to in general.

(DP. 71)

5.4.61 Dubious allotments for transfer of seniority to Islamabad for change of allotment and non-recovery of rent - Rs 1.471 million

Rule 6(1)(2) and (3) of the Accommodation Allocation Rules, 2002 (AAR, 2002) provide that the applications for allotment of government accommodation shall be received on the application form. This form shall be forwarded to Estate Office under covering note by the Departments/Ministries of the applicant, certifying that the particulars given in the form are correct. The application for accommodation as and when received from an applicant, shall be acknowledged by the Estate Office by issuing a registration card.

Audit noted that the Joint Estate Officer, Quetta allotted four (04) different houses under Cat-III in 250 Colony, Quetta to different government employees. Audit further noted that Joint Estate Officer, Peshawar issued allotment letters to various government employees under Cat-II at Hayatabad Colony, Peshawar.

Audit observed that the Joint Estate Officers, Estate Office Quetta and Peshawar allotted the houses to the officers against the applications not forwarded by their Departments/Ministries in violation of the codal formalities. Facts indicated that allotments were only documentary to obtain benefit on other stations.

This resulted in dubious allotment of government accommodations for transfer of seniority to Islamabad for change of allotment leading to non-recovery of rent amounting to Rs 1.471 million.

Audit maintains that unauthorized allotments were due to weak operational and supervisory controls.

Audit pointed out the irregularity in November-December 2023. The Estate Office, Quetta did not reply while Estate Office, Peshawar replied that all allotments made on subject to vacation basis are cancelled in pursuance of the Judgment of Islamabad High Court.

The reply was not accepted because only cancellation letters did not serve the required action as many officers/officials got allotment at other stations in lieu of these anticipatory allotments. The Department is required to get cancellation of allotments of houses which were occupied by the officers in exchange of earlier allotments.

DAC meeting was not convened by PAO despite requests made by Audit on 21.12.2023 and 31.12.2023.

Audit recommends securing vacation of government accommodations from such dubious allottees, recovery of Rs 1.471 million as outstanding rent from them, fixing responsibility against officers of Estate Office for allowing such dubious allotments, and strengthening of operational and supervisory controls to prevent such allotment in future.

(DP. 48, 49, 50, 52 & 74)

5.4.62 Allotment of 108 houses to government servants in higher than prescribed category of accommodation

The Supreme Court of Pakistan (in CRP No.174/2012) directed the Ministry/ Department on 07.03.2013 to review all the allotments which have been made after passing the judgment dated 19.10.2011

in CP No.1498/2011 that in future all the allotment will be made strictly on the basis of GWL and relaxation of rules under Rule 29 A of the Allocation Accommodation Rules, 2002 (“AAR, 2002”) will not often be exercised and ensure that same is implemented in letter and spirit, and if any allotment has been made in violation of the directions earlier made in the above judgment, the same must be re-considered and dealt with in connection with the observations noted here in above immediately.

Rule 5(2) of AAR, 2002 provides that the allotment of A to I class of accommodation shall be made in accordance with pay scale of FGS as per entitlement and specification of house in each category.

Audit observed that Estate Office, Islamabad allotted 108 residences to Federal Government Servants over and above their scale and entitlement on their own request. The entitlement of government accommodation according to specification, scale, built up area was provided in the AAR, 2002 but the allottees of entitled/non-entitled department succeeded in getting the allotments on out-of-turn basis, one or two category above their entitlement. The officers of BPS-16 to 18 are enjoying the APO/GOR accommodation without assessment of CAT/Type from PPWD as prescribed for BPS-19 to 22 on payment of lesser rent. On the other hand, entitled officers are compelled to reside in lower category accommodation or live in the private hired houses and resultantly, Government has to pay the ceiling rent to the owner of private houses against their deprived entitled employees.

Moreover, Audit observed that an officer of BPS-18, having the post of Deputy Director and was suspended several times, authorized the allotments despite the fact that DG, Estate Office was authorized to approve these allotments. This reflects no check and balance in Estate Office due to an inefficient internal oversight mechanism.

Non-observance of fundamental rules and non-implementation of judgment of Apex Court in letter and spirit has resulted in loss of millions of rupees and usurpation of entitlements of other Federal Government Servants.

Audit holds that the irregularity occurred due to non-adherence to Accommodation Allocation Rules and weak internal controls.

Audit pointed out the irregularity in August 2023. The Department did not reply.

The matter was discussed in DAC meeting dated 20.12.2023 wherein DAC directed the Ministry to examine the issue of APO/GOR accommodations, category/rent assessment, changing of

accommodation and rectify the anomaly, if any, found and report thereon be provided to Audit. The compliance of DAC directives was not conveyed till finalization of the report.

Audit recommends cancellation of aforementioned illegal allotments, disciplinary action against both such FGS allottees and officers of Estate Office for allowing such allotments, and strengthening of operational and supervisory controls to prevent such illegal allotments in future.

(DP. 21)

5.4.63 Illegal allotments of government accommodation in violation of Accommodation Allocation Rules, 2002

Rule 15(2) of Accommodation Allocation Rules, 2002 provides that serving widow or serving legitimate children may be allotted the said accommodation provided he is eligible for the accommodation or becomes eligible for the said accommodation within one year of the event. In case the allottee expires within six months after retirement, his serving spouse or legitimate children may be considered for allotment provided all other conditions are met. Where the accommodation is of a class or category higher than his entitlement, he shall be allotted the first available accommodation in that class or category as the case may be, and shall not be dislodged and shall be charged normal rent till such time as the alternative accommodation of his entitlement has been made available to him.

During scrutiny of record of Estate Office, Islamabad, Audit observed that:

Mrs. Amber Sultana was appointed as Director (BPS-19) at the Federal Directorate of Education, Capital Administration and Development, Islamabad, on 13.09.2017 and offer letter for the allotment was issued on 31.1.2015 whereas her date of entitlement was 22.01.2018. Audit observed that there was no evidence of Mrs. Amber Sultana applying for government accommodation through the Estate Office. Furthermore, it was found that the allotment was issued out-of-turn.

Mr. Ali Waqar s/o Mr. Haque Nawaz was appointed as a Junior Draftsman in the Pakistan Bureau of Statistics, Gilgit on 27.02.2017, whereas he was granted the allotment of the house on 27.04.2023 that was occupied by his father who retired on 20.02.2015. This allotment was approved without acknowledging the significant gap of over two years and without addressing the need to recover for the unauthorized period of retention.

Mr. Shahid Jamil was allotted a residence on 06.10.2007, but he did not vacate the previous residence that was allotted to him after death of his father in 1985. More alarmingly, the same accommodation was once again allotted to Asif Jamil, his younger brother, without any payment of outstanding rent for the unauthorized occupation period by Shahid Jamil.

Audit maintains that the irregularities in the allotment process and the subsequent unauthorized occupancy have resulted in a questionable and unjustified situation.

Audit pointed out the irregularity in August 2023. The Department did not reply.

The matter was discussed in DAC meeting dated 20.12.2023 wherein DAC directed the department to examine the cases pointed out by Audit and cancel illegal allotments and get these accommodations vacated and disciplinary action against the officers/officials found at fault. The compliance of DAC directives was not conveyed till finalization of the report.

Audit recommends cancellation of aforementioned illegal allotments, recovery of outstanding dues from such allottees, fixing responsibility against officers of Estate Office for allowing such allotments, and strengthening of operational and supervisory controls to prevent such allotments in future.

(DP. 23)

5.4.64 Allotment of government accommodation as favour due to change of entitled category

The Supreme Court of Pakistan (in CRP No.174/2012) directed the Ministry/department on 07.03.2013 to review all the allotments which have been made after passing the judgment dated 19.10.2011 in CP No.1498/2011 that in future all the allotment will be made strictly on the basis of GWL and relaxation of Rules under Rule 29 A of the Accommodation Allocation Rules, 2002 ("AAR, 2002") will not often be exercised and ensure that same is implemented in letter and spirit, and if any allotment has been made in violation of the directions earlier made in the above judgment, must be re-considered and dealt with in connection with the observations noted hereinabove immediately.

Rule 7 of AAR, 2002 provides that the allotment of government owned accommodation shall be made to the most senior FGS on GWL of a particular class or category of accommodation.

Audit noted that Additional Estate Officer, Estate Office, Lahore maintained seven (07) GWLs for allotment of government accommodation category wise as:

S. No.	BPS	Entitlement category	Type of quarter
GWL-1	1 to 4	VI	H
GWL-2	5 to 10	V	FG
GWL-3	11 to 15	IV	E or ED
GWL-4	16 to 17	IV	D or ED
GWL-5	18	III	C
GWL-6	19	II	B
GWL-7	20	I	A

Audit observed that Additional Estate Officer, Estate Office, Lahore maintained GWL-3 and GWL-4 for category-IV and government accommodations were allotted under new category, i.e., “ED” type instead of E or D type quarters without observing the seniority of the allottees.

This resulted in allotment of government accommodation as favour due to change of entitled category.

Audit maintains that Estate Office, Lahore created new category “ED” in violation of AAR, 2002 and other allied rules.

Audit pointed out the matter in September-October 2023. The Department replied that, in old classification, E-type houses were allotted to BS-11 to BS-15 while D-type was for BS-16 and BS-17. Estate Office, Lahore has only 14 quarters of “D” type which were allotted to BS-16 and BS-17. As far the matter of allotment of “ED” to BS-16 and 17 was concerned, “ED” was allotted to BS-16 and BS-17 due to shortage of “D” type. Moreover, ED category was below the “D” type and not above category of entitlement of BS-16 and BS-17.

The reply was not accepted because Estate Office, Lahore allotted the government accommodations “ED-type” by maintaining separate GWLs for BPS-11 to 15 & BPS-16 to 17 against entitlement of E & D, respectively. Therefore, allotments under these categories seem in violation of merit/seniority.

DAC meeting was not convened by PAO despite requests made by Audit on 21.12.2023 and 31.12.2023.

Audit recommends maintaining GWLs in accordance with the AAR, 2002 and placing updated GWLs on the website of Department periodically so that the process of allotment may be fair and transparent. The judgment of the Supreme Court of Pakistan may also be adhered to strictly to strengthen the internal controls of the Department.

(DP. 39)

5.4.65 Unauthorized/illegal allotments by violating GWL and restoration of seniority

Rule 7 of the Accommodation Allocation Rules, 2002 provides that the allotment of government owned accommodation shall be made to the most senior FGS on GWL of a particular class or category of accommodation.

Rule 12 of the same Rules states that change from one accommodation to the other or exchange of accommodation between two allottees for same category of accommodation may be permitted by the Ministry of Housing and Works subject to production of a certificate from their employers to the effect that they are not expected to be retired or transferred during the next one year and other required documents as prescribed by Ministry of Housing and Works from time to time.

Rule 6 of the same Rules provides guidelines for restoration of cases in GWL. Ministry of Housing & Works constituted a Restoration Committee for judgment of cases of seniority restoration in GWL headed by Deputy Secretary (Estate). Committee decided in its meeting held on 25.08.2022, as per minutes and vide letter no. F-1(1)/2022-GWL/policy, and a Public Notice was issued on print media as on 14.06.2022 that no restoration case was to be entertained after 15.07.2022.

Audit noted that Estate Office, Islamabad issued allotment letters to various government employees beyond their entitled allocation as per the General Waiting List (GWL). Moreover, a substantial number of cases were restored.

Audit observed that, in 250 cases, allotments were made on out-of-turn basis and subsequently the accommodations were occupied by non-eligible individuals by depriving the deserving officers of their rightful turn as per the GWL. Audit further observed that, in 383 cases, restoration of seniority was carried out after the cutoff date as decided in meeting of Restoration Committee and in violation of restoration rules. Many cases were even restored without any record /evidence in computer cell of Estate Office and without obtaining approval from the restoration committee. This raised significant doubts about the fairness and transparency of the government accommodation allocation process.

This resulted in unauthorized/illegal allotments by violating GWL and restoration of seniority.

Audit holds that the irregularity occurred due to non-adherence to Accommodation Allocation Rules, 2002 and ineffective internal oversight mechanism.

Audit pointed out the irregularity in August 2023. The Department did not reply.

The matter was discussed in DAC meeting dated 20.12.2023 wherein (DP. 14), Audit apprised the Committee that allotments were made on the basis of suspected seniority/allotment at other stations. DAC directed that posting order and actual joining be got validated/checked from department concerned besides cross checking of record of respective Estate Offices, in all cases pointed out by Audit. The Committee directed that Inquiry Committee already constituted by M/o H&W under the chairmanship of DS (Estate) to investigate the suspected allotments issued in violation of rules shall also examine this issue in consultation with Audit and report be shared with Audit. In DP. 15, the Ministry explained that cut-off date was changed through public notice published in print media and cases of restoration were approved by Ministry after detailed examination by a committee. DAC directed that Ministry shall provide the record of restoration of seniority with basis, date of receipt of application, departmental letters, cases of other cities, list approved by Ministry, list of Estate Office, etc., to Audit for evaluation. In DP. 19, the Committee directed the department for cancellation/vacation of illegal allotments made on out of turn basis in violation of principle of seniority/rules and get the record verified from Audit. The compliance of DAC directives was not conveyed till finalization of the report.

Audit recommends a high-level inquiry by the Ministry of Housing & Works into all cases of seniority restoration or out of turn allotments, cancellation of illegal allotments and recovery of rent thereon, disciplinary actions against allottees and officers of Estate Officials involved in such illegal allotments, and strengthening of operation and supervisory controls to prevent such allotments in future.

5.4.66 Irregular allotments/possession and improper maintenance of General Waiting Lists and non-uploading of GWLs on website

The Supreme Court of Pakistan (in CRP No.174/2012) directed the Ministry/department on 07.03.2013 to review all the allotments which have been made after passing the judgment dated 19.10.2011 in CP No.1498/2011 that in future all the allotment will be made strictly on the basis of GWL and relaxation of Rules under Rule 29A of the Accommodation Allocation Rules, 2002 (“AAR, 2002”) will not often be exercised and ensure that same is implemented in letter and spirit, and if any allotment has been made in violation of the directions earlier made in the above judgment, must be re-considered and dealt with in connection with the observations noted hereinabove immediately.

Rule 6(1)(2) and (3) AAR, 2002 provides that the applications for allotment of government accommodation shall be received on the application form. This form shall be forwarded to Estate Office under covering note by the Departments/Ministries of the applicant, certifying that the particulars given in the form are correct. The application for accommodation as and when received from an applicant, shall be acknowledged by the Estate Office by issuing a registration card. Estate Office may place General Waiting Lists on the Web Site which shall be updated periodically. Estate Office may furnish periodically a hard copy of category-wise General Waiting Lists to the concerned dealing Sections of this Ministry.

Audit noted that Joint Estate Officers, Estate Office Peshawar and Quetta made numerous allotments and handed over possession of the accommodations during the financial year 2022-23 in colonies located at concerned stations. Audit further noted that category-wise General Waiting Lists (GWLs) were being prepared on loose computer sheets instead of updating the same on the Estate Office Website to ensure the transparency and compliance of the orders of Minister/Ministry of Housing & Works regarding computerization of record of Estate Office.

Audit observed that the GWLs prepared at present were vulnerable to change/modify easily at any time/stage. Audit further observed that the Estate Officer did not bother to do the needful even after issuance of directions by the Supreme Court of Pakistan/Federal Government and taking the issue in previous audit report.

Audit maintains that irregular allotments/possessions occurred due to non-adherence to the orders of Supreme Court of Pakistan and AAR, 2002.

Audit pointed out the irregularity in November-December 2023. The Estate Office, Quetta did not reply while Estate Office, Peshawar replied that allotments were made to senior most Federal Servants on their turn from GWL under rule 6 and 7 of AAR, 2002. Moreover, a request has been made to Estate Office, Islamabad (HQ) for grant of excess to category-II GWL. The reply was not accepted being an interim reply. Further, Additional/Joint Estate Officers, Estate Office, Peshawar and Quetta committed severe irregularity by issuing allotment letters under Cat-II without observing the General Waiting List.

DAC meeting was not convened by PAO despite requests made by Audit on 21.12.2023 and 31.12.2023.

Audit recommends maintaining GWLs in accordance with the AAR, 2002 and placing updated GWLs on the website of Department periodically so that the process of allotment may be fair and transparent. The judgment of the Supreme Court of Pakistan may also be adhered to strictly to strengthen the internal controls of the Department.

(DP. 43, 75, 76, 77 & 80)

CHAPTER 6

PAKISTAN HOUSING AUTHORITY FOUNDATION (MINISTRY OF HOUSING AND WORKS)

6.1 Introduction

A. Pakistan Housing Authority Foundation (PHAF) is a Public Company registered with Securities and Exchange Commission of Pakistan under Section 42 of the Companies Ordinance, 1984. Secretary Housing and Works Division is the Principal Accounting Officer of PHAF. The major objectives/services entrusted to PHA Foundation are as under:

Being one of the implementing arms of the Ministry of Housing and Works, PHA Foundation is mandated to provide shelter and to reduce the housing shortfall in Pakistan.

PHA Foundation provides low cost housing units to low and middle income groups of Pakistan on ownership basis. Since its inception in 1999, PHA Foundation has built several housing units for general public and Federal Government Employees in Federal and Provincial capitals to provide high quality and state-of-the-art buildings at low and affordable price.

In addition to Ground plus 3 building apartments, PHA Foundation has undertaken to construct high rise buildings. Construction of PHA-Maymar Towers in Karachi is first endeavor in this respect.

Regional offices have also been established in Lahore and Karachi to provide services to the allottees of the respective areas.

B. Budget and Accounts

The table below shows the position of budget and expenditure of PHA Foundation for the financial year 2021-22:

(Rs in million)

Nature	Original Budget	Final Budget	Expenditure	Excess/ (Saving)	% age
Non-Development (Operational)	569.008	569.006	698.407	129.401	22.74
Development	13,283.080	6,233.186	4,333.038	(1,900.15)	(30.48)
Grand Total	13,852.088	6,802.192	5,031.445	(1,770.75)	(26.03)

Source: Financial Statements 2021-22

Revenue for the Year 2021-22

(Rs in million)

Estimated Receipts	Revised Estimated Receipts	Actual	Surplus/ (Deficit)	% age
16,014.394	4,904.267	4,532.576	(11,481.82)	(71.69)

C. Audit Profile of PHAF

(Rs in million)

Sr. No.	Description	Total Nos	Audited	Expenditure audited FY 2021-22	Revenue/ Receipts audited FY 2021-22
1	Formations	1	1	5,031.445	4,904.27

Note: Audit conducted during Phase-II of Audit Plan 2022-23

6.2 Classified summary of audit observations

Audit observations amounting to Rs 31,654.408 million were raised in this audit report. Summary of the audit observations classified by nature is as under:

Overview of audit observations

S. No.	Classification	Amount (Rs in million)
1	Irregularities	
A	Works, Contract management	18,543.833
B	Management of accounts/balances	66.019
C	Revenue management	12,969.704.
2	Others	74.852
Total		31,654.408

6.3 Brief comments on the status of compliance with PAC's directives

Compliance position of PAC's directives on Audit Reports relating to PHAF is as under:

Year	Total Paras	No. of Paras Discussed	Compliance Made	Compliance Awaited	Percentage of compliance
2003-04	01	01	-	01	0
2007-08	01	01	-	01	0
2009-10	04	04	-	04	0
2010-11	02	02	01	01	50
2011-12	04	04	-	04	-
2013-14	08	07	01	07	12.5

Year	Total Paras	No. of Paras Discussed	Compliance Made	Compliance Awaited	Percentage of compliance
2015-16	18	09	-	09	-
2019-20	05	01	-	01	-

Note: Audit report for the year 2012-13, 2014-15, 2016-17 (SAR), 2017-18, 2018-19 and 2020-21 are yet to be discussed by PAC.

6.4 AUDIT PARAS

6.4.1 Execution of works worth Rs 14,451.078 million without obtaining IEE and EIA

Section 12 of Pakistan Environmental Protection Act, 1997 (PEPA, 1997) states that no proponent of a project shall commence construction or operation unless he has filed with the Federal Agency an initial environmental examination (IEE) or, where the project is likely to cause an adverse environmental effect, an environmental impact assessment (EIA), and has obtained from the Federal Agency approval in respect thereof.

Audit noted that Pakistan Housing Authority Foundation (PHAF) awarded the works for construction of housing units/apartments in I-12 and I-16/3, Islamabad. The work on the site started in 2016.

Audit observed that PHAF started execution of work on both projects without obtaining IEE and EIA as required by the above mentioned law. This resulted in irregular execution of works amounting to Rs 14,451.078 million.

Audit pointed out the issue in January 2023. The Foundation replied that matter of environment always was kept on priority and Foundation has observed Section 12 of PEPA, 1997 in letter and spirit. The work for preparing the EIA reports for I-16/3, I-12 Project was awarded on 06.03.2018. The Environmental Approval for I-16/3 & I-12 was issued on 23.02.2021 & 06.07.2022 respectively.

The reply was not tenable as the works/projects were awarded in 2016-17, whereas the Authority submitted EIA reports to Environmental Authorities on 25.09.2018 for approval and the required approvals were issued on 23.02.2021 & 06.07.2022..

DAC meeting was not convened by PAO despite repeated requests made by Audit on 14.06.2023, 20.10.2023, 06.11.2023 and 19.12.2023.

Audit recommends referring the matter under Section 21 of PEPA, 1997 as a complaint to the Environment Tribunal for imposing appropriate penalty on officers concerned for violating Section 12 of the said Act. Further, PHAF should strengthen its financial pre-audit controls to prevent commencement of projects without the requisite IEE or EIA.

(DP. 15)

6.4.2 Failure to meet target of revenue receipts from allottees - Rs 11,867.556 million

PHAF set out Revenue Receipts Target of Rs 15,744.927 million to be realized from the allottees of the housing units/apartments/flats during the financial year 2021-22.

Audit noted that PHAF collected only Rs 3,877.371 million of revenues from allottees in the financial year 2021-22.

Audit observed that PHAF fell short of its target revenue from allottees for the financial year 2021-22 by Rs 11,867.556 million, or 75.3%.

Audit maintains that irregularity occurred due to non-adherence to authority's rules and regulations and inadequate implementation of financial and internal controls.

Audit pointed out less realization of receipts in January 2023. The Foundation replied that the budget was revised and got approved in 49th BoD meeting held on 31.05.2022, according to which low receipts were only in 05 projects. According to revised budget, less realization of receipt came to Rs 757.430 million instead of Rs 11,867.556 million.

The reply was not tenable because the Foundation faced significant shortfall in meeting its target of revenue receipts for the year 2021-22.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 14.06.2023, 20.10.2023, 06.11.2023 and 19.12.2023.

Audit recommends inquiry to determine the reasons for shortfall in revenue collection. Possible reasons could be non-cancellation of allotment of defaulters, disinterest of public due to delay in completion of works/projects, and low-cost high-rise apartments building which can be vulnerable to earthquake. Inquiry should also identify steps that can be taken to improve the collection process.

(DP. 01)

6.4.3 Non-revalidation of insurance cover of projects - Rs 4,092.755 million

As per clause 21.1 of the contract agreement, the contractors were required to insure the work and equipment for an amount equal to contract amount plus 15%. The insurance cover was to be valid from start of the work until the date of issue of taking over certificate.

Audit noted that Managing Director/CEO, PHAF, Islamabad awarded projects of I-12 and I-16/3 during the year 2021-22 to various contractors.

Audit observed that the management of PHAF did not revalidate the insurance cover for the projects despite expiry of the insurance policies. The contractor's rates were inclusive of cost component of insurance premium. By non-insuring of works, not only PHAF's financial interest was put at risk but financial benefit was also given to the contractors on account of insurance premium. This resulted in non-revalidation of insurance coverage of projects worth Rs 4,092.755 million (**Annexure-AAA**).

Audit pointed out the irregularity in January 2023. The Foundation replied that the contractors of I-16/3 and I-12/1 projects of packages highlighted by the Auditor had already provided extended Contractor's All Risk Insurance (CAR) Policies.

The reply was not sufficient as the Foundation was required to recover the amount of premium of uninsured period from the contractors besides obtaining the revalidated insurance covers, which was not done.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 14.06.2023, 20.10.2023, 06.11.2023 and 19.12.2023.

Audit recommends recovering the amount of premium of uninsured period from the contractors. Further, Planning Commission should proactively review PC-III quarterly reports to ensure timely compliance with insurance provisions in public works contracts.

(DP. 14)

6.4.4 Non-cancellation of apartments due to not depositing the installments by the allottees - Rs 1,102.148 million

As per clauses 4.3 and 4.4 of the terms and conditions of allotment, apartments shall be cancelled in case of non-payment of three (03) consecutive installments, and cancellation notices will be issued after the default of three quarterly installments and after the issuance of third notice, allotment will be cancelled if the allottee fails to deposit the requisite amount within given date of third and final notice.

Board of Directors (BoD) of PHAF in its 35th meeting, approved the following policy:

The management shall decide about the allotment of cancelled apartments at G-11/3 and I-11/1, Islamabad and Shabbir Tow/Wafaqi Colony Lahore.

The officials shall be offered apartments in existing I-12 project and officers at proposed new block in I-12, Kurri Road, G-10 and upcoming projects.

The apartments shall be offered to PHAF employees on actual construction cost basis as per previous practice.

Audit observed that PHAF:

Launched a housing unit/apartments scheme in I-12, Islamabad comprising 3,200 units/apartments. Allottees of 291 apartments did not deposit their outstanding dues amounting to Rs 665.548 million since long, but their allotment was not cancelled by the management. (DP. 11)

Published notice for defaulters in I-16/3 project on 20.2.2022 against 74 apartments which were cancelled and re-allocated to general public on first come first serve basis. Re-allotment of these apartments to general public was in violation of aforementioned decision taken in 35th BoD meeting. The cancelled apartments were allocated to general public at the same cost on which they were offered on first allotment. This resulted in non-allotment of 74 apartments worth Rs 362.600 million (74 x Rs 4.9 million approximately) and loss of Rs 74.000 million (Rs 1.000 million per apartment). (DP. 6 & 7)

Audit pointed out the matter in January 2023. The Foundation replied that in DP.06, no quota was fixed for PHAF Employees at I-16/3 Project, Islamabad and after 49th meeting of Board of Directors held on 20.05.2022, 2% quota was reserved from cancelled apartments for PHAF

Employees. However, the BoD in its 51st meeting held on 02.11.2022 decided that only 1% quota should be reserved for PHAF Employees (BPS 1-16) against E type cancelled apartments. However, B type cancelled apartments will be allotted to General Public on First Come First Serve Basis. Therefore, 1% quota was observed and 09 E type apartments were allotted to PHAF Employees. In DP.07, additional cost of Rs 1.200 million for B type & Rs 0.700 million for E type apartments had been imposed, which would be collected from all the allottees including recently booked apartments. In DP.11, PHAF initiated cancellation process against those allottees who were defaulting three or more installments. As per cancellation process, three notices had been issued and a final notice in newspapers would be published soon after which the defaulters' allotments shall stand cancelled.

The reply was not tenable as the Foundation remained unable to collect outstanding dues from the allottees and accordingly no cancellation process was initiated against these defaulters. Further, additional cost of Rs 1.900 million imposed on B & E type apartments was also not collected till now. The Foundation was required to expedite the collection of outstanding dues and initiate cancellation process against the defaulters at the earliest.

Audit maintains that the irregularity occurred due to non-adherence to Foundation's rules and regulations and inadequate implementation of financial and internal controls.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 14.06.2023, 20.10.2023, 06.11.2023 and 19.12.2023.

Audit recommends expediting the collection of outstanding dues and initiating cancellation process against the defaulters at the earliest, besides fixing of responsibility against the persons involved in irregular allotments.

(DP. 06, 07&11)

6.4.5 Loss due to payment of taxes despite having tax exemption - Rs 74.852 million

According to Note 4.3 to the Financial Statements for the year ended 30.06.2022, the income of PHAF is exempted from tax as it is a government department in light of Ministry of Law, Justice and Human Rights O.M. No. 973/99-LAW dated 08.05.2000.

Audit noted that Managing Director/CEO, PHAF, Islamabad made payments of Rs 74.852 million on account of taxes (Note 23) on its other income in financial year 2021-22.

Audit observed that PHAF's management did not pursue the case of tax exemption vigorously. This resulted in loss of Rs 74.852 million to PHAF on account of payment of taxes despite having tax exemption.

Audit holds that the loss occurred due to non-pursuit of case by the legal section of the Foundation.

Audit pointed out the loss in January 2023. The Foundation replied that in order to avail the tax credit available under section 100C of the Income Tax Ordinance, 2001 inter-alia the foremost prerequisite is mandatory approval of the Commissioner (Inland Revenue) as defined under section 2(36) of the Income Tax Ordinance, 2001. Utmost efforts were made to get approval under Section 2(36) to avail 100% tax credit.

The reply was not tenable as the Foundation made no strenuous efforts to obtain tax exemption certificate in order to save the Foundation from financial loss.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 14.06.2023, 20.10.2023, 06.11.2023 and 19.12.2023.

Audit recommends that BoD may consider taking up the matter with the Federal Board of Revenue to get the tax exemption certificate.

(DP. 04)

6.4.6 Loss due to non-investment of surplus funds - Rs 66.019 million

As per Finance Division O.M. dated 02.07.2003, investment of surplus funds in non-government securities/Term Finance Certificates (TFCs)/shares was allowed.

Audit noted during scrutiny of PHAF Financial Statements for the financial year 2021-22 that an amount of Rs 489.037 million was shown in financial statements under the head “other income”.

Audit observed that as per above-mentioned O.M. of Finance Division, PHAF could have earned profit by investing these funds in non-government securities of Rs 66.019 million (Rs 489.037 million x 13.5% approx.).

Audit holds that non-investment of surplus funds was due to weak financial management.

Audit pointed out the issue in January 2023. The Foundation replied that head shown in financial statement “other income” comprised of transfer fee, documentation charges, cancellation charges, delayed payment charges, possession charges, membership fee and mainly interest amount being transferred quarterly of all PHAF bank accounts in the respective bank account and these funds are used for operational expenditures of foundation. PHAF is no profit no loss entity and does not get any grant or aid from Government/ PSDP, so no loss has been incurred by PHAF by not investing in instruments/securities.

The reply was not accepted as the Foundation failed to increase its income by investing surplus funds in non-government securities/TFCs/ shares, etc.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 14.06.2023, 20.10.2023, 06.11.2023 and 19.12.2023.

Audit recommends fixing of responsibility through fact-finding inquiry for non-investment of large surplus funds, besides taking immediate steps to appropriately invest these funds in non-government securities/TFCs/shares.

(DP. 09)

6.4.7 Non-installation of fire safety system in constructed housing units/apartments by PHAF

Para 4.1.18 of the Islamabad Capital Territory Building Control Regulations, 2020 states that provision of Pakistan Building Code Fire Safety Provisions, 2016 shall be followed. All drawings and certifications for fire safety provisions shall be in accordance with these codes. Certification of installed fire safety equipment shall be obtained from relevant Authority on yearly basis and will be posted in the building.

Audit observed during scrutiny of record that high-rise apartment buildings constructed by PHAF did not have any fire safety measures in place. This lack of fire safety measures poses a significant risk to the residents living in these buildings, as well as to the structures themselves. Audit holds that the Foundation's failure to include fire safety measures in the construction of these buildings is a clear violation of the ICT Building Control Regulations.

Audit pointed out the issue during January 2023. The Foundation replied that necessary action would be taken in this regard. Thus, the Foundation admitted non-installation of fire safety system and agreed to adopt the same in future.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 14.06.2023, 20.10.2023, 06.11.2023 and 19.12.2023.

Audit recommends that the Foundation should immediately adopt fire safety measures in accordance with the Pakistan Building Code Fire Safety Provisions 2016 to ensure the safety of the residents and the buildings.

(DP. 12)

CHAPTER 7

NATIONAL CONSTRUCTION LIMITED (MINISTRY OF HOUSING AND WORKS)

7.1 Introduction

A. National Construction Limited (NCL) was incorporated on 16.11.1977 under the Companies Act, 1913 later on replaced with Companies Ordinance, 1984 as unlisted public company. As per Schedule-II of Rules of Business 1973, Housing and Works Division is responsible for matters relating to NCL.

The principal activities of the Company are to carry out the business of construction as consultant, advisor, structural engineer, builder, architect, contractor, job contractor and designer and to engage in other allied activities. The authorized share capital of the Company is Rs 200.00 million.

B. Comments on Budget and Accounts (Variance Analysis)

Receipt and expenditure for the financial year 2021-22 is tabulated below:

(Rs in million)

Receipt/Income	Amount
Contract Revenue	354.842
Head-wise Expenditure (Development)	
Salaries & wages (Project establishment)	79.041
Material (Steel, Cement, Sand, Bricks, Crush, Pipes, Electrical Goods, Doors, Hardware, etc.) Consumed	145.417
Sub-Contractors' Services	68.127
Other Expenses (Overheads, etc.)	12.177
Total Development Expenditure	304.762
Head-wise Expenditure (Non-Development)	
Salaries	26.414
Gratuity expenses	0.363
Provident fund Contribution	0.900
Vehicles running maintenance	1.678
Rent and Utilities	1.097
Communication	0.650
Legal & Professional charges	1.030
Provision for doubtful debts	3.941
Auditors' remuneration	0.368
Others	1.558
Total Non-Development Expenditure	37.999
Grand Total (Expenditure)	342.761

Source: Financial Statements for the year 2021-22

C. Audit Profile of NCL

(Rs in million)

S. No.	Description	Total Nos	Audited	Expenditure audited FY 2021-22	Revenue/ Receipts audited FY 2021-22
1	Formations	1	1	342.761	354.842

7.2 Classified summary of audit observations

Audit observations amounting to Rs 2,212.746 million were raised in this audit report. Summary of the audit observations classified by nature is as under:

Overview of audit observations

S. No.	Classification	Amount (Rs in million)
1	Irregularities	
A	HR related irregularities	84.537
B	Procurement/award of work	244.221
C	Works execution, contract management	1,844.353
2	Other	39.635
Total		2,212.746

Note: Amount of audit observations is more than expenditure due to award related and performance-based issues in works execution.

7.3 Brief comments on the status of compliance with PAC's directives

Compliance position of PAC's directives on Audit Reports relating to National Construction Limited is as under:

Audit year	Total Paras	No. of Paras Discussed	Compliance Made	Compliance Awaited	Percentage of Compliance
1990-91	1	1	1	-	100%
1991-92	1	1	1	-	100%
1992-93	5	5	5	-	100%
1993-94	3	3	2	1	67%
1995-96	1	1	1	-	100%
1996-97	2	2	2	-	100%
1999-00	7	7	3	4	
2000-01	1	1	1	-	100%
2001-02	1	1	1	-	100%
2003-04	5	5	4	1	
2005-06	5	5	5	-	100%
2006-07	8	8	6	2	
2007-08	2	2	0	2	-
2008-09	4	4	3	1	-
2009-10	5	5	5	-	100%
2010-11	1	1	1	-	100%
2013-14	6	2	0	2	-

Note: Audit Reports for the year 2011-12, 2012-13, 2014-15, 2015-16, 2016-17, 2017-18, 2018-19, 2020-21, 2021-22 and 2022-23 are yet to be discussed in PAC.

7.4 AUDIT PARAS

7.4.1 Non-completion of on-going projects within stipulated period of time - Rs 1,844.353 million

Audit noted that National Construction Limited (NCL), Islamabad awarded following construction works/projects during the years 2016 to 2019 which were to be completed in the years 2018 to 2021, as per stipulated completion period mentioned in each contract, as detailed below:

S. No.	Name of Contract/Client	Date of Start	Actual Date of Completion	Contract Cost Rs in million	Work Done up to Dec. 2022 %Age
1.	Construction of 05 Cat-I Houses and 10 Cat-II Houses at KCI Chashma	April 2016	December 2017	118.363	87.964 75%
2.	Construction of 40 Cat-IV Houses at KCI Chashma	April 2016	December 2017	122.906	107.173 88%
3.	Construction of 50 Cat-V Houses at KCI Chashma	April 2016	December 2017	111.567	99.074 90%
4.	Construction of R&D Labs at Pakistan Institute of Engineering and Applied Sciences (PIEAS) Nilore, Islamabad	Mar 2018	June 2020	230.412	159.727 70%
5.	Construction of High Performance Computing (HPC) Labs, Nilore	June 2018	March 2019	182.044	129.458 72%
6.	Construction of Misc. Building & Residential Colony at Gilgit Institute of Nuclear Medicine, Oncology and Radiotherapy (GINOR), Gilgit	July 2019	September 2021	344.132	237.165 70%
7.	Construction of 168 B-Type Apartments, I-16/3, Islamabad	July 2016	January 2019	734.929	591.361 81%
	Total			1,844.353	1,411.92

Audit observed that the above-mentioned projects were still in progress despite expiry of completion period as per contract provisions which showed that the progress of NCL was far behind the work schedule already submitted to the client department. This resulted in non-completion of on-going projects of Rs 1,844.353 million within stipulated completion period.

Audit is of the view that NCL did not complete any project within completion period and company could face liquidated damages/delay charges due to delay in completion of the projects which may cause unnecessary financial burden on the company in addition to time overrun and cost overrun of the project. Moreover, the delay in completion of projects may affect the performance/rating of the company.

Audit pointed out the irregularity in March 2023. The company replied that the projects were not completed within time due to late decisions by the clients/consultants, unprecedented price hike and shortage of construction material. The extension in time up to 30.06.2023 was granted without liquidated damages. If liquidated damages were imposed on NCL then this would also be imposed on sub-contractors.

The reply was not accepted because the projects were still incomplete up to January 2024 which depicted the capacity and the ability of the company. Further, the status of EOTs beyond 30.06.2023 was not shared with Audit.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 23.06.2023, 20.10.2023, 06.11.2023 and 19.12.2023.

Audit recommends fixing responsibility through fact finding inquiry besides improving internal controls as well as enhancing project execution performance skills.

(DP. 01)

7.4.2 Irregular purchase of construction material due to splitting - Rs 153.021 million

Rule 9 of the Public Procurement Rules, 2004 provides that a procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly without any splitting or regrouping of the procurements so planned. The annual requirements thus determined would be advertised in advance on the Authority's website as well as on the website of the procuring agency in case the procuring agency has its own website.

Audit noted that NCL, Islamabad awarded twenty-three (23) contracts for purchase of construction material and made payment of Rs 153.021 million during the financial year 2021-22.

Audit observed that the works were awarded to different suppliers for purchase of construction material through splitting the work into small quantities even though the BOQ of the respective projects against which procurements were made showed much higher requirements of materials. The practice of purchase of construction material through multiple transactions/contracts not only involved extra human resources but also non-competitive rates. This resulted in irregular material supply contracts worth Rs 153.021 million.

Audit maintains that irregularity occurred due to weak internal controls.

Audit pointed out the irregularity in March 2023. The company replied that the material was procured as per site requirement and availability of funds.

The reply was not accepted because the procurements through piecemeal work orders limited the scope of tendering among the larger number of suppliers, which could have resulted in cheaper/competitive rates.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 23.06.2023, 20.10.2023, 06.11.2023 and 19.12.2023.

Audit recommends fixing responsibility through fact-finding inquiry for awarding the contracts in pieces for purchase of material instead of award as a whole. Further, Planning Commission and PPRA should strengthen their monitoring functions to ensure lawful award of public procurement contracts.

(DP. 07)

7.4.3 Irregular procurement of lifts without open tendering and change in specification during contract execution - Rs 91.200 million

Rule 12(2) of the Public Procurement Rules, 2004 provides that all procurement opportunities over three million Pakistani Rupees shall be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

Audit noted that NCL, Islamabad awarded contract for "Providing & Installation of Passenger and Cargo Lifts" for the project "Construction of 168 B-Type Apartments, I-16/3, Islamabad" to M/s Riaz & Sons for Rs 91.200 million during the financial year 2021-22.

Audit observed that the bid was invited through invitation letter dated 7.02.2022 from two supplier/firms instead of open competitive bidding for the procurement process. M/s Riaz & Sons as lowest bidder quoted his rate for Orona (of Spain origin). However, in the BOQ/contract the specification of lift was mentioned as “Sami Round Doppler or approved equivalent”.

Audit maintains that instead of calling open bids, limited competition was carried out and contract was made for different make/made of lifts than as quoted by the lowest bidder. This resulted irregular procurements of lifts worth Rs 91.200 million without open tendering and irregular change in specifications.

Audit pointed out the irregularity in March 2023. The company replied that the client (PHAF) directed the consultants M/s SAMPACK for technical evaluation who approved two firms. Tenders were called from these two qualified firms.

The reply was not accepted because instead of calling open bids, limited competition was carried out and contract was made for different make/made of lifts than as quoted by the lowest bidder.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 23.06.2023, 20.10.2023, 06.11.2023 and 19.12.2023.

Audit recommends fixing responsibility through fact-finding inquiry for mis-procurement of lifts through invitation letter beyond three million rupees and changing specification therein. Further, Planning Commission and PPRA should strengthen their monitoring functions to ensure lawful award of public procurement contracts.

(DP. 08)

7.4.4 Non-approval of Service Rules and expenditure under head salary without approved sanction strength - Rs 43.074 million

According to Chapter II of Esta Code, appointments to an All-Pakistan Service or to a civil service of the Federation or to a civil post in connection with the affairs of the Federation, including any civil post connected with defence, shall be made in the prescribed manner by the President or by a person authorized by the President in that behalf. Further, a civil servant appointed to a post shall be entitled, in accordance

with the rules, to the pay sanctioned for such post, provided that, when the appointment is made on a current-charge basis or by way of additional charge, his pay shall be fixed in the prescribed manner.

Audit noted that NCL, Islamabad booked expenditure under head of account of salaries of 27 officers, 17 staff and 17 other Grade-IV staff for the financial year 2021-2022 amounting to Rs 43.074 million.

Audit observed that the Board of Directors (BoD) of NCL, Islamabad had not approved the service rules. The approval of sanctioned strength of 57 employees from any competent forum was not available on record. This resulted in unjustified/unauthorized expenditure in the head of salary without approved sanctioned strength of Rs 43.074 million.

Audit maintains that non-approval of service rules from BoD and unjustified expenditure was due to inadequate financial and internal oversight mechanism.

Audit pointed out the irregularity in March 2023. The company replied that service rules and sanctioned strength was duly approved by the BoD.

The reply was not accepted because approvals of BOD of the company as replied were not provided to Audit for verification.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 23.06.2023, 20.10.2023, 06.11.2023 and 19.12.2023.

Audit recommends fixing responsibility through fact-finding inquiry for disbursement of salaries without approval of sanctioned strength from the competent authority, besides strengthening of financial pre-audit controls to prevent payment of salaries to such officials in future.

(DP. 05)

7.4.5 Irregular expenditure on payment of daily wages from petty cash - Rs 41.463 million

As per paras 197 and 205 of CPWA Code, from the muster rolls the subordinate will prepare the labour reports, and from the measurement book he will check the bills and accounts of contractors

and suppliers. In Part III of the muster roll form, the progress of work done by the labour should be recorded in all cases where such work is susceptible of measurement. If the work is not susceptible of measurement a remark to this effect should be recorded.

Audit noted that NCL, Islamabad had drawn Rs 41.463 million (in the head of accounts of Petty Cash during the financial year 2021-22) as cash from bank and payments made to daily wages, etc., on Muster Rolls.

Audit observed that NCL made payments through Petty Cash for daily wage labourers, which was not recorded in the muster rolls and measurement books as required. The progress of work done, and labour reports were also not maintained as per rules. Furthermore, Audit observed that the record of cash payments by the Project Accountant through petty cash was unreliable due to not showing the progress of work done by labourers and susceptibility of measurement of work. This resulted in irregular expenditure due to payment of wages from petty cash amounting to Rs 41.463 million.

Audit maintains that unjustified expenditure was due to inadequate oversight mechanism and weak financial and internal controls.

Audit pointed out the irregularity in March 2023. The company replied that most of the payments were made through Project Accountants for wages, POL, day-to-day site petty expenses, etc. The Project Accountant was authorized as per NCL's financial rules to draw cash for onward payments.

The reply was not accepted because the works executed by daily wages was not recorded in the measurement books as required. The labour reports were also not prepared and progress of work done was not recorded.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 23.06.2023, 20.10.2023, 06.11.2023 and 19.12.2023.

Audit recommends fixing responsibility through fact-finding inquiry for utilization of petty cash for payment of daily wages, besides strengthening of financial pre-audit financial controls to prevent such payments in future.

(DP. 06)

7.4.6 Unreliable accounting of store/stock of machinery and equipment - Rs 39.635 million

Chapter 8 of GFR Vol-I stipulates detailed procedure the procurement's receipts, issue, custody and accounting of stores in government and semi-government departments and autonomous bodies. Regarding receipt of stores, rule 148 states that all materials received should be examined, counted, measured or weighed as the case may be, when delivery is taken, and a certificate to this effect shall be recorded by officer in charge. He is also required to give a certificate that he has actually received the materials and recorded them in the appropriate stock register. Rule 13 requires that each Head of the Department shall depute a senior officer to inspect the store at least once in a financial year to see that effective system of internal check exists for securing receipt and issue of stores.

Audit noted that financial statements of NCL, Islamabad disclosed net amount of Current Assets as Rs 892.405 million (Rs 39.635 million as stock/construction material) on 30.06.2022.

Audit observed that the management was maintaining loose stock inventory sheets for stores, spares tools and stock of construction material where only item name, quantity and amount of all type of store articles was entered without indicating quantity actually received in response to a tender or petty purchases order, its issue balance if any, obsolete or unserviceable items, their disposal if any, present existence/ location of the asset, etc. Further, the cost of all items in stock inventory sheets was not inserted in the amount shown in financial statements. Audit further observed that variation in the valuation of store and spares in the financial statements of 2020 to 2022 indicates that the statistics were not reliable or realistic. This resulted in unreliable accounting of store/stocks and stocks of construction material amounting to Rs 39.635 million (Rs 9.719 million + Rs 29.916 million) in current assets.

Audit pointed out the irregularity in March 2023. The company replied that the stock register was being maintained. Moreover, details of obsolete/unserviceable items were also maintained at project site for auction.

The reply was not accepted because stock registers were not being maintained and physical verification of stores, material was also not being carried out.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 23.06.2023, 20.10.2023, 06.11.2023 and 19.12.2023.

Audit recommends requisite corrective action as advised by a fact-finding inquiry to see:

Whether or not Stock Register/account is true reflection of all assets that physically exist;

Reasons for cost variance between Stock Register and financial statements;

Whether or not each asset bears a distinct number for identification; and

Whether or not effective controls exist to avoid any pilferage.

(DP. 03)

7.4.7 Loss to company due to ill management and non-renewal of PEC License during previous financial years

NCL was incorporated as a Public Company on 16.11.1977. As per Memorandum of Association of NCL, the main objective of the establishment of the Company was to take over, execute and perform all contracts in Pakistan which were being executed and performed by National Construction Ltd (Pakistan) Limited and also take over all the assets relating to the said contracts in Pakistan and all bank balances whether in credit or debit and all liabilities, obligations and personnel.

Audit observed during scrutiny of accounts record of NCL, Islamabad that the company was facing operating loss for the last five years which was alarming for the financial health of the company. A review of financial statements revealed that the contract revenue of the company was decreasing, and company was facing loss in the previous financial years.

Audit further observed that NCL's Pakistan Engineering Council license expired on 30.06.2018 which was renewed on 30.06.2023.

The reasons of loss to the NCL were as follows:

The company performance was in idol status and the management was enjoying facilities without work since 2016.

The company did not have the required number of Engineers, Technical staff and key personnel required as pre-condition of the PEC for the renewal of the license.

Non-participation in the bidding process and decrease in work done of running projects during previous years resulted in decrease in profit and eventually company suffered loss.

Existing projects were not completed in time.

Due to the factors explained above, NCL neither was engaged in new project/work nor had a working capital. This has resulted in a loss of billions of rupees.

Audit holds that the mismanagement was due to weak technical and internal controls and willful negligence by the company management and non-revalidation/renewal of PEC License of the company was due to weak and inefficient internal controls of the organization.

Audit pointed out the irregularity in March 2023. The company replied that consequent upon BoD meeting held on 13.12.2022, NCL was allowed to get its license renewed from PEC and maximum participation in tenders. NCL's license was renewed and it was on the path of revival now.

The reply was not accepted because physical progress of NCL against different development projects as contractor was not up to the mark. No record in support of PEC license renewal and revival of NLC was produced for verification.

DAC meeting was not convened by PAO despite repeated requests made by Audit on 23.06.2023, 20.10.2023, 06.11.2023 and 19.12.2023.

Audit recommends fixing responsibility through fact-finding inquiry for non-obtaining/ non-renewal of PEC license in time to avoid loss, besides corrective action to improve the management of the company to make it profitable and financially healthy.

(DP. 04)

CHAPTER 8

HIGHER EDUCATION COMMISSION (INFRASTRUCTURE DEVELOPMENT EXPENDITURE OF FEDERALLY CHARTERED UNIVERSITIES)

8.1 Introduction

A. Higher Education Commission (HEC), formerly University Grants Commission, was established through Higher Education Commission Ordinance 2002, for improvement and promotion of higher education, research, and development. The Commission is a corporate body having perpetual succession and a common seal with power, subject to the provisions of the Ordinance, to acquire, hold and dispose of property, both moveable and immovable. The Headquarters of the Commission is located at Islamabad. The Executive Director, HEC is the Principal Accounting Officer.

Directorate General of Audit Works (Federal), Islamabad is responsible for audit of infrastructure development (PSDP) expenditure of federally chartered universities/institutions under Higher Education Commission. Further, as per Auditor-General of Pakistan policy decision, issued vide letter No. AP&SS/C/Audit Jurisdiction/2015/106 dated 20.03.2015, the Directorate General of Audit Works (Federal), Islamabad has also been assigned the responsibility to comment upon the overall status of Federal Government Grants utilization by HEC on infrastructure development projects.

B. Comments on Budget and Accounts (Variance Analysis)

Budget allocation and expenditure relating to 154, Infrastructure Development Projects of PSDP of Universities/Institutes under Higher Education Commission, Islamabad for the financial year 2022-23 is as under:

(Rs in million)

Funds Allocation	Funds Released	Actual Expenditure	Excess/ (Saving)
43,428.907	43,373.116	43,357.573	(15.543)

Source: PSDP Utilization Report

The figures relating to 21 infrastructure development projects of 16 federally chartered universities under Higher Education Commission for the financial year 2022-23 is as under:

(Rs in million)

Funds Allocation	Funds Released	Actual Expenditure	Excess/ (Saving)
4,005.464	4,005.464	4,004.928	(0.536)

Audit evaluated overall performance of HEC with reference to utilization of development budget. Audit observed as follows:

During 2022-23 funds were not released to thirteen (13) ongoing projects despite allocation of Rs 2,483.950 million. Against these projects huge expenditure Rs 2,991.404 million had already been incurred up to June 2022. Non-release of funds against works in progress would certainly cause time/cost overrun.

During 2022-23 funds were released Rs 3,481.755 million for forty-five (45) projects against allocation Rs 10,345.173 million. Likewise, in nine (09) projects only Rs 110 million were released against allocated amount Rs 2,700 million. This shows slow progress in execution of these fifty-four (54) projects.

C. Audit Profile of HEC

(Rs in million)

S. No.	Description	Total Nos	Audited	Expenditure audited FY 2022-23	Revenue/ Receipts audited FY 2022-23
1	Formations	18	08	5,008.94	-

8.2 Classified summary of audit observations

Audit observations amounting to Rs 10,792.900 million were raised in this audit report. This amount also includes recoveries of Rs 529.147 million, as pointed out by the Audit. Summary of the audit observations classified by nature is as follows:

Overview of audit observations

S. No.	Classification	Amount (Rs in million)
1	Irregularities	
A	Procurement related irregularities	1,213.042
B	Execution of works, contract agreement	8,804.060
C	Management of accounts in commercial banks	775.798
Total		10,792.900

Note: Amount of audit observations exceeds audited outlays due to issues like award of works which involve future spending, amount covering multiple previous years of spending, multiple reckoning of monetary impact in different audit observations pertaining to same transaction, etc.

8.3 Brief comments on the status of compliance with PAC's directives

Compliance position of PAC's directives is as under:

Year	Total Paras	No. of Paras Discussed	Compliance Made	Compliance Awaited	Percentage of Compliance
2012-13	51	13	7	6	53.84
2013-14	14	14	02	12	14.29
2014-15	08	08	02	06	25.00
2015-16	09	09	01	08	11.11
2016-17	12	04	04	-	100
2017-18	11	11	09	02	81.81
2018-19	11	11	09	02	81.81

Note: Audit Reports for 2012-13, 2016-17 and 2018-19 were partially discussed while Audit Reports for the year 2019-20, 2020-21, 2021-22 and 2022-23 are yet to be discussed by PAC.

8.4 AUDIT PARAS

8.4.1 Approval of PC-I without conducting feasibility study leading to poor execution of works - Rs 4,203.985 million

As per Para 3.3 of Planning Commission's Guidelines for Projects Management, 2008, it is mandatory that the projects of Infrastructure Sector should undertake proper feasibility studies before the submission of PC-I. Separate provision has been made in the PSDP, under P&D Division for financing of the cost of feasibility studies of development projects and appointment of Project Directors at initial stage of project formulation. Based on the data and positive findings of feasibility study, PC-I is prepared and submitted for approval by the concerned forum.

As per para 2.33 of Planning Commission's Manual for Development Projects (December 2021), in general, expenditure on the establishment of new facilities (works, goods, and services) is regarded as developmental, while expenditure on ordinary maintenance and running of the existing facilities is treated as non-developmental and should be provided for in the non-developmental requirements of the respective government departments. As per PC-I approved by CDWP for project "Establishment of University of Baltistan Skardu" in April 2017 for Rs 1,747.307 million, there was no provision of expenditure on account of rent of buildings.

Audit noted that before approval of the above project, Karakoram International University (KIU) Skardu Campus was offering limited academic programmes. PC-I cost was revised to Rs 3,608.503 million with approval of CDWP on 01.06.2023.

Audit observed that feasibility study was not conducted before preparation of PC-I. The access road for the university did not exist at site, and it was also not included in PC-I due to non-conducting of feasibility study. This also signifies the need of proper feasibility study before preparation of PC-I and award of work accordingly. Audit further observed that the University hired three buildings on rent and all expenditures were being met from PSDP funds in violation of PSDP rules and regulations. An amount of Rs 500.00 million was released during financial year 2022-23, out of which Rs 234.777 million was spent for the payroll of university from PSDP funds instead of recurring grant of the university. The Chairman CDWP in its meeting in June 2023 also held it unjustified to pay salaries to the university staff out of development project which should be managed from the recurring budget. Another PSDP project titled "Strengthening of University of Baltistan Skardu" was approved in PSDP with cost Rs 595.482 million on 27.07.2021 for construction of Balti Museum (02 units) and girls hostel including boundary wall. This was omitted due to poor estimation of the earlier project and awarded as a separate project which also caused loss to Government due to rapid inflation.

Audit maintains that PSDP funds were allocated for establishment of the university, but the Management spent the funds of PSDP on payroll and other facilities of university instead of completing the said project. Due to this, project badly suffered and was incomplete even after expiry of five years. Further, the university was not yet established therefore, another project for its strengthening seems unjustified.

This resulted in approval of PC-I without conducting feasibility study, leading to poor execution of works amounting to Rs 4,203.985 million (Rs 3,608.503 + Rs 595.482 million).

Audit pointed out the matter in August 2023. The Management replied that the University of Baltistan was established in the light of Presidential Order 2016. Before establishment of University of Baltistan, KIU sub-campus was operational up to 2017 with 45 employees on strength. The PC-I of University of Baltistan, Skardu was approved with a cost of Rs 1,747.307 million in September 2017. University hired three buildings on rent for different faculties due to less space in existing building. The Authority accepted/approved payroll from Development Project until funds could be managed from recurring grant. PSDP project titled "Strengthening of University of Baltistan, Skardu" was approved in PSDP with cost Rs 595.482 million for construction of Balti Museum (02 units) and girls hostel including boundary wall which was not included in earlier project.

The reply was not tenable as the Management did not reply regarding non-conducting feasibility study and non-incorporation of access road in the approved PC-I. There was no provision in PC-I regarding establishing the university in rental buildings. Further, irregular provision of faculty salaries was made in PC-I.

The matter was discussed in DAC meeting held on 17.01.2024. Audit contended that non-preparation of feasibility study led to substantial variations including access roads and revision of PC-I from Rs 1,747.307 million to Rs 3,608.503 million. The management explained that global PC-II existed, however, access road was not provided in PC-I because access road was to be executed through local government project. The DAC directed the university management that a comprehensive report giving chronology of events of original PC-I and revised PC-I with scope variation and justifications, package-wise cost, dates of award, stipulated date of completion, actual date of completion, current financial and physical progress, provisions regarding establishment costs, etc., may be submitted to HEC M&E Division and final report along with supporting record, duly approved by Principal Accounting Officer/Executive Director be shared with Audit.

Audit recommends fixing of responsibility through fact-finding inquiry for not conducting feasibility study before preparation of PC-I, violations of PC-I and irregular payment of faculty salaries

from PSDP funds. Further, Planning Commission should proactively review PC-III quarterly reports to ensure compliance with the provisions of PC-I.

(DP. 23)

8.4.2 Non-insurance of work of Rs 2,017.034 million and non-recovery of premium there-against of Rs 11.443 million

Clause 21.1 of the contract agreement for the works, contractors were required to insure works, equipment and liabilities for death or injury to any person. As per Clause 25.3, in case of failure to do so the employer may effect and keep in force any such insurance, and pay any premium as may be necessary for that purpose and from time to time deduct the amount so paid from any moneys due or to become due to the contractor. The amount to be insured is contract amount plus 15%.

Audit noted that two universities, under the HEC approved PC-I for constructions of different works and awarded the works to different contractors for construction of academic block, administration block, main gate, Balti Museum, girl's hostel, and boundary wall, etc., for Rs 2,017.034 million.

Audit observed that in two cases (DP. 39 & 28), the Management neither obtained the insurance coverage nor it was invoked by the Project Directors to safeguard the interest of the department/university. Audit further observed (in case of DP.25) that the contractor provided insurance policy of the contract valuing Rs 589.116 million to the employer which was valid from 09.04.2021 to 08.04.2023. However, the work was not completed even in extended period and was still in progress, hence re-validated insurance policy was required to be obtained from the contractor which was not got done.

This resulted in non-obtaining of insurance coverage amounting to Rs 2,017.034 million and saving of inbuilt charges of Rs 11.443 million on such insurances by the contractors, as detailed below:

(Rs in million)

S. No.	DP. No.	Name of University	Amount	Remarks
1	25	University of Baltistan, Skardu	589.116	Revalidation case
2	28	University of Baltistan, Skardu	283.668	Without insurance policy
3	39	National University of Technology, Islamabad	1,144.250	Premium Rs 11.443 million
Total			2,017.034	

Audit maintains that non-obtaining of third-party insurance and non-revalidation of insurance was due to non-adherence to contract provisions and weak internal controls.

Audit pointed out the irregularities in August-September 2023. The Management replied in DP.25 that the contractor provided performance security bond of the contract valuing Rs 522.833 million to the employer which was valid up to 26.10.2023. This office requested Managing Director of M/s Aaj Sons Pvt. Ltd. for revalidation of insurance policy of Rs 589.116 million. In DP. 28 & DP.39, Management responded that contractors were being asked to provide insurance.

The Management admitted the Audit stance in all three (03) cases and assured to obtain works insurance from contractors and revalidation of insurance bond from insurance companies. Furthermore, performance security @10% of the contract amount could not be termed as an alternate of the insurance policy.

The matter was discussed in DAC meeting held on 17.01.2024. In case of DP. 25 and 39, DAC directed the university management that premium may be recovered from contractor for the period insurance remained ineffective. The insurance cover be got revalidated till the required extended period as per contract. Record regarding revalidation of insurance cover and recovery of premium may be verified from Audit. In case of DP. 28, DAC directed the management to obtain insurance cover from the contractor or effect it at its own in term of clause 25.5. DAC further directed the Head of University that

censure may be issued to the project officer/official responsible for not ensuring revalidation of insurance cover.

Audit recommends compliance of DAC's directive.

(DP. 25, 28 & 39)

8.4.3 Loss due to delay in completion of project and non-approval of revised PC-I in time - Rs 2,106.852 million

Para 2.9 of Planning Commission's Guidelines for Project Management, 2008 provides that project implementation agencies/ departments should seek the approval of the competent authority as soon as they consider change in scope of work or revision in cost. Sponsoring agencies should also anticipate likely delays. They should also fix responsibility for the delays. Those responsible for not undertaking forward planning and causing delays in implementation of projects should be taken to task. Para 8.8 explains the Role and Responsibilities of a Project Director/Manager that last but not the least is the role of a Project Director in completing the project without time and cost overrun.

During scrutiny of the record relating to the project "Establishment of Engineering Faculty of Karakoram International University (KIU) at Gilgit & Skardu" for the year 2022-23, Audit observed that the project execution was delayed from the year 2015 to 2023 involving cost overrun of Rs 2,106.852 million as detailed below:

(Rs in million)

S. No.	Name of Project	PC-I Cost and date	Revised cost and date	Excess
1	Establishment of Engineering Faculty of Karakoram International University at Gilgit	450.496 (04.03.2015)	1,351.268 (03.08.2023)	900.772
2	University of Baltistan, Skardu	436.528	1,642.608	1,206.080

S. No.	Name of Project	PC-I Cost and date	Revised cost and date	Excess
		(04.03.2015)	(14.12.2017)	
	Total	887.024	2,993.876	2,106.852

Audit maintains that delay in execution and completion of the project delayed the project benefits to the residents of Gilgit-Baltistan, besides extra burden on public exchequer.

Audit pointed out the matter in August/September 2023. The Management replied that original PC-1 of Rs 887.024 million for the project “Establishment of Engineering Faculty at Gilgit and Skardu campus” was approved in CDWP meeting held on 04.03.2015. Later on, KIU Skardu campus was merged with Baltistan University. On the directives of Minister P&D, KIU forwarded a revised PC-1 of Rs 1,642.608 million only for Establishment of Engineering Faculty at KIU. The work was award on 07.03.2018 at a cost of Rs 372.352 million. The work was started in April 2018. However, the local community of nearby village intervened and stopped the contractor to do any kind of civil work. KIU approached GB Government, who constituted a committee to resolve the issue. Meanwhile, the modified PC-1 submitted in December 2017 and recommended by HEC in light of which tender of civil work was awarded to the contractor of Rs 372.352 million was turned down in CDWP meeting held on 19.03.2018 and KIU was advised to utilize the existing funds within approved scope of work and submit modified PC-I. Later on, the local community in response to the local government anti-encroachment drive torched the under-construction boundaries. The matter was reported to HEC and Planning Commission of Pakistan. The contractor refused to continue the work under threatening environment. UET Peshawar assessed the torched building, and remaining work was awarded to new contractor on 29.06.2021. KIU again prepared modified PC-1 amounting to Rs 1,351.268 million and submitted to HEC on 21.12.2021. Finally, on 03.08.2023, the CDWP approved the revised PC-I. In the light of above facts, the project was delayed. The work at site was 78% completed and remaining 22% would be completed by 30.06.2024.

The reply was not tenable because civil work was awarded after two years, on 07.03.2018, from the date of 1st release of funds of Rs 285.00 million in 2015. Further, it was the responsibility of the Management to provide clear land for execution of work which was not done resulting in wastage of public money.

The matter was discussed in DAC meeting held on 17.01.2024. Audit contended that there was departure from project management standards which led to arbitration. The DAC directed the management that proper counter claims including LD, escalations be ensured in arbitration. The same may be pursued actively and final decision of the arbitration may be shared with Audit. DAC further

directed to provide work schedule of original contract, physical progress reflected in Monthly Progress Reports by PMU/consultants, EOT, justifications, corresponding payments against work done along with MB, rationale for difference, if any, mobilization advance status, termination of contract, difference between original and new contract with reference to cost and timelines, risk and cost factor, HEC Monitoring Reports on the project, VC Report, etc., to Audit for verification.

Audit recommends compliance of DAC's directive.

(DP. 30)

8.4.4 Unauthentic payments without recording detailed measurements of work in Measurement Book - Rs 847.676 million

As per Para 208 of Central Public Works Accounts Code, payments for all work done are made on the basis of measurements recorded in the Measurement Book (Form 23) in accordance with the rules in Para 209 of CPWA Code. The Measurement Books should, therefore, be considered as very important accounts record. Para 209(b) states that all measurements should be neatly taken down in a Measurement Book.

Audit noted that management of National University of Medical Sciences (NUMS), Rawalpindi, awarded a contract for construction of Nums Institute of Advanced Study and Research (NIASR) to M/s Sarhad Engineering and Electric Co. costing Rs 1,433.61 million w.e.f. 09.04.2022 to be completed on 09.04.2024 within 24 months. The contractor was paid Rs 847.676 million up to June 2023.

Audit observed that payments of work done, price adjustments were made to the contractor without recording detailed entries in the measurement books duly vetted by the authorized persons.

Audit maintains that veracity/authenticity of payment could not be verified due to non-maintenance of Measurement Books. The Authority adopted an irregular method of work measurement/record keeping by dispensing with an approved and established method of permanent record keeping for all public sector infrastructure works.

Non-maintenance of measurement book resulted in compromise of mandatory oversight and internal controls of 100% work done certification by the Engineer In-charge and 10% test check by the Supervisory Engineer.

This resulted in unauthentic payment without detailed measurement/execution in the measurement books for Rs 847.676 million.

Audit pointed out the matter in December 2023. The management replied that IPCs duly checked by site staff, Resident Engineer, PMU and Engineer Executives were maintained besides measurement books.

The reply was not accepted because detailed record entries on day to day basis with dimensions and calculations of quantities of different items of work were not being prepared. Unauthentic and unreliable computer based IPCs were being maintained against the provisions of rules.

DAC meeting was not convened by PAO despite request made by Audit on 28.12.2023.

Audit recommends fixing of responsibility for violation of rules besides corrective action.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2021-22 and 2022-23 vide para number 8.4.3 (2021-22) and 9.4.1 (2022-23), having a financial impact of Rs 2,632.101 million. The recurrence of same irregularity is a matter of serious concern.

(DP. 61)

8.4.5 Irregular construction of building work without prior approval of building plan from CDA - Rs 792.771 million

Para 2.2.2 of Islamabad Residential Sectors Zoning (Building Control) Regulations, 2020 provides that no building or structure shall be constructed or any additional/alteration made thereon except (a) with the prior approval of the Authority, and (b) Minor internal repairs; in accordance with the Building and Zoning Regulations, or instructions issued by the Authority in this behalf from time to time. Para 2.2.3 provides that any construction started/carried out without prior approval of the Authority shall be liable to be removed (partly or wholly) at the risk and cost of the owner and or fine as prescribed in the schedules/ annexure.

Audit noted that PC-I of Academic & Research Facilities and Girls Hostel at Quaid-e-Azam University, Islamabad was approved with original capital cost of the project for Rs 2,074.710 million with completion period of 36 months. The approved PC-I of the project was revised by CDWP in its meeting

held on 27.01.2023 with revised capital cost of Rs 3,686.734 million with revised completion period of 84 months. Total payment made to contractor under the project was Rs 792.771 million up to June 2023.

Audit observed that the Project Director started construction work under PC-I “Provision of Academic & Research Facilities and Girls Hostel at Quaid-e-Azam University, Islamabad” through different contractors without prior approval of Building Plan from CDA Islamabad as required under the aforementioned Building Control Regulations. This resulted in irregular construction of work without approval of building plan amounting to Rs 792.771 million.

Audit pointed out the irregularity in August 2023. The Management replied that the University was updating its master plan through the Consultant M/s NESPAK Pvt. Ltd. In this regard, the Government constituted a “Working Group” for the demarcation of university land and to resolve QAU land matters. After that, the University would submit its updated master plan including the mentioned buildings for approval to the CDA.

The reply was not accepted because the Building Committee had approved all components of the project, i.e., selection of site, construction activities of buildings design/drawings and renationalization of cost as per approved PC-I of the project without taking approval of layout plan/building plan from CDA Building Control, Islamabad. The Management was required to take up the matter with CDA about demarcation of total land area which was in the name of university.

The matter was discussed in DAC meeting held on 16.11.2023 wherein the Committee directed the University Management to provide details of efforts/correspondence made with CDA to Audit and pursue the case with CDA actively for early approval of building plans.

Audit recommends compliance of DAC’s directive regarding approval of building plans.

Note: The issue was also reported earlier in the Audit Report for Audit Year 2021-22 vide para number 8.4.1, having a financial impact of Rs 2,918.537 million. The recurrence of same irregularity is a matter of serious concern.

(DP. 01)

8.4.6 Irregular expenditure through Current Account instead of Assignment Account for Rs 619.979 million and non-surrender of PSDP development funds - Rs 101.81 million

As per Government of Pakistan, Finance Division, (Budget Wing), Islamabad the 17.09.2019, all payments shall be made through the pre-audit system of the Accountant General Pakistan Revenue (AGPR), or through Assignment Account procedures issued by the Finance Division. The funds in Assignment Account will be part of Consolidated Fund. Amounts remaining unspent at the close of financial year will appear as saving under the respective budget grant unless surrendered in time. Unspent amounts cannot be carried forward to next financial year.

Audit noted that Management of the National University of Medical Sciences, Rawalpindi, opened a Bank Account in NBP Shalimar Plaza, Rawalpindi vide Account No. 4153218789 on 01.08.2018 for “NIASR Project” under demand No.103 (PSDP). Audit further noted that HEC released funds Rs 245.13 million for Development of National University of Medical Sciences, Rawalpindi for NIASR Project.

The Management did not close the account after September 2019 and did not shift the balance in assignment account in violation of above cited Finance Division letter. Audit further observed that Rs 245.13 million PSDP funds were released to NUMS from 2018-19 to 2021-22 but expenditure of Rs 143.32 million (58% of releases) was incurred. Unutilized amount of Rs 101.81 million was not surrendered to Government. Furthermore, Audit observed that during the year 2022-23, an expenditure of Rs 619.979 million was incurred through current account instead of assignment account. This resulted in irregular expenditure of Rs 619.979 million without approval and non-surrender of PSDP funds Rs 101.81 million.

Audit pointed out the matter in December 2023. The management replied that the current account was opened as per HEC instructions and later in financial year 2020, the assignment account was opened.

The reply was not accepted because the maintenance of current account and making lapsable funds as non-lapsable was against the financial rules.

DAC meeting was not convened by PAO despite request made by Audit on 28.12.2023.

Audit recommends fixing responsibility for irregularity.

8.4.7 Irregularities in procurement process of Lab/IT equipment - Rs 381.215 million

Rule 10 of the Public Procurement Rules, 2004 provides that the procuring agency shall allow the widest possible competition by defining such specifications that shall not favour any single contractor or supplier nor put others at a disadvantage. Further, any terms, specifications, standards, features, characteristics, and requirements prescribing the technical or quality characteristics shall be generic in nature and shall not include reference to brand name, model number, catalogue number, name or origin of the country or similar classification.

Rule 12(2) provides that all procurement opportunities over three million Pakistani Rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

Rule 32 provides that no procuring agency shall introduce any condition which discriminates between bidders or that is considered to be met with difficulty. In ascertaining the discriminatory or difficult nature of any condition reference shall be made to the ordinary practices of that trade, manufacturing, construction business or service to which that particular procurement is related.

Audit noted that in five (05) cases the department awarded different works to different contractors and made payments accordingly for Rs 381.215 million, as detailed below:

S. No.	DP. No	Name of Formation	Subject	Amount Rs(in million)
1	18	Air University Islamabad	Irregular procurement of Lab Equipment due to acceptance of tenders selected item wise instead of complete package in BOQ	279.515

S. No.	DP. No	Name of Formation	Subject	Amount Rs(in million)
2	31 & 35	Karakoram International University Gilgit	Irregular procurement of Lab Equipment due to inappropriate evaluation criteria and non-observing wide circulation for the procurement process	79.673
3	48	NUTECH Islamabad	Unjustified/irregular procurement of library equipment	11.063
4	19	Air University Islamabad	Loss due to delay in procurement of lab equipment and award of work to the same contractor without competition	8.894
5	20	Air University Islamabad	Mis-procurement of lab equipment	2.070
Total				381.215

Audit observed the following:

Director P&D Air University, Islamabad issued tender documents for 120 items related to four (4) different engineering departments. Item-wise work orders were issued to four bidders instead of award on lump sum/whole items basis. This resulted in irregular procurement of lab equipment of Rs 279.515 million. (DP. 18)

The management of KIU invited tenders in February 2022. Audit observed that some items were awarded at higher rates due to disqualification of other firms who quoted lesser rates which resulted in irregular procurement of lab equipment of Rs 79.673 million. (DP. 31 & 35)

Deputy Director (Supply Chain Management) NUTECH, Islamabad conducted technical evaluation of two firms. One of them was declared disqualified and the financial bid of the other bidder was opened and accordingly work order was issued without obtaining further competitive rates. The Management should have opted for re-tendering process in order to get most competitive rates. As per Public Procurement Rules, in case of pre-qualification proceedings single bid shall not be entertained except unsolicited proposal. This resulted in unjustified/irregular procurement of Rs 11.063 million. (DP. 48)

Director A&D Air University, Islamabad firstly issued work order to M/s Professional System Pvt. Ltd. On 11.10.2018 costing US\$ 162,275 when the rate of Dollar was Rs 122.75. Secondly, again work order was issued to same contractor without open competition on 17.02.2021 and delivery of consignment was made on 03.03.2022 after lapse of one year when the rate of Dollar was Rs 177.56 which showed loss due to delay in procurement of lab equipment of Rs 8.894 million (Rs $177.56 - 122.75 = \text{Rs } 54.81 \times \text{US\$ } 162,275$). (DP 19)

M/s Form Factor (OEM) quoted rates for only one (S. No.12) item which was awarded to them. M/s Space Tech quoted rates in rupees while M/s Research Instrument & Measurement System quoted rates in US\$ where there was no competition. Rates for items quoted by M/s Space Tech, were not quoted by other two bidders while rates quoted by M/s Research Instrument were not quoted by other two bidders which showed clear cut collusive practice. Advertisement was not shared with Audit. No bidder participated in financial bid opening. This dubious financial evaluation resulted in irregular procurement of lab equipment of Rs 2.070 million and US\$ 165,305. (DP 20)

This resulted in irregularities in procurement process of Lab/IT equipment amounting to Rs 446.215 million.

Audit maintains that irregularities in procurement process occurred due to non-adherence to relevant rules and regulations.

Audit pointed out the irregularities in August-September 2023. The Management replied that:

In DP 18 and 20, the Management replied that the nature of each item was different. Therefore, complete package wise procurement of equipment from single vendor was not considered feasible.

In DP. 31 & 35, total estimated and approved cost was Rs 107.600 million and the total quoted rates of 1st lowest firm for items wise come to Rs 79.673 million and reasonable, therefore, supply order had been issued to supplier.

In DP 48, M/s Digital Data System was technically rejected by the user department as firm documents and specifications were not as per tender documents/ evaluation criteria.

In DP 19, vendor was willing to provide desired lab equipment on same terms and conditions with the best economic cost. The market price (internet based) of desired equipment quoted in 2021 was 2.3 times higher price quoted in year 2018. However, in order to proceed further vendor asked to reissue the purchase order with new dates as this was the requirement imposed by his OEM. Furthermore, OEM desired to address him as "micro sense a KLA company" in revised purchase order. Therefore, the required revised purchase order was issued accordingly as it did not have any financial procedural implications. LC was revised four (04) different times because of production delays due to the Covid-19 worldwide, fight unavailability due to Covid-19 and additional government clearances required by OEM at country of origin.

The replies were not accepted because:

If the nature of each item was different then Management was required to procure individually and department wise. DP (18)

The evaluation of rates was not prepared by the procuring agency before offering the bids and improper formulation was devised of specification for procurement which showed the BOQ as prepared with consultation with the supplier. Further, reasons of disqualification were also not intimated to rejected tenders/ bidders. (DP. 31 & 35)

In instant procurement, out of two firms one declared disqualified on technical grounds and accordingly its financial bid was not opened. No competition was there when Management accepted only one firm's financial bid. Therefore, it was required to retender which was not done. DP (48)

The Management gave no justification regarding non-imposition of penalty for non-delivery of equipment in 2018 and awarded the same work again to same contractor without open competition. DP (19)

The Management failed to share the advertisement and failed to invite for financial bid opening. The Management failed to justify the procurement procedure adopted for procurement of Lab equipment. (DP. 20)

The matter was discussed in DAC meeting held on 16.11.2023 wherein DAC directed that:

In DP. 18, documents including Assessment Report with re-valuation/comparison of item-wise and package-wise, market survey report, Authorized agents/distributors, record regarding price justification along with logical reasoning for new work order may be provided to Audit for verification.

In DP. 19 and DP. 20, HEC (M&E) Division should conduct a fact-finding inquiry and share the report with Audit along with supporting record for evaluation after approval of Executive Director.

The matter (DP. 35) was discussed in DAC meeting held on 17.01.2024. DAC directed the university management that a comprehensive report explaining reasons for disqualification, evaluation criteria regarding historical tracking of performance of bidders, evidence of past evaluation of performance showing action against disqualified bidder, whether specifications of items were generic or not may be submitted to HEC M&E Division and report duly approved by Principal Accounting Officer/Executive Director be shared with Audit. In DP. 31 DAC directed the university management to submit a certificate confirming that provided equipment are as per specifications and that procurement was made as per terms & conditions of the contract and the same may be provided to Audit. It may also be established that specifications were generic and not discriminative. In DP 48, DAC directed to get the record verified from Audit.

Audit recommends early compliance of DAC's directives.

(DP. 18, 35, 31, 48, 19 &20)

8.4.8 Irregular award of work/procurement due to excluding sub-component of work and offering financial bid to fewer pre-qualified contractors - Rs 551.287 million

Rule 16(3) of the Public Procurement Rules, 2004 provides that the procuring agency shall promptly notify each supplier or contractor submitting an application to pre-qualify whether or not it has been pre-qualified and shall make available to any person directly involved in the pre-qualification process, upon request, the names of all suppliers or contractors who have been pre-qualified. Only suppliers or contractors who have been pre-qualified shall be entitled to participate further in the procurement proceedings. The procuring agency shall communicate to those suppliers or contractors, who have not been pre-qualified, the reasons for not pre-qualifying them. Further, Rule 20 provides that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

Audit noted that Director A&D, Air University, E-9, Islamabad awarded the work “Construction of multi-story building under Phase-I in Sector H-11/2, Islamabad” for Rs 362.447 million to M/s Amanat Hussain.

Audit observed that Director P&D Air University, Islamabad did not adopt open procurement procedure in case of financial bidding from the pre-qualified contractors which was a clear violation of quoted rules. Audit further observed that the Management issued letter of invitation for financial bid to nine (09) contractors instead of eighteen (18) pre-qualified contractors. Out of nine (09), only four (04) contractors participated in the bidding process. M/s Amanat Hussain & Co. secured 1st lowest position. This was followed by issuance of doubtful invitation of financial bid letters without acknowledgment by the firms.

Furthermore, Audit observed that Project Director, Quaid-e-Azam University Islamabad awarded the work “Construction of Examination and Services Block”, (having PC-I cost of Rs 203.651 million) to the contractor with eligibility of Rs 200.00 million for Rs 188.846 million by excluding component of work of Rs 14.811 million. This resulted in irregular award of work for Rs 188.840 million by excluding the sub-component (external development) for Rs 14.811 million.

Audit maintains that irregular award of works to contractors was due to inadequate oversight mechanism and ineffective implementation of relevant rules.

Audit pointed out the matter in August 2023. The Management replied (DP. 13) that Air University has strictly followed Public Procurement Rules and PEC standard documents while processing prequalification of contractors and subsequently awarding contract without any favour. In DP. 6, the management replied that no favour was given to the contractors as almost

all the participating bidders including the lowest bidder, i.e., M/s Ali Ahmed Jan was registered in category-A which were entitled for contracts having cost more than Rs 200.00 million.

The replies were not accepted because (DP. 13) the Management was required to advertise for financial bidding from prequalified contractors instead of invitation through letters. Secondly the Management was required to invite financial bid from eighteen (18) prequalified contractors instead of ten (10). In case of DP. 6, letter dated 07.06.2021 stated that external development works were deleted from the original BOQ to keep the estimated cost of the buildings within the limit of Rs 200.00 million because the client had already floated tender to contractors of category-B being eligible for bidding against the works having value under Rs 200.00 million.

The matter was discussed in DAC meeting held on 16.11.2023 wherein DAC directed HEC (M&E) Division to conduct fact-finding inquiries in both cases and submit reports after approval of Executive Director to Audit along with supporting record for evaluation.

Audit recommends early compliance of DAC's directives regarding fact finding inquiry.

(DP. 13 & 06)

8.4.9 Non-recovery on account of risk & cost and liquidated damages from the flee contractors - Rs 225.019 million

Clause 27.2 - General Conditions of Contract provides that if the Employer has become entitled to the maximum reduction under Clause 27.1 for any part of the Works, he may by notice require the contractor to complete. Such notice shall fix a final time for completion which shall be reasonable. If the contractor fails to complete within such time, and this is not due to a cause for which the Employer or some contractor employed by him is responsible, the Employer may by further notice to the contractor either:

Require the Contractor to complete, or
May himself complete at the contractor's cost provided that he does so in a reasonable manner, or
Terminate the contract.

Audit observed that various packages of project "Construction of NUST Campus Quetta" were awarded to the M/s Zafaq Iqbal Gondal (ZIG) Private Limited and M/s International

Traders, respectively. A review of the record indicated that the said contractors failed to complete such works even after numerous and verbal notices issued by the management of NUST. The management neither recovered the cost of balance works nor blacklisted the defaulting contractors. The Performance Securities of defaulting contractors were also not en-cashed by the management of NUST, whereas, these securities were required to be en-cashed after default by the contractors.

This resulted in non-recovery on account of risk & cost and liquidated damages from the flee contractors for Rs 225.019 million (Recoverable from M/s ZIG for Rs 184.259 million + M/s International Traders for Rs 40.760 million as calculated by NUST project management).

Audit pointed out the non-recovery of risk & cost in December 2023. The University management replied that risk and cost amount would be recovered from the defaulting contractor.

DAC meeting was not convened by PAO despite request made by Audit on 28.12.2023.

Audit recommends early recovery on account of risk & cost and liquidated damages from the flee contractors besides fixing the responsibility against the person(s) at fault.

(DP. 69)

8.4.10 Irregular award of work beyond the approved cost in the revised PC-I - Rs 205.502 million

As per para 4.05 of Manual for Development Projects by Pakistan Planning Commission of December 2021, for smooth implementation of projects, the following guidelines may be adhered to. While making the decisions to include projects in the PSDP, the PAOs should prioritize existing projects instead of suggesting new projects. If the cost of the project exceeds 15% of the approved budget at the time the contract is being awarded, PC-I will be revised immediately and should be submitted for approval of the competent forum. Planning and Development Division further clarified that the permission of 15% given by the ECNEC is in respect of the original cost and not the revised cost of the scheme.

As per revised PC-I of the project “Nums Institute of Advanced Studies and Research (NIASR)” dated 28.02.2022 for Rs 3,379.544 million, cost of civil work was provided for Rs 1,228.548 million.

Audit further observed that civil work of the project was awarded to M/s Sarhad Engineering & Electrical Company at agreement cost of Rs 1,433.160 million, which was 16.65% above the cost of civil works as provided in the revised PC-I. This resulted in irregular award beyond provision of revised PC-I for Rs 205.502 million.

Audit maintains that irregularity occurred due to weak financial controls.

Audit pointed out the matter in December 2023. The management replied that the delay was caused due to change of site, revised cost approval from CDWP and subsequent re-appropriation from HEC.

The reply was not accepted because revised approval of CDWP for award of work beyond the permissible limit of 15% was not obtained as required.

DAC meeting was not convened by PAO despite request made by Audit on 28.12.2023.

Audit recommends fixing responsibility besides recovery of excess amount involved.

(DP. 54)

8.4.11 Non-imposition of liquidated damages for delay in completion of works, supply of goods - Rs 209.198 million

Clause 47.1 of Conditions of Contract Part-I provides that if the Contractor fails to comply with the Time for Completion, the Employer may, without prejudice to any other method of recovery, deduct the amount of such damages from any monies due or to become due to the Contractor. The payment or deduction of such damages shall not relieve the Contractor from his obligation to complete the Works, or from any other of his obligations and liabilities under the Contract. As per Appendix A to Bid, liquidated damages were to be imposed @ 0.10% for each day of delay in completion of the work subject to a maximum of 10% of Contract price stated in the letter of acceptance.

Further, clause 15.1 of General Condition of Contract for supply of goods (in DP 38) provides that if the supplier fails to deliver any or all of the goods or to perform the services within the period specified in the respective supply order, liquidated damages were to be imposed @ of 0.5% per week and maximum shall not exceed 10% of supply order which shall be issued under this contract.

Ministry of Planning, Development and Reforms letter dated 28.06.2016 provides that “Regarding frequent extension in the execution period of development projects it was agreed that extension in time period may also be approved by the approving forum of the project. However, the Secretary/PAO concerned may continue to extend the period of execution only once which will not be beyond the closing date of financial year.”

Audit noted in three (03) cases that Project Directors of different universities awarded different works to different contractors for Rs 2091.984 million.

Audit observed in two (02) cases (DP 12 and 21) that contractors failed to complete the works within stipulated period. Extensions of time were also granted but even after expiry of the entire completion time, the works were still in progress. Audit further observed in DP (38) that M/s Hum Scientific Instruments failed to deliver the lab equipment in time even after grant of one month extended period. Thus, the contractors rendered themselves liable to pay liquidated damages @ 10% of contracts cost amounting to Rs 209.198 million, as detailed below:

(Rs in million)

S. No.	DP. No.	Name of Formation	Contract Cost	L.D Amount @10% of contract cost
1	12	Air University South Campus, Islamabad	1,491.754	149.175
2	21	University of Baltistan, Skardu	522.833	52.283

3	38	Karakorum International University, Gilgit	77.397	7.740
		Total	2,091.984	209.198

Audit maintains that the non-imposition/non-recovery of liquidated damages was due to non-adherence to the contractual provisions.

Audit pointed out the matter in August-September 2023. The Management replied that:

In DP (12), the delays in project were mainly attributed to external factors beyond the control of the contractors. As per decision of the Government of Pakistan for approval of funds and compensation of the additional escalation, Pakistan Engineering Council has issued a notification dated 06.09.2022 to withhold implementation of the liquidated damages on the contractors and consideration of their cases of huge loss.

In DP. 21, no liquidated damages could be imposed on contractor because extension of time (EOT) was granted by the competent authority. EOT was given on the request of contractor when the progress of the work in administration block was 90%, Academic Block-1 85% completed and academic block 2 + Overhead Tank (OHT), pavements, roads 85% completed. The contractor was paid Rs 272.666 million against the agreement cost of Rs 522.883 million, which is 52.15% of the contract cost. Further, from December to February, temperature goes to 12-15 degree Celsius and during this period no activity (civil work) could be done. Moreover, emergency was declared by the local government because of aftershocks of earthquakes.

In DP. 38, the delivery of equipment was delayed due to the shipment import policy by the Government of Pakistan according to COVID-19, and accordingly extension up to 21.07.2022, had been granted to the contractor with approval of the competent authority with same terms and conditions. The contractor failed to deliver the equipment up to extended period and KIU Management had already deducted the liquidated damages @ 0.01% of delay days.

The replies were not accepted because:

In DP (12), there was no delay and less release of Rs 700 million and FEC Rs 250 million were released up to 2020-21 and works were awarded during this period. Secondly works were awarded after withdrawal of cancellation of plot by CDA. The Management was required to decide imposition of liquidated damages or grant of time extension but failed till July 2023, which reflected weak internal control system. Further, all escalations should also have been frozen on the stipulated date of completion of project. Therefore, escalations given during extended period without freezing the current rate should also be recovered accordingly.

In DP (21), while granting 2nd EOT, it was categorically mentioned that the administration block and academic block-1 was to be completed on 30.06.2023 and 15.08.2023 respectively but the contractor failed to achieve the committed target. Further, the progress of the work was already well behind the required pace. Moreover, financial progress was 52.15% which logically does not match with the physical progress of the work (i.e., 90%).

In DP (38), the Management was required to impose liquidated damages @ 0.50% which was not applied. Recovery may be made @ 0.50% per week and got verified from Audit.

The matter was discussed in DAC meeting held on 16.11.2023 wherein DAC directed the Management in DP (12) that record regarding extensions of period with detailed justification, clearly determining responsibility of contractor and employer in each case, requests made by contractor, detail of releases, work plans, physical progress, etc., need verification from Audit.

DP. 21 and 38 were discussed in DAC meeting held on 17.01.2024. In DP. 21 DAC directed the university management that a comprehensive report giving details of chronology of events, timelines, building/block-wise financial progress, corresponding physical progress, EOTs, justifications, may be submitted to HEC M&E Division for evaluation and final report along with supporting record, duly approved by Principal Accounting Officer/Executive Director, HEC be shared with Audit. In DP. 38, DAC directed the university management that proof for delay in opening of LC and other relevant record along with justification of LD of Rs 188,780 instead of Rs 1.701 million, may be provided to Audit for verification.

Audit recommends early compliance of DAC's directives.

8.4.12 Irregular cash withdrawal and payments – Rs 155.819 million

Under Article 170 of the Constitution, the Auditor-General can prescribe detailed policies and procedures and according to the “Accounting Policies and Procedures Manual” “ A facility provided by the banks which allows salaries and other employee related payments to be made directly into the bank accounts of those persons, without the need for an exchange of physical cash or cheques”.

Audit noted that NUMS (National University of Medical Sciences) Rawalpindi was operating Bank Account in National Bank of Pakistan at Shalimar Plaza Branch Rawalpindi for payments of expenditure for NIASR Project.

Audit observed that a sum of Rs 155.819 million was withdrawn during the period April 2019 to March 2023 and disbursed in cash instead of payments through cheques to vendors/ or beneficiaries. This resulted in unauthorized withdrawal of Government funds from bank in cash in violation of rules.

Audit maintains that irregularity occurred due to violation of financial rules.

Audit pointed out the matter in December 2023. The management replied that no cash withdrawal of funds was made and the amount highlighted comprised of crossed cheques of salaries.

The reply was not accepted because salary contracts, PC-I provision of these posts, recruitment process against these salary payments were not provided in support of reply.

DAC meeting was not convened by PAO despite request made by Audit on 28.12.2023.

Audit recommends fixing of responsibility for violation of rules, re-checking of veracity of the payments made through cash from an independent board of inquiry besides non-occurrence of such irregularity in future.

(DP. 67)

8.4.13 Irregular payment of mobilization advance – Rs 49.750 million

Clause 60.12(a & b) of the Particular Conditions of Contract (Part-II) of the work “Construction of academic block (Establishment of Campus), NUTECH, Islamabad” awarded to M/s The Shelter on 02.06.2023, provides that an interest free Mobilization Advance @ 10% of the contract price stated in the letter of acceptance, less provisional sums, shall be paid by the Employer to the contractor in two equal installments/parts upon submission by the contractor of mobilization advance guarantee for the amount of the advance to be paid against each stage of mobilization in the specified form from a scheduled bank in Pakistan.

Audit observed that Project Director made payment to the contractor on account of mobilization advance amounting to Rs 49.750 million on 14.06.2023. The said advance was paid against the insurance bond issued by the United Insurance Co. Pvt. Ltd. valid from 13.06.2023 to 15.08.2023. Subsequently, the contractor submitted mobilization advance bank guarantee issued by Askari Bank Ltd. on 10.08.2023 with the condition, “the bank guarantee will become effective from the date when equal of Rs 49.750 million was received from you in our customer account”.

This resulted in irregular payment of mobilization advance against insurance bond and conditional bank guarantee amounting to Rs 49.750 million.

Audit pointed out the matter in September 2023. The Management replied that initially the contractor provided an Insurance Bond along with an affidavit, indicating that the bank guarantee would be provided as soon as it was received from the bank. As a prudent measure in the interest of the work and to prevent the lapse of funds in the month of June, mobilization advance of Rs 49.750 million was released to the contractor.

The reply was not accepted because Management made irregular payment of mobilization advance by accepting insurance bond instead of bank guarantee in violation of contractual obligation. Furthermore, the conditional bank guarantee was accepted.

The matter was discussed in DAC meeting held on 17.01.2024 wherein Audit contended that conditional bank guarantee was obtained. This implied that collateral was not arranged by the contractor from its own resources. Instead, the bank guarantee was obtained from the money provided by Government as advance, meaning thereby that the contractor saved financial charges for unconditional

bank guarantee and no safeguard was taken by the project management. The DAC directed the university management that unconditional bank guarantee be obtained and point-wise response to audit contention be given along with supporting record.

Audit recommends fixing of responsibility for irregular payment of mobilization advance besides recovery of financial charges for the period of default.

(DP. 40)

8.4.14 Unjustified payment of component of anchorage in brick work – Rs 78.876 million

According to contract agreement, item of work “P/L first class burnt bricks masonry in super structure walls at any height ... including P/F anchorage for support the fair face brick walls”. PC-I of the project provides Walls; 13½” thick external walls with façade of Lahori Face Brick /Lahori Gutka.

Audit noted that Project Coordinator International Islamic University Islamabad (IIUI) awarded four (04) works/contracts to various contractors at an agreement cost of Rs 1,727.438 million.

The Project Coordinator, International Islamic University Islamabad (IIUI) got executed the item of brick works in internal walls for Rs 78.876 million where the fair face bricks/Lahori gutka were not required to be executed, but the component of anchorage was not deducted for payment of this item. It is further added that the said item of brick work without anchorage was available in MES Schedule which was almost 6% less than rate of the item. So, at least 6% for cost of the item of brick work in internal walls should be deducted/not paid. This resulted unjustified/overpayment for Rs 78.876 million as detailed below:

(Rs in million)

Item No.	Item Description	Amount
4a	Providing and laying Burnt Brick including anchorage	25.213
-do-	-do-	23.222
-do-	-do-	23.006
-do-	-do-	7.435

Total	78.876
--------------	---------------

Audit pointed out the unjustified payment in November 2023. The project management replied that there were two types of anchorage tools, which were used in the brick masonry. One to support the external fair face bricks and second to anchor the brick masonry and columns. The two anchorages were confused with each other. One type of anchorage was used for the external and the other was used both in the external and internal walls. This misunderstanding created this objection.

The reply was not tenable as detailed record verification was involved to substantiate the management reply that anchoring was used to support the brick masonry with columns, otherwise recovery was to be made.

DAC meeting was not convened by PAO despite request made by Audit on 28.12.2023.

Audit recommends fact finding inquiry for fixing responsibility besides recovery.

(DP. 82)

8.4.15 Overpayment against excessive quantities without approval from HEC – Rs 43.994 million

Clause 55.1 of Conditions of Contract, Part-II provides that the contract is an item rate-based contract with re-measurable quantities. The limit of variation is plus 5% of the quantities given in the BOQs. Quantities exceeding or decreasing more than 5% from the given quantities of BOQs will be evaluated by the Engineer by recalculating the quantities from the drawing issued for construction and will be issued a deviation order after approval from the employer. The contractor will assist the Engineer in making such deviation orders by providing the supporting documents including revised BOQs and quantity take-offs, justifications for increase or decrease in quantities, modification IFC drawings, shop drawing or any other conceivable documents required by the Engineer to make such changes in the existing contract.

Audit noted in three (03) cases that the Management awarded different works to different contractors for Rs 2,713.719 million.

Audit observed that in the following cases, Management of the Universities made payment of Rs 74.118 million against excessive quantities of items of works compared to those provided in BOQ/TSE and PC-I without approval of the Principal Accounting Officer.

(Rs in million)

S. No.	DP No.	Name of Division	Contract cost	Amount
	16	Air University South Campus Islamabad	1491.754	24.319
	34	Karakorum International University, Gilgit	587.273	19.675
Total			2,078.992	43.994

Audit maintains that irregularities occurred due to weak financial and internal controls.

Audit pointed out the irregularities in August-September 2023. The Management replied that:

In DP. 16, all deviations were managed through Engineer's approved Deviation Orders, supported by detailed verification processes and client oversight.

In DP. 34, the excess quantities identified by Audit were already included in revised estimate.

The replies were not accepted because no variation/deviation statements were got approved from the competent forum i.e. HEC.

The matter (DP. 16) was discussed in DAC meeting held on 16.11.2023 wherein DAC directed the University management in DP. 16 that complete record containing detailed justification, technical and financial approvals along with revised estimates may be provided to Audit for verification.

DP 34 was discussed in DAC meeting held on 17.01.2024. DAC directed the university management that appropriate action may be taken against the consultant for preparation of faulty design. Revised design along with review by technical committee and action taken against the consultant be shared with Audit.

Audit recommends for early compliance of DAC's directives.

(DP. 16 & 34)

8.4.16 Irregular execution/payment of an item of work in contradiction of PC-I – Rs 60.188 million

As per paras 6.11 of Manual for Development Projects (Revised 2019), issued by the Planning Commission of Pakistan, the physical and financial scope of a project, as determined and defined in the project document (PC-I), is appraised, and scrutinized by the agencies concerned before submitting it for approval of the CDWP or ECNEC. Once approved, the executing agency is required to implement the project in accordance with the PC-I provisions. It has no authority to change and modify any approved parameter of the project on its own.

PC-I of the project provides Walls; 13½” thick external walls with façade of Lahori Face Brick /Lahori Gutka.

Audit noted that Project Coordinator International Islamic University Islamabad (IIUI) awarded four (04) works/contracts to various contractors at an agreement cost of Rs 1,727.438 million.

The management of the University got executed parallel wall of “Lahori Gutka/Fair Face Bricks” to the external walls of the buildings and on outer surface of walls of internal courtyard of the buildings for quantity of 313,285.76 sft and paid to the contractors for Rs 60.188 million, whereas, as per PC-I this item was only to be executed on façade of external walls. This resulted in irregular execution of item of works amounting to Rs 60.188 million, as detailed below.

Item No.	Item Description	Quantity paid to date (sft)	Rate	Amount (Rs in million)	Reference
24a	P/F Lahori Gutka/Fair Face Brick	82,134	200	16.426	Statement at Completion 01.09.2022
5a	-do-	33,939	260	8.824	IPC No.11
5a	-do-	118,434	152	18.001	Statement at Completion
-do-	-do-	78,778.76	215	16.937	
Total		313,285.76		60.188	

Audit pointed out the irregularity in November, 2023. The project management replied that “The Engineer” of the project decides the quantities to be executed with the consultation of the employer. When the quantities were increased or decreased as per recommendation of The Engineer as per clause 51.1(a) of the General Condition of Contract, the same were approved by the Civil Works Component Committee of the IIUI. Then, the revised quantities were incorporated in the revised BOQ. There was a defined procedure which was strictly followed in the light of given parameters of Pakistan Engineering Council. Therefore, it was assured that all the work was executed as per Design given by the consultant and approved by the employer.

The reply was not accepted because the PC-I of the project did not provide Gutka work on outer surface of walls of internal courtyard of the buildings.

DAC meeting was not convened by PAO despite request made by Audit on 28.12.2023.

Audit recommends by taking appropriate action regarding irregular execution of item of work beyond the PC-I provision.

(DP. 80)

8.4.17 Non-imposition of penalty for delay in delivery - Rs 8.596 million and irregular procurement of lab equipment - Rs 50.936 million

As per contract agreement between NUMS (National University of Medical Sciences, Rawalpindi) and suppliers, 1 to 10% per week penalty was required to be recovered for late delivery of lab equipment.

Audit noted that Management of the National University of Medical Sciences, Rawalpindi, procured lab equipment worth Rs 50.936 million from 2019 to 2023 for NUMS Institute of Advanced Studies and Research (NIASR) project from different contractors/ suppliers.

Audit observed that civil work of the project has been executed 50% and required date of completion is April 2024. Audit further, observed that from March, 2020 to June, 2023 lab equipment worth Rs 50.936 million was procured. Following shortcomings were noticed:

Warranty period expired before completion of building.

Performance bond expired but not revalidated for the maintenance period.

Utilization/activity reports were not shared with Audit.

Payment was made without verification of specification as per contract agreement. Only model number was mentioned on delivery which was not sufficient for authenticity of specification of items procured.

Audit further observed that suppliers/contractors failed to supply the items within stipulated time, but the project management did not impose penalty as per contract agreement for Rs 8.595 million, as detailed below:

(Amount in Rs)

S. No.	Suppliers Name	Amount Rs	Delivery period	Delivered on	Delay charges @10% / week
1	Sure Bio Diagnostic	5,045,000.00	12 weeks (up to- 28.02.20)	19.03.20	1,009,000
2	Chemical House	6,333,905.00	09 weeks (20.01.20)	04.03.20	3,166,952
3	Rays Technologies	8,839,935	09 weeks (30.01.20)	09.03.20	4,419,967
Total		20,218,840			8,595,919

This resulted in irregular procurement of lab equipment of Rs 50.936 million besides non-imposition of penalty for Rs 8.596 million.

Audit maintains that irregularity occurred in violation of contract agreement.

Audit pointed out the matter in December 2023. The management replied that the expenditure on lab equipment was made with planning to carry out the project activity without losing time. The equipment was procured after verification of specifications as per tender documents. The extensions in delivery period were given due to covid-19.

The reply was not acceptable being not supported with documentary evidence.

DAC meeting was not convened by PAO despite request made by Audit on 28.12.2023.

Audit recommends fixing responsibility for violation of contract provisions besides corrective action.

(DP. 49, 50&51)

8.4.18 Irregular payment of price escalation - Rs 52.132 million

As per revised PC-I, Escalation cost for civil works will be effective @ Rs 6.5% for the fifth year of the implementation i.e., 2022-23.

Audit noted that management of NUMS, Rawalpindi awarded a contract for construction of NIASR to M/s Sarhad Engineering and Electric Co. for Rs 1,433.61 million on 09.04.2022, to be completed on 09.04.2024.

Audit observed that contractor was paid secured advance of Rs 90.544 million vide IPC No. 3 in June 2022. Audit further observed that price escalation of Rs 52.132 million was paid against the work done from April 2022 to April 2023 in violation of revised PC-I. This resulted in irregular payment of price escalation of Rs 52.132 million in addition to secured advance payments.

Audit maintains that irregularity occurred due to weak financial controls.

Audit pointed out the matter in December 2023. The management replied that NUMS paid the escalation as per PC-I.

The reply was not accepted because price adjustment was paid in addition to secured advance of Rs 90.544 million. Work plan, physical and financial progress of work, measurements, EOTs and final bill were not provided to Audit for verification.

DAC meeting was not convened by PAO despite request made by Audit on 28.12.2023.

Audit recommends recovery of the amount involved.

(DP. 68)

8.4.19 Irregular award of additional work to the existing contractor instead of calling fresh tenders - Rs 51.785 million

Rule 12 (2) of the Public Procurement Rules, 2004 states that all procurement opportunities over three million Pakistani rupees should be advertised on the authority's (PPRA) website as well as in other

print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu. Moreover, Rule 20 states that procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

The Project Coordinator, International Islamic University Islamabad (IIUI), awarded and got executed additional work/items amounting to Rs 51.785 million to the same contractor. Audit is of the view that the authority discouraged the procurement process, and the work (extra items/additional work) were awarded to existing contractor to avoid open competition. Violation of quoted rules resulted in irregular award of additional work to the existing contractor without calling of fresh tenders for Rs 51.785 million.

Audit pointed out the irregularity in November, 2023. The project management replied that since the additional work under consideration was within the parameters defined by the Pakistan Engineering Council, therefore, did not need any retendering.

The reply was not accepted because procurements over three million were to be advertised on authority's website as well as in other print media having wide circulation. In this case, open competitive bidding was not made by the management.

DAC meeting was not convened by PAO despite request made by Audit on 28.12.2023.

Audit recommends fixing responsibility against the person(s) at fault who awarded the additional work to the existing contractor without tendering/open competition.

(DP. 78)

8.4.20 Revalidation of performance security bond with lesser value - Rs 26.142 million

Clause 28.4 of the Contract for the work "Construction of Academic Block, Administration Block, Main Gate, Guard, under-ground water tank (UGWT) & External Development Works (Package-II) at University of Baltistan Skardu" awarded to M/s Aaj Sons Pvt. Ltd. on 26.10.2020, provides that if the bid of the successful bidder is seriously unbalanced in relation to the employer's estimate of the cost of work to be performed under the contract, the employer may require the bidder to produce detailed price analyses for any or all items of the bill of quantities to demonstrate the internal consistency of those prices with the construction methods and schedule proposed. After evaluation of the price analyses, the employer may require that the amount of the

performance security set forth in clause IB.32 be increased at the expense of the successful bidder to a level sufficient to protect the employer against financial loss in the event of default of the successful bidder under the contract.

Audit noted that the Bid Evaluation Report submitted by Consultants provides that the bid price of the contractor was 12.74% lower to T.S. estimate. The consultant recommended additional 5% performance guarantee due to imbalanced rates and advised to incorporate percentage of performance guarantee @ 15% in letter of acceptance. The same was made part of the contract agreement in line with the provisions of clause 52.3 of General Condition of Contract (FIDIC).

Audit observed that the contractor provided performance security from United Insurance Company for an amount of Rs 78.425 million which was valid up to 26.10.2022. Later on, the same was got extended for another period of one year, up to 26.10.2023, with liability guarantee restricted to Rs 52.283 million instead of 78.425 million. The risk coverage of the work and performance of the contractor was compromised by lowering the amount of bond by Rs 26.142 million.

This resulted in revalidation of performance security bond with lesser value of Rs 26.142 million.

Audit maintains that the performance bond was revalidated for a lesser amount due to weak internal and financial controls.

Audit pointed out the irregularity in August 2023. The Management replied that the contractor provided performance security bond from United Insurance Company for an amount of Rs 78.425 million which was valid up to 26.10.2022. Latterly, the same was got extended for another period of one year, up to 26.10.2023, with liability guarantee restricted to Rs 52.283 million on the basis of remaining work amount at that time.

The reply was not tenable as the contractor was required to submit revalidated performance security/guarantee of equal amount of the original performance security, i.e., 15% of the contract cost but the contractor submitted, and the Management accepted revalidated performance security @ 10% of the contract amount. The Management was required to obtain revalidated performance security equal to 15% of the contract cost.

The matter was discussed in DAC meeting held on 17.01.2024. The DAC directed the university management that revalidated performance security be obtained for full amount of Rs 78.425 million instead of Rs 52.283 million. DAC further directed that insurance premium of difference

of amount may also be recovered from the contractor for the extended period. Relevant record showing compliance be shared with Audit for verification.

Audit recommends compliance of DAC's directive.

(DP. 24)

**8.4.21 Undue favor to contractor due to mis-management in surveying process and changing the scope of works -
Rs 23.401 million**

As per advertisement published in Dawn News dated 03.05.2015, applications for pre-qualification were invited from architects and consultants for preparing the detailed master plan, designs of buildings and infrastructural development work. Advice on preparation of PC-I after having detailed design prepared would also be required from the selected firm. Latterly, consultancy work was awarded to M/s Nasir's Design in October 2016.

Audit noted that Director P&D Air University, Islamabad awarded a work "Construction of Administration Block" to M/s Amanat Hussain & Co. Pvt. Ltd. vide acceptance letter dated 30.04.2020 at agreed cost of Rs 362.447 million. Work was commenced on 01.07.2020 and completion date was 28.02.2022. The contractor was paid Rs 138.907 million up to 8th IPC till 30.06.2023. Audit further noted that Director P&D approved a variation order wherein the contractor was allowed to execute pile foundation instead of raft foundation as given in BOQ and also approved additional cost of contract for Rs 23.401 million.

Audit noted that Geo Technical Survey conducted by M/s BK Consultant in June 2017 did not report presence of high water table in soil. Later on, contractor reported on 18.09.2020 that sub-surface water was present in the excavated area. The Management again conducted Geo Technical Survey by the same consultant on 22.09.2020 for Rs 135,000 and M/s Geo Crest was also engaged to redo Geo Technical Investigation for this purpose for Rs 91,080. Both the firms reported sub-surface strata. The contractor submitted total estimate of Rs 55.161 million against preliminary pile design and, after negotiation, it came to Rs 50.282 million. The contractor eliminated the non-executed components in previous design amounting to Rs 27.275 million and got approved an additional cost of Rs 23.401 million from Director P&D.

Audit observed that only Geo Technical Investigation Survey was conducted from a local consultant who was hired without tendering procedure, while the consultant M/s Nasir Design, who was

hired after pre-qualification, was responsible to provide all facilities under one umbrella for preparing the detailed master plan, designs of buildings and infrastructural development work.

This resulted in undue favour to contractor due to mis- management in surveying process and changing the scope of works amounting to Rs 23.401 million.

Audit pointed out the matter in August 2023. The Management replied that the notion of bundling all aspects under a single consultancy contract was not a common industry practice. The Air University Procedural Board and relevant professionals were actively engaged in reviewing and assessing the issue of sub-surface change and possible solutions. The evaluation included considering the economic implications, design impact and potential delays associated with each option. After evaluating the cost and design impacts of the solutions proposed by the Geo Technical Consultant for the Admin Block, communication was made to the sponsor and monitoring agencies of the Planning Commission authorities, who reviewed the case in the progress review meetings. Geological challenges appearing at latter stage of the project during the construction of these buildings forced apprehensive and protective measures particularly for the Admin Block so as to ensure the successful completion of the project.

The reply was not accepted because due to ill planning, the first Geo Technical Investigation was not conducted properly resulting in additional cost impact of Rs 23.401 million due to pile/foundation design. Action was not taken against Geo Technical Consultant. On the other side, pile work was incorporated without competition which unduly benefitted the contractor.

The matter was discussed in DAC meeting held on 16.11.2023 wherein DAC directed the HEC (M&E) Division that a fact-finding inquiry may be conducted and report after approval of Executive Director be shared with Audit along with supporting record for evaluation.

Audit recommends early compliance of DAC's directives.

(DP. 14)

8.4.22 Irregular procurement of scientific equipment through quotations without open tenders - Rs 23.253 million

Rule 20 of the Public Procurement Rules, 2004 provides that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works. Further, Rule 12(2) provides that all procurement opportunities over three

million rupees should be advertised on the Authority’s website, as well as in other print media or newspapers having wide circulation.

Audit noted that PC-I of the project “Academic & Research Facilities and Girls Hostel at Quaid-e-Azam University, Islamabad” was approved with original capital cost of Rs 2,074.71 million with completion period of 36 months. The approved PC-I of the project was revised by CDWP in its meeting held on 27.01.2023 with revised capital cost of Rs 3,686.734 million with revised time of completion of 84 months. Total payment made to contractors was Rs 792.771 million up to June 2023.

Audit observed that the Management procured different type of scientific and lab equipment for Rs 23.253 million without calling for tender/open competition. The equipment was procured through direct contract from single suppliers. The details are as follows:

CV No.	Date	Name of contractor	Rs in Million
03	19.06.2022	M/s Pak Glorious Enterprises	3.425
05	16.09.2022	M/s Pak Glorious Enterprises	3.194
11	06.06.2022	M/s Med Lab Services	2.407
12	06.06.2022	M/s Rays Technologies	1.203
14	19.06.2022	M/s HA Shah & Sons	2.205
20	22.06.2022	M/s Raab Scientific Equipment	7.052
21	15.06.2022	M/s World Wide Solution	0.485
22	15.06.2022	M/s Pak Glorious Enterprises	1.250
30	22.06.2022	M/s SCI Tech Pvt. Ltd.	2.032
		Total	23.253

This resulted in irregular procurement of scientific and lab equipment without open competition for Rs 23.253 million.

Audit maintains that the irregularity occurred due to inadequate oversight mechanism for enforcing relevant rules and regulation and weak financial and internal controls.

Audit pointed out the irregularities in August 2023. The Management replied that all the mentioned scientific and lab equipment was of urgent need for the research students and have been purchased from the sole distributors in Pakistan for the respective equipment as per practice in vogue and as per provision in the Public Procurement Rules.

The reply was not accepted because the university admitted procurement of scientific equipment without tender/open competition. The university was required to advertise items of procurement in national newspapers as per Public Procurement Rules to obtain lowest rates by fair and transparent competition.

The matter was discussed in DAC meeting held on 16.11.2023 wherein DAC directed the University Management to provide complete record containing justification for procurement of specific brand item, certificate of sole distributor and import documents to Audit for verification.

Audit recommends early compliance of DAC's directives.

(DP. 05)

8.4.23 Unjustified payment of price escalation on additional items - Rs 21.697 million

As per clause 70.1 of the contract agreement, the amounts payable to the contractor, pursuant to clause 60.1, shall be adjusted in respect of the rise or fall in the cost of labor, materials, and other inputs to the works, by applying the prescribed formula prescribed. Price adjustment factor to be applied to the amount for the payment of the work carried out in the subject month, determined in accordance with Paragraph 60.1 (a), and with Paragraphs 60.1 (b) and (e), where any variations and day work are not otherwise subject to adjustment.

The Project Coordinator, International Islamic University Islamabad (IIUI), allowed and paid price escalation amounting to Rs 21.697 million (cost of additional item up to IPC-19 Rs 51.785 x 0.419 escalation factor) on additional items valued at market rates in contradiction of above referred contract clause. This resulted in unjustified payment of price escalation for Rs 21.697 million.

Audit pointed out the unjustified payment on of price escalation in November 2023. The project management replied that price adjustment paid on the additional items would be recovered/adjusted from the next/forthcoming IPCs of the contractor.

DAC meeting was not convened by PAO despite request made by Audit on 28.12.2023.

Audit recommends early recovery/adjustment of the amount.

(DP. 77)

CHAPTER 9
SINDH INFRASTRUCTURE DEVELOPMENT COMPANY LIMITED
(MINISTRY OF PLANNING DEVELOPMENT & SPECIAL INITIATIVES)

9.1 Introduction

A. Pursuant to the approval of PSDP Scheme i.e., “Green Line Rapid Transit System Karachi” by ECNEC on 04.12.2014, under the Prime Minister’s Directives, Ministry of Communications established Special Project Management Unit (SPMU) on 24.12.2014 to execute the project according to provision of the PC-I. Subsequently, the unit was changed into Karachi Infrastructure Development Company Limited (“the Public Sector Company”) incorporated under Companies Ordinance, 1984 on 02.06.2015 with the approval of the Prime Minister. The name of Company was further changed to Sindh Infrastructure Development Company Limited under section 32 of Companies Act-2017. It is based in Karachi to carry on the Business of Infrastructure Development, Expansion and Improvement, in line with Government Policy for Planning, Designing, Implementing, Constructing and Executing Infrastructure Development Projects in Karachi and Adjoining Areas and working under the Ministry of Planning Development & Special Initiatives.

B. Comments on Budget and Accounts (Variance Analysis)

The working results of the Company for the year 2022-23 are given below:

(Rs in million)

Particular	FY 2022-23	FY 2021-22	FY 2020-21
Service revenue net	47.957	136.806	42.983
Administrative expenses	(183.254)	(180.373)	(172.827)
Operating Profit/(loss)	(135.297)	(43.567)	(129.844)
Other income	209.374	162.765	139.553
Profit/(loss) after taxation	74.078	119.199	9.709

(Source: Annual Audited Accounts)

SIDCL engaged M/s Riaz Ahmad & Company Chartered Accountants for third party audit of the Financial Statements of SIDCL as at 30.06.2023 without concurrence of the Auditor-General of Pakistan as required.

Final budget allocation and expenditure incurred for the financial year 2022-23 of SIDCL was as under:

(Rs in million)

	Development	Revenue	Total
Budget	3,684.558	648.000	4,332.558
Actuals	3,184.558	632.350	3,816.908

C. Audit Profile of SIDCL

(Rs in million)

S. No.	Description	Total Nos	Audited	Expenditure audited 2022-23	Revenue/ Receipts audited FY 2022-23
1	Formations	01	01	3,184.543	632.350

9.2 Classified summary of audit observations

Audit observations amounting to Rs 23,572.463 million were raised in this audit report. Summary of the audit observations classified by nature is as follows:

Overview of audit observations

S. No.	Classification	Amount (Rs in million)
1	Irregularities	
A	Execution of works, contract agreement	23,572.463

S. No.	Classification	Amount (Rs in million)
Total		23,572.463

Note: Amount of audit observations exceeds audited outlays due to issues like award of works which involve future spending, amount covering multiple previous years of spending, multiple reckoning of monetary impact in different audit observations pertaining to same transaction, etc.

9.3 Brief comments on the status of compliance with PAC's directives

Compliance position of PAC's directives on Audit Reports relating to Sindh Infrastructure Development Company Limited is as under:

Year	Total Paras	No. of Paras Discussed	Compliance Made	Compliance Awaited	Percentage of Compliance
2016-17	05	02	01	04	20
2017-18	04	04	03	01	75

Note: Audit Reports for the years 2018-19, 2020-21, 2021-22 and 2022-23 are yet to be discussed in PAC.

9.4 AUDIT PARAS

9.4.1 Non-conducting of inspection, tests and non-finalization of accounts of completed works - Rs 16,316.434 million

As per paras 6.01-6.08 of Planning Commission Manual for Development Projects of December 2021, the project is completed or closed when all the funds have been utilized and objectives achieved or abandoned for any reason. At this stage, the project must be closed formally, and reports prepared on its overall performance and results achieved using the PC-IV proforma. This involves handing over the deliverables to the authorities concerned, closing of the supplier's contracts, closure of bank account, releasing security money, staff, and equipment as well as informing stakeholders about the closure of the project as per the last approved PC-I. The sponsors (PAO) will submit and certify closure of bank accounts and cash/accounts before consideration and approval of the PC-IV by the competent forum.

Clause 5.1 (a) NHA Code Volume II the Employer shall be organizing road condition and roughness surveys, ongoing/planned projects coordination, updating other road data through asset inventory, road structures surveys, traffic surveys, etc.

Audit noted that SIDCL awarded and got executed sixteen (16) works for a contract amount of Rs 15,073.79 million during the years 2015-16 to 2020-21. Payments of Rs 16,316.434 million were made against these works (**Annexure-AAB**).

Audit observed that the SIDCL did not conduct site inspections of these works during execution because no such system existed in SIDCL and no record of inspections was available in the record. Certain necessary tests at the progress stage such as compaction test of the earth work embankment, bitumen/asphaltic wearing course and hidden road structures were not made. Final inspections on completion and taking over were also not conducted.

Audit further observed that the accounts of these projects were not finalized and PC-IV & PC-V were not prepared for submission to Planning Commission as required. It is further added that assets i.e., vehicles, office and residence furniture and fixtures, Laboratory and Survey equipment procured from the above projects were also not taken on stock.

This resulted in non-inspection, non-conducting of tests and non-finalization of accounts and non-preparation of PC-IV and PC-V of completed works for Rs 16,316.434 million.

Audit pointed out the irregularity in November 2023. The management replied that quarterly progress/ financial report was being submitted to planning commission on regular basis. Apart from this, Monitoring Committee of SIDCL regularly inspects the site to review the quality of the work done. Furthermore, every quarter, meeting is held under the supervision of head of Planning Commission. Projects were at completion stage. The projects would be closed formally, and reports would be prepared on its overall level of success, on a proforma PC-IV and will be forward to the Projects Wing of Planning Commission.

The reply was not accepted because quality assurance tests required during execution were not conducted. The quality of executed works was, therefore, compromised. The works were complete since the year 2019 and 2020 but final bills were not yet paid besides PC-IV and PC-V were not submitted to Planning Commission as required.

DAC meeting was not convened by PAO despite requests made by Audit on 19.12.2023 and 31.01.2024.

Audit recommends taking disciplinary action against the person for failing to perform their inspection duties, finalization of accounts besides strengthening of monitoring and corrective controls.

(DP. 04&07)

9.4.2 Non-recording of details in the measurement books - Rs 4,700.69 million

Para 208, 209 of CPWA code provides that payments for all work done and for all supplies are made on the basis of measurements recorded in the Measurement Books. All measurements should be neatly taken down in a Measurement Book issued for the purpose and nowhere else. As all payments of work are based on the quantities recorded in the Measurement Book.

Audit noted that the Sindh Infrastructure Development Company Limited made an agreement to M/s Zhongtong Bus Holding Co, Ltd NHSR&C for supply of 80 Diesel Hybrid Buses at an aggregate cost of Rs 4,700.69 million.

Audit observed that these purchases were not recorded in the Measurement Book as a permanent record indicating all information i.e., name of supplier, nature of supplies, No. and date of order, cost of each item, etc.

This resulted in non-recording of details in the measurement books for Rs 4,700.69 million.

Audit holds that the violation of rules occurred due to weak internal controls.

Audit pointed out the irregularity in November 2023. The management replied that as per procedure, complete details of all buses including chassis number, bus number, engine number was available with SIDCL. Furthermore, nature of purchase did not involve any kind of measurement in Measurement Book.

The reply was not accepted because all payments of work done and supplies were to be based on record entries in the MBs which were not maintained by SIDCL against the rules.

DAC meeting was not convened by PAO despite requests made by Audit on 19.12.2023 and 31.01.2024.

Audit recommends fixing responsibility for violation of rules.

(DP. 10)

9.4.3 Unauthentic installation of Integrated Intelligent Transport System - Rs 2,111.802 million

As per clause-14.2(i) to 14.2.3 of the contract agreement, the contractor shall submit a time program (contractor;s Submittals) to the Authority within six (6) weeks after the effective date, which shall include detailed design of products and system specificaiton, procuremnt plan for local and imported items under the Products, the order in which the Contractor intends to carry the installation of the Products on Site, the sequence and timing of inspecitons and tests including operation and maintenance tests, detail of Contractor's Personnel including key persons and a supporting of general description of the methods which the contractor intends to adopt for the installation of the products.

Audit noted that Sindh Infrastructure Development Company Ltd. Karachi awarded the contract for Design Delivery, Installation, Operation and Maintenance and Transfer of Integrated Intelligent Transport System (IITS) in Package-A and Package-B and made payments of Rs 2,111.802 million as under:

Contract/date	Contractor/Amount	Payments up to 30.06.2023 Rs in million
Package-A dated 10.03.2021	M/s NRTC and Kentkart (JV) at agreement cost of Rs 2,477.550 million	1,635.725
Package-B dated 10.03.2021	M/s NLC-MGH-Wavetech (JV) for evaluated bid cost of Rs 774.253 million	476.077
	Total	2,111.802

Audit observed that the payments were made without contractor's submittals and manufacturer certificate regarding origin of the equipment and manufacturer warranty as required resulted in unauthentic installation of hardware equipment for Rs 2,111.802 million.

Audit pointed out the irregularity in November 2023. The management replied that as per the provision of the contract, SIDCL ensured through their IITS consultants and SIDCL's team that each hardware which will be manufactured, will go through System Design Specification (SDS) test in which contractor submitted detailed design which was reviewed by SIDCL IITS Consultants and after several iterations it was approved. After approval of SDS, contractor started first prototype model which was approved and vetted by IITS consultant (M/s BLIC and DCC from Germany and Pakistan) after performing several round of relevant tests. After approval, manufacturing of ITS equipment was started in bulk. It may please be noted that all products/Hardware have warranties. Warranties of the equipment, Procurement Plan, Certificates of the origin, System Design Specification (SDS), Factory Acceptance Test (FAT), System Acceptance Test (SAT) and Overall Acceptance Test (OAT) were obtained.

The reply was not accepted because process of selection of IITS equipment and documents as mentioned in reply were not shared with Audit for scrutiny. Present status of installation of equipment and their performance at site was also not replied.

DAC meeting was not convened by PAO despite requests made by Audit on 19.12.2023 and 31.01.2024.

Audit recommends fixing responsibility against those responsible besides strengthening of its internal control.

(DP. 03)

9.4.4 Unjustified payment on account of Facility Management Services - Rs 405.737 million

As per component-wise break-up of financial bid made part of the contract agreement (Annexure-C, D & E) for hiring of bus operators, signed between SIDCL and contractor M/s Security 2,000 and One Source Maintenance (Pvt.) Ltd Consortium, for Rs 40.287 million for Green Line and Rs 6.006 million for Orange Line facility management services for the Bus Rapid Transit System on 28.06.2021, the monthly bid price included expense of staff, insurance premium, installation of brand-new imported generator 1,000 KVA, consumption of fuel 2,100 litre, patrolling vehicles & 13 bikes and financial charges on bank guarantees, etc.

Audit observed that payments of Rs 405.737 million were made to the contractor up to June 2023 but no evidence was available in office record i.e., Bio-matric attendance of staff, receipt of insurance premium, installation of brand-new imported generator 1,000 KVA, consumption of fuel 2,100 litre, log books of patrolling vehicles & 13 bikes and detail of financial charges on bank guarantees. This resulted in unjustified payment on account of Facility Management Services for Rs 405.737 million.

Audit maintains that the irregularity occurred due to weak internal controls.

Audit pointed out the matter in November 2023. The management replied that all the requisite record not limited to Bio-metric Attendance of staff, insurance documents including receipts, provision of 1,000 KVA Generator, Log Books of Bikes and Vehicle Patrolling was available in SIDCL office. Cost breakup was not the part of Contract or the Financial Proposal, at any stage. Operator faced heavy deductions in terms of violations and unsuccessful services since commencement of its services which showed that SIDCL had a strong check and verification procedure of services desired in the Contract Agreement.

The reply was not accepted because documents as mentioned in reply, in support of expense of staff, insurance premium, installation of brand-new imported generator 1000 KVA, consumption of fuel 2,100 litre, patrolling vehicles & 13 bikes and financial charges on bank guarantees, were not shared with Audit for scrutiny.

DAC meeting was not convened by PAO despite requests made by Audit on 19.12.2023 and 31.01.2024.

Audit recommends fixing responsibility and taking disciplinary actions against responsible persons, besides strengthening its internal and financial control.

(DP. 12)

9.4.5 Overpayment due to inadmissible item of removal of debris - Rs 37.800 million

Clause 32.1 of General Condition of Contract for the work “Re-construction of Mangho Pir (North Bound Carriageway Road) from Jam Chakro to Banaras Chowk”, signed between M/s Jianguo Haitong Construction Engineering Co Ltd. JV and SIDCL at a cost of Rs 887.664 million on 28.12.2020, provides that during the execution of the works the contractor shall keep the site reasonably free from all unnecessary obstruction and shall store or dispose of any contractor’s equipment and surplus materials and clear away and remove from the site any wreckage, rubbish no longer required.

Audit observed that SIDCL allowed payment for a non-BoQ item “Removal of Debris” for 68,883.935 Cu.m @ Rs 548.75 per Cu.m for Rs 37.800 million which was not admissible as per above stated contract provision. This resulted in overpayment due to inadmissible item of removal of debris of Rs 37.800 million

Audit maintains that the overpayment was due to weak financial controls.

Audit pointed out overpayment in November 2023. The management replied that the material was being dumped on daily/weekly basis during execution of work and quantity of such material was increasing time to time. SIDCL approached District Administration through several letters and meetings, but no request was entertained. So it was decided to remove the debris for construction of road and to avoid unnecessary delays to the project.

The reply was not accepted because the contractor was responsible for site clearance at no cost to SIDCL.

DAC meeting was not convened by PAO despite requests made by Audit on 19.12.2023 and 31.01.2024.

Audit recommends recovery of Rs 37.800 million from the contractor on account of payment of inadmissible item of removal of debris and taking disciplinary actions for failure to perform official duty.

(DP. 02)

CHAPTER 10

FEDERAL BOARD OF REVENUE (FBR)

(CENTRAL ASIA REGIONAL ECONOMIC COOPERATION REGIONAL IMPROVING BORDER SERVICES (RIBS) PROJECT)

10.1 Introduction

A. The proposed project will remove the key bottleneck for movement of goods and people through Torkham, Chaman, and Wagha in Pakistan. As part of CAREC's initiative for trade facilitation, the project will help CAREC countries take advantage of more efficient trade routes through Pakistan, and reciprocally, encourage Pakistan to play a strategic role in creating a larger regional market for intra-CAREC and inter-CAREC trade. The expected impact of the project will be an increased value of export, import, and transit trade. The expected outcome will be reduced cross-border processing time for goods and cargos in Torkham, Chaman, and Wagha.

The output will be (i) border crossing point infrastructure and facility at Torkham, Chaman, and Wagha improved to the standard that meets users' demand for quality border crossing services; (ii) governance structure of national border point management regime and organizational design, management structure, financial and administrative procedures, and financial modeling for the Pakistan Land Port Authority (PLPA) produced and adopted; and (iii) knowledge and skills of border point operating agencies enhanced. ECNEC in its meeting dated 04.09.2015, approved PC-I of the project for Rs 31,686.2 million including Rs 26,049.7 million (i.e., US\$ 250.54 million) of loan from ADB.

Execution

FBR, awarded the Engineering Procurement and Construction (EPC) contract of "Central Asia Regional Economic Cooperation Regional Improving Border Services (RIBS) Project" for Torkham Border Crossing Point (BCP) to M/s National Logistics Corporation (NLC) at an agreement amount of Rs 16,471.574 million (Rs 12,281.393 million & USD 31,335,483 @ 133.72 = Rs 4,190.181 million) on 18.12.2018 and for Chaman BCP for Rs 18,610.201 million (Rs 12,576.501 million & USD 36,807,908 @ 163.924 =Rs 6,033.700 million) on 19.08.2019.

Construction works for Torkham Border Crossing Point contract commenced on 21.02.2019 with anticipated completion date 19.07.2022 (1,245 Calendar days). Construction works for Chaman Border Crossing Point are ongoing. Wagah BCP construction's contract is yet to be awarded.

B. Comments on Budget and Accounts (Variance Analysis)

Expenditure during the year 2022-23 is as under:

(Rs in million)

Description	Budget	Expenditure
Asian Development Bank Loan 3344	1,297.43	1,297.43
Asian Development Bank Loan 3345	5,263.57	5,263.57
GoP (Establishment charges, land, etc.)	1,844.96	1,844.96
Total	8,405.96	8,405.96

Source: Financial Statement of the project

C. Audit Profile of FBR Project

Audit scope in monetary terms for the year 2022-23 was as under:

(Rs in million)

S. No.	Description	Total Nos	Audited	Expenditure audited FY 2022-23
1	Foreign Aided Project	01	01	8,405.96

10.2 Classified summary of audit observations

Audit observations amounting to Rs 7,445.292 million were raised in this audit report. This amount also includes recoverable of Rs 2,443.663 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

Overview of audit observations

S. No.	Classification	Amount (Rs in million)
1	Irregularities (Execution of works, contract agreement)	7,445.292

Note: Amount of audit observations exceeds audited outlays due to issues like award of works which involve future spending, amount covering multiple previous years of spending, multiple reckoning of monetary impact in different audit observations pertaining to same transaction, etc.

10.3 Brief comments on the status of compliance with PAC's directives

Audit of the infrastructure project of FBR was conducted first time for the year 2021-22. Audit Reports for 2021-22 and 2022-23 were not discussed by PAC till the finalization of this Audit Report.

10.4 AUDIT PARAS

10.4.1 Unjustified payment of prolongation cost - Rs 573.987 million

According to clause 8.2 of conditions of contract, the contractor shall complete the whole of the works, and each Section (if any), within the Time for Completion for the works or section (as the case may be) including:

achieving the passing of the Tests on Completion, and

completing all work which is stated in the Contract as being required for the Works or Section to be considered to be completed for the purposes of taking- over under Sub-Clause 10.1 [Taking Over of the Works and Sections)

Audit noted that the EPC contract of Regional Improving Border Services Project for Torkham was awarded to M/s NLC at agreement cost of Rs 16,471.574 million on 20.12.2018. Notice to commence the works was issued by the Engineer's Representative on 14.02.2019 and date of commencement was fixed as 21.02.2019. The completion period of the contract was 1,245 days up to 20.07.2022.

Furthermore, EPC contract of Regional Improving Border Services Project for Chaman was awarded to M/s NLC on 24.09.2019 and date of commencement was fixed as 30.09.2019. The completion period of the contract was 1,034 days up to 30.07.2022.

Audit observed that project authorities paid two prolongation cost claims for Rs 573.987 million (Rs 337.011 million in Torkham Contract + Rs 236.976 million in Chaman Contract) for Interim Extensions of Time on the grounds mainly due to non-availability of land in one case and in other case the contractor failed to complete the work within stipulated time period.

Audit holds that despite availability of sufficient land of 526.465 kanals, slow progress on the part of the contractor, the payment of prolongation cost was unjustified.

Audit pointed out the unjustified payment in September 2023. The management replied that the contractor submitted his Prolongation Cost Claims. The Engineer Representative, after a detailed evaluation of the contractor's claim determined that the contractor was entitled to a prolongation cost.

The reply was not accepted because the claims were not questioned through Dispute Review Board (DRB) and in Arbitration. No counter claim was lodged by the project management against the contractor. Prolongation cost was not supported with documentary evidence and detailed calculations.

The matter was discussed in DAC meeting held on 29.01.2024 wherein project management explained the reasons of delay leading to specific circumstances on the basis of Border-side/tribal area issues. To consider the above facts, Audit requested for provision of Consultant's progress report, chronology of land acquisition, correspondence/ deliberations with concerned quarters, details of claims, etc., for scrutiny.

The DAC directed the department to provide the same to Audit and FBR (PAO) within 15 days. The DAC also directed to provide detailed back up data of the claims /receipts determined by the Engineer.

Audit recommends that the matter be investigated for payment of unjustified claims besides taking disciplinary action against the person at fault and early recovery be made from the contractor.

(DP. 1&11)

10.4.2 Undue financial favour to contractor due to non-recovery of mobilization advance - Rs 689.574 million and USD 389,266

According to clause 14.2 (a) of the particular conditions of the contract agreement, recovery of mobilization advance shall be made in installments @ 20% of the amount of Interim Payment Certificate and first deduction shall start from fourth Interim Payment Certificate as agreed in Schedule of Payment, set forth in sub-clause 14.4. As per contract provisions, the mobilization advance was to be fully recovered up to June 2022.

Audit noted that the Project Director paid mobilization advance to M/s NLC against Regional Improving Border Services Projects at Torkham and Chaman in December 2018 and November 2019, respectively.

Audit observed that mobilization advance was not fully recovered and an amount of Rs 689.574 million and US\$ 389,266 was recoverable up to June 2023, as follows:

Project Sites	Total Mobilization Advance paid	Total Mobilization Advance recovered	Mobilization Advance recoverable
Torkham	Rs 1,842,209,017	Rs 1,245,410,344	Rs 596,798,673
Chaman	Rs 1,886,475,157 and USD 5,521,186	Rs 1,793,699,873 and USD 5,131,920	Rs 92,775,284 and USD 389,266
Total	Rs 3,728,684,174 and USD 5,521,186	Rs 3,039,110,217 and USD 5,131,920	Rs 689,573,957 and USD 389,266

This resulted in undue financial favour to contractor due to non-recovery of mobilization advance for Rs 689.574 million and USD 389,266.

Audit pointed out the matter in September 2023. The management replied that mobilization advance recovery was being made as per Contract provisions.

The reply was not acceptable. The stipulated dates of completion was expired but the recovery of mobilization advance was yet not made in full as required under the provisions of the contract.

The matter was discussed in DAC meeting held on 29.01.2024 wherein Audit informed that committee that conditional bank guarantee was obtained. DAC directed the project management to obtain the unconditional/irrevocable bank guarantee against the mobilization advance. The DAC also directed that the financial charges for the period of the default may be recovered from the Contractor and got verified from Audit within 15 days.

Audit recommends compliance of DAC's directive.

(DP. 5, 15&18)

10.4.3 Sub-standard below specification execution of civil structure/ building work - Rs 391.853 million

According to clause 4.1 contractor's general obligations, the contractor shall design, execute and complete the works in accordance with the contract, and shall remedy any defects in the works. When completed, the works shall be fit for the purposes for which the works are intended as defined in the contract.

The contractor shall provide the Plant and Contractor's Documents specified in the contract, and all contractor's personnel, goods, consumables and other things and services, whether of a temporary or permanent nature, required in and for this design, execution, completion and remedying of defects. The contractor shall be responsible for the adequacy, stability and safety of all site operations, of all methods of construction and of all the works.

Audit noted that the EPC contract of Regional Improving Border Services Project for Torkham was awarded to M/s NLC at agreement cost of Rs 16,471.574 million (Rs 12,281.393 million and US\$ 31,335,483 @133.72= Rs 4,190.180 million) on 18.12.2018 for a completion period of 1,245 days. Contract cost of work was revised after variation order for Rs 12,774.430 million and US\$ 32,808,663.

Audit observed that M/s Karsaz-Smith (Contractor and the manufacturer) conducted Joint Inspection of Torkham site in February 2023 and pointed out critical short comings of the building structure and evaluation with regard to radiation safety of cargo scanners. During execution of civil/structural works the recommendation of pouring methodology by OEM was not adopted/followed. Cracks were observed in the ramp. The alignment of pillars and walls was not accurate. The Security equipment provider M/s Karsaz and their OEM M/s Smith Detection clearly notify that if any impact on the scanner arises during installation, commissioning, testing and DPL period due to the construction work, the warranty of the scanner will not cover any damage and will be rendered void.

Further, the consultant instructed the contractor M/s NLC to rectify all defects and observations within 28 days failing which the payments already certified against the structural/building works will be adjusted in the subsequent IPCs.

This resulted in defective/sub-standard and below specification execution of civil work for Rs 391.853 million.

Audit pointed out the defective/sub-standard execution of civil work in September 2023. The management replied that M/s NLC rectified all the critical observations raised by M/s Karsaz who were verified the same during the subsequent visit. M/s Karsaz completed the installation of guide rails for the scanners after satisfactory rectification and compliance with the drawings. The equipment warranty for these scanners would be provided by NLC/OEM for one year after Taking over by the Employer and there would be no compromise on quality and safety by the Employer.

The reply was not accepted because rectification of defects as replied, were not supported with documentary evidence. Installation of scanners was still pending.

The matter was discussed in DAC meeting held on 29.01.2024 wherein the project management explained that audit observations have duly been addressed vide report of M/s Karsaz / Smith Detection. DAC directed the department to provide check requests and formal confirmation of rectification of critical issues to Audit and FBR/PAO within 15 days. DAC further directed to ensure that rectified works are as per specifications.

Audit recommends compliance of DAC's directive.

(DP. 2)

10.4.4 Non-imposition/recovery of liquidated damages due to delay in completion of works - Rs 1,754.089 million

Clause 8.7 & 14.15(b), Part-A Appendix to tender of particular conditions of contract provides, the delay damages for the works shall be 0.01% of the final contract price per day up to maximum 5%, in the currencies and proportions in which the contract price is payable.

Audit noted that the EPC contract of Regional Improving Border Services Project for Torkham was awarded to M/s NLC at agreement cost of Rs 16,471.574 million on 18.12.2018 for a completion period of 1,245 days and for Chaman Rs 18,610.210 million on 19.08.2019 for a completion period of 1,034 days. Torkham Contract cost of work was revised after variation order for Rs 12,774.430 million and US\$ 32,808,663.

Audit observed that the contractor could not complete the works within stipulated period and even in the extended period of 356 days and 315 days, respectively. Liquidated damages were, however, not imposed and recovered from the contractor for delay in completion of work.

This resulted in non-imposition/recovery of liquidated damages of Rs 1,754.089 million, as detailed below:

(Rs in million)

Project	Scheduled Progress up to June 2023	Actual Progress up to June 2023	Contract Amount	Liquidated damages @5% of contract amount
Regional Improving Border Services at Torkham	90.83%	68.36%	16,471.574	823.579
Regional Improving Border Services at Chaman	99.48%	73.77%	18,610.210	930.510
			35,081.784	1,754.089

Audit pointed out the matter in September 2023. The management replied that Engineer Representative approved extension of time without penalty keeping in view justified reasons for delay in completion of works.

The reply was not accepted because the justification for delay was not supported with progress reports, work programmes, land acquisition process (the main cause of delay) and contract provisions.

The matter was discussed in DAC meeting held on 29.01.2024 wherein the project management informed that since the extension of time for completion of project had been granted to the contractor i.e., M/s NLC, therefore, question for imposition of penalty is not warranted in the matter. However, Audit required provision of notification issued by the Project Director for extension in the time limit for completion of contracts beyond the original time frame, comprehensive justification with back up details of claims, consultants progress reports, etc. The DAC directed to provide the same to Audit within 15 days.

Audit recommends compliance of DAC's directive.

(DP. 03&13)

10.4.5 Unjustified payment due to non-installation of equipment - US\$ 51.784 million

Clause 7.4 provides, this sub-clause shall apply to all tests specified in the contract, other than the tests after completion (if any). The contractor shall provide all apparatus, assistance, documents and other information, electricity, equipment, fuel, consumables, instruments, labour, materials, and suitably qualified and experienced staff, as are necessary to carry out the specified tests efficiently. The contractor shall agree, with the engineer, the time and place for the specified testing of any Plant, Materials and other parts of the works.

Audit noted that the EPC contract of Regional Improving Border Services Project for Torkham was awarded to M/s NLC at agreement cost of Rs 16,471.574 million (Rs 12,281.393 million and US\$ 31,335,483 @133.72=4190.180 million) on 18.12.2018 for a completion period of 1,245 days and for Chaman Rs 18,610.210 million (Rs 12.576.501 million and US\$ 36,807,908 @163.924=Rs 6.033.7100 million) on 19.08.2019 for a completion period of 1,034 days. Torkham contract cost of work was revised after variation order for Rs 12,774.430 million and US\$ 32,808,663.

Audit observed that items of work “Fire Suppression, Plumbing, Electrical, Shipping and Delivery Equipment, Security Equipment & Installation of Cable & Management System” were purchased/imported, as detailed below:

BOQ No.	Item	Torkham Amount (US\$)	Chaman Amount (US\$)
1	Security equipment	13,306,300	13,267,500
2	Fire detection and alarm system	179,332	177,217
3	Access control system	6,929,868	6,929,867
4	IP CCTV System	1,615,215	1,581,646
5	Server Room	840,578	671,055

BOQ No.	Item	Torkham Amount (US\$)	Chaman Amount (US\$)
6	Cable and Management System	682,261	779,381
7	Voice Telephone Equipment	85,664	85,664
8	Wireless Access Point	71,502	71,502
9	Data Centre Equipment	498,538	498,538
10	Servers	286,648	286,648
11	Storage	639,371	639,371
12	Services	295,000	295,000
13	UPS	92,369	92,369
	Sub-Total	25,522,646	25,375,758
	NLC Premium	1,276,132	1,268,788
	Grand Total	26,798,778	26,644,546
	Amount paid	25,334,719	26,449,072

Audit observed following:

A sum of US\$ 51,783,791 (97% of the contract amount of US\$ 53,443,324) was paid against imported equipment to the contractor. Record was silent about physical installation and testing commissioning of equipment. Further, record regarding inspections & factory acceptance test reports was not provided to Audit. Therefore, the payment of imported equipment for US\$ 25,334,719 at Torkham and US\$ 26,449,072 at Chaman Border without testing, inspection and installation was unjustified.

Warranty/guarantee period of equipment was not available on record. Despite shipping/delivery of these equipment, installation was not done at site. Due to non-installation of the equipment at site, the equipment would be at risk of wear and tear and period of warranties was lapsed before installation and testing/commissioning.

Audit pointed out the matter in September 2023. The management replied that warranty of the imported equipment would start after installation and taking over by the employer.

The reply was not accepted because payments were made without installation, testing and commissioning of equipment. Moreover, warranty as replied was not produced to Audit for verification.

The matter was discussed in DAC meeting held on 29.01.2024 wherein the department explained that payment was made as per schedule. DAC directed the department to provide following documents/information within 15 days:

Payment schedule

Specific criteria for each milestone

Pre-shipment inspection and Factory Acceptance Test report along with invoices

Warranty/commitment of M/s NLC

Audit recommends that equipment be installed without further delay besides provision of required information/documents to Audit for verification.

(DP. 04&17)

10.4.6 Unjustified payment on account of price escalation without observing agreed payment schedule - Rs 1,490.939 million

Section 8 (Schedule of Payment) of contract agreement of ITTM Border Crossing Point (BCP) Chaman Part-1 Schedule of Milestone Payments, first IPC was to be paid in November 2019 and last IPC No. 24 to be paid in June 2022.

Standard Procedure and Formula for Price Adjustment issued by Pakistan Engineering Council, Islamabad states “The billed amount of the Works for each calendar month will be obtained from the checked bills submitted by the Contractor. In case the billed amount is for more than one month, the amount of the bill shall be segregated for actual work done in each month.”

Audit noted that the EPC contract of Regional Improving Border Services Project Chaman was awarded to M/s NLC for Rs 18,610.210 million (Rs 12,576.501 million and US\$ 36,807,908 @163.924= Rs 6,033.7100 million) on 19.08.2019 for a completion period of 1,034 days.

Audit observed that the authority made payment of price escalation amounting to Rs 1,490.939 million to the contractor up to June 2023. Audit further observed that price escalation was calculated and paid on cumulative work done basis of different month's bills instead of approved IPC's payment schedule Annexure-C as required under provisions of the contract agreement. This resulted in unjustified payment of escalation of Rs 1,490.939 million.

Audit pointed out the matter in September 2023. The management replied that price adjustment was paid as per provisions of contract agreement.

The reply was not accepted because the price adjustment was paid despite delay in completion of the project attributed to the contractor. Moreover, justification with reference to EPC contract and back up calculations of weightages of specified material were not furnished in support of reply.

The matter was discussed in DAC meeting held on 29.01.2024 wherein the Committee directed the department to re-visit the subject matter involved in the audit observations and submit a comprehensive report alongwith documentary evidence to the effect that payment was made on account of price escalation after determining the actual work done as per monthly IPCs to Audit and FBR within 30 days.

Audit recommends recovery of unjustified payment from the contractor besides fixing responsibility against the persons at fault.

(DP. 16)

10.4.7 Irregular payment from provisional sum without supporting invoices and procurement documents - Rs 540.561 million

Clause 13.5 of General Conditions of Contract of the work provides that each "Provisional Sum" shall only be used, in whole or in part, in accordance with the Engineer's instructions and the contract price shall be adjusted accordingly. The total sum paid to the contractor shall include only such amounts, for the work, supplies or services to which the Provisional Sum relates, as the Engineer shall have instructed. For each Provisional Sum, the Engineer may instruct, plant and

materials or services to be purchased by the contractor, for actual amounts paid (or due to be paid) by the contractor, and overhead charges and profit, calculated as a percentage of these actual amounts.

Audit noted that the EPC contract of Regional Improving Border Services Project for Torkham was awarded to M/s NLC at agreement cost of Rs 16,471.574 million (Rs 12,281.393 million and US\$ 31,335,483 @133.72=4,190.180 million) on 18.12.2018 for a completion period of 1,245 days. Contract cost of work was revised after variation order for Rs 12,774.430 million and US\$ 32,808,663.

Audit observed that certain items such as vehicles, CCTV Cameras, Bullet Proof Jackets, Jammers, Scanners, shifting of utilities and EMP, etc., were procured from provisional sum of the contract and made payment of Rs 540,561,236 but the supporting invoices, procurement documents, quotations, vouchers and accounts were not produced by the contractor. Further, the items procured were also not accounted for in the accounts record. This resulted in irregular payment of Rs 540.561 million to the contractor.

Audit pointed out the matter in September 2023. The management replied that Provisional Sum cost was included in the schedule of payment as mile stone payment and paid accordingly.

The reply was not accepted because provisional sum items were paid without evidence of actual expenditure (invoices, quotations, measurements etc.).

The matter was discussed in DAC meeting held on 29.01.2024. After detailed discussion, DAC directed the department to provide following information/documents to Audit within 15 days:

Breakup/detailed scope of PS items, as per contract agreement

Invoices/bid rates/schedule rates of PS items

Quotations in support of rates

Vouched account against relocation of site utilities

Measurement Books

Certification/verification of payment against PS items

Audit recommends compliance of DAC's directive.

(DP. 08)

10.4.8 Inadmissible payment of cost claim for external electrical connection - Rs 265.061 million

According to Employer's Requirements, the scope of work for Chaman Border Crossing Point (BCP) included three sources of power supply network namely National Grid, Solar Power and back-up Diesel Generator, the cost of which was included in the bid cost of the contract.

Audit noted that the EPC contract of Regional Improving Border Services Project Chaman was awarded to M/s NLC for Rs 18,610.210 million (Rs 12,576.501 million and US\$ 36,807,908 @163.924= Rs 6,033.7100 million) on 19.08.2019 for a completion period of 1,034 days.

Audit observed that the contractor M/s NLC claimed cost for external electrical connection at Regional Improving Border Services Project Chaman and a sum of Rs 265.061 million was paid on this account to the contractor.

Audit maintains that the separate payment of cost claim for external electrical connection for Rs 265.061 million was not admissible as the cost of power supply network was inbuilt and included in the bid rates quoted by the contractor. This resulted in inadmissible payment of cost claim of Rs 265.061 million.

Audit pointed out the inadmissible payment in September 2023. The management replied that the matter is under arbitration.

The reply was not accepted because Engineer Representative and DAB proceedings and decisions before the process of arbitration were not shared with Audit.

The matter was discussed in DAC meeting held on 29.01.2024 wherein DAC directed the department to pursue the case actively before Arbitration Panel in line with terms and conditions of the contract agreement and outcome be shared with Audit and FBR for evaluation.

Audit recommends recovery of the cost claim of Rs 265.061 million for external electrical connection despite inclusion of three sources of power supply network in the scope of work (Employer's Requirements).

(DP. 10)

10.4.9 Irregular/Unauthorized acquisition of land in excess than provision in the approved PC-I - Rs 135.533 million

Approved PC-I of the project provides “Development of Integrated Transit Trade Management Systems (ITTMS) under ADB’s Regional Improving Border Services Project” the land requirement for Torkham Border was 56 Acres. 12.8 Acres was owned by Army and remaining 43.2 Acres land owned by the local tribes was to be acquired through lease agreement.

Audit noted that the EPC contract of Regional Improving Border Services Project for Torkham was awarded to M/s NLC at agreement cost of Rs 16,471.574 million (Rs 12,281.393 million and US\$ 31,335,483 @133.72=4,190.180 million) on 18.12.2018 for a completion period of 1,245 days. Contract cost of work was revised after variation order for Rs 12,774.430 million and US\$ 32,808,663.

Audit observed that 526.465 kanal (65.81 Acres) at Torkham Border was acquired on lease in 2016 at annual lease of Rs 35.269 million (@ Rs 66,667 per kanal) with 5% increase every year for 99 years extendable for further 99 years. Audit further observed that 187.25 kanals (23.41 Acres) of land was also acquired at annual lease of Rs 68.942 million (@ Rs 368,182 per kanal) with 5% increase every year for 33 years extendable for further 33 years from different private land owners. Thus, the department acquired 46.01 Acres land in excess than provision in the PC-I which was irregular/unauthorized. This resulted in irregular/ unauthorized expenditure of Rs 135.533 million. (Lease amount of first year paid).

Audit pointed out the irregularity in September 2023. The management replied that the revised PC-I was in process.

The matter was discussed in DAC meeting held on 29.01.2024 wherein the department explained that the expense has been included in the revised PC-I to be regularized. DAC directed the department to get facts verified from Audit within 15 days and get the revised PC-I approved from competent forum and provide it to Audit for verification.

Audit recommends compliance of DAC’s directive.

(DP. 09)

10.4.10 Unjustified payment of cost claim for damages due to riots - Rs 17.220 million

Section 15 of the contract of Chaman Border Terminal provides, M/s National Logistics Cell is being awarded Project of Chaman Border Terminal due to prevailing law & order threat in the country in general and possible sabotage/terrorist activities by external sources, in particular, it is imperative to formulate a detailed security plan for safety of persons, works site and ground Installation at Chaman Border Terminal during the execution of project duly protecting the main supply route from Quetta onward.

Audit noted that the EPC contract of Regional Improving Border Services Project Chaman was awarded to M/s NLC for Rs 18,610.210 million (Rs 12,576.501 million and US\$ 36,807,908 @163.924= Rs 6,033.7100 million) on 19.08.2019 for a completion period of 1034 days.

Audit observed that the contractor claimed damages of Rs 17.220 million due to riots at border crossing point Chaman which occurred to plant and equipment and works as a result of local protestors attack on 29.11.2020 pursuant to GCC clause 17.3, Employer's Risks.

Audit is of the view that cost claims of Rs 17.220 million for damages due to riots was unjustified as the same was covered in the security plan for Rs 580.276 million already provided for in the contract keeping in view the law & order situation of the site. This resulted in unjustified payment of cost claim for damages Rs 17.220 million.

Audit pointed out the unjustified payment in September 2023. The management replied that Engineer Representative approved contractor's claim and payment was made accordingly.

The reply was not accepted because security arrangements was the responsibility of the contractor and Rs 580.276 million already provided for in the contract keeping in view the law & order situation of the site. The payment of Rs 17.220 million was beyond the contract provision.

The matter was discussed in DAC meeting held on 29.01.2024 wherein DAC directed the department to re-examine the cost of damages arises due to riots on the site and submit a detailed report along with documentary evidences including Engineer's determination and approval of client to Audit for verification within 15 days.

Audit recommends recovery of unjustified cost claim for
Rs 17.220 million.

(DP. 12)

CHAPTER 11

GWADAR PORT AUTHORITY
MINISTRY OF MARITIME AFFAIRS

11.1 Introduction

Gwadar Port Authority (GPA) was established under Gwadar Port Authority Ordinance 2002. Eastbay Expressway Project (a CPEC project) is being executed by GPA. ECNEC in its meeting on 11.01.2015 approved PC-I of the project “Construction of Eastbay Expressway of Gwadar Port” for Rs 14,061.79 million (EPC Construction cost Rs 13,800.557 million). Revised PC-I of the Project was approved by ECNEC in its meeting on 02.10.2019 for Rs 17,369.84 million (including FEC portion Rs 16,435.55 million).

Execution

The Project was awarded to M/s China Communications Construction Company Ltd.(CCCC) on 19.09.2017 at agreement cost of Rs 15,088.155 million. The work was started on 12.10.2017 and was to be completed on 11.10.2020. Extension of Time was granted up to 11.04.2022. Contract for Consultancy Services for the project management and supervision of Gwadar Eastbay Expressway was awarded to M/s Techno-Consultant International (Pvt) Ltd for Rs 89.975 million on 20.03.2015.

B. Comments on Budget and Accounts (Variance Analysis)

Expenditure during the year 2022-23 is as under:

(Rs in million)

Description	Budget	Expenditure
China Development Bank Corporation, Interest-free loan Account No.2016/1 (Civil Works)	101.700	101.700
GoP (Establishment charges, land, etc.)	55.600	52.598
Total	157.300	154.298

Source: Financial Statement of the project

An expenditure of Rs 52.598 million was incurred against releases of funds for Rs 55.600 million. Funds of Rs 3.002 million were lapsed (DP. 01)

Expenditure of Rs 52.598 million was incurred on project establishment charges despite the fact that the project was complete and stands handed over on 31.07.2022 (DP. 08)

C. Audit Profile of GPA Projects

(Rs in million)

S. No.	Description	Total Nos	Audited	Expenditure audited FY 2022-23	Revenue/ Receipts audited FY 2022-23
1	Foreign Aided Projects (CPEC)	01	01	154.298	-

11.2 Classified summary of audit observations

Audit observations amounting to Rs 16,925.963 million were raised in this audit report. This amount also includes recoverable of Rs 120.705 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

Overview of audit observations

S. No.	Classification	Amount (Rs in million)
1	Irregularities	
A	Execution of works, contract agreement	16,225.963

Note: Amount of audit observations exceeds audited outlays due to issues like award of works which involve future spending, amount covering multiple previous years of spending, multiple reckoning of monetary impact in different audit observations pertaining to same transaction, etc.

11.3 Brief comments on the status of compliance with PAC's directives

Audit of the infrastructure projects of Gwadar Port Authority was conducted first time for the year 2020-21. Audit Reports for 2020-21, 2021-22 and 2022-23 were not discussed by PAC till the finalization of this Audit Report.

11.4 AUDIT PARAS

11.4.1 Unjustified payments against work done without recording detailed measurements in Measurement Books - Rs 16,105.258 million

Para 208 of CPWA Code provides that unless in any case, the administration after consultation with Accountant General, direct otherwise, payments for all work done are to be made on the basis of measurements recorded in the MB was a permanent record issued to a supervisory officer to record date-wise activity, mandatory tests at the site. In mega projects of highways, dams, buildings, runways, etc., it was a mandatory requirement for recording the measurements of works, supplies, stores, etc.

Audit observed that the management of the Project “Construction of Eastbay Expressway of Gwadar Port made payments of Rs 16,105.258 million against work done without recording detailed measurements in the MB.

This resulted in unjustified payments of Rs 16,105.258 million against work done without measurement books.

Audit maintains that violation of rules occurred due to weak internal controls.

Audit pointed out the irregularities in September 2023. Authority replied that Eastbay Expressway contract was a lump sum fixed rate contract and complete scope of work was covered under Employer’s requirements. Therefore, no item wise measurements were required.

The reply was not accepted because payments were required to be made by recording details in the measurement books.

The matter was discussed in the DAC meeting held on 27.12.2023 wherein DAC directed the project management to provide record to Audit for verification of detailed measurements with dates with reference to test reports, check requests of the contractor on the basis of which payments were made to the contractor.

Audit recommends early compliance of DAC’s directives.

(DP. 06)

11.4.2 Non-recovery of Income Tax - Rs 120.705 million

Federal Board of Revenue instructions and Income Tax Ordinance, provides deduction of income tax at source is applicable on all payments made to the contractor on account of work done. The applicable rate of income tax deduction at source was 8% in the case of a turnkey contract under section 152 (2A) (c) of Income Tax Ordinance, 2001.

Audit noted that the Project “Construction of Eastbay Expressway of Gwadar Port”, was awarded to M/s China Communications Construction Company Ltd.(CCCC) on EPC basis dated 19.09.2017 at agreed cost of Rs 15,088.155 million. The cost of revised PC-1 was enhanced up to Rs 17,370.07 million by including the scope of work of additional three bridges of Rs 1,017.103 million and including cost of local Component of Rs 934.49 million. The total value of work done paid Rs 1,508.816 million.

Audit observed that the project management did not recover income tax of Rs 120.705 million (8% of Rs 1,508.816 million) from the contractor.

Audit maintains that non recovery of income tax was due to weak internal and financial control.

Audit pointed out non-recovery in September 2023. Authority replied as per procedure IPC was being paid without income tax deduction and the contractor submits income tax payment challan against 7% income tax deposit as per contract. Income tax challan would be obtained from the contractor and produced to Audit. If the Contractor would be asked to pay 8% withholding tax instead of 7% then Contractor will claim 1% additional amount from GPA whereas GPA has no provision of this extra burden of expenditure.

The reply was not accepted because income tax was recoverable at prevailing rates at the time of payment.

The matter was discussed in the DAC meeting held on 27.12.2023 wherein DAC directed the project management to take up the matter of tax deduction with FBR with reference to audit observation and contract provisions for clarification. Income tax deposited by the contractor may be got verified from Audit.

Audit recommends early compliance of DAC's directives.

(DP. 04)

CHAPTER 12

THEMATIC AUDIT LAND ASSET MANAGEMENT - CDA

Thematic Audit of Land Asset Management in Capital Development Authority has been conducted by Directorate General of Audit Works (Federal), Islamabad during 2023-24.

The main purpose of the thematic audit is to improve organization's performance through critically reviewing its business processes to identify those risks which are hindering it from achieving its intended objectives. Results of thematic audits are as under:

1.1 Introduction/Background

Capital Development Authority (CDA), established under the CDA Ordinance promulgated on 27.06.1960, performs through an Executive Board, constituted by the Federal Government, under Section 6 of CDA Ordinance, 1960.

As per Ordinance CDA is authorized to acquire land for the purpose of:

- Acquisition of land for development of different sectors and schemes
- Possession of land and rehabilitation of affectees of the acquired land.

1.2 Establishing the Audit Theme

1.2.1 Reasons of selection

The selected theme is related to Sustainable Development Goals and Pakistan Vision 2025, as detailed below:

- Domestic Resource mobilization strategy

- Cities as source of growth
- Modernize infrastructure to harmonize growth
- Land-use planning
- Climate change impact
- Ownership and control over land
- Land degradation

1.2.2 Purpose

Theme incorporates an analysis of audit findings and the impact on operations of CDA/MCI. It will serve as a food for thought for the Policy makers. It is envisaged that the theme will be used by policy makers and implementing organizations to assess the effectiveness of the internal controls and operational management i.e., role and performance of the organizations, as well as, a guide for them in identifying appropriate solutions for inherent weaknesses.

The audit findings and recommendations provided with theme are intended as a guide for implementing agencies to assess and improve their performance. The possible benefits of the Audit Theme to the stakeholders are as follows:

- i. The Public Accounts Committee and the Public Administration can use the theme to inform the Parliament of the systemic weaknesses in the public sector that may require legislative changes.
- ii. The legislature and implementing arms can use the theme in the formulation of policies and procedures to ensure consistency, transparency and accountability.
- iii. Executive Board of CDA can direct investigations to determine how well their entities are addressing the risks identified in the theme.
- iv. Accounting Office may use the theme to develop internal controls and strengthen risk management processes.
- v. Internal auditors can use the theme to assist in choosing the operational areas to audit.

1.2.3 Scope

Planning and operational activities of Estate Wing of CDA during the year 2022-23 were subject to audit analysis.

The scope of audit covered analyzing strategic planning, policies, procedures, goals, achievements and surveys conducted by Estate Wing for the purpose of land management in Islamabad with following areas:

- Announcement of land award and implementation– Timeliness, rates, finalization of Built-up properties
- Possession of acquired land
- Mutation of land in favour of CDA
- De-notifying of land not to be acquired
- Allotment of land/Plots – Change of plots in developed sector, balloting process
- Payments to land affectees
- Lease of land for agro-farm, poultry and vegetable farms – Renewal of lease
- Acquisition of land – Land Sharing Policy - acquisition of land under Land Sharing Basis instead of cash compensation basis
- Package Deals
- Encroachment
- Genuineness of ownership documents
- Revenue Staff

2. Legal framework governing the theme

There are number of policy interventions, programmes, guidelines regarding Land Management, which are enumerated as under:

- Master Plan of CDA
- CDA Ordinance, 1960, Land acquisition in Islamabad is regulated mainly under sections 22 to 36 of the CDA Ordinance 1960
- Land Acquisition Regulations, 1961
- Islamabad Land Disposal Regulations, 2005
- CDA Land Acquisition and Rehabilitation Regulations, 2007 (Land Sharing Basis)

3. Stakeholders and Governmental organizations identified as directly/indirectly involved

CDA under Ministry of Interior, is directly involved in the activity covered in thematic audit.

4. Role of the organization

CDA is responsible to:

- Acquire and use land for the purpose of its function, land acquisition process including conducting of survey of land/Built-up Properties (BuPs),
- Make payment of land compensation,
- Allot plots to the land affectees, take timely possession of the acquired land and get mutation of land in the name of Authority ensuring that complete process is in accordance with the CDA Ordinance/rules/regulations/Standard Operating Procedure.

5. Organization's Financial Resources

CDA is an autonomous body having its own financial resources for its operations and accounting/payment procedures. However, Federal Government also provides funds on accounts of certain PSDP projects and maintenance of government buildings. Major resources of receipt of CDA include:

- Revenue generated from sale of plots, municipal receipts, sanitation receipts, environmental/horticulture receipts, property tax, water charges, conservancy charges, interest/markup, commercial receipts (rent from shopping centres, bus stands, parking areas), etc.,
- Grant-in-aid from federal government for development purpose through Public Sector Development Programme,
- Grant-in-aid from federal government for maintenance of specified government buildings (Maintenance Grant).

6. Field Audit Activity

6.1 Methodology

Audit methodology included data collection, determination of objectives and audit criteria, analysis/consultation of record, discussion with staff, site visits, etc. Following steps were involved:

- i. Understanding the auditee/activities;
- ii. Defining audit objectives;
- iii. Developing audit procedures;
- iv. Conducting audit as per audit procedures; questionnaire, performance measurement;
- v. Evaluating results;
- vi. Reporting.

6.2 Audit Analysis

6.2.1 Review of Internal Controls

The management of audited entity is generally not sensitized to the imperative of strengthening internal control environment within the organization. The present report has identified a range of irregularities indicating the systemic issues due to inadequate oversight mechanism or ineffective implementation of internal controls.

Audit emphasizes the need for addressing the systemic issues, which are instrumental in occurrence of every irregularity, through a detailed review of the internal controls.

The concerned Directorate has not been audited regularly by the Internal Audit Wing of CDA due to which possibility of the increasing of irregularities, leading to financial loss to the Authority, could not be ruled out.

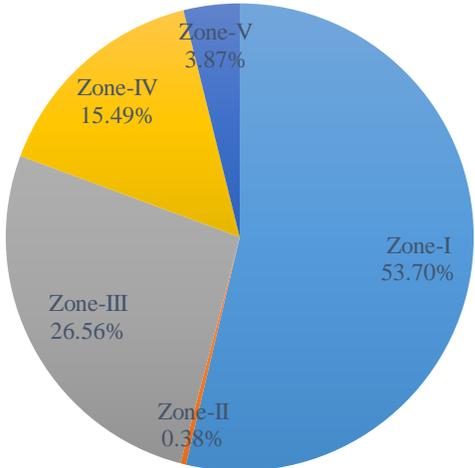
6.2.2 Critical Review

The total area of land acquired by CDA is 75,242.108 Acres. The Islamabad city is geographically divided into five zones:

- Zone-I (40,403.418 acres)
- Zone-II (283.510 acres)
- Zone-III (19,992.305 acres)
- Zone-IV (11,652.108 acres)
- Zone-V (2,910.207 acres)

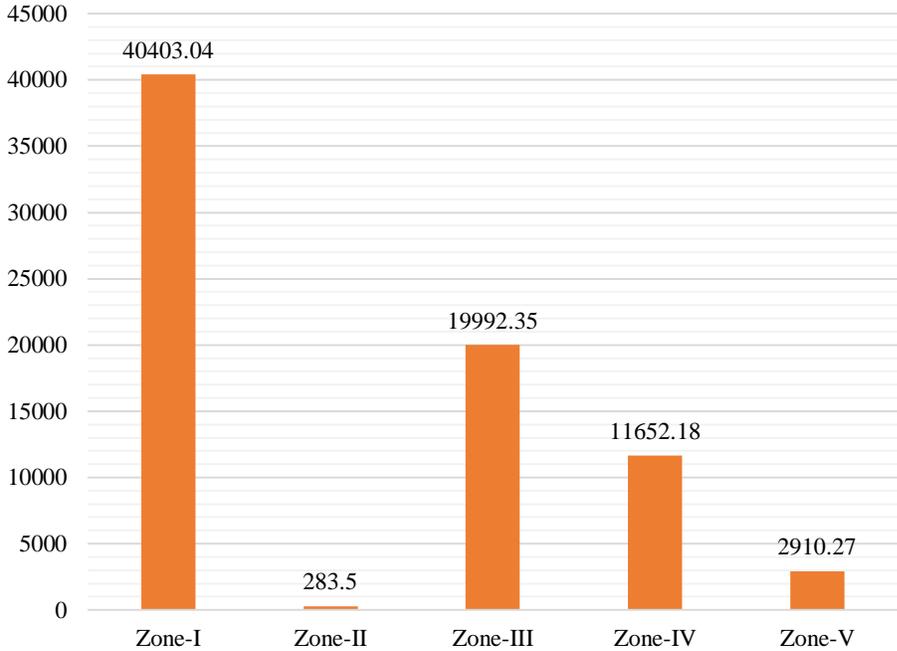
Zone-IV is the largest in area, while Zone-I is the largest developed residential area. Zone-I is distributed into sectors. Each residential sector is identified by a letter of the alphabet and a number, and covers an area of approximately 2 km × 2 km.

Pie-Chart showing CDA Land Zone Wise



■ Zone-I ■ Zone-II ■ Zone-III ■ Zone-IV ■ Zone-V

Bar Chart - CDA Land Zone-Wise in Acres



Audit observed that:

- i. CDA announced seven awards for acquisition of land measuring 52,942 kanal 14 marla costing Rs 43,574,174,000 during the period July 2006 to June 2016 in different villages of Islamabad as per detail given below. The acquired land was not mutated in the name of CDA as per requirement of awards since copies of mutations were not available in Land Directorate, CDA, despite the fact that CDA had paid compensation to the owners. Resultantly, CDA at the time of preparation of its financial statements, in accordance with International Public Sector Accounting Standards, would face difficulties to account for land as assets in the financial statements.

Directive No.	Nam of village	Date of award	total land	Rate Rs per Kanal	Cost of award (Rs)
616/DLR dated 25.04.2005	Lunda Mustal H-10	14.02.2007	49 K – 1M	700,000	34,335,000
1474/DLR dated 21.08.2008	Noon I-17, Kot Kolian I-17, Bajnial I-17, Narhala I-17, Lakhu I-17	15.01.2009	7971 K – 14 M	830,000	6,616,511,000
1473/DLR dated 21.08.2008	Noon, Bhadana Kalan, Sheikhpur, Jhangi Syedan	15.01.2009	8104 K – 10 M	830,000	6,726,735,000
757/DLR dated 13.09.2005	Siri Saral	31.01.2007	186 K – 13 M	620,000	115,723,000
888/DLR dated 08.05.2006 (for D-13, D-13 & F-13)	Bhekar Fateh Baksh, Siri Saral, Shah Allah Ditta, Pind Sangral, Dherak Mori, Maira Sumbal Jafar, Maira Sumbal Akku, Thallah Syedan	22.08.2008	21815 K	805,000	17,561,075,000
757/DLR dated 13.09.2005	Pind Sagral		58 K	710,000	41,180,000

Directive No.	Nam of village	Date of award	total land	Rate Rs per Kanal	Cost of award (Rs)
1337/DLR (C 13-14-15)	Sarai Madhu, Saria Khurbooza, Sagjani, Shah Allah Ditta	02.12.2008	14944 K - 9 M	835,000	12,478,615,000
	Total		52942 K – 14 M		43,574,174,000

- ii. Record keeping by Land & Rehabilitation Directorate of CDA was not up to the mark, having serious implications towards non-transparent process. Discrepancies were observed as under:
- Allotment register/Red entry registers were not properly maintained and in some cases, record entries of plots was tampered by cutting/using fluid without recording any reason and authentication.
 - Complete record was not computerized which enhanced the risk of double allotments and back date allotments of plots.
 - Creation and entries of new plots without revision/approval of layout plan.
 - Back Date Allotment entries of plots were made.
 - Handing/taking over charge of dealing Assistants and storekeepers was not properly maintained. Consequently, 695 files of allotment pertaining to various sectors were missing.
 - New files were reconstructed without approval by the Board/Chairman CDA.
 - Monthly inspection was not done by the Authority.

7. Significant Audit Observations

7.1 Unauthentic Built-up Property Award involving rehabilitation cost - Rs 835 million

Para 2 (vi, viii & xi) of CDA Land Acquisition and Rehabilitation Policy, 2007 (Land Sharing Basis), notified on 20.03.2008, defines that the Landless Affectee or Landless Dweller is a person who has a Built-up Property (BuP) in form of dwelling house on piece of land being acquired, and such land does

not belong to him or is not eligible for allotment of plot under land sharing formula otherwise. Provided that, he is a bonafide resident of the village being acquired, to be confirmed by any one of the following documents:

- a) Holder of Computerized National Identity Card (CNIC).
- b) Entry in the current Voter List of the village being acquired.
- c) Entry of his or his ancestor's name as tenant in the land record of the village on or before 31.12.2006 for last four consecutive Khasra Girdawari documents.
- d) Proof of two years old electricity connection in his or his parents' name, confirming the residence in the village from which he or she was being dislodged (required under BuP Award dated 17.08.2016).

Furthermore, Dwelling House is defined as a residential unit with constructed covered area of not less than 1,000 sft, and having all the features of a composite residential unit, like bedroom, toilet/bath, kitchen, compound wall, etc. However, the covered area of the dwelling house was reduced from 1,000 sft to 300 sft with the approval of CDA Board in April 2016 (as evident from para 3 of the BuP Award dated 17.08.2016).

The acquisition process of Built-up Properties (BuPs) in Sarai Kharbooza, Sangjani & Sarai Madhu (Sector C-15 & C-16) Islamabad was started as per Chairman CDA orders dated 01.10.2014. The Survey Report (Urdu Lists) of BuPs pertaining to the village Sarai Khurbooza (Sector C-15) Islamabad was completed by the Assistant Director Land/Tehsildar in July 2016 and survey contained 211 Havellies consisting of 504 BuPs. Deputy Commissioner CDA announced BuPs Award on 17.08.2016 of Sarai Kharbooza (falling under Sector C-15) and 167 BuPs out of 504 BuPs were considered eligible for rehabilitation benefits.

Audit observed that:

1. During survey process, the decision of the CDA Board regarding reduction of the area of dwelling house from 1,000 sft to 300 sft was misinterpreted and maximum number of affectees were accommodated by sub-dividing area of the Havellies keeping in view the minimum area of 300 sft per dwelling without considering the concept of composite unit (availability of baths and kitchens in the residents).

2. Land and Rehabilitation Directorate, CDA did not substantiate the eligibility of 167 landless affectees with reference to CNIC, voter list, last four Khasra Girdawari documents, satellite image of legal BUPs taken before acquisition of land, Khasra number, sketches of the structures and pictures of the dwelling houses, etc.

Due to this, the Authority may sustain a loss of approximately Rs 835 million (167 plots of size 25ft x50ft x Rs 5.00 million per plot) on providing rehabilitation benefits to 167 persons.

Audit recommends fact finding inquiry besides provision of documentary evidence in support of justified declaration of affectees in the light of CDA Land Acquisition and Rehabilitation Policy, 2007 and CDA Board orders to Audit for scrutiny.

7.2 Irregular payment of land compensation

Section 25 of CDA Ordinance, 1960, provides that subject to the other provisions of this Ordinance, the rules made there under, and the directions of the Authority, the Deputy Commissioner may, by order in writing acquire and land for the further purposes of this Ordinance. No order under sub-section (1) shall be issued except on the receipt by the Deputy Commissioner of specific directions from the Authority.

Section 26 of CDA Ordinance, 1960, provides that where any land is proposed to be acquired under section 25, the Deputy Commissioner shall cause the land (unless it has been already marked out) to be marked out and measured, and if no plan has been made thereof, a plan to be made of the same.

Building Control Rules, 2005 Chapter-II Zoning of ICT, Section-3 Delineation of Zones provides that the entire Islamabad Capital Territory shall be divided into five zones as delineated in the Master Plan wherein Zone-1 constitutes sectors up to the existing alignment of the G.T. road from the point of intersection of G.T. Road with Shahrah-e-Kashmir to the point of the Nicolson Monument inclusive of sector H-14, H-15, H-16, H-17, I-14, I-15, I-16, I-17. Building Control Rules, 2005 Chapter-III, Section-Development Strategies of Zones provides that the development of land in the zones shall be subject to the following conditions:

Unacquired Sectoral Areas: In these areas of Zone-1,

- (i) Land shall be acquired under a phased program and developed by the Authority in accordance with the land-use pattern spelled out in the Master plan;
- (ii) No sale/purchase of land which entails change in land use shall be allowed.

This provision was inserted with the intention to acquire the land directly from the original affectees by avoiding heavy cost in case of admissibility of sale/purchase of land of Zone-1.

Audit noted that the Deputy Commissioner, CDA, Islamabad announced award for acquisition of 16,076 Kanal 4 Marla (7971 K 14 M + 8104 K 10 M) land at flat rate of Rs 830,000 per kanal for sector H-16 & I-17 on 15.01.2009. These awards were announced in compliance of directives issued by Chairman, CDA.

Audit observed that Deputy Commissioner started process to acquire the land in accordance with CDA Board decision dated 11.11.2008. The Award dated 15.01.2009, described the following facts:

- Directive Nos. 1473 & 1474 dated 21.08.2008
- Sectors H-16 & I-17
- Villages: Noon, Kot Kolian, Bajnial, Narhala, Lakhu, Noon, Bhadana kalan, Sheikh pur, Jhangi Syedan
- Notice published in press on 02.09.2008 in The News, Pakistan Observer, Nawa-i-Waqt and Assas
- Date of hearing/disposal of objection: 30.12.2008 /13-14.01.2009

Audit further observed that some pieces of land were procured by the middlemen and were transferred in their names before the announcement of award i.e., 12-14.01.2009. Transfer of ownership of land was finally approved after 15.01.2009. Audit also observed that these middlemen managed to get the payment of compensation on priority basis and real affectees of owning up to 5 Kanal were not paid till date.

Audit holds that sale/transfer of ownership land after issuance of notices to land owners and publishing in press was irregular in term of Section-VI of Land Acquisition Act. This resulted in irregular payment of land compensation amounting to Rs 895,717,581 as under:

Name of purchaser/ middleman	Date of transfer (Inteqal)	Cost of land as per Revenue record (per kanal)	Rate announced (Rs per kanal)	Payment (Rs)
Bahria Town (Pvt.) Ltd. Rawalpindi	12.01.2009	Rs 100,000/ Rs 200,000	830,000	541,062,052
Usman Nawaz Khokhar	14.01.2009	Rs 100,000/ Rs 200,000	830,000	34,114,765
Global Utopia Housing Society	-	Rs 100,000/ Rs 200,000	830,000	137,281,209
Elite Estate Housing Society	-	Rs 100,000/ Rs 200,000	830,000	124,500,000
Try Tax Pvt Limited/ Bank of Punjab	-	Rs 100,000/ Rs 200,000	830,000	58,759,555
			Total	895,717,581

Audit recommends investigation and fixing of responsibility, taking appropriate action against the persons at fault and condonation of the irregularity by competent forum besides strengthening the administrative and internal controls.

7.3 Non-auction of cancelled agro-farming plots involving revenue - Rs 2,381.250 million

According to para 16 (4) of Islamabad Land Disposal Regulations, 2005 and para 2.1.4 of Islamabad Residential Sectors Zoning (Building Control) Regulations, 2005, the allottees shall have to develop agro-farms, agro-industries within three years from the date of possession or deemed possession whichever is earlier and non-conforming use of a building may render the owner and the occupant of the building/land liable to penalty and eviction from the building/land and the allotment/ conveyance deed of the plot may also be cancelled.

Inquiry report dated 24.06.2009 by the Commission appointed by the Chairman CDA, in compliance with the honorable Supreme Court of Pakistan orders dated 25.05.2009 provides that CDA had floated 610 poultry, vegetable, orchard and nursery schemes over an area of about 2,600 acres.

An incomplete unsigned list of 546 agro-farm plots was furnished by concerned Estate Management Officer, which does not provide the information of removal of irregularities. However, as per these lists, nine (9) plots, having approximate market value of Rs 2,381.250 million, were cancelled. **(Annexure-AAC)**

Audit observed that these plots were not put to re-auction. The occupation of plot by the previous allottees despite cancellation cannot be ruled out.

This resulted in non-provision of required information of removal of irregularities as observed in the survey besides non-auction of cancelled plots worth Rs 2,381,250,000, which needs justification besides corrective action.

Audit recommends inquiry for fixing responsibility against those responsible for inaction and early corrective action.

7.4 Non-cancellation of agro-farming plots due to violation of terms & conditions of the allotment - Rs 4,800.00 million

Condition No. 10 of the lease agreement of agro-farming plot provides that the allottee shall utilize the land only for the purpose for which it is allotted to him. In case of default, the allotment/lease will be liable to be cancelled with forfeiture of amounts deposited by the allottee and without payment of any compensation.

In compliance of the Honorable Supreme Court of Pakistan orders dated 23.07.2007 and 09.08.2007, CDA conducted a survey, and it was found that owners/allottees of twenty-four (24) agro-farming plots violated the terms and conditions of the allotment and failed to utilize the land for the purpose for which it was allotted to them.

Audit observed that CDA issued show cause notices to these allottees, but failed to take further action as per terms and conditions of the lease agreement including cancellation of plots.

Action regarding cancellation was required to be taken under CDA by-laws against allottees of 24 agro-farm plots (approximately valuing Rs 4,800 million @ Rs 200 million each) which were found in non-conforming use, but not a single allotment was cancelled. Further, CDA failed to utilize the land for the purpose, for which it was allotted to them.

This issue of violations in agro-farming plots has time and again been pointed out by Audit but CDA did not take corrective action.

Audit recommends inquiry for fixing the responsibility besides corrective action.

8. Conclusion

- i. There has been an issue of non-possession of land and non-mutation in the name of CDA despite payment of compensation.
- ii. CDA Land Record is not digitized. It enhances the risk of double and back date allotments of plots.

9. Recommendations

Audit recommends that:

- i. CDA should ensure mutation of land in its name.
- ii. CDA should digitalize all the land record.

CHAPTER 13

IMPACT AUDIT

DENGUE CONTROL PROGRAMME - CDA

The Impact Audit is aimed at determining impact of initiatives or programmes of an organization. It focuses on determining the output and outcome attributable to an initiative. The main purpose of the impact audit is to critically review the processes and outcomes to identify those risks which have hindered it from achieving its intended objectives. Impact Audit of dengue control programme of Directorate of Health Services (DHS), under Capital Development Authority (CDA)/ Metropolitan Corporation Islamabad (MCI) was conducted by Directorate General of Audit Works (Federal), Islamabad in December 2023.

1. Introduction:

Dengue is a vector-borne viral disease transmitted by mosquitos of the genus *Aedes* (*Aedes aegypti* & *Aedes albopictus*), which are widely distributed in subtropical and tropical areas of the world especially in urban and semi-urban areas. More than half of the world's population is at risk of dengue infection. Each year, an estimated 390 million dengue infection cases occur around the world of which 80% develop mild symptoms. Around 1% develop serious complications such as Dengue Hemorrhagic Fever (DHF) and Dengue Shock Syndrome (DSS), leading to about 22,000 deaths worldwide. Early identification and good clinical management can however, reduce the case fatality to less than 1%.¹¹

The first confirmed outbreak of dengue fever in Pakistan was reported in 1994, with sudden rise in cases and epidemic trend in Karachi in November 2005. Since 2010, Pakistan has been experiencing epidemic of dengue fever.

Dengue fever is now endemic to Pakistan, with seasonal peaks and with several outbreaks reported in 2010, 2017, 2019, 2020, 2021 and 2022. The dengue cases typically increase in September/October. The dengue cases were significantly higher in 2022 (between January and September) as compared to the same period during the last four years. WHO, in September 2022 reported 25,900 cases and 62 deaths thereof due to dengue virus.

¹¹ National Institute of Health (Centre for Disease Control), Ministry of National Health Services, Regulations and Coordination, Advisory No. F.1-22/Advisory/CDC/2023 dated 21.06.2023.

2. Overview:

Dengue fever claims many lives, every year, highlighting the need for maximum awareness campaigns to save lives besides providing standard guidelines and capacity building for planning and implementing preventive and control measures. No medicine is available to treat dengue. To minimize the chances of disease, the main areas of focus are vector control, case management and community awareness. Responding to the challenge, Ministry of National Health collaborated with WHO in the year 2008 to develop long term plan for dengue prevention and control within the Malaria Control Programme. Since June 2011, the activities of the Federal Ministry of Health devolved to the provinces. National Institute of Health (Centre for Disease Control – A National Focal Point for International Health Regulations) issues advisories for the Prevention and Control of Dengue Fever to all Provincial Health Departments, Healthcare Regulatory Bodies/ Commissions, Departmental Health Institutions, Public/Private hospitals, Health Service organizations/Health Directorates, etc. The Dengue Control Programme contains following broader components with the objective to make institutionalized and sustainable arrangements to combat dengue:

(a) Public Health Actions:

- i. Strengthening of disease surveillance – Timely detection of new cases, clusters and identification of hotspots to carryout case response activities
- ii. Integrated Vector Management – continuous identification, destruction and monitoring of mosquito breeding sites, preventing mosquitos from egg-laying habitats by environmental management, disposing of solid waste properly, covering and cleaning of domestic water storage on a weekly basis, applying WHO recommended insecticides, as vector control measures
- iii. Personal Protection – wearing long sleeved clothes, use of mosquito repellant, use of bed nets, use of mesh screens on windows
- iv. Risk Communications & Community Engagement – arranging health awareness sessions to sensitize community, dissemination of brochures, raising awareness in community through use of print, electronic and social media, improving community participation and mobilization for mosquito control activities at community level
- v. Monitoring & Evaluation – Active monitoring and surveillance of vectors to determine effectiveness of control interventions

(b) Laboratory diagnosis

- (c) Treatment/Clinical Management – Early recognition and understanding of the clinical problems and rational approach to case management and a good clinical outcome, initiate clinical management of suspected case in high endemic areas without waiting for laboratory result
- (d) Reporting – Preparation of a line-list for all the suspected cases with information (demographic, clinical, & risk factor), enter data in DHIS-2 and share with NIH

It is responsibility of the civic regulatory body and the local health authorities to control the spread of the dengue virus in its peak season. One of the key strategies is by prioritizing the strengthening of healthcare services, which serves as a cornerstone in the public sector.

The Directorate of Health Services was established in 1984 and it has been operating under the administrative control of the Metropolitan Corporation Islamabad (MCI). It has evolved into a network of 13 medical centers and 2 mobile units and delivers primary healthcare services to the residents of Islamabad within its municipal boundaries. However, financial arrangements are under Capital Development Authority (CDA). As per Schedule-II [Rule 3(3)] of Rules of Business, 1973 (amended up to 01.12.2021) CDA and MCI are under the administrative control of the Ministry of Interior (Interior Division).

The primary objectives of the Directorate of Health Services encompass the prevention of vector-borne diseases such as dengue and malaria through proactive measures, including larvicidal treatments, spraying initiatives, and fogging activities aimed at controlling disease vectors. Additionally, the Directorate strives to fulfill its mission by conducting educational outreach programs and awareness campaigns targeting the general public. By imparting knowledge and promoting preventive measures, the Directorate aims to empower the community to actively participate in disease prevention, fostering a healthier and more informed population.

The Impact audit had the following key objectives to:

- i. Determine whether DHS is effectively carrying out all larvicidal programmes, spraying, and fogging operations to prevent the spread of vector-borne diseases (malaria, dengue, etc.).
- ii. Determine if the Directorate adequately provides health education and awareness programmes to the general public for desired outcomes.

- iii. Assess whether active and passive surveillance/ monitoring and periodic reporting of Dengue Control programme is carried out.
- iv. Assess whether the capacity building of all primary healthcare workers/professionals is carried out through regular trainings.
- v. Determine on the basis of Human Resource Data/ sanctioned and available strength whether DHS is delivering as per approved plans and schedules.
- vi. Determine if the DHS has devised any strategy to ensure the timely availability of required quantities of Pesticides, Spraying machines, vehicles and allied equipment.
- vii. Evaluate if the DHS is following WHO standards for managing in dengue control programme.
- viii. Determine whether the DHS's resources are being used effectively to deliver desired results.

3. Scope and Methodology:

a. Scope:

The scope of the Impact Audit of dengue control programme under the Directorate of Health Services is as under:

- What was the approved plan of DHS for preventive measures, elimination of dengue virus growth and its larvae in urban areas of Islamabad as per mandate of DHS?
- Were any impact assessment studies carried out?
- Whether service delivery standards were followed by healthcare establishments on the subject matter
- What resources financial as well as human used during the dengue virus growth season to overcome this deadly virus? Particularly, door to door anti-dengue awareness campaign in the Federal Capital, and deployment of Entomologists in campaign during last five years (2019-2023)

b. Methodology:

Audit methodology included data collection, data analysis and evolution of the operations relating to anti-dengue control.

The data collection phase involved the systematic gathering of both qualitative and quantitative information. Various methods were employed, including a thorough review of relevant documentation related to the Directorate. Additionally, oral testimony was collected through discussions and meetings with staff/ workers at the Directorate and through a questionnaire, certain information was collected, and trend analysis was conducted.

Audit team obtained the information from the record of the Directorate and evaluated the entity's operations. Data was also collected through checklists, to evaluate the quality of service.

Finally, the collected data was analyzed and evaluated carefully against the predetermined audit objectives and criteria which were devised in line with the health interventions on the subject matter.

The absence of standardized benchmarks or impact standards for primary healthcare units operating in the Federal capital posed a considerable challenge in effectively measuring and comparing the Impact of the anti-dengue control programme. DHS had not developed a comprehensive operational framework containing clearly defined organizational objectives and impact indicators. This lack of a structured framework by the entity also posed challenges for Audit in precisely assessing the DHS's impact in relation to its established benchmarks. These limitations hindered the ability to conduct a comprehensive evaluation and make meaningful comparisons with the best practices on the subject matter. Consequently, it became challenging to ascertain the extent to which the anti-dengue control programme was effective.

4. Findings:

The audit findings are given in the following paragraphs:

4.1 Critical Review

The trends in Dengue cases in urban areas of Islamabad and measures adopted were evaluated which included expenditure incurred on Dengue control measures and the corresponding increase/decrease in the number of Dengue patients over a five-year period (2019-2023). The analysis aimed at providing insights into the effectiveness of control measures and their impact on both financial resources and public health outcomes.

The impact of Dengue control measures in Islamabad over the years is depicted in the following table:

Comparative Analysis of Dengue Cases

S. No	Year (Jan. to Dec)	Expenditure (Rs)	%Increase (Decrease) in Expenditure	Number of Dengue Cases	%Increase (Decrease) in Cases
1	2019	4,406,371	-	2,074	-
2	2020	6,575,291	49.22	15	(99.28)
3	2021	5,677,651	(13.65)	1,093	7186.67
4	2022	13,374,413	135.56	1,766	61.57
5	2023	13,711,577	2.52	880	(50.17)

Dengue Cases Overview:

The above table shows that the number of reported dengue cases varied throughout the period. There was a mix trend with a significant decrease of 99.28% in 2020. Subsequently, the cases rose to 1,093 in 2021 (7186.67%). The year 2022 witnessed an increase with a figure of 1,766 cases, followed by a notable decline to 880 cases in 2023 (50.17%).

Expenditure Overview:

The table reveals a significant increase in expenditure on dengue control measures over the years. In 2019, the expenditure stood at Rs 4.406 million and by 2023, it reached Rs 13.712 million, marking a substantial 211.7% increase. Notably, there was a drastic surge of 135.56% from 2021 to 2022, indicating a substantial financial commitment to dengue prevention.

4.2 Issues relating to Planning, Execution and Monitoring of Dengue Control Programme

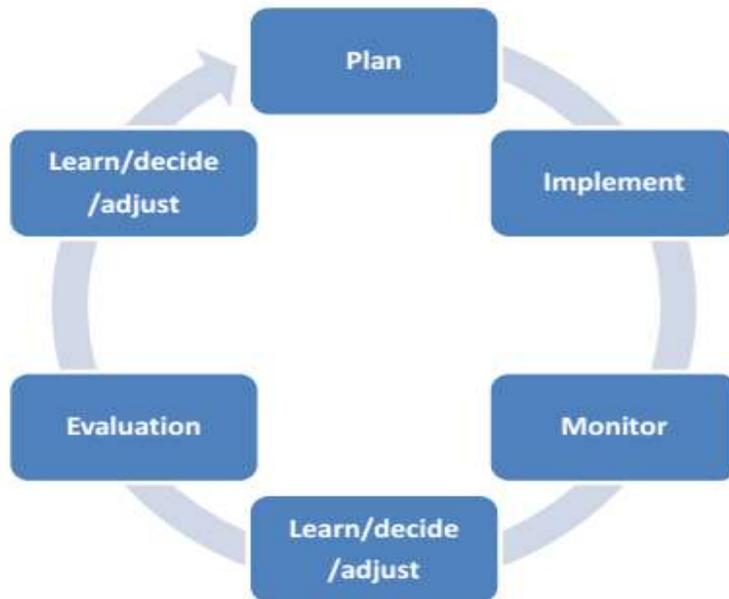
Chapter 5 of WHO Guidelines for Dengue Diagnosis, Treatment, Prevention and Control 2009, describes that the prevention of and response to dengue and other arboviruses involve developing and implementing preparedness plans. Establishing a comprehensive preventive schedule for anti-dengue measures throughout the year is crucial to effectively combat the spread of the virus. Below is a general guideline that can be adapted to local conditions and the specific epidemiological characteristics of the region. It is important to note that the schedule may vary based on factors such as climate, mosquito activity, and historical patterns of dengue transmission.

- i. January - February: Preparing for the Dengue Season (Community Awareness Campaigns)
- ii. March - April: Early Intervention and Vector Control Measures
- iii. May - August: Dengue Season (Intensified Vector Control and community engagement)
- iv. September - October: Post-Dengue Season Assessment (Epidemiological Surveillance, Community Feedback and Improvement)
- v. November - December: Planning and Readiness for the Next Year (Review and Planning, Capacity Building)

This preventive schedule should be viewed as a flexible framework that can be adapted based on the local context and the evolving nature of dengue transmission. Regular monitoring, assessment, and community involvement are crucial components of a successful anti-dengue program. An effective Plan/schedule of a programme and user-friendly M&E system will be designed, installed and implemented for Dengue Control Program at appropriate level. The major components of M&E system would be:

- Approved activity/schedule plan
- M&E framework to track progress of implementation
- Measureable and verifiable outcome and output indicators

Dengue Control Activity Cycle



Audit observed that the DHS neither installed and implemented nor designed an effective and user friendly monitoring and evaluation system. Further, Management failed to formulate the measureable and verifiable outcome and output indicators, as detailed below:

- No approved preventive schedule for the anti-dengue programme existed in the years preceding the current year (January to December).
- No effective system of monitoring & supervision at Sector level by Health Directorate Office Islamabad.
- Public Health Workers (PHWs) lacked training for indoor or outdoor teams supervision and counter checking
- Meetings on dengue control program along with the minutes to check dengue activities and issues

4.2.2 Non-promulgation of Dengue specific regulations

Para 3.3.2 of WHO Guidelines for Dengue Diagnosis, Treatment, Prevention and Control 2009, emphasize the process of advocacy through which groups of stakeholders can be influenced to gain support for and reduce barriers to specific initiatives or programme. Multiple strategies, often used simultaneously, are key to the success of any advocacy efforts. Strategies may include social mobilization, and administrative, legislative, regulatory, legal and media advocacy.

A number of legal issues are involved in Dengue Control Programme which requires in time legal actions for smooth functioning of the program. For this purpose Dengue specific regulations will be promulgated.

Audit observed that no regulations were promulgated. The Directorate of Health Services, CDA/MCI, Islamabad, did not advocate for the promulgation of anti-dengue regulations. Despite having a fully established legal directorate, the CDA neither enacted Dengue-specific regulations nor appointed law officers at various levels to fine and penalize violators.

4.2.3 Trainings

As per Para 2.2.5 of WHO Guidelines for Dengue Diagnosis, Treatment, Prevention and Control 2009, to ensure the presence of adequate staffing at all levels, the education and training of doctors, nurses, auxiliary healthcare workers and laboratory staff are priorities. Educational programmes that are customized for different levels of health care and that reflect local capacity should be supported and implemented widely.

Performance of staff is directly related to the technical capacity and skills of staff. For this purpose, following trainings may be included in this programme:

- Knowledge of vectors and transmission of disease for own care
- Develop capacities for effective recognition, clinical management and laboratory diagnosis of dengue
- Community activists and social mobilizers for community action
- Media & Communication personnel for better understanding of dengue prevention and control.

The record of the Director General Health Services, CDA/MCI, and Islamabad from 2018-19 to 2022-23 reveals that:

- there is lack of training of Officials & Teams regarding vector surveillance
- the Local Government was asked for training of staff but no schedule given yet
- the trainings of officers and staff to be conducted on urgent basis by Health Department Master Trainers.

4.2.4 Non Up-dation of Hot Spot Lists

As per Para 4 (a) of Advisory of NIH (Centre for Disease Control) states that identification of hotspots to carry out case response activities will strengthen disease surveillance against Dengue. According to the General Operating Procedures for the Prevention & Control of Dengue, there were defined hotspots, including godowns, areas with water ponding, hospitals, nurseries, factories, swimming pools, under-construction sites, tire storage areas, marriage halls, abandoned buildings, graveyards, hotels, service stations, garbage sites, mosques, workshops, parks, educational institutions, junkyards, dispensaries, and schools.

Audit noted that only the predefined hotspots outlined in the above criteria were considered, and these had not been updated. As a result, the audit concludes that numerous other hotspots were not included in the assessment. This oversight hinders the ability to comprehensively cover the highest level of the community, thereby impeding the maximum achievement of objectives and goals.

4.2.5 Non-Observing Environmental Management

As per Para 3.2.1 of WHO Guidelines for Dengue Diagnosis, Treatment, Prevention and Control 2009, environmental management seeks to change the environment in order to prevent or minimize vector propagation and human contact with the vector-pathogen by destroying, altering, removing or recycling non-essential containers that provide larval habitats. Such actions may be the mainstay of dengue vector control. Three types of environmental management are defined:

1. Environmental modification

Long-lasting physical transformations to reduce vector larval habitats, such as installation of a reliable covered water supply to communities, including household connections.

2. Environmental manipulation

Temporary changes to vector habitats involving the management of “essential” containers, such as frequent emptying and cleaning by scrubbing of water-storage vessels, flower vases and desert room coolers; cleaning of gutters; sheltering stored tyres from rainfall; recycling or proper disposal of discarded containers and tyres; management or removal from the vicinity of homes of plants such as ornamental or wild bromeliads that collect water in the leaf axils.

3. Changes to human habitation or behavior

Actions to reduce human–vector contact, such as installing mosquito screening on windows, doors and other entry points, and using mosquito nets while sleeping during daytime. The choice of approach may be effective, practicable and appropriate to local circumstances. Actual or potentially important container types that cannot be removed from the area may be dealt with in situation.

Audit observed that Environmental Management was not emphasized by the organization. Improvements in, and maintenance of, urban infrastructure and basic services contribute to the reduction in available larval habitats since large populations are often associated with poor water supply and inadequate sanitation and waste disposal services.

4.2.6 Thermal fogging instead of cold fogging - A cause of pollution and diseases

As per para Table 3.3 under Para 3.2.3 of WHO Guidelines for Dengue Diagnosis, Treatment, Prevention and Control 2009, the choice of insecticide formulation for space spraying in and around dwellings should be based on its immediate environmental impact and the compliance of the community. Only insecticide products with high flash points may be used for thermal fogging. Space spraying formulations are usually oil based, as the oil carrier inhibits evaporation of small fog droplets. Diesel fuel has been used as a carrier for thermal fogging agents, but it creates thick smoke, has a strong smell and creates oily deposits which may lead the community to reject its use.

The programme may be environmental friendly and having no adverse effect on environment rather due to Dengue programme interventions, the incidence of morbidity and mortality would be reduced as well as health hazards associated with this disease thus producing healthy nation. Reduction in incidence of Dengue disease would result in healthy clean and aseptic environment.

Audit discovered that in thermal fogging, High-Speed Diesel, among other substances, was utilized as detailed below:

S. No.	Financial Year	Diesel (For Fogging) Litre
1	2018-19	1,108
2	2019-20	5,092
3	2020-21	2,685
4	2021-22	8,303
5	2022-23	10,230
Total		27,418

According to medical experts, the direct inhalation of diesel fumes, combined with insecticides, has the potential to worsen conditions such as asthma or bronchitis, particularly among individuals with pre-existing respiratory ailments. Those most vulnerable to exacerbation include pregnant women, small children, and the elderly. Eye specialists also emphasized that diesel fumes can lead to irritation and itching on the skin and eyes. Prolonged exposure to such fumes could result in temporary swelling of the corneas. Therefore, cold fogging may be adopted to avoid pollution.

4.3.7 Non-conducting of research

As per Para 3.3.7 of WHO Guidelines for Dengue Diagnosis, Treatment, Prevention and Control 2009, operational research may be oriented to the priority needs of the programme in order to generate the evidence base for adaptation of strategies and interventions. This may include studies on ecology of the vector, the efficacy, effectiveness and cost effectiveness of the existing and promising new vector control methods, formative research on relevant cultural practices, and guidance for engaging communities in programme activities.

The following areas were not addressed by the organization:

a) Impact of awareness campaigns, b) Social / financial impact of Dengue, c) Control methodology, d) Environmental impact of insecticidal spraying, e) Knowledge, attitude and practices (KAP) regarding Dengue, f) Insecticide resistance, g) Disease dynamics, h) Vector dynamics, i) Agent dynamics, j) Any other aspect requiring research in Dengue.

Study of research articles revealed that fogging knocks down only the adult mosquito, and not the larvae that are the source of breeding. Larvicide measures, on the other hand, are recognized as an important intervention to prevent large-scale spread of dengue. Targeting adult mosquitoes offers temporary control and that, too, in limited settings and under ideal conditions. For example, in the case of outdoor fogging the mist most often does not attain the required concentration and reach in order to be effective. Pre-conditions like wind speed and direction as well as air temperature influence the concentration. Indoor fogging, on the other hand, is a challenge due to reluctance of residents/owners in allowing fogging into their premise. Besides the limitation of resources, there are practical limitations in covering all houses/premises across the city. The frequency of fogging is another determinant. It is recommended to be repeated after 3-4 days which is far from the reality across the city.

It was noticed that the dengue control programme had been implemented from 2018-19 to 2022-23 by DHS, Islamabad. Although entomologists and laboratory facilities were operational, no evidence of recorded operational researches or conducted activities was found.

4.3.8 Pesticides were purchased without the Lab test Reports

As per para 3.2.5 WHO Guidelines for Dengue Diagnosis, Treatment, Prevention and Control 2009, insecticides resistance must be considered as a potentially serious threat to effective dengue vector control.

WHO's kits for testing the susceptibility of adult and larval mosquitoes remain the standard method for determining susceptibility status of virus.

Pesticides are essential component for vector control to prevent the vector borne diseases like Dengue. Quantities of these chemicals have been calculated keeping in view the requirements of the districts given by the EDO office to the Director General Health Services Islamabad (DGHS). The WHO provided technical assistance in procurement of pesticides and case management.

Audit observed that that different kinds of pesticides about 12,626 liters were purchased during the years 2019-23 but no lab tests were conducted to check the quality of the pesticides for effective control:

S. No	Year	Qty Pesticides(Litre)
1	2019	704
2	2020	2,565
3	2021	1,563
4	2022	4,225
5	2023	3,569
Total		12,626

Conclusion:

Impact assessment of the dengue control programme revealed that there was a mix trend of reported cases during last five calendar years as under:

S. No	Year (Jan. to Dec)	Number of Dengue Cases	%Increase (Decrease) in Cases
1	2019	2,074	-
2	2020	15	(99.28)
3	2021	1,093	7186.67
4	2022	1,766	61.57
5	2023	880	(50.17)

Following are the main deficiencies in implementation of the programme:

- i. Lack of preparedness
- ii. Non-existence of regulations including environmental management in CDA in line with other Government organizations like Health Department Government of Punjab
- iii. Non-updation of hot spot list

Recommendations:

The key issues that have hindered the Directorate's ability to effectively achieve its objectives and need to be addressed for the future improvement of its impact, are as follows:

- i. **Improved Planning**

The DHS dengue control program should focus on developing robust planning strategies that align with their objectives and prioritize the healthcare needs of the population they serve. This will help in better resource allocation and effective service delivery.

ii. Standardized Operational Framework

Implementing a standardized operational framework will ensure consistency and efficiency in the service delivery.

iii. Systematic prevention works best

Instead of fogging, the focus may be on long-term preventive measures and creating awareness among people. The community has a very important role in play in controlling dengue by keeping private premises clean.

iv. Enhance Oversight Mechanism through regular monitoring

Establishing a proper oversight mechanism is crucial to ensure the delivery of quality healthcare services. Regular monitoring and evaluation may be conducted to identify areas of improvement and to ensure the provision of quality healthcare services.

v. Optimal Resource Utilization

The DHS should strive to optimize the utilization of available resources, including the healthcare workforce, medical equipment etc. Addressing the shortage of qualified healthcare workforce and ensuring the availability of essential pesticides supplies.

vi. Enhance Diagnostic Services of Laboratory

To ensure the optimal functionality of the lab and enhance diagnostic services, it is crucial to invest in the procurement of the latest equipment besides the recruitment of qualified personnel capable of performing laboratory functions.



**AUDIT REPORT
ON
THE ACCOUNTS OF
PUBLIC SECTOR ENTERPRISES
GOVERNMENT OF PAKISTAN
AUDIT YEAR 2023-24**

AUDITOR-GENERAL OF PAKISTAN

DIRECTORATE GENERAL OF COMMERCIAL AUDIT & EVALUATION (NORTH & SOUTH)

Chapter-1

Aviation Division Cabinet Secretariat

Overview

The Aviation Division spearheads strategy, policy and oversight of all matters related to civil aviation. It has the primary focus on matters concerning civil aviation by virtue of its structural and human-resource oriented acumen. A developed civil air transport system is vital to economic development of a country. Important economic centers like trade and tourism rely on functioning of air transport system. This Division's activities hence are geared directly towards aviation and indirectly corroborating existing national economic growth plans. Aviation sector must thrive to some reasonable degree on its own terms. An entrepreneurial spirit and 'can-do' attitude among many other business values is encouraged.

The vision is to promote and regulate civil aviation activities and to develop an infrastructure for safe, secure, efficient, adequate, economical and well-coordinated civil air transport service in Pakistan. Three main drivers of control to pursue this vision are strategy, policy and oversight.

Aims & Objectives

1. To improve governance and oversight for the compliance of ICAO standards of aviation safety, security and efficiency.
2. To provide level-playing field for national airlines and liberalize aviation sector in the country by allowing market forces to determine the price, quality, frequency and range of air services options.
3. To follow suitable Public-Private Partnership (PPP) models for the operations, management and development of airports.
4. To develop a state-of-the-art infrastructure for the provision of safe and efficient air transportation.
5. To incentivize aviation sector for socio-economic growth.
6. To create conditions conducive for affordable general aviation activities, i.e. sports flying and inter-city air travel by private aircraft /air-taxi service/charters, etc.

Governing Laws and Policies

- Aircraft (removal of danger to safety) Ordinance, 1965
- Pakistan Civil Aviation Authority Ordinance, 1982
- Airport Security Force Act, 1975
- Civil Aviation Ordinance, 1960
- Carriage by Air Act, 2012

(Rs in million)					
S#	Description	Total	Audited	Expenditure audited FY 2021-22	Revenue/ Receipts audited FY 2021-22
1	Formations	2	2	188,780.553	172,068.435

Classified Summary of Audit Observations

Audit observations of Rs 238,622.25 million were raised as a result of this audit. This amount also includes recoverable of Rs 10,356.641 million as pointed out by audit. Summary of the audit observations classified by nature is as under:

(Rs in million)		
S#	Classification	Amount
1.	Non-production of record	-
2.	Reported cases of fraud, embezzlement and misappropriation	16.245
3.	Irregularities	
A.	HR / employees related irregularities	62.704
B.	Procurement related irregularities	12,124.065
C.	Management of accounts with commercial banks	-
4.	Value for money and service delivery issues	772.916
5.	Others	208,322.486

1.1 Pakistan International Airlines Corporation

1.1.1 Introduction

Pakistan International Airlines Corporation (PIAC) was incorporated on 18 April, 1956 under the Pakistan International Airlines Corporation Act, 1956 (PIAC Act, 1956). With effect from April 19, 2016, the Company has been converted from a statutory company into a public limited company by shares Pakistan International Airlines Company Limited through Act No. XV of 2016. As a result of conversion, its shares are quoted in Pakistan Stock Exchange. The principal activity of the corporation is to provide air transport services. In addition, the corporation is engaged in providing engineering and allied services to other airlines.

1.1.2 Comments on Audited Accounts

1.1.2.1 The working results of the Corporation for the period ended December 31, 2022 compared with December 31, 2021 are reflected hereunder:

(Rs in million)					
	2022	% Inc / (Dec)	2021	% Inc / (Dec)	2020
Revenue - net	172,038.13	99.61	86,185.39	(9.27)	94,989.39
Other operating income	6,275.63	(4.17)	6,548.79	(41.71)	11,235.15
Operating expenses	189,629.87	75.97	107,761.22	0.80	106,904.85
Operating loss	(11,316.11)	(24.69)	(15,027.03)	2108.85	(680.31)
Exchange Loss-Net	(25,229.81)	243.43	(7,346.43)	48.45	(4,948.84)
Loss before interest & tax	(36,545.92)	63.34	(22,373.47)	297.46	(5,629.16)
Financial charges	49,971.13	82.44	27,390.28	(7.85)	29,724.51
Loss before taxation	(86,517.06)	73.86	(49,763.75)	40.76	(35,353.67)
tax expenses	1,491.36	341.57	337.74	(147.51)	(710.86)
Loss after taxation	(88,008.42)	75.66	(50,101)	44.62	(34,642.81)

(Source: Audited Accounts 2021 & 2022)

Operating expenses increased by 75.97% as compared with previous year (2022: Rs 189,629.870 million 2021: Rs 107,761.220 million), registering increase of Rs 81,868.650 million in 2022 due to increase in aircraft fuel cost, maintenance & overhaul, flight equipment rental and landing & handling charges.

1.1.2.2 PIACL fleet was increased by 17.24% as compared with previous year (2022: 34 aircrafts, 2021:29 aircrafts), registering an increase of 5 aircrafts due to induction of A-320 aircrafts.

1.1.2.3 PIACL Human Resource was decreased by 4.53% as compared with previous year (2022: 8,162, 2021: 8,550) due to induction of Voluntary Separation Scheme (VSS).

1.1.2.4 Exchange loss increased by 243.43% as compared with previous year (2022: Rs 25,229.810 million 2021: Rs 7,346.430 million), registering increase of Rs 17,883.380 million in 2022 due to fluctuation in rupee dollar parity on regular basis.

1.1.2.5 Finance cost increased by 82.44 % as compared with previous year (2022: Rs 49,971.130 million 2021: Rs 27,390.280 million), registering increase of Rs 22,580.850 million in 2022 due to non-payment of previous loans (principal and markup) and acquiring of new finance at higher rates.

1.1.2.6 The working capital of corporation stood at negative standing of Rs 331,227.530 million which reflects deficiency of working capital to support business needs.

1.1.2.7 Net loss to asset ratio deteriorated to 56.79% in the year 2022 as compared to 34.23% in the year 2022 due to heavy operating cost along with exchange losses and finance cost.

1.1.2.8 The Corporation's current assets as on December 31, 2022 stood at Rs 49,366.09 million, and its current liabilities Rs 380,593.62 million, which casts doubts regarding the corporation's ability to meet its short-term debt obligations and therefore, continue as a going concern. The financial structure of the corporation was highly leveraged and its current ratio was 0.12% which showed that the corporation's current assets were not enough to cover its current liabilities.

1.1.2.9 Debt to asset ratio was 4.79:1 showing that business operations rely on borrowings which leads to risk of bankruptcy. The long-term debt of the corporation stood at Rs 362,054.670 million and total shareholder's equity of Rs (587,673.88) million as on December 31, 2022 which depicted heavily indebted financial structure.

1.1.2.10 Acid test ratio (Quick ratio) was 0.04:01 which reflected non-availability of sufficient quick assets to meet their current financial obligations.

1.1.2.11 Foreign and local stations did not achieve the revenue target and growth of the tonnage was also recorded at lower side in the year 2021 which resulted in non-realization of revenue amounting to Rs 609.639 million.

1.1.2.12 Actual revenue realized amounting to Rs 591.223 million against export based targets of Rs 1,002.072 million resulted in non-realization of cargo revenue of Rs 410.849 million at Sialkot station.

1.1.2.13 The management incurred an expenditure of Rs 2,045.990 million on closed stations during the year 2022 due to non-authorization by European Union Aviation Safety Agency (EASA) at Europe and UK which requires rationalization in terms of revenue earned.

1.1.2.14 The Board of Directors did not lay annual audited accounts in Annual General Meeting (AGM) on the scheduled date. Furthermore, it also did not approve the quarterly financial statements with the specified time despite obtaining the extension period for thirty (30) days as detailed below:

Year	Dates of lay in AGM	Delay in

	Name of Report	Due Date	Laid on	Extension	days	Expected loss due to penalty (Rs)
2022	Annual Audited Accounts	30.04.2023	17.06.2023	30 days	18 days	Rs 9,000,000 (Rs 500,000*18 days)
					Total	Rs 9,000,000

Year	Financial statement	Due Date	Approved by the Board	Extension	Delay in days	Expected loss due to penalty (Rs)
2022	1 st quarter	30.04.22	26.06.22	30 days	25 days	Rs 12,250,000 (Rs 500,000*25 days)

1.1.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	% age of compliance
1998-99	28	24	4	42, 43, 53, 72	86%
2001-02	31	16	15	74, 75, 77, 78, 79, 81, 83, 84, 85, 87, 90, 91, 93-94, 96	52%
2002-03	31	24	7	37, 38, 39, 40, 40.1, 40.2, 40.4	77%
2003-04	18	13	5	22, 23, 25, 26, 27	72%
2004-05	11	3	8	21, 22, 24, 25, 26, 27, 28	27%
2006-07	32	23	9	18,19, 20, 22, 24,25, 26, 28, 30	72%
2007-08	29	23	6	27,31,32,33,34,35	79%
2009-10	12	6	6	38,39,41(i),41(ii), 43,44,46	50%
2010-11	25	7	18	"3.1.2, 3.1.2.1, 3.1.2.2,3.1.2.3, 3.1.2.4,3.1.2.5, 3.1.2.6, 3.1.2.7, 3.1.3, 3.1.4.1, 3.1.4.2, 3.1.4.3, 3.1.4.18, 3.1.4.19, 3.1.4.20, 3.1.4.21,3.1.4.23, 3.1.4.24,	
2012-13	15		3	4.1.4.10, 4.1.4.1, 4.1.4.8	0%
2014-15	40		9	1.1.4.7, 1.1.4.25, 1.1.4.37, 1.1.4.5, 1.1.4.6, 1.1.4.22, 1.1.4.3, 1.1.4.38, 1.1.4.33	0%

2016-17	30	8	22	1.1.4.1, 1.1.4.7, 1.1.4.8, 1.1.4.30, 1.1.4.29, 1.1.4.19, 1.1.2.2, 1.1.2.4, 1.1.3, 1.1.4.12, 1.1.4.13, 1.1.4.15, 1.1.4.16, 1.1.4.17, 1.1.4.20, 1.1.4.22, 1.1.4.23, 1.1.4.24, 1.1.4.25, 1.1.4.26, 1.1.4.27, 1.1.4.28	27%
2017-18	49			1.1.4.2, 1.1.4.31, 1.1.4.23, 1.1.4.9	
2018-19	42	1	41	(1.1.4.1, 1.1.4.3, 1.1.4.9, 1.1.4.12, 1.1.4.18, 1.1.4.19, 1.1.4.20, 1.1.4.23, 1.1.4.27, 1.1.4.32 (remaining to be discussed in PAC))	2%
2019-20	18		18	1.1.4.1, 1.1.4.8, 1.1.4.9, 1.1.4.10, 1.1.4.11, 1.1.4.12 (remaining to be discussed in PAC)	0%
Total	411	148	171		36%

The overall compliance of PAC directives was not satisfactory which required attention of the management.

1.1.4 Audit Paras

1.1.4.1 Non-payment of taxes, duties and other obligations – Rs 131,579.930 million

According to Federal Excise Duty Act 2005, federal excise duty and advance tax collected from passengers under was required to be deposited into government treasury within 45 days from the date of deduction.

During audit of Pakistan International Airlines Corporation Limited (PIAC), finance department for the year 2022, it was observed that the management was not honoring its liabilities timely in respect of taxes and duties payable to the government organizations. The non-payment raised the obligations substantially and also affected its current liquidity position. The details of outstanding liabilities as on December 31, 2022 are as under:

(Rs in million)		
S#	Particulars	2022
1.	Collection on behalf of others	64,891.21
2.	FED-International Travel	11,344.25
3.	Income tax deductible at source	2,088.27
4.	Custom, federal Excise duty and sale tax	2,354.44
5.	Civil Aviation Authority	50,684.77
6.	PIA Investment Ltd	216.99

Total	131,579.93
--------------	-------------------

Audit is of the view that due to poor fund management and weak internal controls, the management failed to honor the liabilities on time, which was damaging to the financial, operational, and reputational standing of the Corporation.

The matter was reported to the management on September, 2023. The irregularity was discussed in the DAC meeting held on January 19, 2024. The management informed that the outstanding balances owed to both Pakistan Civil Aviation Authority (PCAA) and the Federal Board of Revenue (FBR). The Privatization Commission is currently considering these amounts as part of PIACL's ongoing financial restructuring and PIA will follow the decision of GoP on the outstanding liabilities. DAC directed to get resolved the matter at Ministry level and details of outstanding taxes and duties get verified by Audit.

Audit recommends implementation of the DAC directives.

Note: The issue was also reported earlier in the Audit Reports for Audit Year(s) 2022-23 vide para(s) number 1.1.4.22 having financial impact of Rs. 573.586 million and for Audit Year 2021-22 vide para(s) number 1.1.4.1 having financial impact of Rs 39,771.480 million. Recurrence of same irregularity is a matter of serious concern.

(DP No. 624 & 626)

1.1.4.2 Loss due to prolonged grounding of aircrafts – Rs 21,815.290 million

Clause 2.10.3.1 of Engineering and Maintenance Manual of PIAC states that PIA Engineering and Maintenance shall respect minimum maintenance requirements and ensure that all maintenance is carried out in conformance with the manufacturer's documentation / instructions.

During audit of Pakistan International Airlines Corporation Limited (PIAC), finance department for the year 2022, it was observed that PIAC aircrafts took an extended time in routine maintenance ranging from 44 to 239 days which resulted in substantial loss, as summarized below (Annex-5).

(Rs in million)					
Reg. No.	Delay x per day revnue loss	Grounding Loss	Lease exp	Total	Status
BMG	239 x 19.99	4,777.61	-	4,777.61	Owned
BGK	199 x 19.99	3,978.01	-	3,978.01	Owned
BMG	71 x 19.99	1,419.29	-	1,419.29	Owned
BHV	46 x 19.99	919.54	-	919.54	Owned
BGK	44 x 19.99	879.56	-	879.56	Owned
BLC	652 x 12.21	7,960.92	702.37	8,663.29	Leased
BMX	37 x 12.21	451.77	113.99	565.76	Leased
BLB	43 x 12.21	525.03	87.2	612.23	Leased

Total	20,911.73	903.56	21,815.29	
--------------	------------------	---------------	------------------	--

Audit is of the view that due to negligence of the management, extended delay occurred which resulted in operational and financial losses amounting to Rs 21,815.29 million which was unjustified.

The matter was reported to the management on September, 2023. The irregularity was discussed in the DAC meeting held on January 19, 2024. The management informed that the delays in these aircraft roll-outs were caused by a combination of unforeseen structural repairs, financial constraints, and payment issues affecting the ability to conduct timely maintenance and repairs. DAC directed to provide documentary evidence in support of financial constraint for repair abroad expenditures along with other relevant issues of prolong grounding of aircraft.

Audit recommends implementation of the DAC directives.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year(s) 2022-23 vide para(s) number 1.1.4.1 having financial impact of Rs. 38,404.440 million. Recurrence of same irregularity is a matter of serious concern.

(DP No. 619 & 620)

1.1.4.3 Non-recovery of various outstanding dues – Rs 10,260.084 million

Clause 2.02 of Credit Policy of Pakistan International Airlines Corporation (PIAC) states that, credit period may be up to 30 days (Government of Pakistan 60 days), financing cost @ 1.25% per month is to be added to all overdue credit for such period(s) (except Government of Pakistan) and all further credit on overdue accounts should be stopped until all past dues are cleared.

During audit of Pakistan International Airlines Corporation Limited (PIAC), Finance Department for the year 2022, it was observed that an amount of Rs 10,260.084 million (Annex-6) was outstanding against various parties as detailed below:

(Rs in million)			
S#	Account Head	Amount	Remarks
01	PAX Sale	6,774.720	Outstanding dues includes pending since last three (03) years or more.
02	Cargo Sale	698.140	
03	PEC	836.660	
04	Government	550.490	
05	PM General Receivable	55.240	
06	BSA-Cargo	734.270	
07	Others	132.800	
08	Speedex	157.990	Outstanding since 2020
09	M/o Religious Affairs	166.680	Outstanding since 2010-2022
10	M/s Oasis Travels	3.260	Penalty recoverable since 2020
11.	Air China	149.834	Non-billing of ground handling charges.
Total		10,260.084	
<i>(Source: General Ledger of PIAC)</i>			

Audit is of the view that the management was unable to recover a huge amount of Rs 10,260.084 million from various parties from various parties, which showed negligence and weak recovery mechanism.

The matter was reported to the management on September, 2023. The irregularity was discussed in the DAC meeting held on January 19, 2024.

- a. The management informed that Pax outstanding amount is a result of the sale proceeds which are realized at the end of a sales period. Since, none of the agents have declared default in the last year; therefore, it will not be wrong to presume that the subject outstanding amount has been recovered.
- b. The management informed that the Cross Functional Team (CFT) has recommended that the matter be referred to HR for a formal investigation against the balance sum pending

recovery/reconciliation mentioned in the para and determined by the team as Rs 84.85 million or 46.02 % of the total outstanding amount i.e.Rs 184.448 million.

- c. The management informed that the subject outstanding amount is a result of disputed figures between MORA and PIA. These figures have been contested and a recent reminder for payment has also been sent to them. Further, it has been escalated to the ministry level for settlement.
- d. The management informed that in this regard the enclosed management approval was routed through all stakeholders and the same was approved in line with the Corporation Policy governed under Schedule of Powers. However, the case is still in litigation for pending claim whereby PIA had requested the previous amount.
- e. DAC directed the management to pursue the recovery.
- f. The management informed that as a result of closure of GSA agreement with the agent concerned, reconciliation was carried out by Finance and advised to station. The advised amounts were settled from the Commercial end.
- g. DAC directed the management to get verify the record with Audit.

Audit recommends implementation of the DAC directives.

(DP No.500, 501, 502, 503, 606, 607, 609, 618, 798 & 800)

1.1.4.4 Non-depositing of provident fund & markup – Rs 9,867.370 million

Section 218 of the Companies Act, 2017 states that all moneys or securities deposited with a company by its employees in pursuance of their contracts of service with the company shall be kept or deposited by the company within fifteen days from the date of deposit in a special account to be opened by the company.

During audit of Pakistan International Airlines Corporation Limited (PIAC), finance department for the year 2022, it was observed that the management failed to fulfill their contractual obligation by non-depositing the employee’s provident fund in a separate bank account on monthly basis. The said amount was not deposited within the stipulated time of fifteen (15) days to the provident fund account as required under the law. The details of deposit and interest are as under:

(Rs in million)	
Particulars	December 31,2022
Provident Fund	1,213.530
Accrued Mark up	8,653.840
Total	9,867.370

Audit is of the view that the management failed to formulate a strategy to pay off their provident fund liabilities and to protect the interests of their employees. This shows inefficiency, weak policymaking and poor financial management.

The matter was reported to the management on September, 2023. The irregularity was discussed in the DAC meeting held on January 19, 2024. The management informed that Audit has rightly pointed out that obligation on account of PF and Mark-up were not being paid regularly during past w.e.f year 2020, not only the obligations for the period were paid within stipulated time period but also the excess payments in lieu of past obligations were made to lessen the burden on corporation. DAC directed to share details of deposit made against the principal and interest in relation to provident fund and clear outstanding liabilities.

Audit recommends implementation of the DAC directives.

Note: The issue was also reported earlier in the Audit Report for Audit Year(s) 2022-23 vide para(s) number 1.1.4.8 having financial impact of Rs. 11,342.290 million and for Audit Year 2021-22 vide para(s) number 1.1.4.4 having financial impact of Rs.15,772.249 million. Recurrence of same irregularity is a matter of serious concern.

1.1.4.5 Non-disposal of spare parts of retired aircrafts – Rs 8,566.720 million

Board Audit Committee (BAC) in its 70th meeting held on September 22, 2014 regarding the sale / obsolete inventory in the active stock rooms directed that the Board Audit Committee desired that management should take appropriate measures for disposal of surplus inventory.

According to principles of procurement enunciated in the PIAC's Procurement Manual, one of the five basic concerns that govern PIAC's procurement policies is to ensure that the funds are used to buy only those Products/Goods, Services, Works, Plant & Equipment and Information Systems which are needed to operate and maintain PIAC.

During audit of Pakistan International Airlines Corporation Limited (PIACL) supply chain management (SCM) for the year 2022, it was observed that the management had an inventory of spare parts of retired aircrafts valuing Rs 8,566.000 million since 2015 to 2021 which had not been disposed off in violation of BAC directives. The details are as under:

(Rs in million)			
S#	Aircraft	Retirement year	Amount
1.	B-747-300	2015	1,239
2.	C 707	-	199
3.	J747-200	2003	1,798
4.	CESSNA	-	8
5.	SA-310	2015	3,873
6.	WB-737	2013	1,449
Total			8,566.72

Audit is of the view that the management failed to dispose off spare parts of the retired aircraft valuing Rs 8,566.720 million showed negligence and inefficiency.

The matter was reported to the management on September 26, 2023. The irregularity was discussed in the DAC meeting held on January 03 & 04, 2024. The management informed that out of total inventory management disposed off inventory of Rs 3.85 billion. DAC directed the management to prepare a comprehensive plan to dispose off inventory and conduct a fact finding inquiry within 45 days ascertain the reasons behind inventory and availability of stock.

Audit recommends implementation of the DAC directives.

1.1.4.6 Non-adjustment of huge advances against suppliers – Rs 8,413.030 million

PIAC's Schedule of Powers state that, in order to cover anticipated financial losses, advances made against purchases, whenever allowed, must be backed by either a bank guarantee or suppliers' bank, letter of intent/undertaking to make good all financial losses in case of default.

During audit of Pakistan International Airlines Corporation Limited (PIAC), finance department for the year 2022, it was observed that the management did not recover / adjust advances provided to local and foreign suppliers as on December 31, 2022 as detailed below:

(Rs in million)		
S#	Description	Amount
1	Advances	
i.	Leased Rentals	4,431.37
ii.	Supplier	871.69
iii.	Others	189.77
	Total	5,492.83
2	Total Trade Deposits	2,920.20
	Grand Total	8,413.03

Audit is of the view that non-adjustment / recovery of advances and trade deposits for a longer time reflects weak internal controls and poor financial management.

The matter was reported to the management on September, 2023. The irregularity was discussed in the DAC meeting held on January 19, 2024. Management informed that adjustment and settlement of advance payment to suppliers for the purchase of various goods and services by the company is an ongoing process. The Lease and fuel suppliers which usually have a contract of minimum of 02 years therefore under the continuing agreement terms the ongoing settlement/issuance of advance is being followed as a normal course of action. DAC directed get the adjustments made and outstanding verified from audit.

Audit recommends prompt action for adjustments / recovery of the outstanding amount.

1.1.4.7 Un-reconciled balances with customers and banks – Rs 6,335.920 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan International Airlines Corporation Limited (PIACL), finance department for the year 2022, it was observed that an amount of Rs 6,335.920 million (Annex-7) was not timely reconciled by the management specially the issue of PSO receivables were major concern for PIA management as PSO time and again stopped the supply of fuel to PIA and the dispute between PSO & PIA was raised to the ECC, as detailed below:

(Rs in million)		
S#	Description	Un-reconciled Balances
1.	TGS-related Receivables	2.610
2.	PSO Receivables	6,258.990
3.	Bank Balances	94.320
Total		6,355.920

Audit is of the view that the management failed to perform due reconciliation along with full recovery of outstanding dues from relevant parties. This reflected poor credit control, which may potentially lead to credit losses.

The matter was reported to the management on September, 2023. The irregularity was discussed in the DAC meeting held on January 19, 2024.

- a. The management informed the DAC that three invoices amounting to USD 18,000 pertaining to M/s Evelope Airline were outstanding since 2018/19 and further informed that adjustment equivalent to PKR Rs 2.61 million has been made in the books of PIA accounts. DAC directed to get the facts reconciled and share with audit.
- b. The management informed the DAC that the non-reconciliation of Rs 6,258.99 million is the difference due to the reason that PSO started adjustment of Late Payment Interest (LPI) out of Principal Payments made by PIA. PIA is making current payments to PSO. The ECC also directed to resolve the issue but no result has been achieved. DAC directed to get the reconciliation made with PSO at the earliest and share detail with Audit.
- c. The management informed the DAC that six bank accounts have been reconciled having material differences. DAC directed to share with audit, reconciliation report along with bank statement of reported bank balances.

Audit recommends implementation of the DAC directives.

(DP No. 610, 625 & 635)

1.1.4.8 Loss due to non-completion of aircrafts re-delivery – Rs 6,208.447 million

Clause 19.4 of lease between PIAC and M/s Asia Aviation Capital Limited states that (a) if lessor determines that Lessee has not fully complied with any of its obligations under this Agreement, Lessee will, at Lessor's option either:(i) immediately rectify such non-compliance and all Lessee's obligations under this Agreement will remain in force until such non-compliance has been rectified and in particular (without limitation) Lessee shall (A)continue to pay Basic Rent to Lessor (A) within 14 days of the Expiration Date, at 100%, (B) after 14 days of the Expiration Date but within 28 days of the Expiration Date, at 150% and (C) after 28 days of the Expiration Date, at 200%, of the daily equivalent of the Basic Rent then payable until the date such non-compliance shall have been rectified and Redelivery of the Aircraft shall have taken place and (B)not operate the Aircraft in flight operations unless such operations are consented to by Lessor and directly related to the Redelivery.

During audit of Pakistan International Airlines Corporation Limited (PIAC), finance department for the year 2022, it was observed that PIAC inducted two A-320 aircraft, AP-BLY and AP-BLZ, from Asia Aviation Capital Limited on dry lease in 2015. In September / October 2021, on completion of the lease period, both aircrafts were positioned at an EASA/FAA-approved maintenance facility in Jakarta. As per the lease agreement, the work scope of redelivery was maintenance and inspection of the aircrafts. However, redelivery of both aircrafts was still awaited due to non-maintenance and inspection on the part of management. It was also observed that the management incurred an amount of Rs 16.458 million on account of OCS to 21 aircraft engineers for the inspection of aircrafts. Non-completion of the redelivery arrangement on time resulted in heavy expenditure on account of rent and maintenance reserves as detailed below:

S#	Particulars	Period	USD	Rate	Rs in million
1	Maintenance Reserve Payments	Dec-2021 to June 2023	841,938	288	242.41
2	Maintenance Reserve Provision (Liabilities to Lessor)	Feb-2023 to July 2023	9,640,000	288	2,775.55
3	Double Rent	-	11,024,000	288	3,174.03
Total			21,505,938	288	6,191.99

Audit is of the view that the non-delivery of aircrafts and subsequent visits of the engineers were unjustified causing huge loss of the resources and denting the image of airline which reflected weak internal controls and poor financial management.

The matter was reported to the management on September, 2023. The irregularity was discussed in the DAC meeting held on January 19, 2024. The management informed the DAC that one aircraft has been delivered to PIACL and efforts were being made for delivery of another aircraft. DAC directed the management to verify the record from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.9 Non-implementation of BoD directives against properties – Rs 2,613.379 million

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

During audit of Pakistan International Airlines Corporation Limited (PIAC), works department for the year 2022, it was observed that PIACL Board in its meeting dated April, 2021 decided that the matter of two disputed properties (i) PIA Football Ground, Karachi & (ii) Sambara Inn Hotel, Larkana were to be taken up with federal government through Aviation Division and Finance Division. BoD further directed that PIA should seek compensation equivalent to the present market value of both properties from the share of Sindh government's divisible pool of revenues awarded through National Finance Commission. However, the management failed to take any action as per BoD directives. The market value of the properties is as under:

S#	Name of Property	Area (Square Yard)	Market Value (Rs)
1	Football Ground Plot No.ST-4, KDA Scheme No.1	38,340	1,462,500,000
2	Sambara Inn Hotel Larkana	23,367	1,150,879,200
Total		61,707	2,613,379,200

Audit is of the view that the management was unable to secure the possession of the properties nor received any compensation which reflected gross violation of BoD's directives.

The matter was reported to the management in November, 2023. The irregularity was discussed in DAC meeting held on January 03 & 04, 2024. The management informed that both properties i.e., Football ground at Karachi & Sambara Inn at Larkana were disputed. Further, the case was presented in 56th BoD dated 29.4.2021 to take up the matter with Govt. of Pakistan through Aviation Division & Finance Division since, the matter is still under process. DAC directed the management to share the latest status of the disputed cases along with court orders etc. with Audit.

Audit recommends implementation of the DAC directives.

1.1.4.10 Non-transfer of shares to government in violation of Supreme Court of Pakistan – Rs 2,318.554 million

Honorable Supreme Court of Pakistan's judgment dated October 22, 2020 on Benazir Employees Stock Option Scheme (BESOS) states that that the Federal Cabinet was not competent to take decision dated 05-08-2009 approving the Scheme and the same is declared to be in violation of Article 154 of the Constitution thus, the total Shares 231,855,493 held in the name of PIA Employees Empowerment Trust

(PEET) may be transferred back to the Government of Pakistan (GoP) and the Trust may be closed. Furthermore, Para-16 the judgment of Supreme Court also states that irrespective of the objective of the Scheme, we are of the considered view that the matter of transfer of 12% shares of Government of Pakistan in dozens of SOEs and Government of Pakistan Shareholdings without any policy input by CCI, definitely fell outside the ambit of the authority.

During audit of Pakistan International Airlines Corporation Limited (PIACL), corporate secretariat for the year 2022, it was observed that Government of Pakistan (GoP) launched the Benazir Employee Stock Option Scheme (BESOS) for employees capable of permanent and contractual employees who were in employment of this entity on its launch date, completion of five years' vesting period on August 14, 2009. Under the scheme, PIAC Employees Empowerment Trust (PEET) was formed and 12% of the shares held by the Ministry of Defence were transferred to the trust and 231,855,493 shares @ Rs 10.00 amounting to Rs 2,318.554 million were allotted to 16786 employees of PIACL. However, as per judgment of the Supreme Court of Pakistan, the management failed to transfer BESOS shares to GoP.

Audit is of the view that non-transfer of BESOS shares to GoP reflects violation of Supreme Court of Pakistan's directives.

The matter was reported to the management on September 13, 2023. The irregularity was discussed in the DAC meeting held on January 19, 2024. The management informed the DAC that a total of 231,855,493 shares previously held in the name of PEET were transferred back to the Government of Pakistan, in the name of Secretary Aviation Division w.e.f. October 13, 2023. DAC directed that management to share the detail with Audit alongwith accounting adjustment.

Audit recommends implementation of the DAC directives.

1.1.4.11 Revenue loss due to flights flown with zero load factors – Rs 1,680.744 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan International Airlines Company Limited (PIACL), cargo division for the years 2020-2022, it was observed from the outbound cargo load factor and revenue data for the months of January, June, July, August and December, 2022 that the flights had flown with zero and below 50% load factors as against the pay load available resulting in a revenue loss of Rs 1,680.744 million (Annex-8).

Audit is of the view that the management failed to sale the available load factor due to poor planning and marketing which reflected weak financial management and inefficiency on the part of management.

The matter was reported to the management in November, 2023. The irregularity was discussed in DAC meeting held on January 03 & 04, 2024. The management informed that PIA was a passenger focused airline in which flights were mounted based on passenger traffic market. DAC directed the management to

take necessary measures for improvement of the load factor and avoid zero load factors on outbound flights and share results with audit.

Audit recommends implementation of the DAC directives.

1.1.4.12 Irregular payment without validation of user department – Rs 1,669.860 million

Section 3.2.2 of Station Disbursement Manual, 2001 states that each invoice / bill / cash memo/cash receipt / statement / claim must be certified by the concerned officer and approved by Station Head.

During audit of Pakistan International Airlines Corporation Limited (PIAC), finance department for the year 2022, it was observed that the services of M/s HITIT are used by multiple departments and divisions. However, the finance department released payments against the services rendered amounting to Rs 1,669.863 million (US\$ 7,364,336 @ Rs 226.750) to M/s HITIT without getting due validation from the concerned user department.

Audit is of the view that payment against invoices without confirming the validity of services received and claimed charges was held irregular and unjustified.

The matter was reported to the management on September, 2023. The irregularity was discussed in the DAC meeting held on January 19, 2024. Management informed that on war footing, a committee has been formulated by CEO, PIA to determine facts, constraints and recommended a way-forward. This Fact-Finding Committee has been given 30 days to thoroughly review the process and submit their finding/way-forward. DAC directed to share report of fact-finding investigation on disbursement of payment to M/s HITIT with Audit.

Audit recommends implementation of the DAC directives.

1.1.4.13 Loss due to default by sales agents – Rs 1,356.459 million

Article 27 of Passenger Sales Agency Agreement (PSAA) states that Agents will be liable for any outstanding amounts in default and immediately upon notification of default, ticketing authority will be de-linked and held guarantee(s) will be encashed to cover the amounts in default.

Article 09 of Passenger Sales Agency Agreement (PSAA) states that the Agents shall be under obligation to submit sales reports and remittances on fortnightly basis in the following manner: - (1) Sales from 1st to 15th day of the month will be settled on 30th of the same month; Sales from 16th to the last day of the month will be settled on 15th of the following month.

During audit of Pakistan International Airlines Corporation Limited (PIAC), finance department for the year 2022, it was observed that various agents defaulted for not depositing the sales amount, which was required to be deposited fortnightly with PIAC. In default cases, the agents were allowed to sell the tickets beyond their prescribed limits or caps, due to which they defaulted. The details of defaults from 2014–2022 are given under:

(Rs in million)		
S#	Default Period	Amount
1.	Year 2014	278.553
2.	Year 2015	144.073
3.	Year 2016	20.618
4.	Year 2017-2022	913.215
Total		1,356.459

Audit is of the view that the management failed to recover the amount against defaulting agents despite the lapse of considerable time, which shows weak internal controls and poor financial management.

The matter was reported to the management on September, 2023. The irregularity was discussed in the DAC meeting held on January 19, 2024. Management informed that the amount will be reconciled with Audit. DAC directed to get the defaulted figures reconciled with Audit along with recovery made since 2014.

Audit recommends implementation of the DAC directives.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year 2022-23 vide para(s) number 1.1.4.48 having financial impact of Rs.25.014 million. Recurrence of same irregularity is a matter of serious concern.

1.1.4.14 Non-recovery from lessor and irregular award of contract without tendering – Rs 1,279.560 million

Article 17.4 of charter agreement signed between PIAC and M/s Hi-Fly on 14th April 2021 states that in case of a delay of more than 4 hours which is solely attributable to the carrier, the carrier shall bear related passenger compensations and/or welfare costs assumed by the charterer as a result of the delay (if any) up to a limit of 50% of the price of the affected flight.

Rule 12(1) of PPRA Rules, 2004 states that procurement over one hundred thousand rupees and up to the limit of two million rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the Authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency.

During audit of Pakistan International Airlines Corporation Limited (PIACL), corporate planning for the year 2022, it was observed that the management entered into Air Charter Agreement (Wet Lease) with M/s Hi-Fly (Lessor) to perform charter flights at cost of USD 170,000 per rotation for a period of six months on 14th April 2021. Subsequently, M/s Hi-Fly Ltd operated 52 flights / rotations till September 17,

2021 and suspended its flights on 31st October, 2021 before time in violation of terms and conditions of the contract. As per charter agreement, in case of early termination of the agreement by lessor, M/s Hi-Fly was obliged to pay Rs 125.160 million (US\$ 240,000 & GBP 133,024) to PIACL which was not recovered till date.

Subsequently, in order to continue operations, management awarded contract for charter operation to M/s Jordan Aviation amounting to Rs 1,154.400 million (USD 7.215 million) without advertisement and obtaining competitive bidding. The management awarded the contract during the period from 22.09.2021 to 01.12.2021 (02 months 09 days) on number of rotation basis and paid USD 185,000 per rotation for 39 rotations.

Audit is of the view that non-recovery due to breach of contract by M/s Hi-Fly and award of direct contract to M/s Jordan Aviation in violation of PPRA Rules, reflected poor planning and weak financial management.

The matter was reported to the management in September, 2023. The irregularity was discussed in DAC meeting held on January 03 & 04, 2024.

- a. The management apprised that litigation in foreign courts would cost GBP 150,000 with minimum chances of success. DAC directed the management to expedite the recovery case through PIAC Legal Team besides exploring other possible options to recover the amount.
- b. The management apprised that after discussion with PPRA officials on the issue, PIA declared emergency through their forum and the tender was made after necessary approvals. DAC directed the management to provide the copies of approvals of tenders along with approvals of formation of Fora by the concerned Authority i.e. Principle Accounting Officer (PAO) to audit for the further scrutiny.

Audit recommends implementation of the DAC directives.

1.1.4.15 Non-receipt & in-ordinate delay in aircraft engines, auxiliary power units & aircraft parts – Rs 1,205.986 million

According to Repair Agreement, Appendix C (Warranty and Turn Around Time), Warranty GTCP 131-9A:

Work Scope	Turn Around Time (TAT)
Medium / Heavy Repair	30 Calendar Days
Minor Repair	20 Calendar Days

According to Article 6.1 (Turn Around Time) of Repair Agreement between Air France Industries (AFI) and PIAC, the service provider shall carry out and complete the engine shop visit required by each work order within a shop Turn Around Time (TAT) of eighty-five (85) days (in bare configuration + 5 days with QEC).

According to Chapter 3(1) of Purchase Manual of PIAC, Technical Acquisition is of two distinct categories viz. aircraft components and spares, and vehicles / machinery and other ground support equipment and their spares. The purchase order system for both is mechanized and is in accordance with the broad structure of ATA – 200 specifications.

Further, Chapter 7 states that most of items to be procured indigenously are for non-standard type of stores. Every requirement is, therefore, examined very closely before it is processed for procurement. C-Delivery Schedule Delivery requirements are specified. Delivery should not be much earlier than the actual requirements and sufficient time should be allowed in. keeping with the lead time required for procurement and production of items by the manufacturers. The delivery schedules should be such which can reason.

During audit of Pakistan International Airlines Corporation Limited (PIAC), finance department for the year 2022, it was observed that the management sent seven (07) aircraft engines and 03 Auxiliary Power Units (APU's) for repair abroad during the years 2019-2022, but their return was still awaited despite the lapse of more than three years. The summarized detail is as follows (Annex-9).

(Rs in million)				
S#	Description	No. of units	Sending period	Cost
1	Aircraft Engines	05	2019–2022	25.736
2	Aircraft Auxiliary Power units	03	2022	680.250
	Total			705.986

Furthermore, it was also observed that there was in-ordinate delay in receiving of the aircraft spare parts despite full advance payments to the foreign vendors. The details of total number of purchase order issued in 2017 to 2021 and delivered in 2022 are tabulated below:

S #	Total Number of purchase orders issued	Year of Purchase orders	Delivery period	Actual delivered	Late delivery periods
1.	11	2017	01 month	2022	05 years
2.	30	2018	01 month	2022	04 years
3.	190	2019	01 month	2022	03 years
4.	804	2020	01 month	2022	02 year
5.	3,806	2021	01 month	2022	01 year

Audit is of the view that non-receipt of aircraft engines and in-ordinate delay in receiving of the spare parts on time despite making 100% advance payments to the foreign vendors the delivery was received after many years was failure on the part of management which reflected poor internal controls.

The matter was reported to the management on September, 2023. The irregularity was discussed in the DAC meeting held on January 19, 2024.

- a. The management informed that PIA was unable to release payments to Engine Service Providers and for APU's due to scarcity of funds. DAC directed to provide documentary evidence in support of financial constraint for repair abroad expenditures along with other relevant issues of non-receipt of engine and Auxiliary power unit.
- b. The management informed that orders were placed in different years but the supplier supplied parts within due dates and after receiving payments. DAC directed the management to provide relevant record to Audit for verification.

Audit recommends implementation of the DAC directives.

1.1.4.16 Irregular award and extensions of cafeteria services – Rs 821.149 million

Rule 12 (2) of PPRA Rules, 2004 states that all procurement opportunities over three million Pakistani Rupees should be advertised on the Authority's website as well as in other print media or

newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

During audit of Pakistan International Airlines Corporation (PIAC) Supply Chain Management (SCM) for the year 2022, it was observed that the management awarded contract of cafeterias to M/s. Mujahid Brothers for PIA employees at Karachi at a total cost of Rs 78.670 million extendable for 01 year in 2021 by disqualifying 02 bidders on the basis of technical grounds i.e. lack of relevant experience and non-registration with EOBI and SECP. However, the rejected bidders had provided the required documents.

It was further observed that initially management had awarded the contract to M/s. Mujahid Brothers in 2013-14 which was being continuously extended on one or other reason and paid total amount of Rs 821.149 million for the years 2013 to 2020 in violation of rules.

Audit is of the view that the management extended undue favor to M/s. Mujahid Brothers by disqualifying other contractors on technical grounds and irregularly awarding contract for long period in violation of rules which was unjustified.

The matter was reported to the management on August 16, 2023. The irregularity was discussed in the DAC meeting held on January 03 & 04, 2024. DAC directed the management to conduct fact finding inquiry within 20 days and share with audit.

Audit recommends implementation of the DAC directives.

1.1.4.17 Irregular procurement on direct contract basis - Rs 772.123 million

Rule 12 (2) of PPRA Rules, 2004 states that all procurement opportunities over three million Pakistani Rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

During audit of Pakistan International Airlines Corporation Limited (PIACL) supply chain management (SCM) for the year 2022, it was observed that the management in violation of the PPRA rule directly contacted a supplier namely M/s. Eastman Chemical Europe S.A.R.L. (Branch), Dubai for procurement of BP Turbo Oil No.2,380 at total quantity of 15,480 US Gallon at a unit price of US\$42.9 per gallon. Furthermore, M/S BP Middle East Dubai-UAE and M/S Solutia Chemicals India Pvt. Limited, two separate corporate companies which later merged/consolidated into Eastman Chemical Company, an American Company and during 2013, M/s BP Middle East Dubai-UAE was awarded the contract declaring Turbo Oil 2380 purchased from this company as a Propriety Item. However, in 2015, Solutia Inc. was awarded the contract of Turbo Oil 2380, and keeping in line with the previous trend, PIAC declared it as a propriety item.

Furthermore, it was also observed that the management awarded various contracts pertaining to TGS and Brand Department valuing Rs 40.036 million and Rs 52.551 million respectively without tender in violation of PPRA Rules.

Audit is of the view that award of contracts amounting to Rs 772.123 million without competitive process is a gross violation of rules.

The matter was reported to the management on September 26, 202. The irregularity was discussed in the DAC meeting held on January 03 & 04, 2024.

- a. The management informed the DAC that the Turbo-2380 oil was procured as Propriety item base and from authorized distributor. DAC directed the management that declaration of propriety item by committee along with certificate of authorized distributor provided to audit for verification.
- b. The management informed that all the contracts of TGS & Brand were awarded through prequalification basis. DAC directed the management to share the pre-qualification process with Audit for verification.

Audit recommends implementation of the DAC directives.

(DP No. 528 & 534)

1.1.4.180 Loss due to charging late payment interest by lessors - Rs 510.658 million (USD 2.042 million)

Article 5.7 of Aircraft Lease Agreement signed between PIAC (LESSEE) and LESSORS states that if LESSEE fails to pay any amount payable under the operative documents when due, LESSEE will pay to LESSOR, as supplemental rent (by way of liquidated damages as compensation for loss and increased risk and not as a penalty), interest calculated at the default interest rate on that amount, until and including the date of payment in full by LESSEE to LESSOR based upon actual days elapsed in an assumed year of 360 days and twelve months of 30 days each. Default interest will accrue at the default interest rate (as set forth on Schedule I) on a day-to-day basis and will be compounded monthly at the end of each calendar month. Default interest will accrue (a) in respect of amounts payable by way of indemnity in respect of expenses, taxes or other amounts arise, (b) in respect of damages arising due to the occurrence of an event of default from the date on which the loss to which such damages arise, and (c) in respect of all other amounts, from the applicable due date.

During audit of Pakistan International Airlines Corporation Limited (PIACL), corporate planning for the year 2022, it was observed that the management did not pay an outstanding amount of USD 7.76 million to lessors on time on account of lease rental charges of aircrafts. Resultantly, lessors charged late payment interest of USD 2.042 million. The detail of the same is as under;

(Amount in million)						
S#	Lessor	Aircraft Type	Outstanding Amount (USD)	Amount (PKR)	Late payment Interest (USD)	Amount (PKR)
1	Shikra	B777-200ER	4.90	1,225	2.006	501.636
2	ALAFCO	A320	2.86	715	0.036	9.022
Total			7.76	1,940	2.042	510.658

Audit is of the view that non-payment of outstanding amount on time by the management resulted in charging late payment interest by lessors of Rs 510.658 million which shows poor financial management.

The matter was reported to the management on September, 2023. The irregularity was discussed in the DAC meeting held on January 03 & 04, 2024. The management apprised the DAC that due to cash flow shortage and current financial position of the PIAC, delays in payments of rentals were incurred. DAC directed the management to expedite the payments of outstanding rental amount of lessors to avoid further imposition of interest payments.

Audit recommends implementation of the DAC directives.

1.1.4.19 Irregular award of contract to a technically disqualified bidder -

Rs 452.373 million

Rule 38 B (1) & (2) of PPRA, 2004 states that the procuring agency shall consider single bid in goods, works and services if it- (a) meets the evaluation criteria, ensures compliance of specifications and other terms & conditions expressed in advertisement or bid solicitation documents;(b) is not in conflict with any provision of the Ordinance; (c) conforms to the technical specifications;(d) has financial conformance in terms of rate reasonability: The procuring agency shall make a decision with due diligence and in compliance with general principles of procurement like economy, efficiency and value for money.

During audit of Pakistan International Airlines Corporation (PIAC) supply chain management (SCM) for the year 2022, it was observed that the management awarded contract for outsourcing of PIA Call Centre to M/s Pak Telecom Mobile Ltd at a total cost of Rs 452.373 million for three years w.e.f. 01.01.2021 to 31.12.2023 without financial conformance in terms of rate reasonability and without experience of providing services to aviation industry in violation of PPRA Rules.

Moreover, management issued letter of intent (LoI) to above bidder on 03.03.2021 stating that contractual period was three years commencing from 01.01.2021 to 31.12.2023. Accordingly, contract agreement was executed with retrospective effect i.e. 01.01.2021 after lapse of 03 months from the date of LoI.

Audit is of the view that awarding of contract to single bidder without confirmation of marketable rate and without having requisite experience was held irregular and unjustified.

The matter was reported to the management in October, 2023. The irregularity was discussed in the DAC meeting held on January 03 & 04, 2024. The management informed the DAC that contract was awarded to M/s. Pak Telecom Mobile Ltd as per PPRA rule 38(b) and in due process. DAC directed the management to provide the record of tender process along with LoI issued to Audit for verification.

Audit recommends implementation of the DAC directives.

1.1.4.20 Irregular purchase of property without obtaining NOC - Rs 391.431 million

Rule 5 of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan International Airlines Corporation Limited (PIACL), corporate secretariat for the year 2022, it was observed that the management purchased property at Delhi (India) in the year 2005 at a cost of Indian Rupees (INR) 38,944,990 for Booking office. Later on, Reserve Bank of India filed a law suit in the year 2015 by taking a plea that the property was purchased without obtaining NOC from the Government of India. The matter has not yet resolved and the management closed its operations at the station in the year 2019. The current market price of the property was Rs 391.431 million (equivalent to INR 105,664,000).

Audit is of the view that the management failed to obtain NOC from the Government of India which reflects gross negligence.

The matter was reported to management on September 13, 2023. The irregularity was discussed in the DAC meeting held on January 19, 2024. The management informed the DAC that no NoC was required at the time of purchase of property. The DAC directed the management to share the record with Audit pertaining to legal status/ lawyer's petition with the reason(s) that no NOC was required.

Audit recommends implementation of the DAC directives.

1.1.4.21 Irregular procurement of medicines - Rs 268.853 million

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

Rule 10 (1) of PPRA Rules, 2004 states that the procuring agency shall allow the widest possible competition by defining such specifications that shall not favour any single contractor or supplier nor put others at a disadvantage.

During audit of Pakistan International Airlines Corporation Limited (PIACL) supply chain management (SCM) for the year 2022, it was observed that the management procured medicines through brand names instead of formula based from all 33 participating bidders. Furthermore, un-registered wholesalers / distributors having less experience were also awarded the major contracts for supply of medicines (Annex-10).

Audit is of the view that the management extended undue favor to all suppliers which shows negligence and slackness. Thus, award of contracts amounting to Rs 268.853 stands irregular and unjustified.

The matter was reported to the management on September 26, 2023. The irregularity was discussed in the DAC meeting held on January 03 & 04, 2024. The management informed that the procurement was made as per PPRA rules and process of awarding contract was made through technical plus financial offers. DAC directed the management to provide the relevant documents along with justification and process for contract awarded as per PPRA to Audit for verification.

Audit recommends implementation of the DAC directives.

1.1.4.22 Unjustified write-off of receivables - Rs 260.670 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan International Airlines Corporation Limited (PIAC), finance department for the year 2022, it was observed that the management written off receivables amounting to Rs 260.670 million without providing any justification that on what account, these receivables were written off as no party-wise break up along with approval of the Board was provided to Audit. The detail is as under:

(Rs in million)			
S#	Description	Year	Amount
01	Write off	2021	252.080
02	Write off	2022	8.590
Total			260.670

Audit is of the view that written off against receivables in absence of relevant record and approval is held irregular and unjustified.

The matter was reported to the management on September, 2023. The irregularity was discussed in the DAC meeting held on January 19, 2024. The management informed that the matter pertains to PIAC Commercial department. DAC directed the management to share details of party-wise written-off along with approval of relevant authority.

Audit recommends implementation of the DAC directives.

1.1.4.23 Blockage of funds due to holding fund in dormant accounts – Rs 253.641 million

Rule 5 of Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan International Airlines Corporation Limited (PIAC), finance department for the year 2022, it was observed that funds were blocked in different banks at various international stations. These amounts remained un-utilized in dormant accounts since long with no return to the corporation. The details are as follows:

Bank Branch	Bank Account Number	Description (CURR.)	Closing Balance	Rate	Rs in million
Colombo	0010-000017808	LKR	360,273,766	0.65	234.177
Panjgur	1149-00143278-03	PKR	6,454,062	1	6.454
Dhaka	2622030494617	BDT	2,563,433	2.19	5.613
Dhaka	2622021001160	BDT	461,256	2.19	1.010
Speedex	0048-00373924-03	PKR	429,800	1	0.429
Bahrain	010-2660-7	BHD	10,981	542.6	5.958
Total					253.641

Audit is of the view that the amount lying idle in various bank accounts without realizing any return reflected gross negligence on the part of management.

The matter was reported to the management on September, 2023. The irregularity was discussed in the DAC meeting held on January 19, 2024. The management informed that they were in liaison with the HBL and UBL for the activation of accounts. DAC directed to activate the dormant accounts and share details with audit.

Audit recommends implementation of the DAC directives.

***1.1.4.24 Un-authorized extension of credit facility to defaulting agents -
Rs 202.66 million***

Clause 2.02 of Credit Policy of Pakistan International Airlines Corporation (PIAC) states that, credit period may be up to 30 days (Government of Pakistan 60 days), financing cost @ 1.25% per month is to be added to all overdue credit for such period(s) (except Government of Pakistan) and all further credit on overdue accounts should be stopped until all past dues are cleared.

During audit of Pakistan International Airlines Corporation Limited (PIACL), finance department for the year 2022, it was observed that the management extended undue favor by allowing credit facilities to cargo agents beyond their capping limits which resulted in default and subsequent non-recovery of dues as detailed below:

(Rs in million)				
S #	Name	Delay in payment days	Transactions after due date	Outstanding amount
01	M/s Leisure Cargo	899-1,051	12	181.2401
02	M/s Air Cargo Traders	214-883	17	19.53022
03	M/s Al Tayyar Travel	641-668	03	1.88567
Total				202.656

Audit is of the view that un-authorized extension in credit limits beyond capping and subsequent non-recovery of dues from agents reflected weak internal controls and poor financial management which was unjustified.

The matter was reported to the management on September, 2023. The irregularity was discussed in the DAC meeting held on January 19, 2024. The management informed that all options were exercised to recover dues including litigation against M/s Leisure Cargo including arbitration in ICC (International Court of Arbitration) and US\$ 5 Million have been recovered this exceeds the approval granted by the board of US\$ 500,000 for an out of court settlement. Further, an amount of Rs 21.46 million has been recovered from clients at serial no 2 & 3. DAC directed to get the full recovery verified from Audit.

Audit recommends implementation of the DAC directives.

1.1.4.25 Loss due to non-billing of ground handling service charges from other carrier – Rs 149.834 million

Agreement clause between PIAC and M/s Air China Limited stipulates that the handling company (PIAC) shall charge the carrier US \$ 2,420 for a single ground handling consisting of arrival and subsequent departure of aircraft A330-300 at agreed timing.

During audit of Pakistan International Airlines Company Limited (PIACL), cargo division for the years 2020-2022, it was observed that the management entered into ground handling agreement with M/s Air China Limited in the year 2008 and was renewed time and again. However, the management did not charge / bill of ground handling charges for the services rendered to M/s Air China Limited amounting to Rs 149.834 million.

Audit is of the view that non-billing of the ground handling service charges from M/s Air China Limited was a serious negligence on the part of management.

The matter was reported to the management in November, 2023. The irregularity was discussed in DAC meeting held on January 03 & 04, 2024. The management informed the DAC that from 2020 till August 2023, an amount of US\$ 623,198 was billed and settled by PIA. DAC directed the management to submit comprehensive reply within 15 days to Audit.

Audit recommends implementation of the DAC directives.

1.1.4.26 Under-utilization of cargo space – Rs 131.101 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan International Airlines Company Limited (PIACL), Cargo Division for the years 2020-2022, it was observed that the cargo agents booked cargo spaces on outbound flights in advance and later on canceled the bookings or utilized less cargo space against the allocation at various sectors thus causing loss of Rs 24.681 million to the corporation.

It was further observed that total cargo space available in the year 2022 was 278,585.5 freight ton kilometers and space utilized / booked was only 95,958.7 freight ton kilometers causing a loss of Rs 83.552 million with only 31% space utilization

It was also observed that the management approved adhoc rate / short deal at various stations for utilization of cargo space. This resulted in loss of revenue amounting to Rs 22.868 million.

Audit is of the view that the management failed to utilize maximum cargo space and approved adhoc rates / short deal to the agents unjustifiably which reflected poor planning and weak financial management causing losses to the corporation.

The matter was reported to the management in November, 2023. The irregularity was discussed in DAC meeting held on January 03 & 04, 2024.

- a. The management informed the DAC that non-availability of stock / supply from market as well less availability of pay load on flights due to passenger baggage & fuel uplift were the reasons, and there was no mechanism of penalties against cancellations; however, warnings were issued to the concerned agent(s).
- b. The management informed the DAC that passenger focused airline like PIA Cargo AFTK are not calculated on the basis of regions cargo market but rather calculated on the basis of available capacities of the aircrafts, moreover, directional imbalances in air cargo industry also severely effects the RFTKs or load factors.
- c. The management informed the DAC that the subject case is one of incident wherein very productive customer was compensated through ad-hoc rate. In considered case PIA was at fault and indemnity does not mean that airline exempted from claim. Adhoc rate was given to station as per their request based on their market requirement and with ad-hoc rates they divert other airlines business into PIA.

DAC directed the management to devise a policy / SoPs in the light of the audit observation. Further, CRC rate may be issued / approved on monthly basis and discouraged the adhoc rate practice in future.

Audit recommends implementation of the DAC directives.

(DP No. 490, 495 498 & 499)

1.1.4.27 Irregular procurement of store and spares – Rs 112.666 million

Rule 8 of PPRA Rules, 2004 states that within one year of commencement of these rules, all procuring agencies shall devise a mechanism, for planning in detail for all proposed procurements with the object of realistically determining the requirements of the procuring agency.

Rule 12 (1) of PPRA Rules, 2004 provides that all procurement opportunities over three million Pakistani Rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

During audit of Pakistan International Airlines Corporation (PIAC), for the year 2022, it was observed that the management procured various items amounting to Rs 112.666 million without observing the following PPRA requirements:

S#	Description	Rs in million	Remarks
1.	Outside party (Repair) procurement	10.914	Procurement without planning
2.	Reactive parts procurement	16.547	
3.	SCM procurement	77.983	
4.	Store & spare parts	7.222	Procurement from non-pre-qualified vendors
Total		112.666	

Audit is of the view that the procurement was made in violation of PPRA rules which reflected negligence and slackness of the management.

The matter was reported to the management in November, 2023. The irregularity was discussed in the DAC meeting held on January 03 & 04, 2024. The management apprised that the stores and parts were procured by TGS due to delay in procurement through SCM to meet operational requirement. DAC directed the management that procuring stores and spares without adopting PPRA was violation and therefore could not be justified. Further, DAC directed to probe the matter.

Audit recommends implementation of the DAC directives.

(DP No. 566 & 567)

1.1.4.28 Recurring loss due to vacant properties abroad – Rs 59.821 million

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan International Airlines Corporation Limited (PIAC), works department for the year 2022, it was observed that the PIA owned (Pagri) a commercial property in Tehran, Iran as Booking Office which was idle for the last two decades. However, PIACL was incurring cost of US\$ 34,646 annually for its rent plus additional cost of maintenance as detailed below:

S#	Description	US\$ per year
1.	Rent plus additional cost of maintenance and upkeep	12,000
2.	Salary to local staff	18,000
3.	Rent of property	4,646
Sub Total		34,646
Total (34,646*Rs 250)		8,661,500

Furthermore, it was also observed that PIACL has two commercial properties in Amsterdam which were lying vacant since September 2013 due to offline status of the station. The management could not rent out / dispose off the properties and was sustaining losses as follows:

S#	Description	Expected Rental income per month	Total amount in 02 years (Rs)
1	PIA Town Office 17, Leidsetraat 1017 NT , Amsterdam	4,500	108,000
2	109 AbcoudeKoningVarem, Amsterdam	1,275	30,600
			138,600
Total (138,600*Rs 300)			41,580,000

It was also observed that a property at New York remained vacant for a period of 09 months and subsequently rented out at US\$ 5,700 per month which was below than the market rate of US\$ 7,000, causing a loss of Rs 9.580 million.

Period	Rent as per market rate (USD)	Actual Rent charged (USD)	Total Rental Loss (USD)	Total Rental Loss (Rs)
March, 2020 to June, 2021	7,000	5,700	20,800 (USD1,300*16 months)	Rs 3,640,000/- (USD20,800*Rs 175)
July, 2021 to December, 2022	7,000	5,500	27,000 (USD1,500*18 months)	Rs 5,940,000/- (USD27,000*Rs 220)
Total				9,580,000

Audit is of the view that due to non-renting / disposal of properties resulted in loss of Rs 59.821 million which reflected poor financial management and weak internal controls.

The matter was reported to the management in November, 2023. The irregularity was discussed in DAC meeting held on January 03 & 04, 2024.

- a) The management informed that the efforts to sell out the property were made in 2019 and advertisements were placed in newspaper but, no offer was received. DAC directed the management to share the record / documents with Audit and make efforts for renting / disposal of properties.
- b) The management informed that PIA owned total three (3) properties in Amsterdam and were vacant since 2013 due to closure of station. However, management rented out single property/ apartment at Van Neijienrodeweg Amsterdam, and was earning US\$ 1,700 per month during the year 2022. DAC directed the management to share the record/documents with Audit and make efforts for renting/ disposal of properties.
- c) The management informed that renovation work on NYC property was completed on July 2019 & rented out at USD 5,700 per month in March, 2020. Later on, reduced by USD 5,500 per month which is below market rent of USD 7,000 per month due to Covid 19. DAC directed the management to submit the revised reply and verify the facts to Audit.

Audit recommends implementation of the DAC directives.

(DP No. 543, 544 & 546)

1.1.4.29 Loss due to imposition of immigration fines / penalties - Rs 33.947 million

Clause 6, article 4 of Passenger Sales Agent (PSA) states that the duty of sales agent is to advise passenger concerning passport, health, currency, immigration and other regulations in force in countries to and through which they are to travel and ensure as far as practicable that such regulations are observed by all passengers. In case the passenger is found travelling on invalid documents at transit of destination and if a penalty is imposed on the principal, the loss shall be recovered from the agent.

During audit of Pakistan International Airlines Corporation Limited (PIACL), finance department for the year 2022, it was observed that the management paid an amount of Rs 33.947 million on account of immigration penalties and fines (Annex-11), but recovery against the responsible person(s) was still awaited.

Audit is of the view that due to weak internal controls, the management failed to recover immigration fines from the travel agents, which reflected undue favor to the agents.

The matter was reported to the management on September, 2023. The irregularity was discussed in the DAC meeting held on January 19, 2024. Management informed that the data is meaningless unless specific details with reference to time period and station it pertains to are provided. Audit contended that the details were shared in annexure. DAC directed to get the figure reconciled and recovery made be shared with Audit.

Audit recommends implementation of the DAC directives.

1.1.4.30 Unjustified payment of incentives to cargo agents - Rs 22.956 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan International Airlines Company Limited (PIACL), cargo division for the years 2020-2022, it was observed that the management approved adhoc rate / short deal at various stations for utilization of cargo space (Annex-12). This resulted in loss of revenue amounting to Rs 22.868 million.

Audit is of the view that the approval of adhoc rate / short deal reflected undue favor to the agents.

The matter was reported to the management in November, 2023. The irregularity was discussed in DAC meeting held on January 03 & 04, 2024. The management informed that due to intense competition from other airlines in cargo business and to retain and attract customers/ agents, PIAC provided incentives to the agents. DAC directed the management to devise a policy / SoPs in the light of the audit observation. Further, CRC rate may be issued / approved on monthly basis and discouraged the adhoc rate practice in future.

Audit recommends implementation of the DAC directives.

1.1.4.31 Irregular award of contract to a blacklisted supplier– Rs 18.511 million

Rule 19 (a) of PPRA Rules, 2004 states that blacklisted and henceforth cross debarred for participation in any public procurement or disposal proceedings for the period of not more than ten years, if corrupt and fraudulent practice as defined in these rules is established against the bidder or the bidders in pursuance of blacklisting proceedings; (b) blacklisted and henceforth cross debarred for participation in respective category of public procurement or disposal proceedings for a period of not more than three years, if the bidder fails to perform his contractual obligations during the execution of contract or breaches the contract due to his capacity and capability to perform or otherwise.

During audit of Pakistan International Airlines Corporation Limited (PIACL) supply chain management (SCM) for the year 2022, it was observed that the management awarded various contracts to M/s. Iqbal Shoe Company for supply of safety shoes who was already a blacklisted supplier as per PPRA on the basis for providing fake / forged documents. The details of purchased items are as under:

S#	PO#	Description	Quantity	Rate	Total (Rs)
1.	22041443	Safety Shoe	528	3,989	2,106,192
2.	22040687		570	2,495	1,422,150
3.	22041443		103	3,989	410,867
4.	21041834	Cabin Shoes	1300	3,748	4,872,400

Total cost plus GST @17% (Rs 15,821,871*17%=Rs 2,689,718.07)	18,511,589
---	-------------------

Audit is of the view that the award of contracts to a blacklisted supplier reflected negligence and gross violation of PPRA Rules, 2004. Thus, contracts amounting to Rs 18.511 million stand irregular and unjustified.

The matter was reported to the management on September 20, 2023. The irregularity was discussed in the DAC meeting held on January 03 & 04, 2024. The management informed that process for awarding of the contracts were made as per PPRA rules and all relevant documents were verified by the tender committee. Moreover, the supplier was a distributor of Bata Shoe Company for last 20 years and the contracts were awarded before the supplier was blacklisted by PSO as per PPRA Rules. DAC directed the management to get the process for awarding of contract verified from audit.

Audit recommends implementation of the DAC directives.

1.1.4.32 Loss due to theft of copper wire - Rs 16.245 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

According to PIA, Major Works Committee (MWC) meeting no. 153 held on 21-12-2022, PIACL lights were connected through copper conductors which township committee dismantled and submitted in store section for auction, and as per that approximately (7 tons) equal to 7,000 Kgs and cost millions of rupees.

During audit of Pakistan International Airlines Corporation Limited (PIACL) supply chain management (SCM) for the year 2022, it was observed that copper wire valuing Rs 16.245 million was missing from the store of PIA. Furthermore, Township management of PIAC dismantled all PIA old electric network and replaced copper wire approximately 07 tons (7,000 Kgs) and out of total wire, 06 tons (6,000 kg) was submitted in the presence of Security and Vigilance Department on 19-12-2022 (as per Store receipt) but the same was missing. Later on, wire having weight of 752 kgs was sold at Rs 2,065 per kg through auction and remaining quantity of 6,248 kgs (7,000 kgs-752 kgs=6,248 kgs * Rs 2,600 per kg) valuing Rs 16.245 million were missing / stolen from store.

Audit is of the view that missing / theft of wire caused a loss of Rs 16.245 million to the corporation which reflected negligence and slackness.

The matter was reported to the management on September 26, 2023. The irregularity was discussed in the DAC meeting held on January 03 & 04, 2024. The management informed the DAC that the copper wire was dismantled by PIA, township and sent to main store on approximate basis of 06 tons but the same was actually disposed off was only 01 Ton. DAC directed the management to conduct fact finding inquiry within 20 days and share with audit.

Audit recommends implementation of the DAC directives.

1.1.4.33 Irregular award of contract of rice due to alteration in financial bid - Rs 15.642 million

Rule 31 of PPRA, 2004 states that (1) no bidder shall be allowed to alter or modify his bid after the bids have been opened. However, the procuring agency may seek and accept clarifications to the bid that do not change the substance of the bid. (2) Any request for clarification in the bid, made by the procuring agency shall invariably be in writing. The response to such request shall also be in writing.

During audit of Pakistan International Airlines Corporation Limited (PIACL) supply chain management (SCM) for the year 2022, it was observed that the management awarded contract to M/s. Haneef Traders for procurement of rice (basmati & sella) at a rate of Rs 158 per kg amounting to Rs 15.642 million. The initial rate of M/s. Haneef Traders was Rs 182 per kg of basmati rice, however, after opening of financial bids, the rates were revised to Rs 158 per kg in violation of PPRA, rules.

Audit is of the view that acceptance of alteration in financial bid against already submitted financial bid was held irregular and unjustified. Hence, contract amounting to Rs 15.642 million stands irregular.

The matter was reported to the management on August 15, 2023. The irregularity was discussed in the DAC meeting held on January 03 & 04, 2024. The management informed the DAC that contract was awarded to M/s. Haneef Trader as per PPRA rule-38(A)-bid discount. However, the one supplier offered bid discount before opening of the financial offer and the same was qualified as lowest evaluated bid thereon management awarded the contract. DAC directed the management to conduct fact finding inquiry within 20 days and report of the same may be share with audit.

Audit recommends implementation of the DAC directives.

1.1.4.34 Extension of contract without getting bank guarantee - Rs 11.181 million

Clause 8.1 of contract agreement between PIAC and M/s Airport Limousine Services (Pvt) Ltd states that the Contractor Shall deposit in shape of Bank Guarantee/Pay Order a sum Rs 11, 181,808 (Eleven Million one thousand and eight hundred eight only) equivalent to 05% of the total contract value as interest free security deposit 15 days before the execution of this Agreement with Finance Manager head office payment PIACL. This agreement shall not enforce if the contractor failed to pay the security deposit within the time stipulated hereof.

During audit of Pakistan International Airlines Corporation (PIAC) supply chain management (SCM) for the year 2022, it was observed that the management awarded contract to M/s Airport Limousine Services (Pvt) Ltd for provision of transport services to cabin crew at Karachi, Lahore & Islamabad stations. However, extension of same was approved by the management without getting the bank guarantee in time and against expired bank guarantee amounting to Rs 11.181 million.

Audit is of the view that the management extended an undue favor to the service provider by extending contract without getting the revised bank guarantee.

The matter was reported to the management on August 15, 2023. The irregularity was discussed in the DAC meeting held on January 03 & 04, 2024. The management informed the DAC that the bank

guarantee was received during the initial period of contract and subsequently the extension was made but the bank guarantee was not renewed. DAC directed the management to conduct a fact finding inquiry to find out the reasons for not renewing the bank guarantee and fix responsibility.

Audit recommends implementation of the DAC directives.

1.1.4.35 Loss due to poor handling of baggage of passengers – Rs 8.459 million

Section 54 of S&D of PIAC on causing loss of revenue to the corporation states that any employee who causes or attempts to cause any loss or loss of revenue to the Corporation shall be liable to reimburse the loss caused by him and will also be liable to disciplinary action including dismissal from service.

During audit of Pakistan International Airlines Corporation Limited (PIACL), finance department for the year 2022, it was observed that the management incurred expenditure on account of mishandling of baggage Rs 8.459 million due to inefficient and ineffective monitoring and baggage control system and frequency of mishandling cases was on rising trend. The details are given below:

(Rs in million)			
S#	Description	Account code	Amount
1	Mishandling baggage claims	83102002	2.812
2	Carton Lost-Cargo (03 units)	83102002	0.667
3	Miscellaneous claims	83102002	4.980
Total			8.459

Audit is of the view that due to poor handling of baggage the organization was sustaining huge losses which resulted in financial and reputational damage to corporation.

The matter was reported to the management on September, 2023. The irregularity was discussed in the DAC meeting held on January 19, 2024. The management informed the DAC that baggage mishandling is an unfortunate event that occurs frequently in the aviation industry, despite the airline's best efforts to prevent it. Airlines typically set aside a specific amount of money to reimburse passengers for any expenses or damages caused by the mishandling of their luggage. This practice is followed across the industry to reduce the impact of such incidents on passengers and to ensure that a high level of service quality is maintained. DAC directed to submit revise reply in 15 days along with documentary support for steps taken for improving baggage system.

Audit recommends implementation of the DAC directives.

1.1.4.36 Loss of revenue due to short collection of cargo rate – Rs 6.382 million

According to Commercial Rebated Cargo Rate 2022, ex Pakistan cargo rates for Toronto i.e. YYZ sector rates had been proposed / approved at USD 6.50 per KG.

During audit of Pakistan International Airlines Company Limited (PIACL), cargo division for the years 2020-2022, it was observed that the management approved ex-Pakistan Commercial Rebate Rate for

Toronto i.e. YYZ Sector at USD 6.5 Per Kg for the year 2022. However, during June, July & August 2022, cargo rates charged per kilograms were less than the approved rates from the shippers / agents during the peak travelling season. Consequently, the management received short collection amounting to Rs 6.382 million from YYZ sector (Annex-13). The brief summary is as under:

S#	Origin	Destination	Revenue loss (US\$)	Revenue Loss (Rs in million)
1	LHE	YYZ	13,989	3.022
2	ISB-KHI	YYZ	432.90	0.085
3	KHI	YYZ	12,427.50	2.635
4	ISB	YYZ	3,633.15	0.638
Total				6.382

Audit is of the view that the management failed to observe approved rates from agents which resulted in short collection of Rs 6.382 million. This reflects weak monitoring and control.

The matter was reported to the management in November, 2023. The irregularity was discussed in DAC meeting held on January 03 & 04, 2024. The management informed that approved CRC rate as quoted was USD 6.50 which was the 5% commissionable rate. The net commission rate stands at USD 6.18 (6.5 X 95%). DAC directed the management to devise a policy / SoPs in the light of the audit observation. Further, CRC rate may be issued / approved on monthly basis and discouraged the adhoc rate practice in future.

Audit recommends implementation of the DAC directives.

1.1.4.37 Irregular consumption of fuel – Rs 6.243 million

Rule 5 of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan International Airlines Corporation (PIAC), technical ground handling services (TGS) for the year 2022, it was observed that the management entered into contract with PSO for provision of petrol & diesel at an in-house fueling point ground support equipment (GSEs). It was observed from the reports generated for fuel system and TGS online system discrepancies were noticed that fuel was issued for unserviceable / grounded equipment as detailed below:

S#	Fuel Type	Procured (Ltrs)	Consumed (Ltrs)	Difference (Ltrs)	Average Rate per Ltr (Rs)	Amount (Rs)
1	Diesel	280,000	252,346	27,654	197.39	5,458,623
2	Petrol	24,000	19,673	4,327	181.35	784,701

Total	6,243,324
--------------	------------------

Audit is of the view that management did not establish control over issuance of fuel causing losses of Rs 6.243 million that reflected weak internal controls over supply of fuel.

The matter was reported to the management on November, 2023. The irregularity was discussed in the DAC meeting held on January 03 & 04, 2024. The management apprised the DAC that due to provision of required record by another department, certain discrepancies were observed which were not correct. DAC directed the management to reconcile the data and share with Audit.

Audit recommends implementation of the DAC directives.

1.1.4.38 Irregular payment of endorsement allowance to aircraft engineers – Rs 5.896 million

According to Pakistan International Airlines Corporation (PIAC) Admin Order No.104/2006 and Admin Order No. 49/ 2009, payment of Endorsement Allowance shall be applicable for acquiring licenses of such aircraft which exists in PIA fleet, subject to the condition that, the aircraft engineer performs the duty on that particular aircraft for which the payment is made.

During audit of Pakistan International Airlines Corporation Limited (PIACL) supply chain management (SCM) for the year 2022, it was observed that five (05) aircraft engineers were posted on the administrative posts who were drawing endorsement allowance in violation of above rule as detailed below:

Rs in million						
S #	Name	P. No	Period	No. of months	Amount per month (Rs)	Total (Rs)
1.	Mr. Iftiqar Muhammad	44918	August, 2014 to December, 22	100	28,000	2.800
2.	Mr. Muhammad Shahid Saleem	44986	November, 21 to December, 22	13	24,000	0.312
3.	Mr. Usman Akhter	53017	January,17 to December,22	72	28,000	2.016
4.	Mr. Tahir Mehmood	54855	January,21 to August, 23	32	24,000	0.768
Total						5.896

Audit is of the view that the payment of endorsement allowance amounting to Rs 5.896 million without performing duties on particular aircrafts was irregular and unjustified.

The matter was reported to the management on September 26, 2023. The irregularity was discussed in the DAC meeting held on January 03 & 04, 2024. The management informed the DAC that the endorsement allowance was allowed as per latest notification issued by the PIA. DAC directed the management to provide latest notification for allowing endorsement allowance to aircraft engineers during administration postings to Audit for verification.

Audit recommends implementation of the DAC directives.

1.1.4.39 Irregular payment of fuel charges and non-deduction of tax – Rs 5.505 million

Clause 6.4 of agreement between PIACL and M/s Filly Transport Services states that the purchase of fuel, lubricants, spares and payment of wages to the drivers and other staff, maintenance and overhauling and ensuring validity of the insurance in respect of the vehicles provided by the contractor shall be the sole responsibility of the contractor.

Sindh Sales Tax Special Procedure (withholding) Rules, 2014 of section 2 stipulates that Public Sector Organization, including public corporations, state owned enterprises and regulatory bodies and authorities hereby specified as “withholding agents” for the purpose of deduction and deposit of tax.

During audit of Pakistan International Airlines Company Limited (PIACL), cargo division for the years 2020-2022, it was observed that the management awarded the contract to M/s Filly Transport Services for transport services. However, the management had been paying monthly fuel charges of Rs 137,936 against the services in violation of above agreement. The details are as under:

(Rs in million)				
S#	Contract Period	Months	per month Rs	Amount paid
1	01.12.2019- 30.11.2022	36	111,571	4.004
2	01.12.2022- 30.04.2023	5	111,247	0.556
3	01.05.2023-30.04.2026	4	137,936	0.551
Total				5.111

Furthermore, the management made payments to the contractor without deduction of sales tax amounting to Rs 0.393 million (Rs 7.861 million x 5%)

Audit is of the view that the management extended undue favor to the contractor by making payments of fuel charges and non-deduction of taxes which reflected negligence and slackness.

The matter was reported to the management in November, 2023. The irregularity was discussed in DAC meeting held on January 03 & 04, 2024. DAC directed the management to justify the matter and submit revised reply to Audit.

Audit recommends implementation of the DAC directives.

1.1.4.40 Loss on procurement of crockery items - Rs 3.411 million

Rule 04 of PPRA Rules, 2004 states that procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

During audit of Pakistan International Airlines Corporation (PIAC) supply chain management (SCM) for the year 2022, it was observed that the management procured various items in four (04) tenders instead of awarding the same in the first time tender which resulted in excess expenditure amounting to Rs 3.411 million (Annex-14).

Audit is of the view that management extended undue favor to the suppliers in awarding contracts which reflects poor procurement planning.

The matter was reported to the management on August 15, 2023. The irregularity was discussed in the DAC meeting held on January 03 & 04, 2024. The management informed the DAC that due to covid-19 periods, the bids were re-tendered more than twice due to restriction of food items in flight. Moreover, CAA wrote a letter to PIA to ban the food items in the flights. DAC directed the management to share the letter to audit and to re-submit the revised reply with justification for re-tendering process.

Audit recommends implementation of the DAC directives.

1.1.4.41 Non-deposit of unclaimed dividend into treasury - Rs 3.297 million

According to Section (244) (ii) of the Companies Act, 2017, where dividend has been declared by a company or Modaraba; which remain unclaimed or unpaid for a period of three years from the date it is due and payable. Further, Sub-section (2) If no claim is made before the company by the shareholder, certificate holder or the owner, as the case may be, the company shall after ninety days from the date of publication of notice under clause (b) of sub-section (1) shall— (a) in case of sum of money, deposit any unclaimed or unpaid amount to the credit of the Federal Government.

During audit of Pakistan International Airlines Corporation Limited (PIACL), corporate secretariat for the year 2022, it was observed that the management did not deposit the unclaimed dividend amounting to Rs 3,297,000 into the Federal Government treasury in violation of above rules. Furthermore, the management issued final notices to the approximately 16,200 shareholders for the settlement of unclaimed dividends on February 01 2018 but no response was received from the shareholders in compliance of the final notice.

Audit is of the view that the management failed to deposit the unclaimed dividend amounting to Rs 3.297 million with the Federal Government which reflects gross violation.

The matter was reported to management on September 13, 2023. The irregularity was discussed in the DAC meeting held on January 19, 2024. The management informed the DAC that in compliance of sub-section 2 of Section 244 of the Companies Act, 2017 a letter was also sent to the Joint Registrar of Company Registration Office, Karachi requesting them to provide Bank Account details to deposit unclaimed amount and CDC Account number for transfer of physical shares. Response of which is yet to be received. DAC directed the management to pursue the matter vigorously.

Audit recommends implementation of the DAC directives.

1.1.4.42 Loss due to expired oil - Rs 2.835 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan International Airlines Corporation Limited (PIACL) supply chain management (SCM) for the year 2022, it was observed that the management unnecessarily procured oil AVGAS 100LL for operation of training aircraft AP-BBN for the PIA’s Shaheed Benazir Bhutto’s flying academy (SBBFA) during the year 2020 which was not utilized and expired in 2021 and disposed-off after getting approval from EPA Sindh.

Audit is of the view that due to poor planning and negligence the oil was expired causing losses of Rs 2.835 million.

The matter was reported to the management on September 20, 2023. The irregularity was discussed in the DAC meeting held on January 03 & 04, 2024. The management informed the DAC that request the process of sale the procured oil was made with CAA but they refused the same. DAC directed the management to provide the relevant record i.e. refusal letter of CAA for sale of oil along with revised reply with justification to Audit for verification.

Audit recommends implementation of the DAC directives.

1.1.4.43 Loss due to non-collection of airway bill charges– Rs 2.062 million

Clause 1.7 of the agreement between M/s Air China (Carrier) and PIAC (Ground Handling Company) states that Handler will send all Final Flight Manifest (FFM) & Full Airway Bill (FWB), Airway Bill (AWB) information of all AIR China Flight from Karachi. The Service shall be rendered by Handler (PIAC) at USD 5.00 Per Airway Bills (AWB).

During audit of Pakistan International Airlines Company Limited (PIACL), cargo division for the years 2020-2022, it was observed that as per above agreement, the management was required to charge US\$ 5.000 on each airway bill. However, the management charged screening charges @ Rs 2.500 per Kg of the item shipped instead of airway bill charges. The detail is as under:

S#	Year	Total No. of Airway bills	Rate Airways in US\$	per Bill	Amount to billed in US\$	Amount in Rs
		A	B		C (A*B)	D (C*Rs 305)
1	2023	398	5		1,990	606,950
2	2022	231	5		1,155	352,275
3	2021	723	5		3,615	1,102,575
Total						2,061,800

Audit is of the view that management failed to observe the agreement terms and condition which reflected weak internal controls caused a loss of Rs 2.062 million.

The matter was reported to the management in November, 2023. The irregularity was discussed in DAC meeting held on January 03 & 04, 2024. The management informed the DAC that we taking only Rs 2.50 per kg screening charges from Airline as per handling agreement. Further, USD 5.00 per airway bill is as advance / cargo sport charges and the PIA not providing any facility to Air China. DAC directed the management to revise the rate as per competitive rate of the other airline and revised the agreement of the clause 1.7 and working share with the Audit.

Audit recommends implementation of the DAC directives.

1.1.4.44 Non-blacklisting of prequalified contractors - Rs 2.000 million

Rule 19 of PPRA Rules, 2004 provides that, the procuring agencies shall specify a mechanism and manner to permanently or temporarily bar, from participating in their respective procurement proceedings, suppliers and contractors who either consistently fail to provide satisfactory performances or are found to be indulging in corrupt or fraudulent practices. Such barring action shall be duly publicized and communicated to the Authority.

During audit of Pakistan International Airlines Corporation Limited (PIAC), works department for the year 2022, it was observed that financial irregularity of over Rs 24.000 million was committed by manager works and works officer Lahore in April, 2016. Inquiry Committee recommended to blacklist the contractors involved. However, the management did not blacklist the contractors who were still enlisted in facilities management division as detailed below:

S#	Name of Contractor
1	M/s Malik Ismail & Co.
2	M/s Amjad Electronics
3	M/s Abdul Khaliq
4	M/s Al Rauf
5	M/s International Traders

Audit is of the view that the management failed to blacklist the above contractors which reflected gross violation and negligence.

The matter was reported to the management in November, 2023. The irregularity was discussed in DAC meeting held on January 03 & 04, 2024. The management informed that on April, 2016 financial irregularity of Rs 24.00 million committed by manager works and works officer at Lahore. During investigation both accused were proven guilty on February, 2019. Further, inquiry committee blacklisted the following contractors in the subject case. Malik Ismail & Co, Amjad Electronics, Abdul Khaliq, Abdul Rauf & International Traders. Moreover, prequalification of above contractors was held in 2021 and were

enlisted contractors in facilities management instead of blacklisting them. The management also informed that 01 contractor has filed case in the court of law.

The DAC directed the management to share inquiry committee report and take immediate action against the accused as per inquiry report and fix responsibly against the person(s) for non-blacklisting and further prequalifying. The progress report thereof may also be shared within (45) days to Audit and concerned Ministry.

Audit recommends implementation of the DAC directives.

1.1.4.45 Non-renewal of European Union Aviation Safety Agency (EASA) license

Rule 5 of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan International Airlines Corporation Limited (PIACL), corporate secretariat for the year 2022, it was observed that PIACL Board did not take strenuous effort for renewal of license with regards to the lifting of ban on PIA aircraft for UK and Europe. Moreover, on requirement of European Union Aviation Safety Agency (EASA), PIA submitted deliverables mentioning therein the steps taken for the improvement of PIAs safety system. The same were accepted by EASA but, pointed out two primary issues: (i) safety management system & (ii) pilot licensing. The matter was still pending as neither any issuance of pilot licensing by Civil Aviation Authority (CAA) nor any safety management audit was conducted by the management.

Audit is of the view that the matter to resolve significant issue for renewal of license with regards to lifting of ban on PIA aircraft for UK and Europe was still pending on the part of management.

The matter was reported to the management on September 13, 2023. The management replied that PIACL Board has been attaching and giving utmost attention to the issue of license renewals and lifting of ban on PIACL flights to UK and Europe. The reply was not tenable because, PIACL Board could not resolve the significant issue for renewal of license with regards to lifting of ban on PIA aircraft for UK and Europe. The irregularity was discussed in the DAC meeting held on January 19, 2024. The DAC directed the management to share the deliverables and relevant record with Audit.

Audit recommends implementation of the DAC directives.

1.1.4.46 Irregular appointment of company secretary

According to Section 14 (4) of Public Sector Companies (Corporate Governance) Rules, 2013 states that, no person shall be appointed as the Company Secretary of a Public Sector Company unless he is a (c) Person holding a master degree in business administration or commerce or being a law graduate from a university recognized by the Higher Education Commission with at least five years relevant experience.

During audit of Pakistan International Airlines Corporation Limited (PIACL), corporate secretariat for the year 2022, it was observed that the management promoted Mr. Muhammad Imran (assistant

company secretary) as Company Secretary w.e.f. January 08, 2023 on probation for a period of three months subject to satisfactory performance of his service shall be confirmed as Company Secretary. The incumbent is Masters in (marketing) while, requirement of the said post was Master's degree in business administration or commerce with at least five years relevant experience.

Audit is of the view that the management extended an undue favor on the appointment on the post of Company Secretary without required qualification and relevant experience in violation of the rule and procedures.

The matter was reported to management on September 13, 2023. The irregularity was discussed in the DAC meeting held on January 19, 2024. Management informed that at the time of his appointment as Company Secretary, Mr Muhammad Imran was already working in the capacity of Assistant Company Secretary since 2019. Moreover, due to a ban imposed on external recruitment by the Supreme Court of Pakistan on PIA, no external hiring could be done in this case. The DAC directed the management to share the working papers for promotion of incumbent with Audit.

Audit recommends implementation of the DAC directives.

1.1.4.47 Undue favor to the supplier

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

During audit of Pakistan International Airlines Corporation (PIAC) supply chain management for the year 2022, it was observed that management awarded contracts of natural yogurt, instant dairy whitener, cooking oil, rice, fresh cream, mayonnaise and other food items to M/s Haneef traders at Karachi, Lahore, Islamabad, Peshawar and other stations. It was observed that management irregularly awarded contract of 80gm yogurt cup to M/s Haneef traders with total quantity of 1,105,000 at Rs 26,063,365. However, after lapse of three months he refused to supply same quantity on same rates and management again awarded the contract to M/s Haneef traders at higher rates. Similarly, management irregularly awarded contract of instant dairy whitener to same supplier at Rs 33.475 million by disqualifying M/s MAQ corporation on past complaints without evaluating provided samples. The management awarded contract of Mayonnaise to M/s Haneef Traders of Rs 53.276 million after re-tender as well as change of specification of mayonnaise with extra cost.

Audit is of the view that the management extended undue favor to M/s Haneef Traders and awarded contracts without merit in violation of rules.

The matter was reported to the management on September 26, 2023. The management informed that process for market survey was usually made before procurement of the all contracts. Moreover, contracts were usually made as per scrutiny of documents and relevant specifications. DAC directed the management to conduct fact finding inquiry within 30 days.

Audit recommends implementation of the DAC directives.

1.2 Skyrooms (Pvt.) Limited

1.2.1 Introduction

Skyrooms (Pvt.) Limited was incorporated as a private limited company on May 20, 1975. The company is a subsidiary of Pakistan International Airlines Corporation registered under the Companies' Ordinance, 1984 and listed on all stock exchanges of Pakistan. Until June 30, 1999, PIA holdings (Pvt.) Limited was the holding company. The company owns and manages "Airport Hotel" at Karachi. The registered office of the company is situated at Airport Hotel, Karachi.

1.2.2 Comments on audited accounts

1.2.2.1 The annual audited accounts are required to be provided to Audit for review each year. Contrary to this, the management failed to provide audited accounts of the organization for the years 2020 to 2023 despite a number of reminders.

Audit requires that the annual audited accounts of the years 2020 to 2023 be provided immediately and timely finalization be ensured in future, besides, fixing responsibility for non-finalization of annual audited accounts (**Annex-2**).

1.2.2.2 The working results of Skyrooms (Pvt.) Limited for the year 2019 as compared with those of previous years are given as below:

(Rs in million)							
	2019	%Inc / (Dec)	2018	%Inc /(Dec)	2017	%Inc / (Dec)	2016
Net Revenue	201.65	(36.24)	316.28	(4.62)	352.10	9.11	266.60
Cost of Sales	(184.63)	(21.15)	(234.15)	(4.84)	(300.38)	8.50	(241.70)
Gross Profit/Loss	17.21	(79.05)	82.13	(20.33)	62.72	36.82	24.90
Administration Exp.	(41.10)	(28.92)	(57.82)	(5.56)	(61.12)	7.15	(55.94)
Other income.	14.46	(9.96)	16.06	(66.73)	(20.18)	3,005.08	(4.08)
Financial Charges	(14.08)	8700.00	(0.16)	9,130.77	(0.003)	(80.50)	(0.18)
Profit before Taxation	(23.51)	(41.51)	40.20	(86.13)	(17.37)	68.27	13.52
Taxation	(2.01)	(83.24)	(11.99)	968.87	(3.63)	467.19	(21.79)
Net profit after Taxation	(25.53)	(9.46)	28.20	96.27	(21.00)	91.39	(20.11)
Accumulated Loss	(259.19)	10.93	(233.65)	23.86	(172.73)	13.84	(41.90)

(Source: Annual Audited Accounts)

1.2.2.3 Gross profit ratio deteriorated from 25.97% in the year 2018 to 8.53% in the year 2019, registering a decrease by 17.44%. This decline in gross profit ratio is due to higher decline in sale.

1.2.2.4 Net profit ratio was 8.92 % in the year 2018 which deteriorated to net loss ratio of 12.65%, registering fall by 21.57% in the year 2019. The decrease in net profit ratio was contributed due to heavy increase in finance cost.

1.2.2.5 Current ratio is 0.47:1 in the year 2019, showing weak liquidity position. The company current liability exceeds its current asset by Rs 179.120 million.

1.2.2.6 Debt ratio is 166.45% in the year 2019 which reflects heavy obligations on account of current as well as non-current liabilities.

1.2.2.7 The lease liabilities were increased by 100% amounting to Rs 108.071 in the year 2019. The liability is increased on account of application of IFRS 16 in the year 2019.

1.2.2.8 The company has accumulated loss of Rs 259.193 million and negative equity of Rs 215.556 million as on December 31, 2019. The reason for heavy accumulated loss is due to consistent business loss and re-measurement of defined benefit plan.

1.2.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	% age of compliance
2018-19	10	1	9	1.2.2.1, 1.2.2.2, 1.2.2.3, 1.2.2.4, 1.2.3, 1.1.2.1, 1.1.2.2, 1.1.2.3, 1.1.2.4 (remainig to be discussed in PAC)	10%
2019-20	1		1	1.2.4.1	0%
Total	11	1	9		9%

The overall compliance of PAC directives was not satisfactory which required immediate attention of the management.

1.2.4 Audit Paras

1.2.4.1 Expenditure without approval of the Board - Rs 625.034 million

Rule 7(1) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall establish appropriate arrangements to ensure it has access to all relevant information, advice and resources necessary to enable it to carry out its role effectively. Significant issues shall be placed before the Board for its information and consideration, in order to formalize and strengthen the corporate decision making process.

During audit of Skyrooms (Pvt.) Limited (SRL) for the year 2022, it was observed that the management submitted the post facto approval of the expenditure for the years 2020 and 2021 and budget for the year 2022 in Board of Director (BoD) meeting dated December 31, 2021. However, BoD deferred the above agenda items and directed to get a fresh approval after scrutiny and endorsement by the new Finance Manager. Therefore, total expenditure of Rs 625.034 million incurred by the management was done without getting formal approval from the Board. (Annex-15)

Audit is of the view that the expenditure of Rs 625.034 million was held irregular / unauthorized as it was without BoD's approval.

The matter was reported to the management in September 2023. The irregularity was discussed in the DAC meeting held on January 03 & 04, 2024. The management explained the DAC that appointment of Finance Manager was made by PIA (Holding company) as Senior Accounts Officer and approval of estimate budget and expenditure for the year 2020, 2021 and 2022 would be placed in upcoming Board meeting. The DAC directed the management that appointment of Finance Manager and BoD approval may be provided to Audit for verification.

Audit recommends implementation of the DAC directives.

1.2.4.2 Loss of revenue due to vacant rooms - Rs 245.639 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the Chief Executive is responsible for the management of the Public Sector Company and for its Producers in Financial and other matters, subject to the oversight and directions of the Board, in accordance with the ordinance and these rules.

During audit of Skyrooms (Pvt.) Limited (SRL) for the year 2022, it was observed that the management failed to rent out its available rooms to its maximum capacity and suffered a potential loss of Rs 245.082 million on account of rent. This reflects inefficiency and poor marketing management. (Annex-16)

Audit is of the view that management failed to harness the potential revenue of Rs 245.082 million due to its inefficiency.

The matter was reported to the management in September 2023. The irregularity was discussed in the DAC meeting held on January 03 & 04, 2024. The management informed the DAC that total 310 rooms

exits in hotel out of which 106 rooms are operational and 108 rooms are non-operational and 109 rooms going to be on operational in the year 2024. The DAC directed the management expedite the position to fully operational of hotel rooms.

Audit recommends implementation of the DAC directives.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year(s) 2022-23 vide para(s) number 1.2.4.1 having financial impact of Rs. 176.600 million. Recurrence of same irregularity is a matter of serious concern.

1.2.4.3 Loss of revenue by charging lesser rates - Rs 162.441 million

Board of Directors (BoD) in its 78th meeting held on 18th July 2022 approved rates of Rs 50,000 per month per single occupancy room and Rs 80,000 per month for double occupancy room (PIAC Employees).

Board of Directors (BoD) in its 78th meeting held on 18th July 2022 approved rates of Rs 6,000 per room per night excluding taxes (Transit Passengers).

During audit of Skyrooms (Pvt.) Limited (SRL) for the year 2022, it was observed that the management provided hotel accommodation (including meals) to PIAC employees and transit passengers at lower rates which even did not cover its operational cost. The hotel accommodation provided to PIAC employees was even without any agreement. The detail is under:

(Amount in Rs)					
Cost per month A	Room Rent/Pm B	Difference C (A-B)	No of Employees & Passengers D	Loss P.M E (C*D)	Total Loss F (E*12)
PIAC Employees					
5,157x30 = 154,710	25,000	154,710-25,000= 129,710	43	5,577,530	66,930,360
Transit Passengers					
5,258	4,000	1,258	17,841	-	22,443,978
PIAC officials, OCS and Cabin Crew					
5,258	4,000	1,258	10,297	-	51,814,504

5,258	5,000	258	10,297	-	21,253,008
Total					162,441,850

Audit is of the view that by providing accommodation at lower rates, the management suffered a revenue loss of Rs 162.441 million which was great burden on the organization.

The matter was reported to the management in September 2023. The irregularity was discussed in the DAC meeting held on January 03 & 04, 2024.

- a) The management informed the DAC that Airport Hotel facilitates those employees of PIA who are transfer from other stations to PIA head office Karachi and do not have residency in Karachi. SRL management notified the guest residing the guest in hotel but increase in price and high inflation across the country PIACL employees showed inability to pay the rent increase in monthly occupancy rates resultantly. SRL management hold the above mention rate till further order. The DAC directed the management that matter should be placed before BoD for further appropriate decision.
- b) The management informed the DAC that on completion of agreement in the year 2023 SRL management increase the rate of PIA for transit passenger 6,500 (excluding tax) in new agreement and implement Board Decision in true letter and spirit. The DAC directed the management to produce the relevant record to audit for verification.
- c) The management informed the DAC that SRL was in agreement with PIA effective from April 21ST, 2021 till April 20th, 2024 at a fixed rate of PKR 5,000 excluding SST. In compliance of agreement clause, SRL Management bound to continue it services on the same rates agreed upon. The DAC directed the management to submit revised reply and further directed to reasonable rate should be charged.

Audit recommends implementation of the DAC directives.

(DP No. 333, 334 & 341)

1.2.4.4 Non deduction / deposit of Sindh Sales Tax – Rs 142.704 million

Section 3(1), Schedule II of Sindh Sales Tax on Services Act, 2011 provides that the Services provided or rendered by persons authorized to transact business on behalf of others, is taxable @ 13%.

During audit of Skyrooms (Pvt.) Limited (SRL) for the year 2022, it was observed that the management did not deduct / deposit the applicable Sindh Sales Tax @ 13% on following items:

(Rs in million)				
S #	Name of Service provider	Services	Amount	SST @ 13%
1.	Civil Aviation Authority	Rent	137.814	17.915
2.	HBL	Rent	82.405	10.712

3.	M/s Health Factory International[Mineral water	1.231	0.160
4.	M/S Ghulam Nabi	Sweet Water	3.456	0.449
5.	M/s Universal Transport Services & Deals	Shuttle Service	5.752	0.744
5.	M/s Grant Thornton Anjum Rahman	Tax Consultant	3.651	0.474
6.	Various Suppliers	Scrap Material	13.214	3.038
7.	Hotel Services	Sales Tax Pax	-	108.029
8.	Hotel Services	Bed Tax Payable	-	1.181
Total				142.704

Audit is of the view that non-deposit of Sindh Sales Tax is a gross violation and loss to the national exchequer. The lapse indicated improper financial management & weak internal controls.

The matter was reported to the management in September 2023. The irregularity was discussed in the DAC meeting held on January 03 & 04, 2024.

- a) The management informed the DAC that the SCP dated September 05, 2022 upheld judgment of the Sindh High Court whereby it was held that the renting of immovable property is not defined in the Sindh Sales Tax on Services Act as taxable service regarding taxable services of renting of immovable property and many petitioners are moved to High Court against that levy as well.
- b) The management informed the DAC that the Honorable Supreme Court of Pakistan vide its judgment in dated September 05, 2022 upheld judgment of the Sindh High Court whereby it was held that the renting of immovable property is not defined in the Sindh Sales Tax on Services Act as taxable service. However, the Sindh Provincial Assembly has made certain amendments in the Act with retrospective effect regarding taxable services of renting of immovable property and many petitioners are moved to High Court against that levy as well. The DAC directed the management as per Sindh Sales Tax Rule should be deposited into government treasury and in future may be included in HBL billing.
- c) The management informed the DAC that as per rule SST/GST has been deducted from the supplier's bill. The DAC directed the management to produce the relevant record to audit for verification.
- d) The management informed the DAC that the external audit for the year 2021 is still in process and the adjustments for the said year are yet to be proposed by the auditors. The DAC directed the management to provide the trail of the tax to audit in detail and deposited in to government treasury.
- e) The management informed the DAC that SRL sold its own goods under auction which is not a 'Service' rather it is sale of goods under auction which is subject to sales tax under federal sales tax law and not under Sindh sales tax law. The DAC directed the management to produce the relevant record to Audit for verification

Audit recommends implementation of the DAC directives.

(DP No. 325, 329, 331, 342 & 344)

1.2.4.5 Non-adjustment / refund against tax authorities - Rs 142.626 million

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Skyrooms (Pvt.) Limited (SRL) for the year 2022, it was observed that an amount of Rs 142.626 million was refundable / adjustable from tax authorities as on December 31, 2022.

Audit is of the view that the management failed to refund / adjust the amount from tax authorities which showed inefficiency and poor financial management.

The matter was reported to the management in September 2023. The irregularity was discussed in the DAC meeting held on January 03 & 04, 2024. The management explained the DAC that as per our Tax consultant, income tax could only be refundable / adjustable after the return of income filed on the basis of Audited Accounts after the finalization of audited accounts for the year 2020, 2021 & 2022. The DAC directed the management matter should be resolved within two months and share with audit.

Audit recommends implementation of the DAC directives.

1.2.4.6 Non-recovery from various parties - Rs 75.068 million

Clause 2.01 of the credit policy of Skyrooms (Pvt.) Limited states that the authority extending the credit is also responsible for its timely recovery whilst the finance department function is to ensure timely/proper accounting, reconciliation and providing an updated status of outstanding dues. Further; clause 2.03 states that credit period may up to a maximum of 30 days and financing cost @ 1.50% per month is to be added to all overdue credit for such additional period (s) till recovery.

During audit of Skyrooms (Pvt.) Limited (SRL) for the year 2022, it was observed that the management failed to recover an amount of Rs 75.068 million from various parties (Annex-17).

Audit is of the view that non-recovery of dues on time reflects inefficiency and poor financial management.

The matter was reported to the management in September 2023. The irregularity was discussed in the DAC meeting held on January 03 & 04, 2024. The management explained the DAC that an amount of Rs 17,339,669 has already been recovered from different debtors and amount of Rs 8,109,340 is still outstanding because Shops (tenants) are in court cases Further management informed that an amount of Rs 12,622,419 has been recovered against Rs 49,608,823 and remaining amount is declared as doubtful debt and court cases. The DAC directed the management to provide relevant record to audit for verification as the recovery already made and pursue the remaining amounts vigorously.

Audit recommends implementation of the DAC directives.

1.2.4.7 Irregular procurement and withdrawal of cash – Rs 56.518 million

According to FBR notification no. F.4 (1) TP/2004-EC dated July 17th 2004, expenditure incurred under single account was inadmissible if it exceeds Rs 5,000 and not paid through cross cheque. Clause(1) of section 21 of the Income Tax Ordinance, 2001 has been amended to raise the limit to Rs 10,000 for the purpose of making payment through crossed cheque under a single account head.

Rule 9 of PPRA, 2004 states that a procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly without any splitting or regrouping of the procurements so planned. The annual requirements thus determined would be advertised in advance on the Authority's website as well as on the website of the procuring agency in case the procuring agency has its own website.

During audit of Skyrooms (Pvt.) Limited (SRL) for the year 2022, it was observed that management purchased various items amounting to Rs 19.598 million on cash basis and through open cheques and also withdrew cash / open cheques amounting to Rs 36.920 million for payment of salary and others without approval and supporting documents instead of issuing crossed cheques to the vendors in violation of above rules. The detail is as under:

S#	Year	Description	Amount (Rs)
01	2018	Cash withdrawal	13,654,827
02	2019	Cash withdrawal	23,265,904
Total			36,920,731

Audit is of the on cash basis and instead of crossed cheques amounting to Rs 56.518 was held irregular and might lead to embezzlement of resources.

view that procurement through open cheques

The matter was reported to the management in September 2023.

- a) The management explained the DAC that as per SRL ledger total procurement value on cash basis amount of Rs 979,174 in the year 2022. Average rate of purchasing on per day amount of Rs 2,682 per day and maintenance and food items purchase from local market is allowed up to amount Rs 5,000. The DAC directed the management to produce relevant record in detail with justification to audit for verification.
- b) The management explained the DAC that Skyrooms (Private) Limited started business of manpower provided to PIACL because M/s Fulcrum Pvt. Ltd left the tender of manpower services. All bank account numbers of PIACL Daily wages staff not handover to M/s Skyroom Private Limited. Mostly open cheques with names related to M/s Skyrooms Private Limited Manpower business and huge amount of open cheques are withdrawal cash from bank due to last date of Government Taxes and SESSI payment. The DAC directed the management to produce relevant record in detail with justification to audit for verification.

Audit recommends implementation of the DAC directives.

(DP No. 326 & 343)

1.2.4.8 Non-deposit of employee's provident fund - Rs 52.915 million

According to Section 218 (1) of Companies Act, 2017, Employees' provident funds and securities, all moneys or securities deposited with a company by its employees in pursuance of their contracts of service with the company shall be kept or deposited by the company within fifteen days from the date of deposit in a special account to be opened by the company for the purpose in a scheduled bank or in the National Saving Schemes, and no portion thereof shall be utilized by the company except for the breach of the contract of service on the part of the employee as provided in the contract and after notice to the employee concerned.

During audit of Skyrooms (Pvt.) Limited (SRL) for the year 2022, it was observed that the management did not deposit the employees' contribution of provident fund amounting to Rs 52.915 million in Provident Fund Account in violation of above rule despite deducting the amount from salaries of the employees regularly.

Audit is of the view that the management failed to deposit the compulsory provident fund amount which might lead to embezzlement of the provident fund.

The matter was reported to the management in September 2023. The irregularity was discussed in the DAC meeting held on January 03 & 04, 2024. The management explained the DAC that skyroom contributing Employees Provident Fund on monthly basis and trying to reduce outstanding contributions by paying one current and one old balance to clear previous year's outstanding balances. The DAC directed the management to deposit the employee's provident fund current and old amount within six months and share with audit.

Audit recommends implementation of the DAC directives.

1.2.4.9 Irregular / un-justified re-tendering of contracts - Rs 33.050 million

As per terms and condition of SRL's instruction to bidders, if the firm withdrawn its offers or backs out from providing items won by the firm within validity period at any stage of contract finalization, the competent authority may place such firm under embargo for a period of six months, which may extend up to one year / forfeit the bid security.

During audit of Skyrooms (Pvt.) Limited (SRL) for the year 2022, it was observed that the management awarded contracts to various suppliers / bidders for procurement of different items amounting to Rs 33.050 million through competitive bidding process (Annex-18). However, contractors / suppliers failed to complete their contracts as per agreements and provided partial items. The management did not take action against the defaulting contractors and instead refunded the security deposit to the contractors and issued revised tenders.

Audit is of the view that the management failed to safeguard the interest of the company and did not take action against the defaulting suppliers / contractors. This reflects poor financial management and weak internal controls.

The matter was reported to the management in September 2023. The irregularity was discussed in the DAC meeting held on January 03 & 04, 2024. The management explained the DAC that SRL

Management has awarded a contract of different items in 2022 and due various uncontrollable circumstances, external factors beyond control of Management these vendors / contractors / suppliers were unable to continue their contacts. Furthermore, as per agreement termination of the Agreement each party shall have the right to terminate the agreement at any time at its option upon given 60 days written notice to the other party with assigning any reason or cause thereof. The DAC directed the management to conduct fact-finding inquiry in the matter to ascertain the factual position.

Audit recommends implementation of the DAC directives.

1.2.4.10 Non-recovery of services charges - Rs 20.733 million

As per agreement dated 2nd December 2020 executed between PIAC and SRL for out source of manpower services, of qualified and experienced employees, managing their wages, hiring and replacement of the employees at Karachi and such other locations. The PIA shall reimburse the wages along with service charges to the service provider by 10th of each month. The agreement shall be valid for one year, term of agreement extendable for further two years subject to PIACL requirement and satisfactory performance of the service provider.

During audit of Skyrooms (Pvt.) Limited (SRL) for the year 2022, it was observed that in light of above agreement, management provided services of experienced staff to PIAC, managing their wages, hiring and replacement of the employee. Subsequently, SRL raised bill/invoice amounting to Rs 20.733 million which were not recovered from PIAC. The detail is as under:

Rs in million					
S#	Year	No of hired staff	Average pay Per staff (Rs)	Total salaries	Service charges @ 1.40%
01	2022	33,819	25,161	850.951	11.913
02	2021	36,000	17,500	630.000	8.820
Total					20.733

Audit is of the view that the management failed to recover the amount which indicates weak internal controls and poor financial management.

The matter was reported to the management in September 2023. The irregularity was discussed in the DAC meeting held on January 03 & 04, 2024. Management explained the DAC that an amount of Rs 1,24,91,589 has been received by M/s Skyrooms Pvt. Ltd (Outsourcing Unit) from PIACL, on account of 1.4% commission as manpower provisioning service charges, during the year Jan-Dec 2022. Regarding FY 2021, details of 1.4% commission as manpower provisioning service charges, will be submitted in due

course of time. The DAC directed the management to provide relevant record to Audit for verification as the recovery already made and pursue the remaining amounts vigorously.

Audit recommends implementation of the DAC directives.

1.2.4.11 Manual cash / revenue collection from clients - Rs 5.829 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the Chief Executive is responsible for the management of the Public Sector Company and for its Producers in Financial and other matters, subject to the oversight and directions of the Board, in accordance with the ordinance and these rules.

During audit of Skyrooms (Pvt.) Limited (SRL) for the year 2022, it was observed that management provided various services to different clients without maintaining proper record and partial payments were manually recorded without any reconciliation. It was also observed that bookings rates charged were not in accordance with the standard hotel rates. The details of manual receipts are as under:

Audit is manual and recording of reconciliation	Description	Rs in million	of the view that partial cash without might lead to
	Party space charges (Lawn)	0.220	
	Banquet Hall	0.570	
	Swimming Pool	1.175	
	Dining Hall – Cash	3.864	
	Total	5.829	

misappropriation.

The matter was reported to the management in September 2023. The irregularity was discussed in the DAC meeting held on January 03 & 04, 2024. The management explained the DAC did not have any manual receipt of cash. SRL management collection from cash counter as per Cash Receipt (CR) it was system generated CR also this CR provided to our customer at the time of advance booking and at the time of payment of rooms rent, food from café fly and dining hall. Furthermore, all party booking advance payment cash or cheque received as per system generated CR. The DAC directed the management to produce the relevant record in detail to audit for verification.

Audit recommends implementation of the DAC directives.

1.2.4.12 Irregular award of contract without competitive bidding – Rs 4.187 million

Rule 12(1) of PPRA, 2004 states that procurement over one hundred thousand rupees and up to the limit of two million rupees shall be advertised on the Authority’s website in the manner and format specified by regulation by the Authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency.

During audit of Skyrooms (Pvt.) Limited (SRL) for the year 2022, it was observed that the management awarded contract for procurement of 95mm cable PVC 400 meters 4 core electric wire to M/s Hashim Traders amounting to Rs 4.187 million without competitive bidding.

Audit is of the view that award of contract without calling tender is a gross violation of PPRA Rules, 2004 and stands irregular and unjustified.

The matter was reported to the management in September 2023. The irregularity was discussed in the DAC meeting held on January 03 & 04, 2024. The management explained the DAC that user department recommended procuring of cable electric wire on emergent basis as per PPRA rule 42 (c) 5 and (D) 3. Therefore, management obtained a quotation direct from recommended dealer and local dealer vendor's. The Central Purchase committee (CPC) decided that M/s Hashim Distributor is first lowest vendor, therefore procurement from the same vendor was allowed/approved on urgent basis and also approved by CEO PIA. The DAC directed the management establishment of fora and also approval from principal accounting officer (PAO) for procurement of cable wire and the same share with audit for verification.

Audit recommends implementation of the DAC directives.

1.2.4.13 Irregular / unjustified payment of festival allowance – Rs 3.893 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules.

During audit of Skyrooms (Pvt.) Limited (SRL) for the year 2022, it was observed that the festival allowance was discontinued by the BoD in 2020 due to huge losses suffered by the organization. However, the same was paid to the permanent employees of Skyrooms on the occasion of Eid-ul-Fitr and Eid-ul Azha @ 33.33% of the current basic pay amounting to Rs 3.893 million during the year 2023.

Audit is of the view that payment of allowances without approval of BoD was held irregular as this was also highlighted by the external auditor in their qualified opinion.

The matter was reported to the management in September 2023. The irregularity was discussed in the DAC meeting held on January 03 & 04, 2024. The management explained the DAC that SRL is in profit in the year 2023. Festival allowance was paid for only this year as per approval by CEO and incentive allowance was paid as per 78th BOD approval. The DAC directed the management to produce the relevant record to audit for verification.

Audit recommends implementation of the DAC directives.

1.2.4.14 Non-obtaining of performance guarantee - Rs 3.103 million

Rule 39 of PPRA Rules, 2004 states that where needed and clearly expressed in the bidding documents, the procuring agency shall require the successful bidder to furnish a performance guarantee, which shall not exceed ten percent of the contract amount.

As per letter of intent, Security Deposit is equivalent to 5% of the total contract value in the shape of “Pay Order” in the name of Sky room (Private) Limited.

During audit of Skyrooms (Pvt.) Limited (SRL) for the year 2022, it was observed that the management awarded contracts for various procurements without obtaining 5% performance guarantee amounting to Rs 3.103 million. (Annex-19)

Audit is of the view that the awarding of contract without obtaining performance guarantee is a gross violation of the provisions of PPRA Rules, 2004.

The matter was reported to the management in September 2023. The irregularity was discussed in the DAC meeting held on January 03 & 04, 2024. Management explained the DAC that SRL received total amount of security deposit against the tender of Rs 3,103,469. But management received only 2% security deposit above each tenders. The DAC directed the management to conduct fact finding inquiry in the matter to ascertain the factual position.

Audit recommends implementation of the DAC directives.

1.2.4.15 Non-deduction of tax - Rs 1.755 million

According to Para 2 of Revenue Division SRO 660(1)/2007 dated June 30, 2007, the withholding agent shall deduct an amount equal to one fifth of the total Sales Tax shown in the Sales Tax invoice issued by the supplier and deposit the withheld amount in treasury.

During audit of Skyrooms (Pvt.) Limited (SRL) for the year 2022, it was observed that management did not deduct the one fifth of the general sales tax amounting to Rs 1.775 million at the rate of 17% on contracts awarded to various suppliers of Rs 48.036 million. (Annex-20)

Audit is of the view that the management failed to deduct the requisite tax in violation of above rules.

The matter was reported to the management in September 2023. The irregularity was discussed in the DAC meeting held on January 03 & 04, 2024. The management explained the DAC that all suppliers are registered in FBR as tax payers and also deposited GST in Government treasury. The DAC directed the management to produce the relevant record to audit for verification and mechanism should be made to deduct SST/GST in future.

Audit recommends implementation of the DAC directives.

1.2.4.16 Non-preparation / finalization of annual accounts

Rule 10 of Public Sector Companies (Corporate Governance) Rules, 2013, states that every Public Sector shall, within one month of the close of first, second and third quarter of its year of account, prepare a profit and loss account for, and balance sheet as at the end of that quarter, whether audited or otherwise, for the Board’s approval.

During audit of Skyrooms (Pvt.) Limited (SRL) for the year 2022, it was observed that management did not finalize the annual audited accounts for the years 2020 onwards, which was in violation of statutory requirements.

Audit is of the view that due to non-preparation of annual audited accounts, fair and true picture of the affairs of the corporation could not be ascertained.

The matter was reported to the management in September 2023. The irregularity was discussed in the DAC meeting held on January 03 & 04, 2024. The management explained the DAC that annual audit accounts, management made efforts on this matter and finalization of Audit accounts on Fast track. In the month of February, 2024 will be completed all the previous year accounts. The DAC directed the management up to February 2024 accounts for the year 2020, 2021 and 2022 should be finalized and share with audit.

Audit recommends implementation of the DAC directives.

Chapter-2

Cabinet Division

Overview

The Cabinet Division's role is to facilitate Federal Cabinet, its meetings and official visits of delegations.

Aims & Objectives

1. All secretarial work for the Cabinet, National Economic Council and their Committees, Secretaries' Committee.
2. National Economic Council: Its constitution and appointment of members.
3. Secretaries Committee.
4. Central Pool of Cars.
5. All matters relating to President, Prime Minister, Federal Ministers, Ministers of State, Persons of Minister's status without Cabinet rank, Special Assistants to the Prime Minister.
6. Appointments, resignations, salaries, allowances and privileges of Provincial Governors.
7. Strength, terms and conditions of service of the personal staff of the Ministers, Ministers of State, Special Assistants to the Prime Minister, dignitaries who enjoy the rank and status of a Minister or Minister of State.
8. Rules of Business: Setting up of a Division, allocation of business to a Division and constitution of a Division or group of Divisions as a Ministry.
9. Implementation of the directives of the President/Prime Minister.
10. Follow up and implementation of decisions of all the bodies mentioned above.

Governing Laws and Policies

- Rule of Business 1973
- Establishment Rules 1973
- General Financial Rules

Audit Profile of Cabinet Division

(Rs in million)

S. No.	Description	Total	Audited	Expenditure audited FY 2022-23	Revenue /Receipts audited FY 20221-23
1	Formations	6	2	1,675.522	1,854.82
2	Assignment Accounts (excluding FAP)				-

3	Authorities /Autonomous Bodies etc. under the PAO	6	2	1,675.522	1,854.82
4	Foreign Aided Projects (FAP)	-	-	-	-

Classified Summary of Audit Observations

Audit observations of Rs 2,520.193 million were raised as a result of this audit. This amount also includes recoverable of Rs 20.726 million. Summary of the audit observations classified according to respective subjects' nature is as under:

Overview of the Audit Observations

S. No.	Classification	Amount (Rs)
1	Non-Production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities:	
A	HR/Employees related irregularities	30.629
B	Procurement related irregularities	85.588
C	Management of accounts with Commercial Banks	-
4	Value for money and services delivery issues	2,394.900
5	Others	9.076

2.1 Pakistan Tourism Development Corporation (Head Office) Rawalpindi

2.1.1 Introduction

Pakistan Tourism Development Corporation (Pvt.) Limited (the Company) was incorporated in Pakistan on March 19, 1977 under the Companies Act, 1913 (now Companies Ordinance 1984) as a public corporation limited by shares. Federal Government holds 99.75% of the paid up share capital of the Company. The Company also has deposited for shares of Rs 623.15 Million representing the grants received from the Federal Government for capital expenditure on specified capital project. The core objective of the Corporation is the promotion and development of tourism industry in Pakistan and to carry on business connected therewith in Pakistan and elsewhere.

The associated objectives are: -

- To develop and improve its hotels, motels and tourist information centers.
- To produce publicity and promotional material for distribution at home and abroad.
- To conduct promotional programs, activities and events for attaching tourists.
- To create awareness of tourist through private sector, missions abroad, PIA offices, tour operators, travel agents and hoteliers.

The Head Office of the Company is situated at Ground Floor of Kohsar Block, Pak Secretariat Islamabad.

The Corporation owns and controls the following subsidiaries:

- a. Pakistan Tours (Pvt.) Ltd.
- b. PTDC Motels North (Private)
- c. Associated Hotels of Pakistan
- d. PTDC Motels South (Private)

These financial statements have been prepared on going concern basis without any adjustment to assets and liabilities.

2.1.2 Comments on Audited Accounts

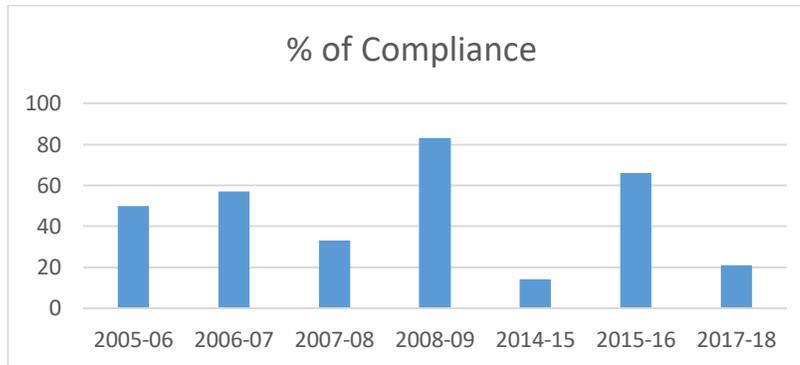
2.1.2.1 The annual audited accounts are required to be provided to Audit for review each year. Contrary to this, the management failed to provide audited annual accounts for the year 2021-22 and 2022-23 till December 31, 2023.

Audit recommends that the annual audited accounts for the years 2020-21 to 2022-23 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*Annex-2*).

2.1.3 Compliance of PAC Directives

S. #	Audit Report	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of Compliance
1	2005-06	02	1	1	207	50
2	2006-07	07	04	03	203.2,203.3,203.4	57

3	2007-08	03	01	02	174,175	33
4	2008-09	06	05	01	224.1	83
6	2014-15	07	01	06	2.4.2.1,2.4.3,2.4.4.1, 2.4.4.2,2.4.4.3,2.4.4.4	14
7	2015-16	06	02	04	2.4.1, 2.4.2, 2.4.3, 2.4.4.1	66
8	2017-18	14	03	11	2.4.2.2, 2.4.2.3, 2.4.2.4, 2.4.2.5,2.4.2.6,2.4.2.7, 2.4.2.8,2.4.2.9,2.4.3, 2.4.4.1,2.4.4.2	21
Total		45	17	28		38



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

2.1.4 Audit Paras

2.1.4.1 Wasteful expenditure due to accepting incomplete project namely Brand Pakistan - Rs 28.988 million

As per PC-1 of project, the following 04 components of the project were required to be completed:

1. Development of lyrics, melody, composition music etc. which should convey the essence of the theme and represent Pakistan culture and heritage.
2. Song must be with video background containing tourist attractions of Pakistan
3. Length of the song should be 3 to 4 minutes
4. Vocalist must be one of the famous national singers of Pakistan.

During audit of PTDC Islamabad for the years 2018-23, it was observed that the management awarded a contract for development of video film and musical score namely Brand Pakistan to M/s White Rice Communication valuing Rs 28.988 million vide agreement dated 03.02.2022 and the work was required to be completed within 60 days. The company delivered video film on 30.06.2021 and management paid Rs 28.988 million in March & June 2021.

Record revealed that the production company ignored components mentioned at Sr. No. 02, 03 & 04 as per PC-I. Thus, due to non-inclusion of main components in the Brand for Pakistan, incomplete product was delivered which was accepted by the management.

Audit is of the view that management should not have paid full amount due to delivery of incomplete / deficient product. Thus, the core objective i.e. promotion and development of tourism industry could not be achieved.

The matter was reported to the management on December 04, 2023. The management in its reply dated January 20, 2024 stated that all the deliverables were completed by the firm and payment of Rs 26.089 million was made to the firm after deduction of 10% LD charges i.e. Rs 2.898 million.

Reply of the management is not convincing as the deliverables were not as per required components of the project as mentioned in PC-1 which showed that management failed to achieve the objectives of the project.

DAC meeting was held on 25.01.2024 but the minutes of the meeting were awaited.

Audit recommends investigating the matter besides fixing responsibility thereof.

Para-7 (PTDC –2018-23)

2.1.4.2 Non deposit of income tax and irregular utilization of tax amount - Rs 7.506 million

According to Section-160 of Income Tax Ordinance, 2001 any tax that has been deducted under this ordinance shall be paid to the Commissioner by the person making the collection or deduction within the time and in the manner as maybe prescribed. Further in terms of provisions of Section-161 where the person having deducted tax under this ordinance fails to pay the tax to the Commissioner as required under Section-160 of the Ordinance, the person shall be personally liable to pay the amount of tax to the Commissioner. Section-191 further clarifies that any person whom without reasonable excuse, fails to comply with the obligation under Part-V of this chapter i.e. to collect or deduct tax and pay the tax to the commissioner shall commit an offense punishable on conviction with a fine or imprisonment for a term not exceeding one year or both.

During audit of PTDC Islamabad for the years 2018-23, it was observed that income Tax amounting to Rs 7.506 million for the financial year 2021-22 was deducted but the same was not deposited into government treasury despite lapse of two years. As per rules, the deducted amount was required to be deposited within seven days otherwise additional tax @ 24 % would be paid for the delayed period.

Audit is of the view that non-payment of tax to the tax authorities was an offense which deprived the public exchequer from Rs 7.506 million.

The matter was reported to the management on December 04, 2023. The management in its reply dated January 20, 2024 stated that objected payable tax had been adjusted against the amount forcefully taken by the FBR from the bank account of PTDC.

The reply is not convincing as the deducted amount was required to be deposited within seven days as per rules.

DAC meeting was held on 25.01.2024 but the minutes of the meeting were awaited.

Audit recommends investigating the matter besides fixing responsibility thereof; and the tax liability be cleared immediately.

2.1.4.3 Irregular appointment during ban period - Rs 3.390 million

According to Finance Division (Expenditure Wing) Office Memorandum No. 7(1) Exp. IV/ 2016-340 dated July 07, 2022 regarding Austerity Measures for Financial year 2022-23, there was complete ban on appointment of contingent paid/daily wagers staff except for development projects.

During audit of PTDC Islamabad for the years 2018-23, it was observed, that the management made the following appointments on daily wage basis during 2022-23 by paying an amount of Rs 3.390 million as per detail given below:

Sr. #	Name of employee	Designation	Date of appointment on daily wage	Per day remuneration (Rs)	Amount paid up to 30.09.23 (Rs)
1	Mr. Muhammad Asim	IT Officer	01.08.2022	4,000	1,068,649
2	Mr. Ikram Fareed	Cloud Engineer	01.08.2022	4,000	969,550
3	Ms. Nimra Shariq	Program officer	01.08.2022	4,000	1,351,962
					3,390,161

It was noticed that initially the services of said officers were hired against project, thereafter, they were hired on daily wage basis in violation of Govt. austerity measures.

Audit is of the view that the appointments made during ban period were irregular.

The matter was reported to the management on December 04, 2023. The management in its reply dated January 20, 2024 stated that the employees were appointed for a PSDP project. After expiry of said project, operation of E-portal and Mobile App; developed under the project, was required to be run for which the said three employees were re-hired on daily wages with the approval of Executive Committee and Governing body of Endowment Fund.

Reply of the management is not convincing as appointments were made during ban period in violation of Finance Division instructions.

DAC meeting was held on 25.01.2024 but the minutes of the meeting were awaited.

Audit recommends investigating the matter besides fixing responsibility thereof.

2.1.4.4 Irregular payment on account of additional increment - Rs 2.029 million

According to Finance Division O.M No.F.1(6) Imp/2000-392 dated June 18,2011, the advance increments for acquiring/possessing higher qualification will be admissible to those officials who have been promoted to higher posts on the basis of seniority cum fitness but were not allowed advance increments to those who possess the qualification prescribed for the said promotional post.

During audit of PTDC Islamabad for the years 2018-23, it was observed that management granted two advance increments to Mr. Asif Zaman Tourism officer vide letter dated 12.01.2023 w.e.f. 05.07.2007. The officer concerned requested for grant of two advance increment in consideration of his M.A degree from Karachi university in 2007 and accordingly management accepted his request and paid an amount of Rs 2.029 million to him. Payment of two advance increments after 17 years to the aforesaid officer was not covered under the rules, thus, held irregular.

Audit is of the view that undue favor was granted to the officer at the cost of Govt. exchequer and in violation of Govt. orders.

The matter was reported to the management on December 04, 2023. The management in its reply dated January 20, 2024 stated that two additional increments were paid under Union Agreement dated 31.3.1990 (duly approved by PTDC Board in its 46th meeting) according to which every employee who improved his qualification during service was entitle for this benefit.

Reply of the management is not convincing as the Corporation adopted Govt. pay scale for employees of BPS-1 to 16 and the scheme of advance increments was discontinued w.e.f 1.12.2001 vide Finance Division OM dated September 04, 2001.

DAC meeting was held on 25.01.2024 but the minutes of the meeting were awaited.

Audit recommends investigating the matter besides fixing responsibility thereof and effecting recovery.

Para-9 (PTDC –2018-23)

2.2 Printing Corporation of Pakistan (Pvt.) Limited

2.2.1 Introduction

Printing Corporation of Pakistan (Pvt.) Limited was incorporated on January 01, 1969 as a private limited company under the Companies Act, 1913 (now Companies Act, 2017). The entire shares of the Company are held by the Government of Pakistan. The registered office of the Company is situated at Khayaban-e-Suhrawardy, Islamabad.

The Company is principally engaged in the business of printing of government publications. Currently, the Company has the following presses:

1. PCP Printing Press Islamabad;
2. PCP Printing Press Lahore; and
3. PCP Printing Press Karachi.

2.2.2 Comments on Audited Accounts

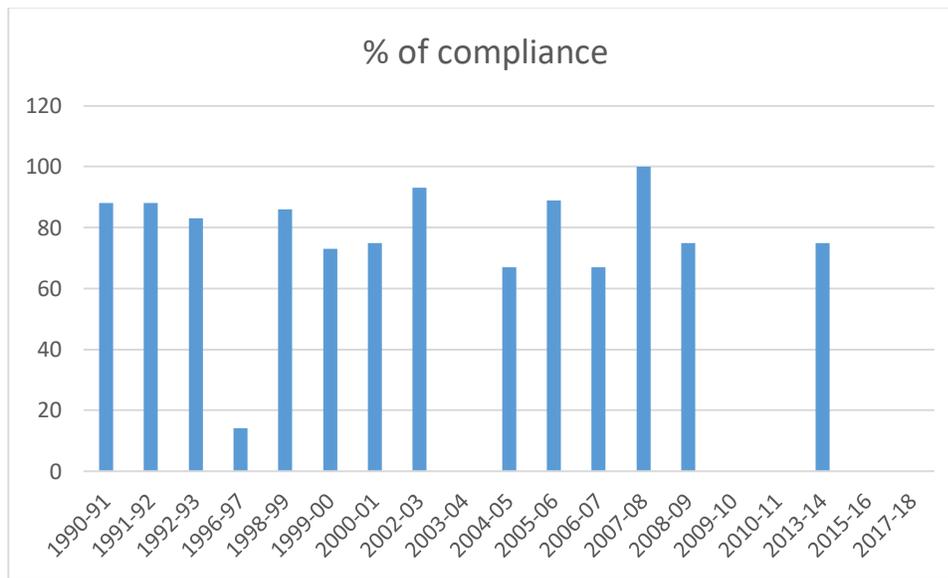
2.2.2.1 The annual audited accounts are required to be provided to Audit for review each year. Contrary to this, the management failed to provide audited annual accounts for the years 2020-21 to 2022-23 till December 31, 2023.

Audit recommends that the annual audited accounts for the years 2020-21 to 2022-23 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*Annex-2*).

2.2.3 Compliance of PAC Directives

S. #	Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
1	1990-91	08	7	1	12	88
2	1991-92	08	7	1	8	88
3	1992-93	12	10	2	6, 10	83
4	1996-97	07	1	6	5,6,7, 9,10,11	14
5	1998-99	07	6	1	41	86
6	1999-00	11	8	3	14,37,44	73
7	2000-01	08	6	2	34,35	75
8	2002-03	15	14	1	5.6	93
9	2003-04	08	0	8	3.1,3.2,3.3,3.4., 3.5,3.6,3.7,3.8	0
10	2004-05	03	2	1	3	67
11	2005-06	09	8	1	2.1	89
12	2006-07	06	4	2	2.4,2.5	67
13	2007-08	03	3	0	0	100
14	2008-09	04	3	1	1.1	75
15	2009-10	06	0	6	1,1.1,1.2,1.3,2, 3	0
16	2010-11	08	0	8	1.1.1& 1.1.2.1, 1.1.2.3,1.1.2.4, 1.1.4.2,1.1.2.2, 1.1.3, 1.1.4.1, 1.1.4.3	0

17	2013-14	08	06	02	3.3.2.4,3.3.2.5	75
18	2015-16	03	0	3	2.1.4.1,2.1.4.2, 2.1.4.3	0
19	2017-18	12	0	12	2.1.1, 2.1.2.1, 2.1.2.2,2.1.2.3, 2.1.2.4, 2.1.2.5, 2.1.2.6, 2.1.2.7, 2.1.2.8,2.1.2.9, 2.1.2.10,2.1.3	0
Total		146	85	61		58



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

2.2.4 Audit Paras

2.2.4.1 Loss due to weak operational activities - Rs 621.61 million

According to Rule 4(3) of the Public Sector Companies (Corporate Governance Rules 2013), the chief executive of the Public Sector Company manages the organization, following the Board's oversight. Their duties involve implementing approved strategies and policies, ensuring proper safeguarding of funds and resources, and overseeing their economical and efficient utilization in accordance with statutory obligations.

During audit of Printing Corporation of Pakistan for FY 2020-23, it was observed that Corporation had been sustaining huge losses of Rs 621.61 million for last three years. Main reasons for such increase in the accumulated losses were increased in operational / sales / admin related expenditure. The printing was reduced and receivables were increased resulting in adverse liquidity position. Therefore, it is clear that due

to non-existence of business plan / marketing strategy to increase sales and control the expenditure, the accumulated losses kept increasing. No steps were taken by the management to ensure commercial viability of the Corporation, showing financial management.

The matter was reported to the management on October 23, 2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the reasons for heavy accumulation of losses and fixing responsibility on persons at fault.

Para 12 (PCP –2020-23)

2.2.4.2 Loss due to unsatisfactory job pendency reports – Rs 440.22 million

According to Para-10(i) of General Financial Rules, “Every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public money as a person of ordinary prudence would exercise in respect of expenditure of his own money.”

During audit of Printing Press Lahore of PCP for FY 2020-23, it was observed a huge amount on account of 75% advance was received against 564 jobs upto 2023 which was still outstanding despite lapse of more than 5 years. The management informed that the relevant material regarding pendency of jobs was not available for printing the outstanding orders/demands of various departments. The matter was taken up with the Head office for provision of printing paper but no reply was received.

Audit is of the view that due to pendency of jobs, the cost of jobs was increasing day by day which would ultimately result in conversion of profits into losses.

The matter was reported to the management on October 23, 2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends explanation for the unsatisfactory performance. Further, a detailed inquiry may be conducted at appropriate level with a view to dig out reasons for such huge pendency and its contributing factors. Steps may also be taken to strengthen the business plan.

Para 25 (PCP –2020-23)

2.2.4.3 Non-recovery of outstanding dues from various clients - Rs 129.29 million

According to Rule 38(1) of General Financial Rules, Vol-1, it is primarily the responsibility of the departmental authorities to see that all revenue or other debts due to government, which have to be brought to account, are correctly and promptly assessed, realized and credited to Public Account.

During audit of PCP, Islamabad for FY 2020-23, it was observed that an amount of Rs 129.29 million was outstanding against various departments since 2019-20. The management failed to recover the amount which showed negligence towards recovery of outstanding dues.

Audit is of the view that due to lack of financial control of the management and imprudent approach specifically to outstanding dues, PCP sustained loss of Rs 129.29 million.

The matter was reported to the management on October 23, 2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends immediate recovery of the amount involved from the respective departments.

Para 8(PCP –2020-23)

2.2.4.4 Irregular purchase of machinery – Rs 19.10 million

According to Delegation of Powers of PCP, the Managing Director is empowered to sanction purchase of machinery up to the extent of One million.

During audit of PCP, Islamabad for FY 2020-23, it was observed that the management purchased three machines of Rs 19.10 million vide Purchase Order No. dated 12.07.2023.

Audit is of the view that as the Managing Director's powers to purchase fixed assets and machinery was restricted upto one million while the subject purchase case was of Rs 19.10 million, hence the purchase was held irregular in Audit.

The matter was reported to the management on October 23, 2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends explanation of the reasons for irregular procurement and fixing responsibility thereof.

Para 5 (PCP –2020-23)

2.2.4.5 Wasteful expenditure on procurement of 109.500 metric ton (dark green) offset paper - Rs 14.44 million

According to Rule-5(5)(a) of the Public Sector Companies (Corporate Governance) Rules, 2013, the principle of probity and propriety entails that company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage. The principle shall be adhered to, especially with respect to handling of public funds, assets, resources etc.

During audit of Printing Press Karachi of PCP for FY 2020-23, it was observed that the management incurred an amount of Rs 14.44 million on procurement of 109,500 Metric Ton (Dark Green) Offset Paper (20x30) 68 grams from M/s Arsam Puple & Paper Board Industries (Pvt.) Ltd. Sheikhpura. The price of one metric ton paper was Rs 131,900 and purchase order was issued on 17.12.2013.

Audit is of the view that the management incurred wasteful expenditure without proper planning, resulting into loss of Government revenue amounting to Rs 14.44 million. The material was still lying unused in the store.

The matter was reported to the management on October 23, 2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends corrective action in this regard may be taken. An inquiry may be conducted at appropriate level for recovery of wasteful expenditure incurred and fix responsibility thereof.

Para 15(PCP –2020-23)

2.2.4.6 Illegal occupation and loss due to non-recovery of house rent - Rs 13.22 million

According to Rule 5(5) of the Public Sector Governance Rules, 2013, the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders.

During the audit of Printing Press Karachi of PCP (Prescribed Companies and Corporate Securities) for FY 2020-23, it was found that retired employees retained allotted accommodations without paying rent. The audit suggests that if the management had timely vacated these accommodations after retirement and reassigned them to working employees, a recurring loss of Rs 13.224 million to the government exchequer could have been avoided.

The matter was reported to the management on October 23, 2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends corrective action in this regard may be taken. Also, conduct an inquiry at appropriate level to dig out reason for not taking proper timely action and fix responsibility thereof.

Para 18 (PCP –2020-23)

2.2.4.7 Wasteful expenditure on purchase of offset paper 68 gsm - Rs 10.16 million

According to Rule 38 B (2) of PPRA, “The procuring agency shall make a decision with due diligence and in compliance with General Principles of procurement like economy, efficiency and value for money.”

During audit of Lahore Press of PCP for FY 2020-23, it was observed that a huge quantity of paper reams; Green Offset Paper 68 GSM (20”x30”) 78.250 M. Ton amounting to Rs 10.165 million were purchased by the management ten years back vide letter dated 17.12.2013.

The audit identified shortcomings in the organization, including the absence of a need assessment before a purchase, disregard for economic factors, and neglect of unused paper for ten years. This resulted in blocked government funds, and the matter was not reported to the Head Office, leading to the wasteful expenditure of Rs 10.165 million.

The matter was reported to the management on October 23, 2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends justification for violation of governmental instructions may be sought and fix responsibility thereof. The loss may be made good by affecting necessary recovery or otherwise.

Para 23(PCP –2020-23)

2.2.4.8 Irregular procurement of services for binding/printing work - Rs 6.60 million

According to Rule 4 of PPRA, 2014, “Procuring agencies, while engaging in procurement, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.”

According to PPRA Rules revised in 2023, “Open tendering for purchases more than Rs 500,000 will be conducted”. Further according to Rule-2(2) of Public Procurement Rules-2004, “all procurement opportunities over three million should be advertised on the Authority’s website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.”

The audit of Karachi Press Office for FY 2020-23 revealed irregularities in the procurement process for printing books for Allama Iqbal Open University. The management did not follow competitive bidding procedures, and the absence of open tendering led to a single quotation exceeding Rs 0.500 million in value. The procurement of services for binding and printing work amounting to Rs 6.60 million was deemed irregular by audit.

The matter was reported to the management on October 23, 2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to explain the reasons for irregular award of contract. Justify the reason/s besides fixing responsibility thereof.

Para 14 (PCP –2020-23)

2.2.4.9 Irregular expenditure by splitting the purchase orders - Rs 5.02 million

According to Rule 38 B (2) of PPRA, “The procuring agency shall make a decision with due diligence and in compliance with General Principles of procurement like economy, efficiency and value for money.”

According to PPRA 42 (b), “A procuring agency shall engage in this method of procurement only if the following conditions exist, namely: - (i) Where the value of procurement is more than one hundred thousand Pakistani Rupee but does not exceed five hundred thousand Pakistani Rupee, the procuring agency may engage in procurement through request for three quotations from GST registered firms, original equipment manufacturers or authorized dealers, without resorting to bidding. (ii) the object of the procurement has standard specifications; (iii) minimum of three quotations have been obtained; and (iv) the object of the procurement is purchased from the supplier offering the lowest price: Provided that procuring agencies are convinced of the inadequacy of the financial limit prescribed for request of quotations in undertaking their respective operations, they may approach the Federal Government for enhancement of the same with full and proper justifications.”

During audit of Lahore Press of PCP for FY 2020-23, it was observed that the management purchased certain stock items from different vendors by splitting the purchase orders.

Audit is of the view that as the management made purchases from different vendors in the years as specified above just to avoid open tendering by splitting the orders. Thus, an expenditure totaling Rs 5.02 million was held irregular in audit.

The matter was reported to the management on October 23, 2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends violation of Government instructions regarding purchases need justification and fixation of responsibility thereof.

Para 27 (PCP –2020-23)

2.2.4.10 Wasteful expenditure on acquisition of land measuring 12 kanal - Rs 1.60 million

According to Rule 5(5) of the Corporate Governance Rules 2013, the board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety.

During the audit of Printing Press Lahore of PCP for FY 2020-23, it was found that three industrial plots allotted in 1984 remained unutilized for 30 years. The management deposited Rs 1.600 million at the time of allotment, and in 2014, the land was valued at Rs 187.47 million by a private consultant. According to the audit assessment, the management's acquisition of the land resulted in substantial expenditures. However, due to poor planning and the failure to utilize the land, the corporation is facing continuous losses of millions of rupees each day.

The matter was reported to the management on October 23, 2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends that violation of government instructions regarding acquisition of assets and their maintenance be justified; fix responsibility thereof and the loss may be made good by using the land for a useful purpose.

Para 26(PCP –2020-23)

2.2.4.11 Unnecessary issuing of NOC for printing work outside printing press resulting into loss of revenue - Rs 1.57 million

According to Rule 10 of the General Financial Rules, Vol-I, “in incurring and sanctioning expenditure from the revenue, the disbursing officers and sanctioning authorities should exercise the same vigilance in respect of expenditure incurred from Government revenue as a person of ordinary prudence would exercise in respect of the expenditure of his own money.”

During the audit of PCP in Islamabad for FY 2020-23, it was observed that the management issued 53 No Objection Certificates (NOCs) to various government offices and autonomous bodies under the Federal Government's jurisdiction. These NOCs were issued on blank requisitions without specifying the quantity of printing, resulting in a loss of Rs 1.574 million. The audit recommends an explanation for the frequent issuance of NOCs, proposing that instead of issuing 53 NOCs, the management could have forwarded the cases to the Cabinet Division.

The matter was reported to the management on October 23, 2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends that the reasons for frequent issuance of NOCs may be explained and fix the responsibility of revenue loss.

Para 13 (PCP –2020-23)

2.2.4.12 Loss due procurement at higher rates - Rs 1.28 million

According to Rule-5 (5) of Public Sector Governance Rules, 2013, “The Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders.”

During the audit of PCP Islamabad for FY 2020-23, it was observed that the management issued a purchase order (No. PCP.1-2/2023-P&D/742, dated 17.03.2023) to M/s Z.A. Corporation, Lahore, for the purchase of 6,500 reams of White offset paper at Rs 4,967/ream. A sanction of Rs 9.78 million was granted for the delivery of 1,970 reams out of the total. However, it was noted that another firm, M/s Premier Paper Mills, Lahore, offered a lower rate of Rs 4,315.59 per ream. The reasons for not placing the order with the lowest bidder were not disclosed by the management. The audit asserts that due to an improper procurement process, the government incurred a loss of Rs 1.283 million.

The matter was reported to the management on October 23, 2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends explanation of the reasons of procurement at higher rates and fixation of responsibility thereof. Preparation of improper procurement plan also needs justification.

Para 4 (PCP –2020-23)

2.2.4.13 Loss due to non-achievement of revenue targets - Rs 1,184.18 million

According to Clause 2A (3), “The Public Sector Company shall not be regarded as conducting its business in a sound and prudent manner if it fails to conduct its business with due regard to the legitimate policy objectives and development targets of the Government.”

During audit of PCP, Islamabad for FY 2020-23, it was observed that the management failed to achieve its own annual set target of sales. Audit is of the view that the non-achievement of revenue targets due to ill planned management, improper utilization of available resources and non-existence of any market/sales plan is a failure on the part of the management which resulted in a loss of Rs 1,184.18 million.

The matter was reported to the management on October 23, 2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to reasons may be explained for failure of achievement of fixed revenue/sales target and fix responsibility thereof.

2.2.4.14 Improper management leading to non-appointment of CFO and CIA

According to Rule 13 of the Public Sector Corporate Governance Rules, 2013, (1) The Board shall appoint a chief financial officer, a company secretary and a chief internal auditor by whatever name called. (2) The appointment, remuneration and terms and conditions of employment of the chief financial officer, the company secretary and the chief internal auditor of Public Sector Company shall be determined with the approval of the Board. (3) The chief financial officer, the company secretary, or the chief internal auditor of Public Sector Company shall not be removed except with the approval of the Board.

According to Rule 22 (1) (4), there shall be an internal audit function in every Public Sector Company. The chief internal auditor, who is the head of the internal audit function in the Public Sector Company, shall be accountable to the audit committee and have unrestricted access to the audit committee. (4) The internal audit function shall have an audit charter, duly approved by the audit committee and shall work, as far as practicable, in accordance with the standards for the professional practice of internal auditors issued by the Institute of Internal Auditors Inc., (the global professional organization of internal audit profession)

During the audit of PCP, Islamabad for FY 2020-23, it was observed that the positions of Chief Financial Officer (CFO) and Chief Internal Auditor (CIA) have remained vacant for an extended period. The management of the Corporation during this time was characterized by a lack of formality. The audit asserts that the failure to appoint a CIA and CFO is in violation of Government instructions, casting doubt on the transparency of all transactions and associated expenditures.

The matter was reported to the management on October 23, 2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to investigate reasons for non-appointment of CFO and CIA and fix responsibility thereof. Also, devise measures that ensure similar situation may be avoided in future.

Chapter-3

Ministry of Commerce & Textile

Overview

Ministry of Commerce is contributing to the national economy through trade liberalization and facilitation, improving export competitiveness and reducing cost of doing business. It aims to achieve higher market access for Pakistani products in existing markets as well as new markets with ultimate aim of improving quality of life of the people of Pakistan.

Aims & Objectives

Commerce Division is assigned the following objectives:

- Imports and exports across customs frontiers
- Exports promotion
- Commercial intelligence and statistics
- Tariff policy and its implementation
- Anti-dumping duties, countervailing duties and safeguard laws
- Inter-Provincial trade
- Domestic Commerce
- Organization and control of Chambers and trade associations
- Law of Insurance and regulation and control of Insurance companies
- Administrative Control of Attached Departments/Organizations
- Selection of Trade Officers for posting in Pakistan's Missions abroad

Governing Laws and Policies

- Rules of Business, 1973
- Studies on Domestic Commerce
- OIC Ten Year Plan of Action for Science & Technology for the years 2016-25
- Export /Import Policy Order, 2009
- Trade Organization Ordinance, 1961

(Rs in million)

(Rs. in million)				
Description	Total	Total	Expenditure audited FY 2021-22	Revenue /Receipts

				audited FY 2021-22
Formations	4	4	369,010.492	441,234.783
Assignment Accounts (excluding FAP)	-	-	-	-
Authorities /Autonomous Bodies etc. under the PAO	-	-	-	-
Foreign Aided Projects (FAP)	-	-	-	-

Classified Summary of Audit Observations

Audit observations of Rs 451,389.90 million were raised as a result of this audit. This amount also includes recoverable of Rs 196,506.044 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

(Rs. in million)		
S#	Classification	Amount
1.	Non-production of record	-
2.	Reported cases of fraud, embezzlement and misappropriation	30.791
3.	Irregularities	
A.	HR / Employees related irregularities	301.526
B.	Procurement related irregularities	2,054.756
C.	Management of Accounts with Commercial Banks	13.74
4.	Value for Money and service delivery issues	87,596.600
5.	Others	361,392.49

3.1 National Insurance Company Limited

3.1.1 Introduction

National Insurance Company Limited (NICL) was established under the National Insurance Act, 1976. Later on, it was registered as a Public Limited Company under Companies Ordinance, 1984 on March 31, 2000 and renamed as National Insurance Company Limited (NICL).

The Company is principally engaged in Non-Life Insurance Business of Public Property comprising of Fire, Marine, Aviation and Transportation, Engineering and Crops/Agriculture Insurance etc.

3.1.2 Comments on Audited Accounts

3.1.2.1 The annual audited accounts are required to be provided to Audit for review each year. Contrary to this, the management failed to provide audited accounts of the organization for the years 2018 to 2022 despite a number of reminders.

3.1.2.2 Audit requires that the annual audited accounts of the years 2018 to 2022 be provided immediately and timely finalization be ensured in future, besides, fixing responsibility for non-finalization of annual audited accounts (*Annex-2*).

3.1.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
2004-05	3	2	1	4	67%
2010-11	11	8	1	2.1.4.1	73%
2011-12	15	3	12	3.1.3, 3.1.4.1, 3.1.4.2, 3.1.4.3, 3.1.4.4, 3.1.4.6, 3.1.4.7, 3.1.4.8, 3.1.4.9, 3.1.4.10, 3.1.4.11, 3.1.4.12	20%
2012-13	4	1	3	3.1.4.2, 3.1.4.3, 3.1.4.4	25%
2013-14	5	4	1	4.1.2	80%
2014-15	7	4	3	4.2.4.1, 4.1.4.2, 4.1.4.3	57%

2015-16	9	3	6	4.1.4.1, 4.1.2.1, 4.1.3, 4.1.4.2, 4.1.4.4, 4.1.4.5	33%
2016-17	11	3	8	3.1.4.6, 3.1.2.1, 3.1.3, 3.1.4.2, 3.1.4.3, 3.1.4.5, 3.1.4.6, 3.1.4.7	27%
2017-18	7	4	3	4.1.3, 4.1.4.3, 4.1.4.4,	57%
2019-20	2		2	3.1.4.1, 3.1.4.2	
Total	74	32	40		43%

The overall compliance of PAC directives needs improvement.

3.1.4 Audit Paras

3.1.4.1 *Outstanding claims due to delay in submission of survey reports – Rs 27,651.768 million*

Section 118 (1) of Insurance Ordinance, 2000 states that it shall be an implied term of every contract of insurance that where payment on a policy issued by an insurer becomes due and the person entitled thereto has complied with all the requirements, including the filing of complete papers, for claiming the payment, the insurer shall, if he fails to make the payment within period of ninety days from the date from which the payment becomes due or the date on which the claimant complies with the requirements, whichever, is later, pay as liquidated damages a sum calculated in the manner as specified on sub-section. (2) on the amount so payable unless he proves that such failure was due to circumstances beyond his control.

Section 47(4) of Insurance Rules 2017, states that every survey conducted by, and report given by, an insurance surveyor shall be conducted and given with due diligence and skill, and in good faith and the report shall be finalized as early as possible but within the period of ninety days.

During audit of National Insurance Company Limited (NICL), North Zone, Islamabad for the year 2022, it was observed that the management recorded number of outstanding estimated losses amounting to Rs 27,218.377 million in the subsequent years. Further record revealed that the date of loss belonged to the years between 2010 to 2022, but the surveyor's reports of mentioned period were still awaited. The detail of such cases is as under:

(Rs in million)		
S #	Description	Outstanding Claims

1	Fire Claims	2.320
2	Engineering Claims	27,107.234
3	Motor Claims	9.520
4	Marine Claims	58.900
5	Miscellaneous Claim	40.4030
Total		27,218.377

Furthermore, during the audit of NICL, Karachi for the year 2022, it was observed that various insurance claims amounting to Rs 433.391 million were lodged by the insured entities. However, the surveyors made noticeable delay in completing surveys. Subsequently, the claims could not be settled (Annex-21).

Audit is of the view that the management did not have any criteria for assessing the performance of the surveyors due to which inordinate delays were causing loss of business.

The matter was reported to the management on March 10, 2023. The irregularity was discussed in DAC meeting held on January 12, 2024. The management informed the DAC that delays are attributed to clients who have not yet provided the relevant documents for claim settlement. The Claim department has been monitoring and pursuing the insured as well as the surveyors through every plausible means. Policy for assessing the performance of the surveyors is under progress and will be brought into consideration of concerned quarters for deliberations and after approval by the competent authority, the same will be brought into force. DAC directed the management to share the policy and take the action against the surveyors who failed to fulfill the obligatory responsibilities.

Audit recommends implementation of the DAC directives.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year 2022-23 vide para(s) number 3.1.4.10 having financial impact of Rs.49.045 million. Recurrence of same irregularity is a matter of serious concern.

(DP No. 32 &788)

3.1.4.2 Direct payment of premium to international underwriter and brokers – Rs 1,065.280 million (US\$ 6.658 million)

Clause (x) of Code of Corporate Governance for insurers, 2016, states that the directors of an insurer shall exercise their powers and carry out fiduciary duties with a sense of objective judgment and independence in the best interests of that Insurer (company).

During audit of National Insurance Company Limited (NICL), Karachi for the year 2022, it was observed that Pakistan International Air Lines Corporation (PIAC) got the fleet insurance policy for the period of 2019-20 through NICL. Later on, the international underwriter and broker were issued notices of cancellation of fleet insurance policy due to non-payment of due premium to the insured i.e. PIAC. Therefore, to avoid any unpleasant situation, PIAC released US\$ 3.279 million directly to the insurance broker M/s Marsh Limited with the consent of NICL.

Furthermore, PIACL pursued PRCL/NICL in July, 2020 for releasing the 3rd installment which was duly released by PIACL on July 23, 2020. Due to non-payment of 3rd installment, the broker again issued cancellation notices of the insurance coverage of the fleet. By considering the facts, NICL did not act as required under these circumstances and PIAC had to pay installments directly to the international broker.

Audit is of the view that the management failed to manage the payment of premium in professional manner, which reflects weak internal controls.

The matter was reported to the management on October 23, 2023. The irregularity was discussed in DAC meeting held on January 12, 2024. The management informed the DAC that to prevent the disruption of normal operations caused by the Notice of Cancellation, PIACL urgently arranged funds with the intention of remitting them directly to the reinsurer. The standard process involving PRCL would have entailed a potential delay of at least 30 days. Recognizing the time sensitivity and the risk of aircraft grounding, PIACL sought NICL's permission to remit the premium directly. NICL did not incur any adverse consequences from allowing PIACL to remit the premium directly to the Broker or the reinsurer. NICL received its retention premium along with the 1% Reinsurance commission directly into the NICL account. The DAC directed the management to place the matter before BoD for their concurrence.

Audit recommends implementation of the DAC directives.

3.1.4.3 Non-recovery of outstanding dues - Rs 165.000 million

Clause (x) of Code of Corporate Governance for Insurers, 2016, states that the directors of an insurer shall exercise their powers and carry out fiduciary duties with a sense of objective judgment and independence in the best interests of that Insurer (company).

During audit of National Insurance Company Limited (NICL) North Zone, Islamabad for the year 2022, it was observed that the management issued different policies to M/s Oil and Gas Development Company Limited (OGDCL) in subsequent periods and booked premium as receivable amounting to Rs 165.000 million which is still receivable. The details are as under:

(Rs in million)						
S.#	Policy No.		Period		Premium Booked	Outstanding Premium
			From	To		
1.	Cow	32/14	01.03.14	28.02.15	165.000	165.000
Total					165.000	165.000

Audit is of the view that non-recovery of the outstanding premium amount reflects ineffectiveness and weak recovery mechanism existing within the organization.

The matter was reported to the management on March 10, 2023. The irregularity was discussed in DAC meeting held on January 12, 2024. The management informed the DAC that the Debit Notes were raised and forwarded to M/s OGDCL on September 21, 2023 for early release of outstanding payment. The DAC directed the management to expedite the recovery process.

Audit recommends implementation of the DAC directives.

3.1.4.4 Loss of premium due to insurance of public properties from the private insurance companies – Rs 94.595 million

Section 166 of Insurance Ordinance, 2000 stipulates that all insurance business relating to any public property or to any risk or liability appertaining to any public property, shall be placed with the National Insurance Company only and shall not be placed with any other insurer.

During audit of National Insurance Company Limited (NICL), Karachi for the year 2022, it was observed that various private insurance companies had underwritten the insurance business of the public properties. However, as per Insurance Ordinance 2000, all public property or any risk or liability pertaining to any public property should be placed with NICL only whereas some of public companies were getting insurance risk from the private insurance companies.

Audit is of the view that the management failed to fetch the insurance business amounting to Rs 94.595 million from Public Sector Companies which reflected negligence and slackness.

The matter was reported to the management on October 23, 2023. The irregularity was discussed in DAC meeting held on January 12, 2024. The management informed the DAC that that Potential and existing clients of NICL have been sensitized about the Insurance Ordinance, 2000 and consequences of non-compliance. Most of the entities take shelter behind Public

Procurement Regulatory Authority (PPRA) and award insurance to lowest bidder ignoring the Insurance Ordinance, 2000. The DAC directed the management to place the matter before PAC.

Audit recommends implementation of the DAC directives.

3.1.4.5 Excess payment of claims – Rs 80.000 million

Clause (x) of Code of Corporate Governance for insurers, 2016, states that the directors of an insurer shall exercise their powers and carry out fiduciary duties with a sense of objective judgment and independence in the best interests of that Insurer (company).

During audit of National Insurance Company Limited (NICL), Karachi for the year 2022, it was observed that a claim was lodged by M/s. Sui Southern Gas Company Limited against the policy No.01-0170-5/2010 for the flood damages at 04 locations. Loss was assessed by the surveyor at Rs 375,496,096 and net claim was paid Rs 355, 496,096 after adjusting deductibles and others. Similarly, another claim of loss for flood damages at 4 locations was lodged, loss was assessed at Rs 256, 762,730 and net claim was paid Rs 119, 206,224 after adjusting deductibles and others. However, separate deductibles were not applied for each location; rather, claim losses of multiple locations were clubbed into single claim loss. The detail is as under:

(Rs in million)				
S#	Location	Deductible applicable	Deductible applied	Loss of deductibles
Claim No.K/F-065/2011				
1	Garhi Khairu	20		
2	Usta Mohammad	20		
3	Dera Allah Yar	20		
4	Suhbat pur	20		
	Total deductible to be applied	80	20	60
Claim No.K/F-023/2011				
1	Dadu	20		
2	Jacobabad	20		
3	Shikarpur	20		
4	Thatta	20		
	Total deductible to be applied	80	60	20
Total loss of deductibles				80

Audit is of the view that the management extended undue favor to the client by deducting less deductible from claims and caused loss to the company. Thus, excess payment of Rs 80.000 million was paid to insured.

The matter was reported to the management on October 23, 2023. The irregularity was discussed in DAC meeting held on January 12, 2024. The management informed the DAC that policy excess in both the claims have been applied as per insurance policy guidelines and no undue favor was extended. DAC directed the management to provide the relevant record in the light of management's reply for verification.

Audit recommends implementation of the DAC directives.

3.1.4.6 *Non-recovery of outstanding rent from tenants – Rs 77.438 million*

Section 4(3) of Public Sector Companies (Corporate Governance), Rules, 2013 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance.

During audit of National Insurance Company Limited (NICL), Karachi for the year 2022, it was observed that an amount of Rs 63.448 million was lying outstanding against the tenants. Moreover, an amount of Rs 13.990 million (AED 251,089) was also lying outstanding against the overseas tenants, of Liberty House, DIFC, Dubai (Annex-22).

Audit is of the view that non-recovery of outstanding amount reflects weak financial management and poor recovery mechanism.

The matter was reported to the management on October 23, 2023. The irregularity was discussed in DAC meeting held on January 12, 2024. The management informed the DAC that entire amount of Rs 77.438 million have recovered. DAC directed the management to get the recovered amount verified from Audit.

Audit recommends implementation of the DAC directives.

(DP No. 787 & 790)

3.1.4.7 *Unjustified settlement of claim - Rs 42.987 million*

According to insurance policy No.2018/KB/FN/R/D/P0129 for Property damage and Business Interruption section 1(a) (i) all the property of as described in the policy schedule, interests or the property of other held in trust, for which the insured may have assumed responsibility.

According to policy schedule Sui, Kandhkot, Adhi, Gambat South and all other fields and locations across Pakistan.

Property excluded under sub section 1(a). Following properties are excluded from coverage;

(b) property in course of construction of erection or dismantling or undergoing testing or commissioning other than as provided elsewhere under the section 1; however, this exclusion shall not apply in respect of routine maintenance, overhaul, repair works or similar which may require testing and commissioning prior to restarting the plant; it is also understood that bringing up from shutdown shall not be construed as testing.

During audit of National Insurance Company Limited (NICL), Karachi for the year 2022, it was observed that a claim dated 05.03.2019 was lodged by M/s. Pakistan Petroleum Limited (PPL) for loss of work in process at Bela West-X-1, Baluchistan, due to heavy rain in the region. As per survey report, the rain damaged the access road, causeway, culverts and all sorts of supplies and movement to the well site were stopped, thus, unable drilling operation at site. The claim was lodged against the policy issued for the period 01.10.2018 to 30.09.2019. The management appointed two surveyor M/s Joseph Lobo (Pvt.) Limited and M/s Ocean Surveyors (Pvt.) Limited on 19.03.2019 and 02.12.2019 respectively, for the assessment of loss. The surveyors submitted their report on 18.03.2021 with the loss assessment of Rs 42, 987,000 and the claim was settled for the same amount.

The insurance policy was issued in favour of PPL for Property damage and Business Interruption only and not for covering capital work in progress. Further, policy was issued for properties at Sui, Kandhkot, Adhi, Gambat South and all other fields and locations across Pakistan. However, the break-up of other fields and locations across Pakistan and break-up of the assets available there was not obtained from PPL (insured) at the time of issuance of policy. The same was obtained by the surveyors at the time of claim processing.

Audit is of the view that policy clearly indicated that property under construction was not covered. Further, in absence of break-up, accuracy of the sum insured was also doubtful as the company would have to rely on the client to provide item wise sum insured.

The matter was reported to the management in October, 2023. The irregularity was discussed in DAC meeting held on January 12, 2024. The management informed the DAC that the insured (PPL) was issued insurance policy covering Property Damage and Business Interruption showing values of major locations, total of various small locations and total of various CWIP & Spares & Stores locations which are part of insurance policy. The DAC directed the management to provide the relevant record for verification from Audit showing the construction work either was covered under policy or not.

Audit recommends implementation of the DAC directives.

3.1.4.8 Procurement on splitting basis – Rs 32.838 million

Rule 9 of PPRA Rules, 2004 states that save as otherwise provided and subject to the regulation made by the Authority, with the prior approval of the Federal Government, a procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly without any splitting or regrouping of the procurements so planned. The annual requirements thus determined would be advertised in advance on the Authority's website as well as on the website of the procuring agency in case the procuring agency has its own website.

During audit of National Insurance Company Limited (NICL), Karachi for the year 2022, it was observed that the management purchased following items amounting to Rs 32.838 million on splitting basis:

(Rs in million)		
S#	Items	Amount
01	I.T Equipments and Hardware	4.863
02	Computer Peripherals & Toners	5.905
03	Furniture and Fixture	3.749
04	Misc Building Items	18.321
Total		32.838

Audit is of the view that procurement of items on splitting basis reflects serious violation of PPRA Rules, 2004. Thus, procurements amounting to Rs 32.838 million was held irregular and justified.

The matter was reported to the management on October 23, 2023. The irregularity was discussed in DAC meeting held on January 12, 2024. The management informed the DAC that tender published but could not be materialized and no procurement plan was prepared. The items were procured on need basis as and when requisitioned. The DAC directed the management to provide the related record in support of their contention for verification.

Audit recommends implementation of the DAC directives.

3.1.4.9 Irregular enhancement in allowances – Rs 28.829 million

Rule 5(5)(a) of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the principle of probity and propriety entails that company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage. The principle shall

be adhered to, especially with respect to handling of public funds, assets, resources and confidential information by directors, executives and employees and claiming of expenses

During audit of National Insurance Company Limited (NICL), Karachi for the year 2022, it was observed that the management enhanced house rent allowance from 40% to 45% and utility allowance from 10% to 12.5% on running basic pay without the approval of the Board of Directors (BoD) amounting to Rs 28.829 million (Rs 20.880 million on house rent and Rs 7.9484 million on utility allowance).

Audit is of the view that the payment of allowances without the approval of BoD reflects gross violation. Thus, allowances amounting to Rs 28.829 million stands irregular and unjustified.

The matter was reported to the management on October 23, 2023. The irregularity was discussed in DAC meeting held on January 12, 2024. The management informed the DAC that NICL was running without BoD since May 2021. Now the Board of Directors are in place same will be placed before the BOD for the ratification and necessary approval. The DAC decided that para will stand till the approval of BoD of NICL.

Audit recommends implementation of the DAC directives.

3.1.4.10 Settlement of claim in violation of policy – Rs 28.155 million

Section 5 of Insurance policy No. 2018/KB/B/SB/P/D/P0003 states that as per precedent to their right to be indemnified under this Policy, the assured shall, as soon as possible and in any event within 30 days after discovery by assured of any loss here under, give written notice thereof to the underwriters.

Section (c) of conditions precedent to liability of insurance policy No. 2017/KB/B/SB/P/D/P0003 dated; 11-05-2017 states that Joint Custody shall be established and maintained for the safeguarding of :- (i) Property while in safes or vaults (Property means cash and all other securities), (ii) All keys to safes and vaults and (iii) Codes, ciphers and test keys.

During audit of National Insurance Company Limited (NICL), Karachi for the year 2022, it was observed that a claim dated 14.06.2018 was lodged by M/s. National Bank of Pakistan (NBP) due to fraud at NBP Serai Naurung, Bannu Branch. The Surveyors assessed the loss for Rs 16, 611,000 and the claim was settled for Rs 15.000 million. Furthermore, as per survey report, the incident of fraud was happened on 19-03-2018, while the insured intimated the loss on 14-06-2018 after a lapse of three (03) months.

Similarly an infidelity / fraud claim No. K/FG-30-02/2017 was lodged by M/s National Bank of Pakistan (NBP) due to cash embezzlement / misappropriation by the cashier for Rs 13.155 million at NBP remount depot branch, Sargodha region. M/s. Ocean surveyors private limited was appointed on 02.06.2017 which submitted the report on 04.04.2022 and assessed the loss for Rs

13.155 million. The internal inquiry conducted by NBP stated that the internal controls of the branch were weak and dual control over cash & vault activities was not observed, as the keys of cash and strong room were in the custody of head cashier.

Audit is of the view that the management settled the claim amounting to Rs 28.155 million in violation of agreements as the losses were not intimated within the specified time period and insured failed to maintain required internal controls.

The matter was reported to the management on October 23, 2023. The irregularity was discussed in DAC meeting held on January 12, 2024.

- a. The management informed the DAC that upon enquiry, the insured informed that case was reported to FIA on 20/03/2018 and FIR was being awaited to be registered, as it was pre-requisite document to be submitted for insurance claim. FIA took longer than expected and FIR was registered later on 01/01/2020.
- b. The management informed the DAC that in the instant case head cashier committed fraud in collusion with operation manager, head cashier was terminated and operation manager was two steps downgraded and branch manager was also reprimanded.

The DAC directed the management to get verify the claim settlement process from Audit.

Audit recommends implementation of the DAC directives.

(DP No. 762 & 782)

3.1.4.11 Non-inclusion of EOBI contribution clause in contracts – Rs 26.813 million

Section 11(1) of EOBI Act, 1976 related to registration of Establishment states that Every employer shall, before the expiration of thirty days from the day on which this Act becomes applicable to the industry or establishment in respect of which he is the employer, communicate to the Institution the name and other prescribed particulars of the industry or establishment.

During audit of National Insurance Company Limited (North Zone), Islamabad for the year 2022, it was observed that the management awarded various contracts like Operation & Maintenance HVAC System, House Keeping & Janitorial Services, Guarding, Security & Fire Fighting Services, Maintenance & Services of Elevators etc. to different contractoRs However, clause (s) regarding EOBI contribution on behalf of their workers / labors / employees by the service providers was excluded by the management in the contract agreement. The service providers remained non-compliant in fulfilling obligatory responsibility of depositing EOBI contribution on behalf of their workers / labors /employees. The detail of such contracts is as follows:

S #	Contract Description	Name of Service provider	Rs in million
-----	----------------------	--------------------------	---------------

1.	Operation & Maintenance HVAC System	M/s Protech Solutions (Pvt) Ltd	7.952
2.	House Keeping & Janitorial Services	M/s United Human Resource Services	6.119
3.	Gaurding, Security & Fire Fighting Services	M/s Bahria Security Services	11.502
4.	Maintenance & Services of Elevators	M/s Ziafco Engineering & Contractor	1.239
Total			26.813

Audit is of the view that exclusion of relevant clauses of EOBI and other contribution(s) and non-deposition of deducted amount was a gross violation of Government instructions / orders. The management was bound to check that all the mandatory deductions have been complied by the service provider against all the employees deployed. Therefore, contracts awarded amounting to Rs 26.813 million stands irregular and un-justified.

The matter was reported to the management on March 10, 2023. The irregularity was discussed in DAC meeting held on January 12, 2024. The management informed the DAC that most of the service providers / contractors registered with EOBI and also maintained their own employees Contribution record. Further, EOBI clause in contracts has been noted for future compliance. The DAC directed the management to take action against the contractors / suppliers who failed to deposit EOBI contribution on behalf of employees / workers and share the status with Audit.

Audit recommends implementation of the DAC directives.

3.1.4.12 Fraudulent payment of explosion claim - Rs 19.119 million.

Condition 5(a) of Insurance Policy No. KF-01-0093-1/2014 states that the insurance policy does not cover loss or damage occasioned by or through or in consequences of explosion.

Section 47(4) of Insurance Rule, 2017, every survey conducted by, and report given by, an insurance surveyor shall be conducted and given with due diligence and skill, and in good faith and the report shall be finalized as early as possible but within the period of ninety days:

During audit of National Insurance Company Limited (NICL), Karachi for the year 2022, it was observed that a claim was lodged by M/s. Pakistan Petroleum Limited for loss / damage due to explosion of Pipeline at Bank, No.6 of Sui Gas Plant at Sui Gas Field, Baluchistan on 01-08-2014. According to Surveyor, the loss or damage in consequences of explosion was not covered in the subject policy; therefore, the loss was not payable. Upon refusal from Surveyor, the management informed the surveyor that explosion damage risk was covered under the schedule of

policy. The Surveyor revised the survey report on 11.08.2018 and the insured was paid Rs 16,878,116 as final payment.

Later on, the insured (PPL) on 07-01-2021 submitted that the loss was short assessed. Finally, surveyor recommended the cost of chemical valuing Rs 2,240,728. The claim file was reopened and additional claim of Rs 19,118,844 (Rs 16,878,116 + Rs 2,240,728) was paid to insured on 02.09.2022. Further, it was revealed that schedule of the policy (covering explosion damage) was allowed and signed between the parties on 03.10.2014 and policy was issued on 31.12.2014, five months after claim intimation.

Audit is of the view that inclusion of explosion damages clause in the policy schedule after intimation of loss reflects undue favor to the insured. Thus, payment of claim amounting to Rs 19.119 million stands irregular and unjustified.

The matter was reported to the management on October 23, 2023. The irregularity was discussed in DAC meeting held on January 12, 2024. The management informed the DAC that NICL usually issue Hold Cover to its clients for continuance of insurance period and clause of explosion damage was already part of insurance coverage. Further, the survey report was delayed due to late submission of claim record by insured. The DAC directed the management that black list the surveyor and conduct internal inquiry regarding claim settlement and share with audit.

Audit recommends implementation of the DAC directives.

3.1.4.13 Irregular award of civil works in piecemeal – Rs 18.454 million

Rule 09 of PPRA Rules, 2004 states that a procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly without any splitting or regrouping of the procurements so planned. The annual requirements thus determined would be advertised in advance on the Authority's website as well as on the website of the procuring agency in case the procuring agency has its own website.

During audit of National Insurance Company Limited (NICL), Karachi for the year 2022, it was observed that the management hired the services of thirty-five (35) contractors for the civil work carried out on different floors and parking area of NICL Building, Karachi. The management incurred expenditure of Rs 18.454 million (Annex-23) through petty transactions during 2022. No tender process was adopted and the whole work was executed by splitting the same to avoid tender process.

Audit is of the view that the award of contracts without tender valuing Rs 18.454 million is a gross violation of PPRA Rules, 2004.

The matter was reported to the management on October 23, 2023. The irregularity was discussed in DAC meeting held on January 12, 2024. The management informed the DAC that all

work was initiated after completing the formalities/compliance with PPRA, Rules 2004. The civil works were initiated on need/requirement basis on different locations of NICL Building. The DAC directed the management to provide the relevant record to Audit for verification along with justification for execution of work on splitting basis.

Audit recommends implementation of the DAC directives.

3.1.4.14 Un-justified settlement of non-insurance period claim – Rs 15.000 million

As per conditions precedent to liability of insurance policy No. 2013/KB/B/SB/P/D/P0003 dated; 27.08.2013 section (c) Joint Custody shall be established and maintained for the safeguarding of Property while in safes or vaults. (Property means cash and all other securities).

(f) in addition to the normal audit of the books and accounts of the business by the assureds' independent outside auditor, the assured shall conduct a thorough internal audit, examination and review of internal controls at least once in a year at all premises and shall retained the record and working papers relating to such audit.

Section 47 (4) of Insurance Rule, 2017 states that every survey conducted by, and report given by, an insurance surveyor shall be conducted and given with due diligence and skill, and in good faith and the report shall be finalized as early as possible but within the period of ninety days:

During audit of National Insurance Company of Pakistan (NICL), Karachi for the year 2022, it was observed that an infidelity / fraud claim was lodged by M/s. National Bank of Pakistan for loss of Rs 353,245,800 due to fraud at NBP Airport Branch, Karachi during 2009-2013. The fraud was revealed on 14.03.2013 and reported to NICL on 09.04.2013. Surveyors assessed the loss for Rs 666.167 million during 2011 to 2013, out of which Rs 92.923 million pertained to policy period i.e. 2013 vide report dated 15.01.2021. According to report, accused collected the duties and taxes on behalf of Collector of Customs and did not deposit the amount in relevant bank accounts. The claim was settled for Rs 15.000 million. Following discrepancies were observed in settlement of claim:

- i. Insurance policy No.2013/KB/B/SB/P/D/P0003 was issued on 27.08.2013 while loss was intimated on 09.04.2013, almost four months before the issuance of policy, means, claim of NBP was entertained for non-insurance period.
- ii. Instances of unauthorized transactions in the said branch of NBP seems regular feature as evident from enquiry report.
- iii. Survey report was issued by the surveyors after a noticeable delay of seven years in violation of Rule.
- iv. Important documents like FIR, Final investigation report of FIA, Final copy of Challan, audited statement of loss, copy of court decision and proceeding made by the NAB authority so far in this case was not obtained from insured.

Audit is of the view that the policy was issued after four months of occurrence of fraud which reflected weak internal controls.

The matter was reported to the management in October, 2023. The irregularity was discussed in DAC meeting held on January 12, 2024. The management informed the DAC that claim was paid taken into consideration all the facts. NBP have dismissed various employees found guilty in fraudulent act in collusion with others. Further the requirement of the documents i.e. final investigation report of FIA, final copy of challan, copy of court decision and proceeding made by the NAB have been dropped after legal opinion of Legal Counsel The DAC directed the management to get verify the continuity of the policy and claim settlement process from Audit.

Audit recommends implementation of the DAC directives.

3.1.4.15 Unjustified settlement of PSO claim – Rs 13.340 million

Section 55(1) of Insurance Rule, 2017 states that a proposal form provided to a prospective policyholder shall carry or contain a notice of his duty of disclosure stating the consequences of non-disclosure.

During audit of National Insurance Company Limited (NICL), Karachi for the year 2022, it was observed that a claim was lodged by M/s. Pakistan State Oil Company Limited for loss due to damage of pipelines at PSO Sihala Depot, Rawalpindi. The claim was lodged against the policy dated 07.09.2017 issued for the period of 01.07.2017 to 30.06.2018. The management appointed joint surveyors M/s. Malcolm Gaskill Services and M/s. Dusam & Co (Pvt) Limited for assessment of loss. The surveyors submitted their report on 28.02.2019 which stated that PSO pipeline was punctured by the shovel machine of NHA contractor during excavation near PSO pipelines. The hit of excavation machine not only damaged the pipeline but also caused loss of 165,000 liters PMG (Premier Motor Gasoline) spilled away from the pipeline. Initially, the surveyors assessed the loss for Rs 1,130,600 for damage of pipeline only as the policy cover HSD and did not cover loss of PMG product in pipeline. The insured refused to accept the claim and argued that pipeline connecting Attock Refinery Limited to Sihala depot is used for transportation of both the product. Keeping in view the insured argument, the surveyors allowed claim to the extent of Rs 12,076,703 on 03.07.2020 after inclusion of loss of product. The insured (PSO) again disagreed with the surveyors due to lower rate applied for PMG. Later on, the surveyors revised his assessment on 22.03.2022 and increase the loss amount up to Rs 13,340,603 as full and final settlement of the claim. Following discrepancies were observed in the settlement of case required justifications:

- i) The loss of product (PMG) was not included in policy then why the same was allowed.
- ii) The insurance policy did not include such provision allowed damages caused by third party.
- iii) Despite knowing the fact that construction of bridge is in progress by NHA, PSO did not adopt security for the safety of pipeline.

Audit is of the view that claim department solely depend the surveyors for the genuineness and reasonableness of the claims without cross verification of the same from other sources.

The matter was reported to the management in October, 2023. The irregularity was discussed in DAC meeting held on January 12, 2024. The management explained that the product in pipelines insurance policy covers are used for transportation of same category of petroleum products. The product mentioned in the policy schedule was used for calculation of the sum insured, while the underlying product transported varies based on the requirements. The DAC directed the management to submit the revised reply along with a copy of letter of subrogation from NHA and policy coverage of product i.e. PMG (Premier Motor Gasoline) for verification.

Audit recommends implementation of the DAC directives.

3.1.4.16 Unjustified settlement of claim before issuing policy - Rs 7.946 million

Section 58(2) of Insurance Rule, 2017 states that an insurer may issue a cover note prior to the receipt of premium, in order to enable the intending policyholder to review the details and scope of coverage being offered. Provided that the cover note should not be for a period exceeding seven days in the case of motor business and beyond thirty days in all other cases and must be replaced with an insurance policy before expiry of such cover note, subject to receipt of premium by the insurer.

During the audit of National Insurance Company Limited (NICL), Karachi for the year 2022, it was observed that a claim dated 16.07.2021 was lodged by M/s. Pakistan State Oil Company Limited (PSOCL) for loss for damage of 09 PSO retail outlets due to windstorm at Lakki Marwat. The Surveyors (M/s. Josheph Lobo (Pvt.) Limited and M/s. Dusam & Co (Pvt.) Limited) assessed the loss for Rs 7,946,623 for damage of 09 outlets. Further, premium was collected on 25.08.2021 and policy was issued on 16.08.2021, while, loss was intimated on 16.07.2021 which clearly indicated that the policy issued before receiving premium and after intimation of loss.

Audit is of the view that the management failed to act prudently in the settlement of claim which reflects negligence.

The matter was reported to the management on October 23, 2023. The irregularity was discussed in DAC meeting held on January 12, 2024. The management informed the DAC that loss intimated during hold cover which was admissible under insurance policy. The DAC directed the management to verify the continuity of policy under hold cover from Audit.

Audit recommends implementation of the DAC directives.

3.1.4.17 Non-recovery of decreed amount – Rs 5.733 million

According to Section 19 (1) of the Financial Institutions (Recovery of Finances) Ordinance 2001, upon pronouncement of judgment and decree by Banking Court, the suit shall automatically stand converted into execution proceedings without the need to file a separate application and no fresh notice need to be issued to the judgment-debtor in this regard. Particulars of the mortgaged, pledged, or hypothecated property and other assets of the judgment debtor shall be filed by the decree-holder for consideration of the Banking Court and the case will be heard by the Banking Court for execution of its decree on the expiry of 30 days from the date of pronouncement of judgment.

During audit of National Insurance Company Limited (NICL), Karachi for the year 2022, it was observed that M/s Searle Pakistan Limited was a tenant of NICL during the period from 1994 to 2020. The tenant was allowed 25% rebate until the vacation of the rented premises due to

non-availability of HVAC facility from 01.02.2010 to 15.08.2015. Thereafter, a civil suit was filed by the management in October, 2021 against the tenant for the recovery of outstanding rent arrears of Rs 6.882 million. The case was decreed in favor of NICL on May 21, 2023 with the judgment that defendant (M/s Searle Group) was liable to pay the amount of Rs 4.097 million to Plaintiff with 10 % interest per annum from March 2020 till its realization with deduction of 25% rent from 15.08.2015 to 15.03.2020 and Plaintiff was not entitled for recovery of an amount of Rs 2.780 million for the closure period of HVAC. The payment of interest @ 10% per annum, the cumulative total of which was Rs 1.636 million (Rs 0.409 per annum interest *4 years w.e.f March 2020 to October, 2023 was not recovered.

Audit is of the view that due to laxity, the management failed to recover the decreed amount of Rs 5.730 million (Rs 4.506 million rent and Rs 1.636 million interest) despite the lapse of considerable period.

The matter was reported to the management on October 23, 2023. The irregularity was discussed in DAC meeting held on January 12, 2024. The management informed the DAC that since the Execution Application was filed timely and same is pending for final adjudication. Further M/s. Searle Pakistan Limited (defendant/judgment-debtor) has filed an appeal against the judgment and decree dated 31.05.2023, therefore, the proceeding on Execution No. 7 of 2023 was stopped till the final decision in the appeal. The DAC directed the management to pursue the case vigorously.

Audit recommends implementation of the DAC directives.

3.1.4.18 Unjustified payment of burglary / theft claim - Rs 4.322 million

Clause (x) of Code of Corporate Governance for Insurers, 2016, states that the directors of an insurer shall exercise their powers and carry out fiduciary duties with a sense of objective judgment and independence in the best interests of that Insurer (company).

During audit of National Insurance Company Limited (NICL) North Zone, Islamabad for the year 2022, it was observed that M/s Utility Stores Corporation (USC), Islamabad submitted a claim amounting to Rs 5.042 million on account of theft/ burglary accident at USC Warehouse (Daska) Sialkot Region on 07-05-2010. The management appointed joint surveyors, M/s S.U Malik & Co. and M/s Saifullah Sarim Engg. Services Pvt. Ltd. on 11.05.2010 to assess the loss. The joint surveyors submitted detailed /comprehensive survey report on 14.05.2012 and assessed a net loss amounting to Rs 1.963 million. Later on, the management appointed another joint surveyor M/s MSK Enterprises and M/s Haseeb Associates Pvt. Ltd on 02.11.2017 without any justification/ reasoning. The second surveyor assessed the net loss of Rs 4.322 million. On the basis of second survey report, management settled / paid the claim amounting to Rs 4.322 million.

Audit is of the view that the management extended undue favor to the client by appointing another surveyor without any justification and payment was made on the basis of second surveyor instead of 1st surveyor which resulted in excess payment of Rs 2.359 million on account settlements of burglary claim.

The matter was reported to the management on March 10, 2023. The irregularity was discussed in DAC meeting held on January 12, 2024. The management informed the DAC that first joint surveyors applied under insurance rate and assessed the net loss Rs 1.963 million. However, M/s USC insured under declaration policy in which under insurance rate was not applicable. The surveyor failed to submit revised survey report till May, 2015. Subsequently, on the basis of second joint surveyor report, the management paid a claim of Rs 4.322 million. The DAC directed the management to get the facts verified from Audit. Further, delay was observed on the part of management and also observed that surveyor was not competent and directed the management to remove / blacklist the surveyor.

Audit recommends implementation of the DAC directives.

3.1.4.19 Unjustified settlement of marine claim – Rs 3.359 million

Section 58(2) of Insurance Rule, 2017 states that an insurer may issue a cover note prior to the receipt of premium, in order to enable the intending policyholder to review the details and scope of coverage being offered. Provided that the cover note should not be for a period exceeding seven days in the case of motor business and beyond thirty days in all other cases and must be replaced with an insurance policy before expiry of such cover note, subject to receipt of premium by the insurer.

During audit of National Insurance Company Limited (NICL), Karachi for the year 2022, it was observed that a marine claim No.10/ 003-PC-21 dated 21.0.2020 was lodged by M/s. Peoples Steel Mills Limited for loss due to damage of consignment of 45 packages of CCM Revamping Project Machinery & Equipment imported from Tianjin (China) to Karachi. The ship arrived at KPT berth on 08.10.2020. However, debit note was issued on 16.10.2020 after the arrival of consignment from China, and policy No. 2021/KB/B/MI/D/PO190 was issued on 27.01.2021. After examination of claim, the Surveyors adjusted the loss for Rs 3,359,956. Further, open cover was issued on 27.02.1990 for only one year instead of 30 days as required under the above rule.

Audit is of the view that issuance of policy after intimation of loss on the basis of expired cover note is a violation of rule.

The matter was reported to the management on October 23, 2023. The irregularity was discussed in DAC meeting held on January 12, 2024. The management informed the DAC that marine open cover / open policy was issued to the insured to provide continuous insurance of shipments / cargo coverage. Open cover was issued on 27.02.1990 wherein all the terms and

conditions were agreed between the insurer and the insured. The DAC directed the management to revise the policy of open cover 1990 and discontinue the same.

Audit recommends implementation of the DAC directives.

3.1.4.20 *Non-finalization of annual audited accounts since 2018*

Rule (xxviii) (c) of Code of Corporate Governance for Insurers, 2016, states that the insurer shall insure that the annual audited financial statements are circulated, not later than four months from the close of the financial year.

During audit of National Insurance Company Limited (NICL), Karachi for the year 2022, it was observed that the annual audited from 2018 to 2022 were not prepared as per stipulated time period, provided by the Code of Corporate Governance Rules, 2016.

Audit is of the view that non-compliance of rules may affect true and fair picture of the company's financial statement for the stake holder(s).

The matter was reported to the management on October 23, 2023. The irregularity was discussed in DAC meeting held on January 12, 2024. The management explained in DAC meeting that BoD of the Company has been recently constituted in the month of Aug 2023 after the gap of almost 2.5 years. Resultantly, the Financial Statements could not be finalized since 2018 However, the Management is keen to address the subject issue and has taken number of initiatives in this regard which includes but not limited to. DAC directed the management to expedite the matter.

Audit recommends implementation of the DAC directives.

Note: The issue was also reported earlier in the Audit Report for Audit Year(s) 2022-23 vide para(s) number 3.1.4.22 and for Audit Year 2021-22 vide para(s) number 3.1.4.20. Recurrence of same irregularity is a matter of serious concern.

3.2 Pakistan Re-Insurance Company Limited

3.2.1 Introduction

Pakistan Insurance Corporation was re-organized as Pakistan Re-insurance Company Limited (PRCL) under the Insurance Corporation (Re-organization) Ordinance, 2000 and incorporated on March 30, 2000 under the Companies Ordinance, 1984. The PRCL is a public sector company under the administrative control of the Ministry of Commerce, Government of Pakistan. The prime objective of the Company is the development of insurance as well as reinsurance business in Pakistan. The Company is a national reinsurer playing its role in the economic development of Pakistan. It provides reinsurance protection to the local insurance companies by way of treaty and facultative business.

3.2.2 Comments on Audited Accounts

3.2.2.1 The working results of the company for the year ended December 31, 2022 as compared to previous years is given below:

(Rs in million)					
Description	2022	%Inc/Dec)	2021	% Inc / (Dec)	2020
Gross premium	24,271	17.05	20,994	24.25	16,896
Net premium	7,929	5.60	7,226	7.72	6,708
Net Insurance claim	(4,312)	(14.13)	(3,778)	-3.72	(3,924)
Management expense	(1,528)	(109)	(729)	9.33	(666.78)
Commission paid	(1,026)	(5.99)	(968)	4.63	(925.195)
Underwriting profit/(loss)	1,652.02	(3.446)	1,682.81	119.77	765.719
Investment income	1,338.39	36.33	981.71	-5.91	1043.379
Rental income	126.643	21.33	104.38	25.13	83.419
Profit Before Tax	3,556	(1.605)	3,614	83.36	1,971
Taxation	(932)	(9.073)	(1,025)	76.72	(580)
Profit after tax	2,625	1.35	2,590	86.20	1,391

(Source: Annual Audited Accounts-2021)

Management expenses increased from Rs 729.000 million in the year 2021 to Rs 1,528.000 million in the year 2022, registering an increase by 109% due to increase in employees benefits cost, security service expense, travelling & conveyance expense and entertainment.

3.2.2.2 The insurance /reinsurance receivables stood Rs 13,686.203 million as on December, 2021 and Rs 17,393.375 million as on 31st December 2022, registering an increase of 27.08 % due to lesser recoveries.

3.2.2.3 The external auditors issued a qualified opinion that receivable and payable balances from various respective parties / insurance companies on account of the treaty business and facultative business, which includes a gross amount of Rs 16,792 million and a net amount of Rs 16,626 million. An amount due to other insurance companies includes an amount of Rs 40.11 million, which remained un-reconciled as of 31st December 2022. Due to pending reconciliations relating to the above balances, resultant adjustments, and consequential impact thereon, if any, on these financial statements remain uncertain.

3.2.2.4 The external auditors issued a qualified opinion. They noted a significant amount due from re-takaful participants on account of treaty and facultative re-takaful business, including a gross amount of Rs 423.435 million and a net amount of Rs 410.660 million, which remained un-reconciled as of 31st December 2022. Due to pending reconciliations relating to the above balances, resultant adjustments, and consequential impacts thereon, if any, on these financial statements remain unascertained.

3.2.2.5 Current ratio deteriorates from 3.5:1 in the FY year 2021 to 4.07:1 in the FY 2022 due to increase in short-term debt and decrease in current assets.

Formula	2022 (Rs)	2021 (Rs)
<u>Current assets</u>	63,315,332,437	46,348,937,649
<u>Current Liability</u>	15,525,015,227	12,916,703,382
Ratio	4.07:1	3.5:1

3.2.2.6 Equity ratio shift in deteriorating position to 22.61% in the FY 2022 from a preceding standing of 27.93% FY 2021.

Formula	2022(Rs)	2021 (Rs)
<u>Shareholder Equity</u>	14,321,407,662	13,072,194,616
Total assets	63,315,332,437	46,805,551,289
Percentage (%)	22.61	27.93

3.2.2.7 Debt ratio shift in deteriorating position to 77.57% in the FY 2022 from a preceding standing of 72.07% FY 2021 reflecting heavy obligation trend to asset.

Formula	2022 (Rs)	2021 (Rs)
<u>Total Liabilities</u>	49,533,537,615	33,733,356,673
Total assets	63,854,945,278	46,805,551,289
Percentage	77.57%	72.07%

3.2.2.8 Return to asset shift in deteriorating position to 12.41% in the FY 2022 from a preceding standing of 15.44 % in the FY 2021.

Formula	2022 (Rs)	2021 (Rs)
<u>Net Insurance Premium</u>	7,929,369,976	7,225,623,532

Total assets	63,854,945,278	46,805,551,289
Percentage	12.41%	15.44%

3.2.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	% age of compliance
2003-04	7	6	1	6	86%
2010-11	13	10	3	2.2.4.1, 2.2.4.2, 2.2.4.3	77%
2011-12	9	1	8	3.2.2.1, 3.2.2.2, 3.2.2.3, 3.2.3, 3.4.4.1, 3.4.4.2, 3.4.4.3, 3.4.4.4	11%
2013-14	6	3	3	4.2.2.1, 4.2.2.2, 4.2.3	50%
2014-15	10	6	4	4.2.4.2, 4.2.2.4, 4.2.4.1, 4.2.4.4	60%
2015-16	9	3	6	4.2.4.3, 4.2.2.3, 4.2.2.4, 4.2.3, 4.2.4.1, 4.2.4.2	33%
2016-17	6	3	3	3.2.3, 3.2.4.1, 3.2.4.3,	50%
2017-18	14	5	9	4.2.2.1, 4.2.4.3, 4.2.4.11, 4.2.3, 4.2.4.1, 4.2.4.4, 4.2.4.5, 4.2.4.6, 4.2.4.10	36%
2019-20	2		2	3.2.4.1, 3.2.4.2	
Total	76	37	39		49%

The overall compliance of PAC directives needs improvement.

3.2.4 Audit Paras

3.2.4.1 Revenue loss by excessive retrocession in foreign insurance companies – Rs 29,952.780 million (US\$ 203.110 million)

One of the main objectives of the Company is “To enhance Domestic retention capacity in the country in order to save valuable foreign exchange.”

Section (X) of the Code of Corporate Governance for Insurers, 2016 regarding Responsibilities, Powers and Functions of Board of Directors states that "The directors of an insurer shall exercise their powers and carry out their fiduciary duties with a sense of objective judgment and independence in the best interests of that insurer and its policyholders."

During special study of the Pakistan Re-insurance Company Limited (PRCL) for the years 2017 to 2021, it was observed that the management re-insured the business in foreign reinsurance companies without keeping in view the main objectives of the organization through which the outflow of dollar was to reduce from the country. The detail of foreign exchange outflow from country during last 07 years is at (Annex-24).

Thus, in last 06 years the average figure of net claim has not gone over 3.5 billion per year, even then the management paid major portion of the premium for retrocession to the foreign insurance companies through agents. As in 2021 gross premium of Rs 20,993.56 million, out of which an amount of Rs 13,767 million was paid to the foreign insurance companies, which is 65%, leaving retention of premium of Rs 7,225.62 million i.e. 35% of the total premium received by PRCL. This shows a major portion of the premium is paid to the reinsured companies. In some cases, the company is retaining as low as only 10% of the insurance as for instance in one insurance case of PIAC aviation & hull insurance, the share of PRCL was 10%, NICL 7.5% and rest 82.50% of the reinsurer (M/s Marsh broker).

Thus, the management has not appointed a Risk Assessing Manager due to which no proper decision for managing insurance risk is made nor the amount of foreign exchange is saved within the country, which caused deprived off revenue of more than Rs 29,952.780 million to PRCL in just 07 years. Had the company retained at least 60% of premium of Rs 54,753.600 million out of total premium of Rs 91,256.560 million, the Company could have saved an amount of Rs 29,952.78 million (Rs 54,753.600 million – Rs 24,801.160 million).

Audit is of the view that the management was not focusing on the main objectives of the company to save valuable foreign exchange after increasing equity of the organization, which shows not only slackness on the part of the management but also found involved in draining out of dollars from the country.

The irregularity was discussed in the DAC meeting held on August 21, 2023. The management informed the DAC that only retain such portion of risk which falls within its capacity determined as per the regulatory guidelines which is about 5 % of equity per risk. The risks which are beyond PRCL capacity are retroceded international market and keeping in consideration the basic principles of reinsurance i.e. 'risk management' and 'diversification'. The DAC directed that the management to satisfy the audit that the

quantum of business retroceded in the case of PIA was a consequence of PIA’s lease agreements for foreign air crafts and its own retention capacity as per SECP guidelines and make efforts to retain more risk.

Audit recommends implementation of the DAC directives.

3.2.4.2 Non recovery from various parties – Rs 11,845.043 million

Clause (x) of Code of Corporate Governance for insurers, 2016, states that the directors of an insurer shall exercise their powers and carry out fiduciary duties with a sense of objective judgment and independence in the best interests of that Insurer (company).

During audit of Pakistan Reinsurance Company Limited (PRCL) for the year 2022, it was observed that an amount of Rs 11,845.043 million was outstanding against following parities as on 31.12.2022.

(Rs in million)

S#	Description	Amount	Annex
1	Ceding companies	10,353.770	Annex-B5
2	Foreign non-resident companies	721.718	
3	Takaful participant holders	503.635	
4	Ceding companies under litigation (premium)	265.920	
Total		11,845.043	

Audit is of the view that non-recovery of from various parties amounting to Rs 11,845.043 million reflected weak financial management and poor recovery mechanism.

The matter was reported to the management on November, 2023. The irregularity was discussed in the DAC meeting held on January 17, 2024.

- a. The management explained that their dues from 01.01.2023 to 11.01.2024 for Rs 4,142 million, which is 82% of the total receivables of Rs 5,032 million were recovered, leaving a balance of Rs 901 million from companies carrying insurance business. The DAC noted efforts of the company to effect of 100% recovery of balances from NICL. However, it raised concern over the long outstanding dues from insurance companies specially those over 03 years and those with the delay of more than 01 to 02 years. DAC directed the management to get the recovery from NICL verified by the Audit. Further it might present to the Board a paper for making a representation to the SECP on improving recovery of dues receivables from private insurance companies. DAC further directed the management to regularly submit the recovery status to its Board indicating aging-wise the total amount recoverable at each Board meeting.
- b. The management informed that it has recovered an amount of Rs 498.77 million out of Rs 721.718 million in short period of nine months. It was further informed that PRCL recovered almost 70% of its outstanding balances from foreign non-resident companies. The DAC directed the management to provide evidence of recovered amount to Audit for verification.

- c. The management explained that PRCL had a net receivable from Insurance Companies amounting to Rs 516.457 million. Out of this receivable, PRCL has recovered Rs 464 million (89%). The DAC directed prepare a position on the subject to place before the Board and would take-up the matter with SECP for putting in place to affect a mechanism of recovery and further directed the management to proof the evidence of recovery of the outstanding amount of Rs 464 million to be verified by Audit.
- d. The management explained that insurance companies failed to perform its statutory duty to settle/pay PRCL dues/premium, resultantly suit was filed against these companies for the recovery of PRCL dues. The DAC noted that almost all cases were pending in the court of law. It was directed that the cases of stuck up recovery to be presented to the Board of Directors for its comprehensive review and strategy for recovery of receivables in such cases and pursue court cases with objectively.

Audit recommends implementation of the DAC directives.

(DP No.682, 695,696,691& 683)

3.2.4.3 Loss of revenue due to excessive retrocession – Rs 3,540.195 million (US\$ 17.700 million)

Clause (x) of Code of Corporate Governance for insurers, 2016, states that the directors of an insurer shall exercise their powers and carry out fiduciary duties with a sense of objective judgment and independence in the best interests of that Insurer (company).

The main objective of the Company states that to enhance Domestic retention capacity in the country in order to save valuable foreign exchange.

During audit of Pakistan Reinsurance Company Limited (PRCL) for the year 2022, it was observed that the management renewed the policy for retrocession against the reinsured business of aviation (PIA) with foreign reinsurance companies without aligning with the organization's main objectives (Annex-26). Moreover, the management was only retaining a premium of 5% to 6%, whereas NICL is retaining more than 10%, and the remaining premium is usually transferred to retrocession. Out of the total premium, only US\$ 1.507 million was calculated, with retrocession premium transferred to M/s. AGJ through an agent, valuing US\$17.700 million, which was more than 85%. Furthermore, the management had not appointed a Risk Assessing Manager, leading to the absence of proper decisions for managing insurance risk and saving foreign exchange. Due to such imprudent decisions, PRCL was deprived of revenue exceeding Rs 3,540.195 million (US\$17.700 million *Rs 200) against the renewal of existing policies.

Audit is of the view that the management failed to focus on the main objectives of the company to save valuable foreign exchange, even after increasing the equity of the organization which reflects slackness on the part of the management.

The matter was reported to the management on November, 2023. The irregularity was discussed in the DAC meeting held on January 17, 2024. The management explained that only retain such portion of risk which falls within its capacity determined as per the regulatory guidelines which is about 5 % of equity

per risk. The risks which were beyond PRCL capacity are retroceded international market and keeping in consideration the basic principles of reinsurance i.e. 'risk management' and 'diversification'. The DAC directed that the PRCL management to satisfy the audit that the quantum of business retroceded in the case of PIA was a consequence of PIA's lease agreements for foreign air crafts and its own retention capacity as per SECP guidelines and make efforts to retain more risk.

Audit recommends implementation of the DAC directives.

3.2.4.4 Non-payment of income tax – Rs 1,728.66 million

Section (x) of the Code of Corporate Governance for Insurers, 2016 states that the directors of an insurer shall exercise their powers and carry out their fiduciary duties with a sense of objective judgment and independence in the best interests of that insurer and its policyholders.

During special study on the accounts of Pakistan Reinsurance Company Limited (PRCL) for the years 2017 to 2021, it was observed that the management did not pay the income tax from 2010 to 2018. The detail is given as under:

S#	Year	(Rs in million)
1)	2018	353.612
2)	2017	0
3)	2016	223.912
4)	2015	0.772
5)	2014	412.724
6)	2013	9.342
7)	2012	127.326
8)	2011	97.770
9)	2010	20.748
Total		1246.206

The company also did not deduct and paid the income tax on commission paid to the ceding companies. The detail is given as under:

S.No	Year	Rs in million
1)	2016	182.699
2)	2015	39.541
3)	2014	260.214
Total		482.454

Hence, the management did not deduct and pay the amount of income tax on commission to the ceding companies.

The matter was reported to the management on November 19, 2022. The irregularity was discussed in the DAC meeting held on January 17, 2024. The management contended that payment was not made as the case was subjudice. DAC directed to pursue the case vigorously.

Audit recommends implementation of the DAC directives.

3.2.4.5 Irregular payment of insurance claim to third party instead of PIAC against settlement of PIAC crashed airplane- Rs 1,128.000 million (US\$ 7.050 million)

Section (x) of the Code of Corporate Governance for Insurers, 2016 states that the directors of an insurer shall exercise their powers and carry out their fiduciary duties with a sense of objective judgment and independence in the best interests of that insurer and its policyholders.

During special study of Pakistan Re-Insurance Company Limited (PRCL) for the years 2017 to 2021, it was observed that the Aircraft, ATR 42 AP-BHP of Pakistan International Airline Corporation was

skidded off runway at Gilgit Airport on July 20, 2019. The cause of accident as per report dated October 10, 2019 was over speeding due to which aircraft touched down beyond the normal landing point. The surveyor conducted the survey and management settled the claim of US\$ 7,800,000 less salvage offer of US\$ 650,000 and policy deductible US\$ 100,000 net settlement at US\$ 7,050,000. The share of PRCL was 10%, NICL 7.5% and rest 82.50% of the reinsurer (M/s Marsh broker).

As per procedure, PRCL had to receive 82.5%, US\$ 5,816,250 from M/s Marsh, to add his 10%, US\$ 705,000 and to pay to NICL for further payment to PIAC, but the management adopted procedure against the normal practice and paid the share to foreign broker directly instead of receiving its share thus restricted the dollar inflow of US\$ 5.80 million in Pakistan.

Audit is of the view that the management extended undue favour to the foreign broker, M/s March for allowing him to pay to third party M/s Clyde & Co instead of receiving amount from Lead Insurers and to onward payment to NICL and then to PIAC.

The matter was reported to the management on November 19, 2022. The irregularity was discussed in the DAC meeting held on August 21, 2023. The management informed the DAC that the policy holder (PIACL) had advised to remit PRCL share to legal counsel of re-insurance brokers i.e. M/s Clyde & Co. further, actual amount paid by PRCL was US\$ 715,000 (being 10%) to M/s NICL as advised by the insured i.e. PIACL. The DAC directed the management to provide the relevant documentary evidence showing transfer of funds/ flow chart to the accounts of PIACL.

Audit recommends implementation of the DAC directives.

3.2.4.6 Loss due to payment of tax penalty – Rs 880.000 million

Clause (x) of Code of Corporate Governance for insurers, 2016, states that the directors of an insurer shall exercise their powers and carry out fiduciary duties with a sense of objective judgment and independence in the best interests of that Insurer (company).

During audit of Pakistan Reinsurance Company Limited (PRCL) for the year 2022, it was observed that the management failed to file Sindh Sales Tax returns on services provided to insurance Companies for the years 2011 & 2012. Resultantly, Sindh Revenue Board (SRB) issued various notices for submission of tax amounting to Rs 3,242 million. The management filed an appeal with the Commissioner of Appeals, Sindh Revenue Board, and the Appellate Tribunal, which was rejected in February 2016. Subsequently, the management deposited an amount of Rs 2,573 million and additionally, an amount of Rs 880.000 million as tax penalty.

Audit is of the view that the management failed to submit tax returns on time which resulted in payment of tax penalty of Rs 880.000 million. This reflected weak financial management and negligence.

The matter was reported to the management on November, 2023. The irregularity was discussed in the DAC meeting held on January 17, 2024. The management explained that the court case is being actively pursued in Sindh High Court and last hearing was held on 21.11.2023. Furthermore, the notices for payment for 03 years included the penalty for earlier years for which payment notices were not received by PRCL. The DAC directed that management to follow up the case in the Sindh High Court.

Audit recommends implementation of the DAC directives.

3.2.4.7 Loss on investment in mutual funds and shares – Rs 399.865 million

Section 15 of Investment Policy 2021-22 of PRCL states that Fixed income instruments; the decision in investment in fixed income securities shall be based on fundamental credit analysis of securities;(c) attempt shall be made to invest in those securities that offer competitive returns vis-à-vis other similar investments in the market.

During audit of Pakistan Reinsurance Company Limited (PRCL) for the year 2022, it was observed that the management invested a sum of Rs 1,484.589 million in the mutual funds and Rs 147.073 million in shares. However, a loss of Rs 391.023 million and Rs 8.842 million respectively was sustained (Annex-27).

Audit is of the view that the management has been suffering losses from investments in mutual funds and equity due to non- divestment of funds from the pool of mutual neither funds nor invested them in other fixed-income securities which reflected poor financial management.

The matter was reported to the management on November, 2023. The irregularity was discussed in the DAC meeting held on January 17, 2024. The management explained that no loss was incurred in the investment as this was a diminution in the value of investment. The DAC directed that PRCL management would submit a report to the Audit explaining the compliance of current investments with the SECP regulations on investment of funds by insurance companies. Further the dividend received from the 03 banks to be get verified from the Audit.

Audit recommends implementation of the DAC directives.

(DP No. 700 & 701)

3.2.4.8 Irregular settlement of insurance claims without valid insurance policy - Rs 380.186 million

Section 58 (1) of Insurance Rules, 2017 states that Insurance policy not to be issued without receipt of premium, save as provided under sub-rule (2), (3) and (4) below, no insurance policy shall be issued where premium has not been received by the insurer.

Clause 01 of the acceptance Note stipulates "Submission of Premium closing particular (along with policy number) within 45 days and PPW (Premium payment warranty) within 30 days. and Clause 2 of the Acceptance Note mentions that " OGR (Original Gross Rate)/Leader's terms and original terms and conditions, failing which claim if any shall not be entertained."

During special study of Pakistan Re-Insurance Company Limited (PRCL) for the years 2017 to 2021, it was observed that the management settled the claim of the insured companies without insurance policy, which is violation of above Insurance Rules, 2017.

1. **M/s Soorty Enterprises:** An amount of Rs 128.098 million being 25% share of PRCL out of Rs 512.394 million was paid to M/s Soorty Enterprises without valid insurance policy with the PRCL, which is evident from the facts mentioned in the table below:

S #	Description	Date
1.	Date of Loss	26.07.2020
2.	Request Note by the EFU for policy	03.08.2020
3.	Policy Acceptance Note	04.08.2020
4.	Fire Brigade Department Report	05.08.2020
5.	Premium Payment Cheque (50001859) date	30.09.2021

- M/s Naveena Exports: The management settled the claim of M/s Naveena Exports amounting to Rs 136.324 million being 25% facultative share of PRCL out of Rs 545.296 million without valid insurance policy. 1st premium was paid after 1 and half year from the date of loss i.e. date of loss was 26 April, 2020 and date of premium payment was 30 September, 2021.
- Further, the management settled the claims of M/s Masood Textile Mills Ltd, M/s Interloop, M/s Kohinoor energy and M/s Denim International for Rs 115.764 million without valid insurance policy. Detail is annexed:

(Rs in million)								
S#.	Ceding company	Insured company	Date of Loss	Premium received by PRC		Claim paid/ settled by PRC		Date of Survey Report
				Cheque No.	Date	Amount	Date	
1.	Jubilee General Insurance Company	Masood Textile Mills Ltd.	26.05.18	1639187	1 st check as on 04.09.2018	1.615	24.6.19	19.01.19
2.	Adamjee Insurance Company Ltd.	Interloop.pvt. ltd.	19.06.17	1003553170	05.09.18	25.701	17.7.19	21.07.17
3.	Adamjee Insurance Company Ltd	Kohinoor energy ltd.	26.09.17	1003553170	05.09.18	3.031	17.7.19	08.04.19
4.	Habib Insurance Company	Denim International	15.6.14	8591280	20.12.14	85.415	21.08.17	26.12.16
Total claims settled						115.764		

Audit is of the view that the management extended undue favor for settlement of claim without insurance policy. Hence, the payment of Rs 380.186 million to the above companies is irregular and in violation of Insurance Rules.

The matter was reported to the management on November 19, 2022. The irregularity was discussed in the DAC meeting was held on August 21, 2023. The DAC directed the management to inquire the matter at Ministry level.

Audit recommends implementation of the DAC directives.

3.2.4.9 Top of Form Irregular award of contract on hiring of security guards – Rs 14.647 million

Rule 12 (2) states that all procurement opportunities over three million Pakistani Rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

Rule 20 of PPRA Rules, 2004 states that save as otherwise provided hereinafter, the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

During audit of Pakistan Re-Insurance Company Limited (PRCL) for the year 2022, it was observed that the management awarded a contract to M/s Frontier Constabulary (FC) Security Services amounting to Rs 14,647,632 per annum directly without inviting tender against the single quotation. The management hired the services of 22 security guards, 02 supervisors, 04 firefighting & 02 Lady searchers irregularly for the period from 01-07-2022 to 30.06.2023.

It was further observed that the NOC issued from the Home Department, Government of Sindh, the license of M/s. Frontier Constabulary Security Services (FCSS), Pvt. Limited was suspended and not renewed for the period of 2023 due to non-submission of relevant documents.

Audit is of the view that the management extended undue favor to the above security agency without observing the PPRA Rules, 2004.

The matter was reported to the management on November, 2023. The irregularity was discussed in the DAC meeting held on January 17, 2024. The management informed that only one (01) bidder, M/s Frontier Constabulary Security Services, submitted a bid, which was subsequently opened on 26.07.2022. It was apparent that the quoted rates were reasonable. The DAC directed that PRCL management shall seek opinion of Interior Division on the status of Frontier Constabulary, Security Services as a Public Sector Entity. However, Audit is of the view that management should have followed open competitive bidding rather than direct contracting which was irregular and action be taken as per rules.

Audit recommends implementation of the DAC directives.

3.2.4.10 Irregular settlement of insurance claims of insurers - Rs 9.969 million

Section 58 of the Insurance Rules, 2017 states that Insurance policy not to be issued without receipt of premium.- (1) Save as provided under sub-rule (2), (3) and (4) below, no insurance policy shall be issued where premium has not been received by the insurer.

According to Policy Rules/ Acceptance- Premium of Policy is not adjustable against the claim, if any. As per the most basic principle of insurance- utmost Good Faith-you have the duty of full and timely disclosure of all the material information, so if the provided information is not accurate or differs from the

leader term (if any), then this acceptance stands void hence claim, if any, arising out of this acceptance shall not be entertained.

According to Clause 5 of policy rules Submission of Premium closing particular (along with policy number) within 45 days PPW (Premium payment warranty) within 30 days (after issuance Debit notes, falling which claim if any arising out against this acceptance shall not be entertained).

During audit of Pakistan Re-Insurance Company Limited (PRCL) for the year 2022, it was observed that the management did not receive the premium in some cases or received the premium late, however, these claims were admitted and paid in violation of the policies. The details of the same are tabulated below:

(Rs in million)							
S#	Details of insurer	Details of claim	Policy Period of claim	Date of premium received	Date of loss	Date of claim	Claim amount
1.	M/s UBL Insurer	claim No. 20154 against Policy No.ACC-0589/2020	01.07.2020 to 30.06.2021	01.07.2020 to 30.06.2021	22.08.2019	22.08.2019	2.109
2.		claim No. 19662 against Policy No.ACC-0239/2020		29.06.2021	26.03.2020	26.03.2020	2.458
3.		claim No. 2022-05-000008.	01.01.2019 to 31.12.2019.	01.10.2019	26.03.2020	22.08.2019	3.962
4.	M/s. Adamjee Insurance	Insurance policy FC-0868/2020	08.10.2019 to 07.10.2020	Not received	22.08.2020	03.02.2021	1.44
						Total	9.969

Audit is of the view that the management extended undue favor to M/s UBL Insurer and M/s. Adamjee Insurance without having a valid policy and receiving the premium on time.

The matter was reported to the management on November, 2023. The irregularity was discussed in the DAC meeting held on January 17, 2024. The management explained that the claims were only booked and no payment was made in this regards. The DAC recommended that delayed payment and submission of claims without payments by insurance companies shall be taken up by PRCL under intimation to the Ministry of Commerce with the regulator (SECP) for devising an effective and transparent mechanism under intimation to Audit.

Audit recommends implementation of the DAC directives.

(DP No. 694 & 699)

3.2.4.11 Loss on account of delayed settlement of claims – Rs 4.773 million

Clause (x) of Code of Corporate Governance for insurers, 2016, states that the directors of an insurer shall exercise their powers and carry out fiduciary duties with a sense of objective judgment and independence in the best interests of that Insurer (company).

During audit of Pakistan Reinsurance Company Limited (PRCL) for the year 2022, it was observed that the management booked claims valuing US \$ 42,126.31 (Rs 3.857 million @ Rs 91.481 per \$) on various dates between 2010 to 2018. However, at the time of settlement of claims, the management paid Rs 8.630 million (US\$ 42,126.31 @ Rs 200.950) and sustained an exchange loss of Rs 4.773 million due to late reconciliation / settlement.

Audit is of the view that due to slow processing in the acceptance of retrocession on the part of management, an exchange loss of Rs 4.773 million was sustained.

The matter was reported to the management on November 24, 2023. The irregularity was discussed in the DAC meeting held on January 17, 2024. The management stated that in overall business which recording exchange rate of Rs 138.239 million under other income whereas the loss of Rs 8.63 million was realized in 04 cases. Audit was of the view that exchange loss of Rs 8.63 million occurred due to management's negligence. The DAC directed the PRCL management to get record verified of overall exchange gain of Rs 138.239 million against the all policies issued and reason of loss of Rs 8.630 million with Audit.

Audit recommends implementation of the DAC directives.

3.2.4.12 Appointment on fake degree – Rs 3.361 million

Cabinet Secretariat, Establishment Division (Management Services Wing) through its D.O. No. 6(28)2011-DG-II, dated March 08, 2011 informed that the Prime Minister has been pleased to direct that measures should be taken to authenticate degrees/certificates of all Federal Government employees of the respective Ministries/Divisions, their attached departments, subordinate offices and autonomous bodies under their administrative control. The verification process may be initiated by the respective Ministries / Divisions and Heads of autonomous / semi-autonomous organizations at their own, and it will be the responsibility of concerned Secretary and Head of the Department / Organization to have the degree/ certificates verified.

During audit of Pakistan Reinsurance Company Limited (PRCL) for the year 2022, it was observed that the management referred the degrees of 04 employees for verification on 20-10-2019 to Karachi University. Three (03) degrees were found genuine, whereas the degree of Ms. Shagufta Zubair (Assistant Claim) was declared as forged. Subsequently, a show-cause notice dated 25.11.2019 was issued to her on submission of fake degree of B.Com. Subsequently, a petition was filed in the NIRC court against the show-cause notice by the incumbent on whom a stay was granted on 24.03.2021. The case was still pending for recording evidence.

Audit is of the view that the management failed to verify the degree at the time of appointment which reflects negligence and undue favor. Resultantly, an amount of Rs 3.361 million on account of salary and other allowances was held irregular and unjustified.

The matter was reported to the management on November, 2023. The irregularity was discussed in the DAC meeting held on January 17, 2024. The management informed that the Court was granted stay in the case of Mrs. Shagufta Zubair, therefore, PRCL could not take any action. The last date of hearing was 12th December, 2023, (adjourned) the next date of hearing is 26.02.2024. After receipt of the decision in respect of the said case, PRCL will take up the matter for further necessary action. The DAC expressed its displeasure on status of court case and directed PRCL management to proactively defend the case in the court in view of the significant delay in its finalization. Further it was directed that PRCL remain vigilant in respect of its employee's related matters and take timely action, before employees can resolve to courts for obtaining stay of proceedings. Furthermore, legal options be sought for early vacation of stay order.

Audit recommends implementation of the DAC directives.

3.2.4.13 Non-recovery of liquidated damages & surrender performance security – Rs 2.456 million

Clause 6 of contract agreement between PRCL and M/s GCS (Pvt), Limited states that if the supplier fails to complete the delivery on the agreed timelines the Purchaser shall deduct from the invoice payable for the one-time cost of the project as liquidated damages, a sum equivalent to 0.05 percent of the Contract Price for each week of delay until actual delivery is made, up to a maximum deduction of 10% of the Contract Price. After which the purchaser may consider termination of the contract pursuant to GCC24.

During audit of Pakistan Reinsurance Company Limited (PRCL) for the year 2022, it was observed that the management awarded a contract to M/s GCS (Pvt), Limited for Data Centre Co-Location and Dr. Site Co-Location with Migration Services at PRCL at a total cost of Rs 23,919,160 on July 06, 2022. However, the supplier did not complete the contract in due time as per contract. Therefore, total amount of Rs 2,456,839 (Rs 64,923 LD and Rs 2,391,916 performance security) was not deducted by the management.

Audit is of the view that the management failed to deduct liquidated damages and encash performance security as per contract terms which reflects undue favour and negligence.

The matter was reported to the management on November, 2023. The irregularity was discussed in the DAC meeting held on January 17, 2024. The management explained that the cumulative amounting to Rs 2,456,839, comprising both the penalty and the performance security, has been duly approved by the competent authority to be confiscated/recovered. Further informed that contract in question was cancelled. DAC directed the management to get the record verified by the Audit.

Audit recommends implementation of the DAC directives.

3.2.4.14 Bottom of Form Irregular appointment of tax consultant – Rs 2.083 million

According to para 7(ii) of Govt. of Pakistan Finance Division letter No. F.3(10)Exp.II/94-Vol-I-68 dated 8th February, 2002, the Consultants should not be appointed for routine functions of an organization.

During audit of Pakistan Reinsurance Company Limited (PRCL) for the year 2022, it was observed that the management hired the services of a Tax Consultant M/s. Yousuf Adil, Chartered Accountant on retainer ship for a period of 03 years (September 2019 to September 2022) and paid an amount of Rs 1.106 million. Later on, the management hired the services of M/s. Grand Thornton for tax consultancy through a fresh tender at a total cost of Rs 1.067 million.

Audit is of the view that the management hired the services of the Consultants to perform routine functions amounting to Rs 2.083 million in violation of the rules. Despite the presence of the Chief Financial Officer (CFO) who could easily look after such affairs, hiring of Consultants was unjustified.

The matter was reported to the management on November, 2023. The irregularity was discussed in the DAC meeting held on January 17, 2024. The management explained that it was a common and established practice to enlist the services of tax consultants. The intricacies of tax regulations, which are subject to frequent changes, demand a specialized understanding that may not always be available within a

company's internal resources and consultant in question was engaged since 2010. The DAC recommended that the management will place the audit observation in front of the Board which may reconfirm the justification for engaging an external Tax Consultant or otherwise.

Audit recommends implementation of the DAC directives.

3.2.4.15 Bottom of Form Irregular appointment of Consultant – Rs 1.800 million

According to advertisement dated 21st October, 2022 Consultancy for Business Development Strategy Services wherein Master's in Business Administration from HEC recognized University/Institute in Finance, Economics, Business Development, Marketing or other related field of study as per provided job description. Foreign Qualification will be preferred and experience i.e. at least 05 years' experience in areas of finance/analytics, and business development in insurance or reinsurance related sectors. Out of 05 years' experience at least 2.5 years must be international markets other than Pakistan. Candidate possessing extensive international experience including Chinese reinsurance market will be given preference and age maximum 45 years of age on closing date of the application.

During audit of Pakistan Reinsurance Company Limited (PRCL) for the year 2022, it was observed that the management appointed Mr. Ali Zain Hirji as a Consultant (Business Development Strategy) by rejecting suitable candidate as detailed below:

S#	Name	Age (years)	Experience	Qualification	Year of Experience	Remarks
1.	Mr. Ali Zain Hirji	33	<ul style="list-style-type: none"> • Head of International in Brilliance Reinsurance from 2017 to 2021. • Broker in NDI insurance & Reinsurance from 2013 to 2017 	B.com 2012 MBA 2019	09	Appointed
2.	Ms. Naheeda Nawaz	45	<ul style="list-style-type: none"> • Manager underwriting in Salama Takaful Ins. UAE from February, 2016 to October, 2017. • Head of operation in Optima Ins. Broker UAE form January, 2015 to January, 2016. • Insurance Business Development Consultant in Dual Matrix Corporation London from August, 2013 to December, 2014. • Country Manager in Al-Futtain Willis UAE from February, 2012 to July, 2013. • Manager Underwriting NICL Lahore from July, 2001 to April, 2010. 	MSC 1999 ACCI 2005	15.6	Rejected

Audit is of the view that the management hired a consultant on favoritism basis having less experience than the rejected candidate. Thus, an amount of Rs 1.800 million (Rs 150,000 * 12 months) was irregular and unjustified.

The matter was reported to the management on November, 2023. The irregularity was discussed in the DAC meeting held on January 17, 2024. The management explained that the hiring of consultant for business development strategy was approved in 62nd meeting of HR Committee and the advertisement regarding Business Consultant was published in leading newspapers on 21st October, 2021. The DAC directed that PRCL management to produce relevant documents related to the experience of the successful candidates in relation to recruitment for the scrutiny of the Audit and get verify that the minimum required experience was met.

Audit recommends implementation of the DAC directives.

3.2.4.16 Irregular appointment of company secretary without advertisement and relevant experience - Rs 1.630 million

As per Section 14 (4) of Public Sector Companies (Corporate Governance) Rules, 2013 states that, no person shall be appointed as the company secretary of a Public Sector Company unless he is a

- (a) member of a recognized body of professional accountants; or
- (b) member of a recognized body of corporate or chartered secretaries; or
- (c) person holding a master degree in business administration or commerce or being a law graduate from a university recognized by the Higher Education Commission with at least five years relevant experience.

Further as per section 14 (5) of Public Sector Companies (Corporate Governance) Rules, 2013 states that, no person shall be appointed to the positions of the chief financial officer and company secretary unless he is fit and proper for the position.

Cabinet Secretariat (Establishment Division) letter dated 6th May, 2000, (iii) (b) stipulates that vacancies should be advertised in the leading national and regional newspapers (c) selection should be made through regularly constituted Selection Committees / Board.

During the audit of Pakistan Reinsurance Company Limited's accounts for the year 2022, it was observed management appointed Mr. Sumeet Kumar as Company Secretary in June 2023 under the Monetized Salary Policy (MSP), Scheme 2021 on a 01-year probationary period basis without advertisement and competitive process. Furthermore, the post of Company Secretary does not fall under the MSP Scheme, and the incumbent did not have the relevant experience i.e. five years of relevant experience as a Company Secretary.

Audit is of the view that the management appointed the incumbent as Company Secretary in violation of rules which reflected undue favor. Hence, payment on account of Pay & allowances amounting to Rs 1.630 million (04 months @ Rs 407,500 P.M pay) to the incumbent is irregular and unjustified.

The matter was reported to the management on November, 2023. The irregularity was discussed in the DAC meeting held on January 17, 2024. The management explained that combined the position of Company Secretary with an existing employee who was the senior most in Board Secretariat Department of PRCL and possessed the requisite qualification and experience as specified in the fit and proper criteria with approval of the competent authority i.e. the Board of PRCL. The DAC directed that the PRCL management to prove credential of the Company Secretary, and get verify by the Audit to ensure that the SECP fit and proper criteria was met in case of his appointment.

Audit recommends implementation of the DAC directives.

3.3 State Life Insurance Corporation of Pakistan

3.3.1 Introduction

State Life Insurance Corporation of Pakistan (SLIC) was incorporated on November 1, 1972 under the Life Insurance (Nationalization) Order, 1972, which has been replaced by Insurance Ordinance, 2000. The main objective of the Corporation is to engage in the life insurance business, to maximize the return to the policy holder economizing on expenses and increasing the yield on investment and to use the policyholders fund in the wider interest of the community.

3.3.2 Comments on Audited Accounts

3.3.2.1 The working results of the Corporation for the year 2022 as compared to those of the previous years are tabulated below:

Description	2022	% inc/ (dec)	2021	% inc/(dec)	2020
Premium revenue	244,392	50	162,623	36	119,519
Investment Income (net)	114,752	19	96,160	10	87,267
Net realized fair value gain/(loss) on financial assets	440	646	59	(72)	208
Net fair value gain on financial assets at fair value through profit or loss	(13,563)	58	(8,566)	-	603
Net rental income	713	72	415	(26)	560
Other income	37,772	75	21,560	27	17,019
Insurance benefits	175,695	79	98,364	51	64,938
Recoveries from re-insurers	(283)	190	(314)	43	(219)
Claim related expense	25	79	14	5	14
Net change in insurance liabilities (other than outstanding claims)	149,856	14	130,887	4	129,039
Acquisition expenses	22,709	13	20,021	20	16,617
Marketing and administration expenses	14,095	11	12,729	24	8,042
Total expenses	187,429	14	164,070	6	154,131
Finance cost	(997)	(37)	(1,582)	(27)	(2)
Profit before tax	20,641	120	9,380	60	5,921
Profit after tax	13,702	106	6,665	60	4,203

(Source: - Annual Audited Accounts-2021)

Administration expenses / net premium rate is 6.07% in the year 2022 registering decrease by 2.01 % as compared to previous year 2021 i.e. 8.08%. The increase in administration expense is due to increase in expenses including legal and professional charges, travelling expense and utility charges.

3.3.2.2 Acquisition expenses increased from Rs 19,995.160 million in the year 2021 to Rs 22,668.775 million in the year 2022 registering an increase 13.37%. The increase is due to rise in stamp duty cost in the year 2022.

3.3.2.3 Dividend pay-out ratio decreased from 24.77 % in the year 2021 to 11.55% in the year 2022, registering decreased by 13.22% which reflects lower tendency of paying dividend to shareholders.

3.3.2.4 Insurance/re-insurance receivables increased from Rs 37,430 million in the year 2021 to Rs 78,092 million in the year 2022 registering an increase of Rs 40,662 million i.e.108.63 %. This increase is due to rise in receivables from insurance contract holders.

3.3.2.5 Other loans and receivables increase from Rs 56,221.789 million in the year 2021 to Rs 65,281.569 million in the year 2022 registering an increase of 16.11%. The increase is due to rise in accrued investment income along with other receivables in the year 2022.

3.3.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	% age of compliance
1996-97	11	9	2	56&59,57(a)(b)	82%
1998-99	11	9	2	46,49	82%
2002-03	9	8	1	13	89%
2003-04	10	8	2	8, 9	80%
2004-05	8	7	1	13	88%
2006-07	4	3	1	9	75%
2007-08	6	4	2	10, 11	67%
2008-09	7	4	3	5, 6, 7	57%
2010-11	17	15	2	2.3.4.4, 2.3.4.9	88%
2011-12	6	5	1	3.3.2.1, 3.3.2.2, 3.3.3 ,3.3.4.1, 3.3.4.2	83%
2012-13	22	15	7	3.3.4.3, 3.3.4.1, 3.3.4.11, 3.3.4.7, 3.3.4.9, 3.3.4.2, 3.3.4.5	68%
2013-14	4	3	1	4.3.2	75%
2014-15	17	16	1	4.3.2.11	94%
2015-16	14	2	12	4.3.4.1, 4.3.4.6, 4.3.2.1, 4.3.2.2, 4.3.2.3, 4.3.2.4,	14%

				4.3.2.5, 4.3.3, 4.3.4.2, 4.3.4.3, 4.3.4.4, 4.3.4.7	
2016-17	8	2	6	3.3.2.1, 3.3.2.2, 3.3.3, 3.3.4.1, 3.3.4.2, 3.3.4.4	25%
2017-18	25	7	18	4.3.4.6, 4.3.4.19, 4.3.4.1, 4.3.4.21, 4.3.3, 4.3.4.2, 4.3.4.5, 4.3.4.8, 4.3.4.9, 4.3.4.11, 4.3.4.12, 4.3.4.13, 4.3.4.14, 4.3.4.15, 4.3.4.16, 4.3.4.17, 4.3.4.18, 4.3.4.20	28%
2019-20	6		6	3.3.4.1, 3.3.4.2, 3.3.4.3, 3.3.4.4, 3.3.4.5, 3.3.4.6	
Total	185	117	68		63%

The overall compliance of PAC directives needs improvement.

3.3.4 Audit Paras

3.3.4.1 Non-recovery & non-payment under Sehat Sahulat Programs – Rs 69,933.313 million

Clause 21.2 (a) of the Contract between Provincial Government and SLIC states that, if the government fails to pay any premium amounts or dues to STATE LIFE pursuant to this contract and not subject to dispute pursuant to clause 17 within 60 days after receiving written notice from State Life that such payment is overdue.

Clause 4.8 of agreement between SLIC & Health Department-Government of KPK on 01-07-2020 states that the Organization (SLIC) shall reimburse the health provider (hospital, nursing/maternity home) based on an agreed invoicing and payment system, which shall ensure timely payment to the providers as per the schedule agreed with the service provider. Further, clause 9.5 states that the organization (SLIC) shall ensure that healthcare providers under this agreement shall provide the health insurance services specified in this agreement to beneficiaries and policyholders on a cashless basis.

During audit of State Life Insurance Corporation (SLIC) Principal Office, Karachi for the year 2022, it was observed that the management made insurance agreements for Sehat Sahulat Programs with Federal, Punjab and KPK Governments. According to agreements SLIC performed the direct services and be fully responsible and accountable to the clients for procurement and implementation of the health services. However, an amount of Rs 69,933.313 million was still outstanding as detailed below:

(Rs in million)		
Sehat Sahulat Program (Federal)		
SSP Phase-II	SSP Phase-III	

Billed	Received	Outstanding	Billed	Received	Outstanding	Total Amount
10,710.306	10,709.291	1.015	8,107.9847	-	8,107.984	8,108.999
Sehat Sahulat Program (Punjab)						
29,932.313	27,564.220	2,368.093	120,963.721	71,060.785	49,902.936	52,271.029
SSP Phase-III(KPK)						
			47,780.818	38,227.533	9,553.285	9,553.285
Total						69,933.313

Similarly, the management also entered into an agreement with Government of KPK on July 01, 2020 and Government of Punjab on December 29, 2021 for providing health insurance services to all NADRA registered families having permanent address of KPK and Punjab. The Health Department, KPK and Punjab should pay premium to the SLIC on an annual basis. However, an amount of Rs 24,771.308 million of claims of service providers were still pending as detailed below:

(Amount in Rs)				
Position as at 31-12-2022				
Project	No. of Patients	Claim Amount of Hospitals	Paid Amount to Hospitals	Un-paid Amount to Hospitals
KP100	1,685,014	42,347,470,780	32,764,906,671	9,582,564,109
SSP (Phase II)	1,246,700	29,181,123,274	26,357,469,621	2,823,653,653
SSP (Phase III)	2,004,939	43,922,451,820	31,557,360,725	12,365,091,095
Total				24,771,308,857

Audit is of the view that non-recovery of outstanding amount under Sehat Sahulat program from Federal & Provincial Governments and non-payment of claim to service providers (Rs 69,933.313 million – Rs 24,771.308 million = Rs 45,162.005 million) reflected weak financial management and poor recovery mechanism.

The matter was reported to the management on September 25, 2023. The irregularity was discussed in the DAC meeting held on January 26, 2024.

- The management explained that the health division had diligently adhered to this contractual obligation by raising invoices in a timely manner upon the due date of premium payment. However, an amount of Rs 63,102 million has been collected.
- The management explained that the core issue of pending health claims from the previous year remains due to non-receipt of claim documents from hospitals.

The DAC directed the management to verify the documents from Audit.

Audit recommends implementation of the DAC directives.

(DP No. 581 & 582)

3.3.4.2 Non-deduction of sales tax – Rs 5,985.720 million

According to the Sindh Sales Tax on Services Act 2011, sales tax is payable on premium of life and health insurance policies.

Khyber Pakhtunkhwa Revenue Authority (KPRA) vide letter No.F.No. 7(10)/KPRA/ADC(HQ)/2021/12114M dated 29-07-2021 states that services of life insurance are taxable at the rate of 15% while health insurance services are taxable at a reduced rate of 1% vide Serial No.26 of the Second Schedule to the Khyber Pakhtunkhwa Finance Act, 2013 with effect from 01.07.2021.

During audit of State Life Insurance Corporation of Pakistan (SLIC) Principal Office, Karachi for the year 2022, it was observed that the management did not deduct sales tax amounting to Rs 5,985.720 million from insurer on their premium of life and health insurance policies.

Audit is of the view that non-deduction of sales tax reflects gross violation of rules.

The matter was reported to the management on September 25, 2023. The irregularity was discussed in the DAC meeting held on January 26, 2024. The management informed that SLIC along with other life insurance companies has filed petitions before Sindh high Court and Lahore High Court against levy of sales tax on life insurance premium in Sindh and Punjab respectively. The DAC directed that management to expedite the case.

Audit recommends implementation of the DAC directives.

3.3.4.3 Non-recovery of premium (group & pension division) – Rs 3,218.567 million

Clause (x) of Code of Corporate Governance for Insurers, 2016 states that the directors of an insurer shall exercise their powers and carry out fiduciary duties with a sense of objective judgment and independence in the best interests of that Insurer (company).

During audit of State Life Insurance Corporation (SLIC) Principal Office, Karachi for the year 2022, it was observed that an amount of Rs 3,218.567 million was outstanding against premium from different clients of Group & Pension Division as on 31.12.2022 as detailed below:

S#	Zone	1 to 6 months	7 to 12 months	1 to 2 years	2 to 3 years	Above 3 years	Outstanding amount (Rs)
1	Rawalpindi	16,425,191	20,966,653	11,387,312	541,194	426,345	49,746,685
2	Lahore	1,292,386,131	69,607,188	411,563	-	-	1,362,404,882
3	Karachi	1,524,799,029	91,258,857	83,241,459	73,524,620	26,605	1,772,850,569
4	Peshawar	928,106	7,594,404	-	25,043,294	-	33,565,804
Total		2,834,538,457	189,427,102	95,040,334	99,109,108	452,950	3,218,567,940

Audit is of the view that non-recovery of outstanding premium reflected weak internal control and poor recovery mechanism.

The matter was reported to the management on September 25, 2023. The irregularity was discussed in the DAC meeting held on January 26, 2024. The management explained that Rs 2,963.627 million has been recovered. The DAC directed that management to verify the documents from Audit.

Audit recommends implementation of the DAC directives.

3.3.4.4 Encroachment of plots – Rs 1,172.380 million

Clause (x) of Code of Corporate Governance for Insurers, 2016 states that the directors of an insurer shall exercise their powers and carry out fiduciary duties with a sense of objective judgment and independence in the best interests of that Insurer (company).

During audit of State Life Insurance Corporation (SLIC) Principal Office, Karachi for the year 2022, it was observed that the management had three (03) plots at various locations which had been encroached by the land grabbers as detailed below:

(Rs in million)			
S #	Location	Area	Market Value
1.	Dullah Khurd, Ferozabad, Lahore	299 Marlas	394.680
2.	Plot Yuhanabad, Lahore	27.5 Kanals	550.000
3.	Deh Thano, Memon Goth, Malir, Karachi	191,129 Sq.Yards	227.700
Total			1,172.380

Audit is of the view that the management failed to keep the effective control and possession over its properties and no legal action was taken against the encroached persons.

The matter was reported to the management on September 25, 2023. The management in its reply dated 22.11.2023 stated that the Chairman State Life by involving some high ups of christian community approached Chief Secretary Punjab for the amicable solution of the issue. Further, the suit No.143/2023 was filed against the land grabber name Mr. Zulfiqar Ali and another suit No. 113/2002 was filed against Haji Muhammad Akhtar and others. The reply of the management was not tenable because land/plot was still under the possession of land grabbers. Further, management still failed to demarcate the land to construct the boundary wall at Plot Yuhanabad, Lahore.

Audit recommends to probe the matter.

3.3.4.5 Non-recovery of rent from active tenants – Rs 384.730 million

According to deed of lease made between State Life Insurance Corporation (SLIC) and tenants that payment of rent and all other charges what so ever nature which the lessee (tenant) is obliged to pay under this deed of lease without any delay, deduction or set off what so ever.

During audit of State Life Insurance Corporation (SLIC) Principal Office, Karachi for the year 2022, it was observed that an amount of Rs 384.730 million (Annex-28) was lying outstanding on account of rent and utilities as summarized below:

(Rs in million)					
Description	Opening Balance	Charged	Total	Received	Outstanding
Parking	31.66	13.71	45.37	10.65	34.72
Electric-206AA	56.64	271.70	328.34	251.82	76.53
Water	30.06	15.29	45.35	12.22	33.12
Rent from tenants	190.90	316.85	507.76	267.39	240.37
Total					384.73

Audit is of the view that non-recovery of dues shows negligence and poor recovery mechanism.

The matter was reported to the management on September 25, 2023. The management in its reply dated 22.11.2023 stated that the management recovered amounting Rs 186.350 million leaving outstanding balances of Rs 198.383 million. The reply of the management was not tenable because no documentary proof was provided to Audit for verification.

Audit recommends prompt recovery of outstanding amount.

(DP No. 587 & 588)

3.3.4.6 Loss of revenue due to non-renting out of vacant buildings – Rs 234.858 million

Policy Statement of draft Tenancy Policy 2020 of SLIC states that maximization rental income by effective recoveries, lease renewals and active follow-up of court cases. Renting of vacant spaces at reasonable / approved rates to reputable entities and to retain them by avoiding disputes of excessive rent increase over and above the market rates. Providing all such facilities as agreed in the lease agreement as a bona fide land lord.

According to Tenancy Policy (Real Estate Division) of State Life Insurance Corporation of Pakistan (SLIC), the spaces available for renting shall be rented out by advertising in national and local dailies for available spaces, display of banners / notices in particular building, through real estate agents / companies and through public relation of Tenancy officers & building in-charge.

During audit of State Life Insurance Corporation (SLIC) Principal Office, Karachi for the year 2022, it was observed that an area of 543,652 sq.ft i.e. 36% of total available area of 1,513,363 sq.ft. was lying vacant at various buildings in Karachi which reflects that occupancy rate is very low. Resultantly, Corporation was deprived of rental income of Rs 234.858 million (Average Rs 36 per sq.ft x 543,652 sq.ft x 12 months) per annum.

Audit is of the view that the management failed to take efforts to rent out the vacated buildings, which deprived the Corporation from due monetary benefits.

The matter was reported to the management on September 25, 2023. The management in its reply dated 22-11-2023 stated that as a result of efforts, present position of the renting of spaces in Karachi as at 30-09-2023 was that the vacancy position has reduced from 36 % to 14.89%. The reply of the management was not tenable because management acknowledged the audit stances that 36% of total available area of 1,513,363 sq.ft. was lying vacant.

Audit recommends taking concrete efforts for renting out vacant spaces in line with tenancy policy.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year 2022-23 vide para(s) number 3.3.4.13 having financial impact of Rs.32.580 million. Recurrence of same irregularity is a matter of serious concern.

3.3.4.7 Imprudent investment in shares of companies - Rs 161.042 million

As per SLIC Investment policy 2017, Buy and hold share of fundamentally strong companies trading at 30% deep discount to their fair value, especially in depressed market subject to condition that total return on stock, dividend yield plus appreciation in price is at least equal to 3 years average of 6 months' treasury bills.

During audit of State Life Insurance Corporation of Pakistan (SLIC) Principal Office, Karachi for the year 2022, it was observed that the management held an investment of 8.711 million shares of 23 companies valuing Rs 161.042 million which were defaulted / suspended. Pakistan Stock Exchange (PSX) published a list of companies / securities in which trading was suspended under clauses 5.11 & 5B.14 of PSX Regulations along with reasons for suspension in which these companies were included. Furthermore, SECP had also passed orders for winding-up of these companies which depicts that there were very remote chances of recovery of invested amount (Annex-29).

Audit is of the view that the management failed to monitor the performance of the companies as per investment policy. Resultantly, corporation suffered a loss of Rs 161.042 million.

The matter was reported to the management on September 25, 2023. The irregularity was discussed in the DAC meeting held on January 26, 2024. The management explained that Investment Division proposes to sell non-performing stocks once their market price exceeds or equivalent to its average holding cost. The DAC directed the management to take up the matter in Board by reviewing the investment policy.

Audit recommends implementation of the DAC directives.

3.3.4.8 Recurring loss due to excess deployment of officers / staff – Rs 153.720 million

Clause (x) of Code of Corporate Governance for Insurers, 2016 states that the directors of an insurer shall exercise their powers and carry out their fiduciary duties with a sense of objective judgment and independence in the best interests of that insurer and its policyholders.

During audit of State Life Insurance Corporation (SLIC) Principal Office, Karachi for the year 2022, it was observed that total of 183 employees were posted excess against the approved sanctioned

strength which resulted in a recurring loss of Rs 153.720 million (Rs 70,000 approx. p.m. salary x 183 employee x 12 months) on account of pay and allowances (Annex-30).

Audit is of the view that the management did not follow the approved sanctioned strength of officers and officials at different stations which shows negligence and weak internal controls.

The matter was reported to the management on September 25, 2023. The irregularity was discussed in the DAC meeting held on January 26, 2024. The management informed that in view of the decision of BoD in its 291st meeting held on 12.09.2022, the excess staff strength has been rationalized / rectified. The DAC directed the management to rationalized the staff strength at different stations/zones.

Audit recommends implementation of the DAC directives.

3.3.4.9 Non-recovery from various parties – Rs 123.851 million

Clause (x) of Code of Corporate Governance for Insurers, 2016, states that the directors of an insurer shall exercise their powers and carry out their fiduciary duties with a sense of objective judgment and independence in the best interests of that insurer and its policyholders.

Article 20 of Life Reassurance Treaty between State Life Insurance Corporation of Pakistan and Swiss Reinsurance Company, Zurich, Switzerland states that (2) Statement of the balance due as shown in the statement of account shall be made in accordance with the provisions set out in this Treaty. Alternatively, the balance may be set off against any other outstanding balances between the “Ceding Company (SLIC)” and the “Re-assurer (Swiss Reinsurance Company). (3) when the balance is due to the “Re-assurer” the “Ceding Company” shall apply to the exchange control authorities for remittance within 30 days of confirmation of the accounts by the “Re-assurer”.

During audit of State Life Insurance Corporation (SLIC) Principal Office, Karachi for the year 2022, it was observed that an amount of Rs 123.851 million was outstanding against various heads (Annex-31). The brief summary is as under:

(Rs in million)		
S#	Account Head	Outstanding Amount
1	Others (CPF VRSS)	77.643
2	Re-insurance Company (Swiss Re)	46.208
Total		123.851

Audit is of the view that the due to in-effective financial management, the management failed to safeguard its assets and their subsequent adjustments / recoveries. This shows weak internal controls and poor recovery mechanism.

The matter was reported to the management on September 25, 2023. The management in its reply dated 22-11-2023 stated that inadvertently the electrical charges recoverable from tenants was incorporated in the code of 206AA CPF VRSS having Rs 77.643 million. The fresh code has been allotted and rectified as 206ER through necessary code correction is incorporated accordingly in the year 2023. Further, an

amount of Rs 34.958 million has already been recovered and Rs 29.143 million had also been adjusted from M/s. Swiss Re. The reply of the management was not tenable as no documentary evidences regarding rectification of code and recovered amount had been provided.

Audit recommends prompt recovery of dues besides provision of documentary evidence of the recovery made.

3.3.4.10 Non-mutation of property – Rs 110.308 million

Clause (x) of Code of Corporate Governance for Insurers, 2016 states that the directors of an insurer shall exercise their powers and carry out fiduciary duties with a sense of objective judgment and independence in the best interests of that Insurer (company).

During audit of State Life Insurance Corporation (SLIC) Principal Office, Karachi for the year 2022, it was observed that the management did not have the title documents / mutation of the following property in the name of SLIC. The detail is as under:

Description / Name	Land Area	Market value as on 13.12.2021 (Rs in million)	Remarks
SLIC Building No.10 12, Bank Square, Sharahe Quaid e Azam, Lahore	25.07 Marlas	110.308	Title disputed

Audit is of the view that the land without the title mutation documents in the name of corporation reflected serious negligence and poor monitoring of assets.

The matter was reported to the management on September 25, 2023. The management in its reply dated 22-11-2023 stated that State Life took possession of SLIC No.10 bank square, Lahore and rented it out. The reply of the management was not tenable because legal title documents i.e. mutation was not provided.

Audit recommends to justify the matter.

3.3.4.11 Non-possession of the re-allocated plot – Rs 84.805 million

Clause (x) of Code of Corporate Governance for Insurers, 2016 states that the directors of an insurer shall exercise their powers and carry out fiduciary duties with a sense of objective judgment and independence in the best interests of that Insurer (company).

During audit of State Life Insurance Corporation (SLIC) Principal Office, Karachi for the year 2022, it was observed that a plot was allotted to SLIC on 08-03-1987 from Estate Officer, Mirpur Development Authority (MDA). The building plan was submitted by the management to MDA which was not approved. The management filed a writ petition on 21-06-2000 in High Court of AJK for approval of building plan. The Court in its decision on 14-04-2021 admitted SLIC as lawful allottee and directed MDA for approval of plan. The management however, withdrawn its petition without any undertaking by the MDA or any directives from the High Court of AJK. In the meantime, a petition was filed by AJK Govt.

by stating that the said plot had already been cancelled. In response, SLIC filed a writ petition challenging the cancellation orders. Later on High Court, AJK dismissed the petition on 13-02-2013 on the ground of laches. Later on, Supreme Court of AJK through Civil Appeal dated 23-06-2022 announces its decision that the appellants are at liberty to choose any of the offered plots and MDA shall make arrangements for allotment of the selected plots. The MDA issued allotment letter to Zonal Chief, Mirpur Zone, SLIC in compliance of Supreme Court Judgment. However, the management failed to take the possession of the said plot to date.

Audit is of the view that despite the favorable decision of Supreme Court, AJK, the management failed to take possession of the offered plot for the last many years. Thus, there are chances of encroachment or financial loss of Rs 84.805 million.

The matter was reported to the management on September 25, 2023. The management in its reply dated 22-11-2023 stated that at present, the contempt petition of SLIC was pending for adjudication before the Supreme Court of AJK. The reply of the management was not tenable because SLIC failed to take the possession of the said plot as yet.

Audit recommends the management to follow the decision in the light of Supreme Court, AJK and occupy the offered plot without further loss of time.

3.3.4.12 Loss due to investment of funds at lower rates – Rs 71.950 million

Clause (3) of Investment Policy, 2017 of SLIC states that to minimize idle funds and undertake timely steps to optimize the investment return from the available funds.

During audit of State Life Insurance Corporation (SLIC) Principal Office, Karachi for the year 2022, it was observed that the management participated in Treasury Bills auction on 12.01.2022 & 18-5-2022 and offered the bid at lump-sum amount of Rs 6.000 billion instead of breaking it into 4 to 6 slabs with different bids rates to State Bank of Pakistan (SBP). SBP rejected these bids as bids rates were higher than SBP cut-off rates. Resultantly, surplus / idle funds remained parked in same bank at very nominal rates which caused loss of Rs 71.950 million as detailed below:

(Amount in Rs)							
S#	Surplus funds	Auction date	Issue date	Bids offered by SLIC (%) D	SBP weighted Average (%) E	Funds invested in Banks (rates) F	Difference of Profit G (A*E-F*3/12)
	A	B	C				
1	6,000,000,000	12.01.22	13.01.22	10.45	10.37	9.5	13,050,000
2	2,000,000,000	18.05.22	19.05.22	15.00	14.42	13	7,100,000
3	2,000,000,000	18.05.22	19.05.22	15.10	14.70	13	17,000,000
4	5,000,000,000	18.05.22	19.05.22	15.15	14.74	13	34,800,000
Total							71,950,000

Audit is of the view that the management failed to act prudently and invested at higher rates offered by SBP causing loss of Rs 71.950 million due to parking of funds at lower rates.

The matter was reported to the management on September 25, 2023. The irregularity was discussed in the DAC meeting held on January 26, 2024. The management explained that there could be a minor difference/margin existed between yield and price of T-Bills. It was not necessary to quote accurate bid price and bid yield because these were judgmental calls. The DAC directed the management to verify the documents from Audit.

Audit recommends implementation of the DAC directives.

3.3.4.13 Irregular appointment in violation of quota – Rs 43.680 million

Para 1 clause (X) of Cabinet Secretariat Establishment Division letter No.F.53/I/2008-SP dated 22nd October, 2014 states that Recruitment Policy for the Federal Services / Autonomous Bodies/ Corporation Regional / Provincial quota, Women quota, Minorities (Non-Muslim) quota and Disable Persons quota, or any other quota prescribed from time to time, should expressly and clearly be indicated against the vacant post(s) advertised.

Following quotas have been specified by the Federal Government for strict observance in direct recruitment:

i. Provincial & Regional Quota

Merit	Punjab	Sindh		Khyber PK	Baluchistan	Northern Areas/ FATA	Azad Kashmir
7.50 %	50%	Rural	Urban	11.5%	6%	4%	2%
		11.4%	7.6%				

- ii. 10% women, 5% minorities and 2% disabled person quotas have also been prescribed.
- iii. The Provincial /Regional quota if not filled will be carry forward till suitable candidates are available from the Province/Region concerned.
- iv. No “substitute” recruitment will be made.

During audit of State Life Insurance Corporation (SLIC) Principal Office, Karachi for the year 2022, it was observed that the management directly appointed 05 officers at different posts on contract basis without observing provincial quota. Details of salaries paid is as under:

(Amount in Rs)

S#	No. of officers A	Amount per month (Rs) B	Total Amount (Rs) C (A*B*12)
1.	4	800,000	38,400,000
2.	1	440,000	5,280,000
		Total	43,680,000

Audit is of the view that the management failed to observe the Provincial / Regional quota in organization in violation of federal government rules. Thus, expenditure incurred on salaries amounting to Rs 43.680 million was held irregular and unjustified.

The matter was reported to the management on September 25, 2023. The irregularity was discussed in the DAC meeting held on January 26, 2024. The management explained that there was one post against each position and advertisements were separately published, under the circumstances, selection was made against open merit quota. However, they would be adjusted against the respective provincial quota. The DAC directed the management to consider the Provincial / Regional quota organization wise.

Audit recommends implementation of the DAC directives.

3.3.4.14 Non-pursuance / recovery of decreed amount - Rs 40.761 million

Clause (x) of Code of Corporate Governance for Insurers, 2016 states that the directors of an insurer shall exercise their powers and carry out fiduciary duties with a sense of objective judgment and independence in the best interests of that Insurer (company).

During audit of State Life Insurance Corporation (SLIC) Principal Office, Karachi for the year 2022, it was observed that the management filed a suit for recovery of rent of Rs 40.761 million against M/s. System Innovations (Pvt.) Ltd. in the High Court of Sindh, Karachi. In the year 2015, judgment was passed by the Court in favor of SLIC and issued decree against M/s. System Innovations (Pvt.) Ltd. However, after lapse of considerable time, no action was taken by the management to recover the decree amount of Rs 40.761 million.

Audit is of the view that non-pursuance / recovery of decreed amount was negligence and weak internal controls.

The matter was reported to the management on September 25, 2023. The management in its reply dated 22-11-2023 stated that SLIC filed Suit No.169/2015 for recovery of rent arrears amounting to Rs 40.761 million against the tenant which was pending in High Court of Sindh at Karachi for recording of ex-parte evidence of SLIC's witness. The reply of the management was not tenable because no strenuous efforts were made to recover the decree amount.

Audit recommends the management to pursue the matter.

3.3.4.15 Irregular appointments after the age of superannuation - Rs 27.981 million

Para 04 of Establishment Secretary's D.O. letter No.7/3/ 89-OMG-II dated 28.01.1989 entitled as 'Employment after Retirement- Policy and Procedure – Re-employment after Superannuation' states that re-employment beyond the age of superannuation in all cases requires the approval of the Prime Minister.

During audit of State Life Insurance Corporation (SLIC) Principal Office, Karachi for the year 2022, it was observed that Mr. Mahmood Alam retired on 20.09.2022 serving as Divisional Head (Legal Affairs Division). He was re-employed on 21.09.2022 as AGM/DH-LAD on contract basis for the period of two years after next day of his retirement. Furthermore, Mr. Abdul Nasir retired on 16.10.2019 serving as Assistant General Manager (AGM), IT was also re-employed on 22.12.2019 to 22.06.2020 after 68 days of his retirement and again appointed on contract basis for a further period of one-year w.e.f 28.09.2022.

Audit is of the view that the incumbents were re-appointed without obtaining the approval of the Prime Minister of Pakistan. Hence, expenditure in respect of pay and allowances amounting to Rs 27.981 million (Salary Rs 718,120 per month *14 months = Rs 10.054 million and Rs 746,989 per month salary *24 months = Rs 17.927 million respectively) was held irregular and unjustified.

The matter was reported to the management on September 25, 2023. The irregularity was discussed in the DAC meeting held on January 26, 2024. The management explained that Ministry of Law & Justice vide letter dated 03.03.2017 clarified that the Board of Directors quite rightly approved the appointment of the unit head operations as it was within the purview of and power of the Board. The DAC directed the management to verify its rules regarding re-appointment after age of superannuation to Audit.

Audit recommends implementation of the DAC directives.

3.3.4.16 Irregular award of incentives and bonuses - Rs 20.181 million

Clause (x) of Code of Corporate Governance for Insurers, 2016 states that the directors of an insurer shall exercise their powers and carry out fiduciary duties with a sense of objective judgment and independence in the best interests of that Insurer (company).

During audit of State Life Insurance Corporation (SLIC) Principal Office, Karachi for the year 2022, it was observed that the Window Takaful Operations were started from February, 2021 and sustained losses of Rs 26.373 million and Rs 86.328 million during the years 2021 and 2022 respectively. Despite this poor performance, the management paid Rs 20.181 million as incentives and bonuses to its employees.

Audit is of the view that payment of incentives and bonuses despite making losses reflects poor financial management.

The matter was reported to the management on September 25, 2023. The irregularity was discussed in the DAC meeting held on January 26, 2024. The management explained that it was in principle decided by the Board that since the existing bonus policy is based on the revenue, therefore, the divisions established after 2015 shall be given the bonus on the rating obtained by the non-revenue generating divisions. The DAC directed the management to verify the documents from Audit.

Audit recommends implementation of the DAC directives.

3.3.4.17 Non-formulation of Corporate Social Responsibility Policy - Rs 14.775 million

Clause 2 (1) & (2) of S.R.O.983(1)/2009, The Gazette of Pakistan Extraordinary Part II Securities and Exchange Commission of Pakistan, Islamabad dated 16-11-2009 states that every company shall provide descriptive as well as monetary disclosures of Corporate Social Responsibility activities undertaken by it during each financial year. Such disclosures shall be made in the directors' report to the shareholders annexed to the annual audited accounts.

Clause 3 of Corporate Social Responsibility (CSR) Voluntary Guidelines, 2013 by Securities and Exchange Commission of Pakistan states that Companies are encouraged to have a CSR Policy endorsed by the Board of Directors (BoD).

During audit of State Life Insurance Corporation (SLIC) Principal Office, Karachi for the year 2022, it was observed that the management expensed out Rs 14.775 million under the head of CSR which was approved by BoD in its 291st meeting dated September 12, 2022 on the basis of its 182nd meeting dated May 24, 2005, which approved the Social Responsibility Fund and its mechanism. However, minutes of 182nd meeting of the BoD resolved that a Committee was required to be constituted to make suggestions regarding CSR related issues. Contrary to that, neither any Committee was constituted nor any disclosure was made in the directors' report to the shareholders.

Audit is of the view that expenditure incurred under CSR policy was irregular due to non-formulation of CSR policy.

The matter was reported to the management on September 25, 2023. The irregularity was discussed in the DAC meeting held on January 26, 2024. The management explained that CSR policy is in process. The DAC directed the management to formulate the CSR policy.

Audit recommends implementation of the DAC directives.

3.3.4.18 Irregular procurements of medicines & equipment – Rs 14.775 million

Rule 42 (c) (v) of PPRA Rules, 2004 states that a procuring agency shall only engage in direct contracting in case of emergency, provided that the procuring agencies shall specify appropriate fora vested with necessary authority to declare an emergency.

During audit of State Life Insurance Corporation (SLIC) Principal Office, Karachi for the year 2022, it was observed that the Chairman, SLIC approved Medical Relief Camps of State Life for flood affected areas on 02.09.2022. In this regard, the management procured medicines and other equipment amounting to Rs 14.775 million without calling competitive rates. The procurements were made under emergency basis without specifying the appropriate fora.

Audit is of the view that the management procured the items in violation of PPRA Rules, 2004. Thus, procurements amounting to Rs 14.775 million was held irregular and unjustified.

The matter was reported to the management on September 25, 2023. The irregularity was discussed in the DAC meeting held on January 26, 2024. The management informed that reference was invited to PPRA Rule No. 42 c (direct contracting) (v) and in case of an emergency. The DAC directed the management to take ex-post facto approval from its Board.

Audit recommends implementation of the DAC directives.

3.3.4.19 Loss due to mis-appropriation of funds – Rs 11.672 million

Section 30 (1) (g) (v) of State Life Employees (Service) Regulations, 1973 states that an employee who is guilty of any other mis-conduct shall be liable to one or more of the following punishment; recovery from the employee of the whole or part of the amount of loss, if any sustained by the Corporation as a result of his misconduct or any other act.

During audit of State Life Insurance Corporation (SLIC) Principal Office, Karachi for the year 2022, it was observed that an amount of Rs 11.672 million had been mis-appropriated and no action was taken against the responsible(s) as detailed below:

S#	Zones	Amount (Rs)
1	Sukkur Zone	7,224,895
2	Multan Zone	4,447,100
Total		11,671,995

Audit is of the view that the management failed to safeguard the assets of the corporation due to lack of effective monitoring system, resulted in mis-appropriation of fund of Rs 11.672 million.

The matter was reported to the management on September 25, 2023. The irregularity was discussed in the DAC meeting held on January 26, 2024. The management explained that from Sukkur Zone 100% amount has already been recovered through NAB. However, in Multan Zone, tried to trace out the concerned agents. The DAC directed the management to take action against the responsible(s) and verify the status to Audit.

Audit recommends implementation of the DAC directives.

3.3.4.20 Irregular appointment of officers on bogus degrees – Rs 11.617 million

The Secretary, Government of Pakistan, Establishment Division vide his DO letter dated March 08, 2011 communicated the instructions of the Prime Minister states that measures should be taken to authenticate degrees/certificates of all federal Govt. employees of respective Ministries / Divisions, their subordinate offices and autonomous bodies under their administrative control.

During audit of State Life Insurance Corporation (SLIC) Principal Office, Karachi for the year 2022, it was observed that degrees / certificates of the following officers were found fake / bogus during verification:

S#	Name of Officer & Designation	Name of Zone	Degree Certificate /	Remarks
1.	Mr. Fayyaz Mustafa (Assistant Manager)	Larkana Zone	M.A (Economics)	Bogus Degree
2.	Mr. Muzammil Ghafir Qureshi (Area Manager)	Lahore Western Zone	F.A.	Bogus Certificate
3.	Farhat Hussain (Area Manager)	Lahore Western Zone	M.A	Bogus Degree

Audit is of the view that the management failed to verify the degrees / certificate of the incumbents at the time of appointment which were found fake/bogus later on which reflects inefficiency, slackness and favoritism. Hence, expenditure in respect of salaries and allowances amounting to Rs 11.617 million is held irregular.

The matter was reported to the management on September 25, 2023. The irregularity was discussed in the DAC meeting held on January 26, 2024. The management explained that Mr. Fayyaz Mustafa obtained stay order from Sindh High Court dated 19.07.2014. Mr. Muzammil Ghafir and Mr. Farhat Hussain punishments were reduced from dismissal down gradation. The DAC directed the management to take action against the officers/ officials and share the status to Audit.

Audit recommends implementation of the DAC directives.

3.3.4.21 Irregular / unjustified payment of commission – Rs 5.000 million

Clause (x) of Code of Corporate Governance for Insurers, 2016 states that the directors of an insurer shall exercise their powers and carry out fiduciary duties with a sense of objective judgment and independence in the best interests of that Insurer (company).

During audit of State Life Insurance Corporation of Pakistan (SLIC) Principal Office, Karachi for the year 2022, it was observed that the management issued various life policies to the policy holders having sum assured of Rs 70.904 million and paid commission of Rs 5.000 million against these policies. Later on, upon receipt of claims, it was discovered that the policies issued have serious shortcoming / deviations. The Zonal & Regional Committees repudiated the claim and recommended the recovery of commission from the entire field channel which was not recovered.

Audit is of the view that the management failed to act proactively during issuance of policies by ignoring the pre-defined guidelines which resulted in unjustified payment of commission of Rs 5.000 million.

The matter was reported to the management on September 25, 2023. The irregularity was discussed in the DAC meeting held on January 26, 2024. The management explained that Zone pointed out that the commission to recover was Rs 3.757 million out of this Rs 2.586 million has been recovered. The DAC directed the management to verify the documents from Audit.

Audit recommends implementation of the DAC directives.

3.3.4.22 Non-recovery / adjustment of defalcated premium – Rs 3.424 million

State Life Insurance Corporation (SLIC) Chairman's circular No. PHS/PO/CIR/35/ 1999 dated: July 29, 1999 read with the circular dated: August 04, 2017 states that maximum time span for recovery of defalcated premium will be twelve (12) months, by all means.

During audit of State Life Insurance Corporation (SLIC) Principal Office, Karachi for the year 2022, it was observed that a policy holder Mr. Sohail Maqbool having policy No. 634007143 lodged a complaint of defalcated premium amounting to Rs 3.424 million (USD 11,412 @ Rs 300) pertaining to SLIC, Gulf Zone in the year 2022. However, defalcated premium has not been recovered / adjusted till date.

Audit is of the view that the management failed to implement the directives of Chairman, SLIC which resulted in non-recovery / adjustment of defalcated premium. This position reflects negligence and weak recovery mechanism existing within the organization.

The matter was reported to the management on September 25, 2023. The irregularity was discussed in the DAC meeting held on January 26, 2024. The management explained that an amount of Rs 1.774 million (USD 5,913.82 @ Rs 300) has been recovered within four months and the remaining amount USD 5,498.18 (Balance SAR 20,177) will be recovered from the concerned area commission in the due course. The DAC directed the management to blacklist the responsible and verify the documents from Audit.

Audit recommends implementation of the DAC directives.

3.4 Trading Corporation of Pakistan (Pvt.) Limited

3.4.1 Introduction

Trading Corporation of Pakistan Limited (TCP) was set up as a private limited company in July, 1967, registered under the Companies Act 1913 (now Companies Act 2017). The shares of the Corporation are owned by the Ministry of Commerce, Government of Pakistan. The main objectives of the Corporation are as under:

- i. Acting on the directives of the Federal Government, TCP undertakes import of essential commodities to help ensure their availability to the common man at affordable prices. It intervenes in the market in the larger public interest to ensure fair price to public, as well as to preempt hoarding and profiteering.
- ii. Import of essential commodities in the emergent conditions.
- iii. Export of selected items of Public Sector Corporation, agencies, etc.
- iv. To perform innovative role of undertaking export of non-traditional items to non-traditional markets on experimental basis.

3.4.2 Comments on Audited Accounts

3.4.2.1 The working results of the Corporation for the year ended 2022-23 as compared to previous years are given below:

(Rs in million)					
Particulars	2022-23	% Inc / (Dec)	2021-22	% Inc / (Dec)	2020-21
Long term investment	10,439.41	2.33	10,201.41	2.10	9,991.495
Due from Govt. of Pakistan	159,230.36	96.29	81,116.98	11.48	72,766.063
Trade Debts	81,542.80	23.02	66,285.74	49.82	44,244.461
Prepayments & other receivables	17,746.17	11.59	15,902.89	6.01	15,001.459
Taxation – net	1,579.12	14.07	1,384.30	9.08	1,269.084
Commission Income	3,102.77	108.27	1,489.76	137.20	628.049
Administrative expenses	(1,590.38)	51.96	(1,046.92)	8.52	(964.699)
Other income	4,571.79	53.43	2,979.63	23.36	2,415.294
Profit before taxation	6,081.85	77.70	3,422.47	64.65	2,078.644
Taxation	(2,081.39)	94.07	(1,072.45)	84.65	(580.788)
Profit after taxation	4,000.65	69.09	2,365.99	57.96	1,497.856

(Source: Annual Audited Accounts 2022-23)

Due from Government of Pakistan (GoP) increased by 96.29% from Rs 81,116.98 million in 2021-22 to Rs 159,230.36 million in 2022-23 due to non-recovery and commodity imports.

3.4.2.2 Account receivable turnover in the year 2022-23 showed 0.012 times whereas last year 2021-22 the same was 0.009 times mainly due to increase the receivable from the Government of Pakistan (GoP) from Rs 81,116.98 million in 2021-22 to Rs 159,230.36 million in 2022-23.

3.4.2.3 Administration expenses increased by 51.96% from Rs 1,046.92 million in 2021-22 to Rs 1,590.38 million in 2022-23. The reason is that staff gratuity, provided fund and staff compensated expenses had been booked much higher side as compare to last year.

3.4.2.4 Commodity Finance under markup arrangements increased by 46.42% from Rs 172,374.240 million in 2021-22 to Rs 252,393.479 million in 2022-23. The government had accorded approval of credit limits or financing for import of commodity.

3.4.2.5 As disclosed in note Nos. 10.4 & 11.2 of financial statements, trade debts include receivables of Rs 10,601.176 million from various government institutions. The Company, as a result of the compilation and verification exercise by a third-party audit firm, has compiled the accounting records pertaining to receivables, however, the completeness of the underlying records could not be ensured. Further, responses from the debtors to the confirmation requests were not received by External Auditors and no movement / recoveries for more than six years (except an amount of Rs 166.300 million from Government of AJK), therefore, it's ageing and recoverability cannot be ascertained.

3.4.2.6 As disclosed in Note 13.1 to the financial statements, other receivables include Rs 13,141.24 million (including accrued mark-up and other charges of Rs 10,761.62 million till June 30,2023) from sugar mills on account of sugar not supplied by them. The Company had initiated legal action and also referred the matter to National Accountability Bureau (NAB). However, in the absence of management objective evaluation of probable outcome of the said legal action, recoverability of receivables from sugar mills cannot be ascertained.

3.4.2.7 The management invested Rs 9,000.003 million in Pakistan Investment Bonds (PIBs) for 10 years @ 8.75% annually. However, management maintained the position of the PIBs at lower rate rather than to swap the investment at higher rate. Detail of PIBs is tabulated below:

(Rs in million)										
S #	Instru-ment	Amount invested	Rate of Profit P.A	Period of invest-ment (yrs)	Date of invest-ment	Date of maturity as per given sheet	PIB rate 26.10.20 23 as per SBP websites for same tenure	Diff. of rate	No. of months involved	Loss of interest income
1	PIB	3919.539	8.75%	10	28.12.18	12.07.28	15.25%	6.5%	58	1,231.39

2	PIB	5080.464	8.75%	10	21.03.19	12.07.28	15.25%	6.5%	43	1,183.32
									Grand Total	2,414.71

3.4.2.8 The decision of the management to retain the funds in the PIB was not prudent and also did not consider the option of floating PIB rate at the time of investment. Thus, the corporation had to sustain a loss of Rs 2,414.71 million.

3.4.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	% age of compliance
1992-93	23	18	5	49, 50, 51, 52, 53	78%
1994-95	29	27	2	56, 60	93%
1996-97	24	14	10	44,49, 63-64, 66, SAR b-2, b-3, b-6, b-7, b8, b-9	58%
1997-98	14	9	5	32, 33, 34, 35, 37	64%
1999-00	14	13	1	49	93%
2000-01	11	10	1	10	91%
2003-04	11	10	1	15	91%
2004-05	3	1	2	15, 17	33%
2005-06	13	12	1	21	92%
2007-08	6	5	1	13.2	83%
2008-09	10	6	4	8.3, 9, 10, 11, 12	60%
2010-11	14	11	3	2.4.2.3, 2.4.4.3, 2.4.4.6	79%
2011-12	16	1	15	3.4.2.1, 3.4.2.2, 3.4.2.3, 3.4.2.4, 3.4.2.5, 3.4.2.6, 3.4.2.7, 3.4.3,3.4.4.1, 3.4.4.2, 3.4.4.3, 3.4.4.4, 3.4.4.5, 3.4.4.6, 3.4.4.7	6%
2012-13	16		1	3.4.4.1	0%
2013-14	16	6	9	4.4.2.1(A), 4.4.2.1(B), 4.4.2.1, 4.4.2.1 (C), 4.4.2.1 (D), 4.4.2.1 (E), 4.4.2.2, 4.4.2.7, 4.4.3	38%
2014-15	16	2	19	4.4.2.1, 4.4.4.1, 4.4.2.2, 4.4.2.3, 4.4.2.4, 4.4.2.5, 4.4.2.6, 4.4.2.7, 4.4.3, 4.4.4.2, 4.4.4.4, 4.4.4.5, 4.4.4.6, 4.4.4.7, 4.4.4.8, 4.4.4.9, 4.4.4.10, 4.4.4.11, 4.4.4.12	13%
2015-16	16	3	8	4.4.4.1, 4.4.4.2, 4.4.4.6, 4.4.2.1, 4.4.3, 4.4.4.3, 4.4.4.4, 4.4.4.7	19%

2016-17	16	3	9	3.4.2.1(a), 3.4.2.3, 3.4.4.1, 3.4.4.2, 3.4.2.1(b), 3.4.2.4, 3.4.3, 3.4.4.4, 3.4.4.5	19%
2017-18	16	4	7	4.4.4.8, 4.4.4.2, 4.4.4.3, 4.4.3, 4.4.4.5, 4.4.4.6, 4.4.4.7	25%
2019-20	1		1	3.4.4.1	0%
Total	285	136	36		48%

The overall compliance of PAC directives needs improvement.

3.4.4 Audit Paras

3.4.4.1 Non-settlement of borrowed funds and abnormal increase of markup – Rs 89,727.188 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Trading Corporation of Pakistan (TCP) HO for the year 2022-23, it was observed that the management obtained approval of the credit limit / commodity financing from the Ministry of Finance (MoF) and State Bank of Pakistan (SBP) against the commodity import. During the year, the management obtained credit facility of Rs 252,393.479 million for commodity operations. In every quarter, a significant amount of markup was accumulated as a liability to government. Detail is as under:

(Amount in Rs)			
Description(s)	2020-21	2021-22	2022-23
Amount utilized against the credit	141,263,048,000	172,374,248,000	252,393,479,000
Total markup year wise	9,697,876,000	20,639,564,000	59,389,748,000
Total markup (last three years)	89,727,188,000		

Audit is of the view that non-payment of its liabilities on time resulted in accumulation of huge liabilities risking the credibility of the organization.

The matter was reported to the management on November 28, 2023. The irregularity was discussed in the DAC meeting held on January 16, 2024. The management informed the DAC that for early recoveries of previous receivables from various agencies, three categories had been envisioned. For fresh procurements respective procuring agencies i.e. USC, NFML, etc. would establish / obtain their own Cash Credit Limits (CCL) as per the approval of the MoF. The DAC directed that TCP take up the matter of speedy payment of outstanding amount with Finance Division and provide the assurance / confirmation of the outstanding balances i.e. (markup & principle) from the parties / customers.

Audit recommends implementation of the DAC directives.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year(s) 2022-23 vide para(s) number 3.4.4.5 having financial impact of Rs. 14,916.00 million. Recurrence of same irregularity is a matter of serious concern.

3.4.4.2 Non-recovery of dues from various parties – Rs 81,568.058 million

Rule 5 of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Trading Corporation of Pakistan (TCP) (HO) for the year 2022-23, it was observed that an amount of Rs 81,568.058 million was lying outstanding against various parties for a considerable period of time as on June 30, 2023. The detail is as under:

Name of Party	(Rs in million)
Utility Stores Corporation	29,729.993
National Fertilizer Marketing Limited (NFML)	12,281.303
Sindh Food Department	2,884.616
Punjab Food Department	5,429.019
Baluchistan Food Department	1,814.715
KPK Food Department	1,950.040
Pakistan (PASSCO)	25,726.960
Government of Gilgit Baltistan	1,252.029
Directorate General Procurement Army	185.404
Pakistan Navy	79.075
TCP Employees	0.064
Others	3.418
AJK Food Dept	231.422
Total	81,568.058

Audit is of the view that the management failed to recover dues of Rs 81,568.058 million which reflected weak financial controls and poor recovery mechanism.

The matter was reported to the management on November 28, 2023. The irregularity was discussed in the DAC meeting held on January 16, 2024. The DAC appreciated the management on recovery made of Rs 22.700 billion from PASSCO which was subsequently verified by Audit and directed the management

to pursue the remaining recoveries of Rs 58,568.058 million from various entities vigorously and efforts might be shared with Audit.

Audit recommends implementation of the DAC directives.

3.4.4.3 Operational loss due to higher cost of sales than sales revenue – Rs 80,348.076 million

Rule 5 of the Public Sector Companies (Corporate Governance) Rules, 2017 states that the directors of a Board shall be persons who, in opinion of the Government, shall assist the Public Sector Company to achieve its principal objective and the Board shall accordingly exercise its powers and carry out its fiduciary duties with a sense of objective judgment and in the best interest of the company.

During audit of Trading Corporation of Pakistan (TCP) (HO) for the year 2022-23, it was observed that the management incurred an operational loss of Rs 80,348.076 million due to higher cost of sales than sales revenue. The detail of loss is as under:

(Rs in million)		
S#	Description	Amount (as on 30.06.2023)
1.	Local sales on behalf of GoP	285,930.563
2.	Cost and expenses incurred on behalf of GoP	(366,278.639)
	Excess Cost than Sales	(80,348.076)
	% of Excess Cost than Sales	(28 %)

Audit is of the view that the management had not applied an efficient and economical process which resulted in loss of Rs 80,348.076 million.

The matter was reported to the management on November 28, 2023. The irregularity was discussed in the DAC meeting held on January 16, 2024. The DAC noted that the para resulted due to a definitional issue. TCP does not sell the commodities itself rather supplies it to the concerned Ministry or agency. The commodities procured at the direction of ECC of the Cabinet. However, the Audit observation highlights the need to deal with the rising subsidy bill of the Federal Government on a war footing. DAC recommended that timely action might be taken up by TCP for settlement of its accounts.

Audit recommends implementation of the DAC directives.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year 2022-23 vide para(s) number 3.4.4.6 having financial impact of Rs 12,113.000 million. Recurrence of same irregularity is a matter of serious concern.

3.4.4.4 Non-recovery / adjustments of pre-payments and other receivables – Rs 29,082.469 million

Rule 4(3) of Public Sector Companies (Corporate Governance) Rules, 2017 states that the Chief Executive is responsible for the management of a public sector company and for its procedures in financial and other matters, subject to the oversight and directions of the Board. Responsibilities of CEO include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Trading Corporation of Pakistan (TCP) (HO) for the year 2022-23, it was observed that an amount of Rs 29,082.469 million on account of pre-payments and other receivables have not been either adjusted or recovered by the management as detailed below:

S #	Description	Amount (Rs in million)
1.	Prepaid Expenses	1,505
2.	Receivable from Sugar Mills	13,141
3.	Receivable from Allied Bank	3,850
4.	Others	9,817
5.	Receivable from Export Agents	437.700
6.	Insurance Claim Receivable	120.245
7.	Due from Privatization Commission	110.386
8.	TCP Sports Club	0.199
9.	Refundable against various receivables	20.706
10.	Due from Custodian & others	10.870
11.	Receivable from Handling Agents	8.435
12.	Demurrage Charges	2.100
13.	Receivable on rice procured	2.899
14.	Others	1.929
Total		29,028.469

Audit is of the view that the management failed to recover / adjust an outstanding amount of Rs 29,042.469 million which reflects inefficiency and weak recovery mechanism.

The matter was reported to the management on November 28, 2023. The irregularity was discussed in the DAC meeting held on January 16, 2024. The DAC directed the management should place the matter of writing off dues from Privatization Commission before the Finance / Audit Committee as per accounting principles. DAC further directed the management to pursue the court cases for recovery of outstanding amounts.

Audit recommends implementation of the DAC directives.

3.4.4.5 Import of urea having poor / inferior quality – Rs 6,187.912 million

As per contract between Trading Corporation of Pakistan and M/s Sinochem Fertilizer Co. Ltd, the physical condition of urea would be white, Free Flowing Granular.

During audit of Trading Corporation of Pakistan (TCP) (HO) for the year 2022-23, it was observed that the management signed an agreement with M/s Sinochem Fertilizer Co. Ltd for import of 100,000 Mt Granular Urea (two lots of 50,000 each) at USD 500 per M.T on July 13, 2022. Second Lot having total Quantity 50,525 MT was loaded at TIANJIN Port, China with bill of lading dated 21.09.2022. The management appointed M/s COTECNA China, as Pre-Shipment Inspection Agency (PSIA) which in its report dated 21.09.2022 resolved that foreign material like steel scrap/ string of bags / bags fibers on the surface of cargo pile was found. The vessel arrived on 14.10.2022 at Karachi Port. The management appointed M/s. Joseph Lobo Pvt. Ltd as first Surveyor and then carried out the Joint Cargo Condition Survey as well. Both Surveyors gave remarks that the cargo was hard and lumpy and cargo was found with exceptionally compressed condition and with foreign material (cloths, PP bags & threads etc. mixed with cargo).

The PNSC vide email dated 15.09.2023 also intimated that most of cargo was caked / poor in quality, in order to Issue Clean Mate Receipt & B/L, TCP/ shipper to discharge all poor quality urea and to stop loading due to poor quality cargo. Further, the supplier vide email dated 17.09.2022 informed that all their cargo at Tianjin Port was railed in and stored in the warehouse in August. The shipper also unloaded some caked cargo at the load port and loading remained suspended on 15.09.2022 and 16.09.2022 which was resumed on September 17, 2022. The vessel of 22 days long voyage period from the Chinese Port to Karachi and the hygroscopic nature of cargo, it became lumpier and turned into stony. The matter was taken up with the supplier and supplier agreed to bear Rs 300 PMT as extra stevedore cost at loading port due to non-free flowing condition of the urea. Subsequently, the Stevedore i.e. M/s Ocean Maritime Pvt. Ltd claimed agreed charges i.e. 49,987.880 M/Tons @ Rs 300 M.T = Rs 14,996,364 through invoice dated November 04, 2022, an extra cost of Stevedoring & Handling Charges of Hard, lumpy & stony cargo.

The M/s. National Fertilizer Marketing Limited (NFML) who was a recipient party for receiving consignment informed the management vide letter dated October 18, 2022 that their monitoring Team at KPT also found out that the urea was in very hard, stone-like lumpy and in dirty condition and urea was not in free flow condition and contains other materials like cloth, iron, torn out bags etc which is not admissible to NFML since such urea is not preferred by farmers and could defy the objective of provision of subsidized Urea to the farmers.

Audit is of the view that the management imported urea in lumpy and stony condition which was against the tender specifications and no action was taken against the supplier. Thus, the payment of Rs 6,187.912 million on import of urea being poor in quality stands irregular / unjustified.

The matter was reported to the management on November 28, 2023. The irregularity was discussed in the DAC meeting held on January 16, 2024. The management informed that PSQCA eventually certified that cargo was found free flowing and inconformity of standards and the same was also confirmed by M/s NFML which received the shipment. TCP also got internal inquiry conducted which verifies that the extra charges by the stevedore was not accepted by the TCP. DAC directed the management to submit

documentary proof of no extra payment / adjustment being made to supplier on account of dispatch money, dispatch money statement vessel wise, complete status of the L/C retired and payable and receivable status of the supplier i.e. M/s Sinochem, to Audit.

Audit recommends implementation of the DAC directives.

3.4.4.6 Loss due to procurement of half quantity of wheat at higher price – Rs 1,270.530 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Trading Corporation of Pakistan (TCP) (HO) for the year 2022-23, it was observed that the Economic Coordination Committee (ECC) 09.05.2022 directed to tender for procurement of 3.000 MMT wheat. The Ministry of National Food Security and Research (MNFS&R) mentioned the modalities that import of wheat by adopting the option of G2G (2.00 MMT) and through international tendering process (1.00 MMT). Subsequently, the management, awarded the 1st international tender for 500,000 MT on CFR basis @ US\$ 515.40 PMT on May 28, 2022 with shipment period from June 15, 2022 to July 30, 2022. The management published 2nd International tender having 500,000 MT quantity of wheat on 21.06.2022 and received the bid of US\$ 439.40 PMT which was scrapped. The management published 3rd international tender for import of wheat 300,000 MT and the contract was awarded on 28-07-2022 at US\$ 404.86 PMT. It clearly reflected that that the wheat of 500,000 MT was procured when price was very high.

Further, the management vide letter dated May 25, 2022 requested the Ministry for a decision on the first tender quoted price i.e. USD 515.49 PMT, whereas, the Ministry recommended blanket approval of 3.00 MMT of wheat on need basis, depending upon the demand of the M/s PASCO and Provincial Government to build up strategic reserves and to stabilize wheat prices. The Ministry recommended the blanket approval of wheat import of 3.00 MMT which doesn't mean that the half of the total requirement i.e. 1.00 MMT under the international tender may be awarded in one go. It is pertinent to mention that the import was for the whole year requirement and not for urgent emergency situation.

Audit is of the view that the management without any urgency imported wheat at higher price which reflected negligence and weak planning. Thus, payment of wheat at a higher price, the national exchequer had to sustain a loss of Rs 1,270.253 million {500,000 MT @ (US\$ 515.49 PMT – US\$ 404.86 PMT) @ Rs 229.64 per US\$}.

The matter was reported to the management on November 28, 2023. The irregularity was discussed in the DAC meeting held on January 16, 2024. The DAC noted that TCP fulfilled its responsibility by pointed out Ministry of National Food Security & Research (MNFS&R) that the market was bullish and that only urgent quantities may be procured. However, it's proceeded on the basis of clear directions by MNFS&R to procure the maximum quantity of 500 KMT. DAC recommends that the para may be placed before the PAC.

Audit recommends implementation of the DAC directives.

3.4.4.7 Irregular / unjustified commission charged on import of wheat – Rs 703.711 million

ECC of the Cabinet vide letter dated September 30, 2020 approved reduction of commission charges of TCP to 0.75% of the C&F value of imported wheat and sugar.

During audit of Trading Corporation of Pakistan (TCP) (HO) for the year 2022-23, it was observed that the management charged commission @ 2% of Cost & Freight (C&F) of the landed cost of wheat in place of approved rate of 0.75% in violation of ECC decision thus, received excess commission of 1.25% causing a loss of Rs 703.711 million as detailed below:

S #	Tender date / open date	Qty. of Commodity (MT)	Price PMT in USD	Dollar rate as landed cost sheet	C&F price for insurance in Rs	@ 2% TCP Commission charged in the landed cost Rs	Excess Commission charged by TCP in Rs
1	07.07.2022	300,000	404.86	211	25,627,638,000	512,552,760	320,345,475
2	26.10.2022	120,000	373.00	230	10,294,800,000	205,896,000	128,685,000
3	25.07.2022	200,000	407.49	250	20,374,500,000	407,490,000	254,681,250
Total							703,711,725

Audit is of the view that the management charged commission in violation of ECC decision which stands irregular / unjustified.

The matter was reported to the management on November 28, 2023. The irregularity was discussed in the DAC meeting held on January 16, 2024. The DAC directed the management to seek clarity for future rate of commission. A summary in this regard may be moved to ECC. Further, ECC reduced the commission rate @ 0.75 % of the C&F value of imported wheat and sugar without any condition.

Audit recommends implementation of the DAC directives.

3.4.4.8 Loss on procurement of urea at higher rates – Rs 590.625 million

Rule 5 of the Public Sector Companies (Corporate Governance) Rules, 2017 states that the directors of a Board shall be persons who, in opinion of the Government, shall assist the Public Sector Company to achieve its principal objective and the Board shall accordingly exercise its powers and carry out its fiduciary duties with a sense of objective judgment and in the best interest of the company.

During audit of Trading Corporation of Pakistan (TCP) HO for the year 2022-23, it was observed that ECC directed TCP on 24.11.2022 to explore other cheaper options for December as an alternative to the G2G offer made by M/s. SOCAR, for procurement of 35,000 MT of urea @ USD 685/MT (CFR) within the next twenty four hours, and “if that cheaper option becomes available, the same will be availed.” otherwise, the already available option by M/s. SOCAR at the rate of US\$ 685 (CFR) for procurement of 35,000 MT urea on G2G basis, as already approved by the ECC stands ratified. However, TCP made a correspondence on 14th November, 2022 with the ministry in which they mentioned that TCP approached

the 2nd lowest bidder in the tender, M/s Pacific International Trading who interested to supply urea to Pakistan from Muscat and could provide 90 KMT @ USD 610 /MT CFR in the 2nd and 4th week of December, 2022. The management did not consider the offer of M/s Pacific International and procured the urea from M/s Socar at higher rates. Thus, resulted in loss of Rs 590.625 million (US\$ 685-US\$ 610 = US\$ 75 PMT * 35,000 MT * Rs 225).

Audit is of the view that due to non-availing of lower rates offered by M/s Pacific International resulted in a loss to the corporation.

The matter was reported to the management on November 28, 2023. The irregularity was discussed in the DAC meeting held on January 16, 2024. The management in its reply stated that the decision was taken to ensure availability of urea for the crop in December, 2022. however, in case there was no supply of fertilizer in December, the production of wheat – an essential food item, was to suffer. Furthermore, had the ECC decided in favor of the option no. 2 in total, the arrival of urea was to be made in January, 2023 (instead of December, 2022) which could cause immeasurable loss for the national economy on account of delayed Rabi Crop. The DAC directed the management to get the factual position verified from Audit.

Audit recommends implementation of the DAC directives.

3.4.4.9 Non-renting of godowns & non-recovery from tenants – Rs 345.770 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2017 states that, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules.

Clause No.7 of Tenancy Agreement between TCP and tenants states that the monthly rent is payable, inclusive of all applicable taxes on rent. The rent shall be payable in advance by 5th day of each calendar month.

During audit of Trading Corporation of Pakistan (TCP) (HO) for the year 2022-23, it was observed that the management did not rent out the vacant godowns at various locations. Out of total area of 6,366,859 sq.ft, only an area of 1,564,962 sq.ft (24.58%) was rented out which resulted in rental loss of Rs 288.113 million. It was further observed that an amount of Rs 57.657 million was outstanding against various godown tenants on account of rent and various taxes as on June 30, 2023 (Annex-32).

Audit is of the view that the non-renting of godowns and non-recovery against tenants reflected weak financial controls and poor recovery mechanism.

The matter was reported to the management on November 28, 2023. The irregularity was discussed in the DAC meeting held on January 16, 2024.

- a. The management informed the DAC that in pursuance of BOD decision, three renting out notices have been hoisted on TCP's website as well published in national print media. As a result, TCP rented out space measuring 43,278 sq.ft at Pipri and Landhi Godowns. The DAC directed that TCP should make efforts for renting out of the three facilities.

- b. The management informed the DAC that an amount of Rs 8.830 million was recovered and TCP was pursuing the recovery vigorously in the court of law. The DAC directed the management to get verify the recovered amount of Rs 11.361 million from Audit and efforts be made to recover the remaining balance amount.

Audit recommends implementation of the DAC directives.

(DP No. 817 & 819)

3.4.4.10 Un-reconciled receivables / payables – Rs 289.066 million

Rule 5 of Public Sector Companies (Corporate Governance) Rules, 2017 states that the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Trading Corporation of Pakistan (TCP) (HO) for the year 2022-23, it was observed that the management performs commodity operations i.e. (import/local procurement and export / local sale of urea, wheat, and sugar) on the directives of the Federal Government which provides subsidy on these procurements. However, the amount receivables / payables from various agencies remained un-reconciled to the tune of Rs 289.066 million since 2004 as detailed below:

(Rs in million)		
S #	Name of party	Amount
01.	USC	18.735
02.	NFML	(517.502)
03.	Sindh Food	86.405
04.	Punjab Food	19.586
06.	KPK Food	22.676
07.	AJK Food	22.675
09.	Army	43.396
10.	Navy	14.963
Total		289.066

Audit is of the view that non-reconciliation casts doubts on the financial statements of the organization.

The matter was reported to the management on November 28, 2023. The irregularity was discussed in the DAC meeting held on January 16, 2024. The management in its reply stated that TCP was pursuing

respective agencies for reconciliation and payments of the outstanding amounts. It was pertinent to mention that TCP on the advice of MOF appointed independent audit firm for subsidy audit assignment. Furthermore, most recently a draft summary has been shared with MoC regarding recovery of full amount outstanding against various governments / agencies. The DAC directed the management for early reconciliation of receivables / payables from different entities and update would be shared with Audit on regular basis.

Audit recommends implementation of the DAC directives.

3.4.4.11 Loss due to import of wheat at higher rate – Rs 103.787 million

Rule 5 of Public Sector Companies (Corporate Governance) Rules, 2017 states that the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Trading Corporation of Pakistan (TCP) (HO) for the year 2022-23, it was observed that the management invited tender for wheat procurement having quantity of 300,000 Metric Tons (M.T). The management awarded the tender @ USD 404.86 per M.T on July 21, 2022. However, just after 11 days, the management awarded another tender @ USD 407.49 Per M.T for 186,000 M. Ton 28.07.2022. Resultantly, the management sustained a loss of USD 2.63 per Metric Ton (USD 404.86 per M.T - USD 407.49 per M.T) as detailed below:

S#	Tender issued date	Tender opening date	Awarded Quantity (MT)	Quoted Rate in USD by bidders	Tender awarded date
1.	07.07.2022	18.07.2022	300,000	404.86	21.07.2022
2.	19.07.2022	25.07.2022	186,000	407.49	28.07.2022
	Difference of Rate in USD			2.63	
3.	Loss due to import at higher rate (186,000 MT X USD 2.63 PMT)			469,180	
4.	Loss in PKR (469,180 @ Rs 221.21 per USD) Rate based on average price of USD on the retirement date of LC			103,787,307.800	

Due to lack of planning by TCP, wheat was imported in the second tender at the higher rate as against the first tender.

Audit is of the view that due to imprudent planning, management suffered a loss Rs 103.787 million which reflected poor financial management.

The matter was reported to the management on November 28, 2023. The irregularity was discussed in the DAC meeting held on January 16, 2024. The management informed the DAC that ECC directed to procure wheat in staggered manner. Further, TCP decided upon quantity based on availability of berthing, lifting capacity of M/s PASSCO and response of bidders in terms of quantity available in the market. Price

volatility of commodity is difficult to predict. There was only difference of USD 2.6 per metric ton between two different tenders. Audit is of the view that the management had the privilege of exemption by the PPRA Rules (5,13, 35, 38 & 40) to negotiate the quantity with the supplier and act accordingly on timely manner. DAC directed the management to provide relevant record to Audit for verification.

Audit recommends implementation of the DAC directives.

3.4.4.12 Loss on charging lower rent – Rs 19.392 million

As per practice, existing rate of rent of godowns being charged from the private parties was Rs 5.00 per square feet per month.

During audit of Trading Corporation of Pakistan (TCP) (HO) for the year 2022-23, it was observed that TCP was handed over six (6) German and Japanese plants in Pipri godown along with one other godown at Landhi, Karachi by RECP in 1976. TCP advertised the tender and sold the six (06) Rice Mill Plants to three parties namely M/s Chappal Traders, M/s Conwill Pakistan and M/s Abu Bilal Trading. However, the customers did not lift their machinery and instead they were desirous of obtaining lease of the buildings wherein the rice mills were installed and purchased by them. TCP agreed to rent out the buildings with installed machinery at the rate of Rs 2.000 per square feet (per month) for a period of 12 years against the market rate of Rs 5.000 per sq.ft along with annual increment of 10% (Annex-33). The brief summary is as under:

S #	Customer	Area (Sq.ft) (A)	Difference of rent (Rs)
1.	M/s Chappal Traders	85,370.88	6,276,461
2.	M/s Conwill Pakistan	85,370.88	6,276,461
3.	M/s Abu Bilal Trading	93,025.48	6,839,227
Total		263,767.24	19,392,149

Audit is of the view that the management extended an undue favor to the tenants by charging lesser rates as compared to existing rates which reflected negligence and poor financial management. Thus, resulted in loss of Rs 19.392 million on account of rent.

The matter was reported to the management on November 28, 2023. The irregularity was discussed in the DAC meeting held on January 16, 2024. The management informed the DAC that since the tenants / traders/ Rice exporters have to rehabilitate the rented godowns/ buildings at their own expenses therefore it was not justified to rent out the premises at the prevalent market rate of Rs 5 per sq. ft and were offered by the then management at a rental rate of Rs .2 per sq. ft with 10% increase annually. The DAC directed to hold fact-finding inquiry at Ministry level to ascertain the renting of godowns at discounted rates and sale of rice mill machinery at low prices, as asserted by the Audit.

Audit recommends implementation of the DAC directives.

3.4.4.13 Unjustified sale of rice mills without valuation & market survey – Rs 18.306 million

Rule 5 of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Trading Corporation of Pakistan (TCP) (HO) for the year 2022-23, it was observed that the management handed over six (6) German and Japanese (Rice Cleaning Plant (RCP) in Pipri Godown along with Rice Grading Plant at Landhi, Karachi installed by RECP in 1976. However, the sales were made without any revaluation for their prices from Valuators or Estate Agents, or comparative analysis of similar rice Plants, or price sought from original buyers or International / local market, to assess the value / price or knowledge about depreciation or gain on disposal. The details are as under:

S #	Party / Customer	Plant No.	Sale Price (Rs)	Sales Tax @ 16 & Income Tax @ 3.5% (Rs)
1	M/s Chappal Traders	RCP-1/1 & RCP ½	5,024,000	1,007,814
2	M/s Conwill Pakistan	RCP 1/3 & RCP ¼	5,000,022	1,003,004
3	M/s Abu Bilal Trading	RCP 1/5 & RCP 1/6	5,224,000	1,047,934
Total			15,248,022	3,058,752
Grand Total				18,306,774

Audit is of the view that sales activity without any valuation and formulation of Reserve Committee to assess the true / fair price of rice mills reflected negligence and undue favor. Thus, resulted in a loss of Rs 18.306 million to the entity.

The matter was reported to the management on November 28, 2023. The irregularity was discussed in the DAC meeting held on January 16, 2024. The management in its reply stated that the TCP management not only disposed off the 40 years old machinery effectively through open tenders and rates offered by the bidders and sold out through proper transparent manner but also earned significant rental income accordingly. The DAC directed to hold fact-finding inquiry at Ministry level to ascertain the sale of rice mills without valuation & market survey, as asserted by the Audit.

Audit recommends implementation of the DAC directives.

3.4.4.14 Loss of interest income – Rs 13.740 million

Rule 5 of Public Sector Companies (Corporate Governance) Rules, 2017 states that the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Trading Corporation of Pakistan (TCP) (HO) for the year 2022-23, it was observed that the management placed funds at various banks on account of Term Deposit Certificate for three (03) months. The management placed funds on split basis into the banks in TDRs on the same date with varied interest rates with each bank despite investment activity at the highest interest rate offered by the bank. Detail is as under:

Description(s)	Bank's Name

	JS Bank	Samba Bank	Soneri Bank Limited	Soneri Bank	Bank Al-Habib	U-Microfinance Bank	JS Bank	Samba Bank Limited
Amount invested (Rs in millions)	2,150	123.00	500	500	2,330	815	2,375	1,100
Interest Rate (%)	17.15	15.82	15.76	16.00	15.75	17.25	16.11	16.03
Date of investment	29.06.22	29.06.22	29.06.22	29.09.22	29.09.22	29.12.22	29.12.22	29.12.22
Difference from the higher (%)	-	1.33	1.39	-	0.25	-	1.14	1.22
Loss of income due to lower rate (Rs 13.74 million)	-	0.41	1.74	-	1.46	-	6.77	3.36

Audit is of the view that the management placed the funds in the banks without quotation basis which reflected weak financial management and lack of expertise in the investment activity. Thus, the management failed to earn a profit of Rs 13.740 million on account of interest income by investing at lower interest rate.

The matter was reported to the management on November 28, 2023. The irregularity was discussed in the DAC meeting held on January 16, 2024. The management informed the DAC that TCP's placement of funds was as per approved investment policy criteria. DAC directed that management shall present all documents (Minutes of the meeting of where sealed quotations was opened and decided to the successful bidder, Bank statement of the last maturing investment and copy of roll over letters in terms of TDR issued in favor of banks) to the Audit for verification.

Audit recommends implementation of the DAC directives.

3.4.4.15 Irregular award of consultancy contract – Rs 9.100 million

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

Rule 10 (1) of PPRA Rules, 2004 states that the procuring agency shall allow the widest possible competition by defining such specifications that shall not favor any single contractor or supplier nor put others at a disadvantage.

Rule 32 of PPRA Rules, 2004 states that save as otherwise provided, no procuring agency shall introduce any condition, which discriminates between bidders or that is considered to be met with difficulty.

During audit of Trading Corporation of Pakistan (TCP) (HO) for the year 2022-23, it was observed that the management awarded the contract of consultancy service for Human Resource Development to M/s A.F Ferguson amounting to Rs 9.100 million. Following irregularities were observed:

- The bids of two firms i.e. M/s A.F. Ferguson and M/s KPMG were found technically responsive. M/s A.F. Ferguson offered Rs 9.100 million and M/s KPMG Rs 8.305 million. However, M/s

KPMG (lowest bidder) was rejected as it stated that they will include in the bill any changes in Federal and Provincial Government levy and taxes on services in addition to our professional fees. Such clause is explicitly included in all bids, contracts and agreements to amplify changes in the tax structure.

- During technical evaluation, the bid of M/s Yousaf Adil was rejected due to not having registration with International Body. It was evident that the Accounting Body, ICAP has allowed auditing from its QCR ratings. The Professional Body's regulations cannot be overruled by TCP and is also discouraged by PPRA too. It is pertinent to mention that the same company i.e. M/s Yousaf Adil had been hired for tax consultancy services by the management. The requirement of registration with the International Body was discriminatory criteria in the tender.

Audit is of the view that the management extended an undue favor to the consultant in violation of PPRA Rules, 2004. Therefore, award of contract to M/s A.F Ferguson (2nd lowest bidder) amounting to Rs 9.100 million stands irregular and unjustified.

The matter was reported to the management on November 28, 2023. The irregularity was discussed in the DAC meeting held on January 16, 2024. The management informed the DAC that the bid of M/s KPMG was rejected as it was a conditional bid and M/s. Yousuf Adil did not possess the required qualification with an internal legal body/forum/society and was accordingly disqualified by the Bid Evaluation Committee (BEC). The DAC directed the management to submit the record (approval of contract extension, reason of LC clause not included in the contract agreement, directives of the Federal government regarding to alter the MoA & AOA) from Audit.

Audit recommends implementation of the DAC directives.

3.4.4.16 Irregular appointment of Chief Internal Auditor – Rs 4.000 million

As per Cabinet Secretariat (Establishment Division) letter dated May 06, 2000, the contract appointment where justified, may be made for a period of two years initially, on standard terms including termination clause of one month's notice or one month's pay in lieu thereof. Extension may be made on two yearly basis.

During audit of Trading Corporation of Pakistan (TCP) (HO) for the year 2022-23, it was observed that the management appointed Mr. Salimullah Khan, Chief Internal Auditor on contract basis for the period of five (05) years at a lump-sum monthly salary of Rs 400,000. Following irregularities were observed:

- The contractual appointment was made for five (05) years in contrast to a period of two (02) years initially and further extension of two (02) years mentioned above.
- As per offer letter, the incumbent was not entitled to draw any allowances, benefits and other facilities etc. However, he availed the facility of encashment of Rs 26,666 during his contract period.
- He was nominated for multiple trainings in contradiction of the offer letter terms and conditions.

- The management neither verified the credentials of the incumbent i.e. academic & experience certificates.
- Further, the incumbent had a six years' experience in M/s Hands (NGO) which was not relevant as per TCP working / operational functions.

Audit is of the view that the management extended an undue favor to the incumbent in its appointment. Thus, payment of Rs 4.000 million on account of pay & perks stands irregular and unjustified.

The matter was reported to the management on November 28, 2023. The irregularity was discussed in the DAC meeting held on January 16, 2024. The management informed the DAC that appointment was made in accordance with requisite criteria. DAC directed the management to get the record verified from the Audit.

Audit recommends implementation of the DAC directives.

3.4.4.17 Irregular / unjustified appointment on deputation and absorption as Deputy Manager – Rs 2.644 million

As per TCP Recruitment Rules, 2003 (amended in 2021),

- By deputation of serving officers and staff from the Ministries / Departments of Federal or Provincial Governments, in case a Post cannot be filled in either through Promotion or direct recruitment.
- Recruitment / Promotion to all posts in TCP shall be made by the Chairman on recommendation of a Selection Board / Selection Committee.
- The seniority in the case of those employees who are on deputation but subsequently become the employees of the corporations and in the case of those deputations who are absorbed in the corporation after they are declared surplus in their parent office, shall be determined from the date they are absorbed in the corporation as direct recruit.
- All the newly appointed officers Grade VI to IX shall be placed on the probation for a period of two years which shall be extended for a further period of one year at the sole discretion of the competent authority.

During audit of Trading Corporation of Pakistan (TCP) (HO) for the year 2022-23, it was observed that, Mr. Taimur Khan, (Public relation officer) was posted as deputy manager on deputation in TCP on June 21, 2022 from NICL. The incumbent was absorbed as DM (Grade VII) on permanent basis on June 08, 2023. The incumbent stood at Serial no.18 in the seniority list. His salary was fixed Rs 166,485 per month. Audit observed following irregularities:

1. The management did not attempt to fill the post by promotion or through direct requirement and he was absorbed in TCP in 06 months without the recommendation of selection committee.

2. The incumbent should have been posted as Assistant as per TCP's hierarchy. After three (03) years of length of service; he may be eligible for next cadre i.e. Assistant Manager. However, the management posted him as Executive Officer i.e. equal to Assistant to Deputy Manager.
3. The incumbent was absorbed in TCP without being declared surplus by NICL.
4. He served the probation period for 06 months as against two (02) years, as per rules for newly appointed officers (Grade VI to IX).

Audit is of the view that the management extended undue favors to the incumbent during the whole process of deputation and subsequent absorption in TCP was irregular.

The matter was reported to the management on November 28, 2023. The irregularity was discussed in the DAC meeting held on January 16, 2024. The management in its reply stated that the deputation / absorption were made as per rules. The DAC directed the management to approach NICL to declare employee as surplus. Further, TCP share promotion / direct recruitment process initiated before deputation of incumbent in the TCP with Audit.

Audit recommends implementation of the DAC directives.

3.5 Pakistan Horticulture Development and Export Company

3.5.1 Introduction

Pakistan Horticulture Development and Export Board (PHEDB) was established under a notification dated August 05, 2002 issued by the Ministry of Commerce, which was subsequently incorporated on July 15, 2009 under Section 42 of the Companies Ordinance 1984, (now Companies Act, 2017) namely Pakistan Horticulture Development and Export Company (PHDEC). The main objectives of the company included economic welfare of all the stakeholders in the horticulture value chain and introduction of Pakistan to the high end international markets through strategic initiatives.

3.5.2 Comments on audited accounts

3.5.2.1 The working results of the Company for the years 2022-23 are given below:

(Rs in million)

	2022-23	% Inc /(Dec)	2021-22	% Inc /(Dec)	2020-21
Income					
Grant from Govt. of Pakistan	-		-		
Other income	248.639	105.21	121.162	8.34	111.838
Total income	248.639	105.21	121.162	8.34	111.838
Expenditure					
Salaries, wages and other benefits	19.276	24.35	15.502	(8.19)	16.884
Travelling and conveyance	7.535	2,183.33	0.330	28.40	0.257
Board meeting expenses	2.565	55.55	1.649	(17.63)	2.002
Vehicles running expenses	0.966	(64.81)	2.745	275.51	0.731
Utilities	1.661	(4.27)	1.735	39.92	1.24
Audit fee	0.081	0	0.081	0	0.081
Office rent	7.047	(21.32)	8.957	20.00	7.464
Legal and professional charges	0.156	(20.00)	0.195	(66.89)	0.589
Printing and stationery	0.052	(81.43)	0.280	101.44	0.139
Repair and maintenance	3.895	100	0	(100.00)	0.345

Depreciation	0.331	(56.04)	0.753	2.73	0.733
Outsourcing	1.356	(17.92)	1.652	110.98	0.783
Postage & Courier	0.013	100	0		0
Bank charges	0.008	100	0		0
Trade promotional expenses	2.392	2,178.10	0.105	(96.14)	2.718
Newspaper, books and periodicals	0.012	(29.41)	0.017	(10.53)	0.019
Fee & Subscription	0.019	(94.28)	0.332	-	0
Miscellaneous	0.515	(34.89)	0.791	(24.38)	1.046
Total Expenditure	47.878	36.29	35.129	(2.52)	36.036
Surplus /(deficit) before taxation	200.761	133.35	86.033	12.02	76.801
Taxation	-		-		-
Surplus /(deficit) after taxation	200.761	133.35	86.033	12.02	76.801

(Source: Annual Audited Accounts)

The company's income, derived from a Government grant, amounted to Rs 103.959 million in the financial year 2017-18. However, no grants were received in the subsequent years, namely 2018-19, 2019-20, 2020-21, 2021-22, and 2022-23. It is worth mention here that no expenditures were allocated under the project and programs head. It is imperative to furnish comprehensive details on the utilization of the grant, including releases, project deliverables, and associated achievements, to audit. Additionally, explicitly justify the reasons why grant utilization was not presented in the financial statements for the year 2017-18.

3.5.2.2 Other income of the company increased from Rs 30 million during the year 2017-18 to Rs 248.639 million in years 2022-23. Other income comprises profits from T-bills, TDRs and Profit from cash balance kept in banks accounts. Moreover, an investment in Treasury bill stood at Rs 1,638.509 million as on 30th June 2023 and Rs 950.758 million as on 30th June 2022. To ensure a thorough evaluation of the prudence in treasury management complete record pertaining to investments in T-bills and TDRs, along with a year-wise determination of working balance limits, be provided to Audit.

3.5.2.3 The company maintained bank account No. 13006-8 at NBP Lahore, specifically designated for the Agri Business and Development and Diversification project, funded by the Asian Development Bank and the Ministry of Food, Agriculture, and Livestock, under the company's supervision. It is worthy to mention here that the Chartered Accountant firm qualified the accounts due to the inability to obtain any evidence regarding the details of transactions conducted through this account. Complete record related to the project, encompassing the

cashbook, bank statement, and a detailed account of expenditures incurred from the aforementioned account be provided. Furthermore, justify the reasons for not integrating the said bank account with the financial statements for the year ending on June 30, 2018.

3.5.2.4 The Company throughout the past six years, from 2017-18 to 2022-23, consistently maintained an average workforce of 13 employees. Notably, during this period, the company expended an average monthly rent of Rs 472,041 for office accommodation, accumulating a total rent payment of Rs 33.987 million over last six years. The hiring of costly rented accommodation with small number of employees needs justification.

3.5.2.5 The Chartered Accountant qualified the financial statements for the years 2017-18 to 2022-23 based on long-term loans and advances, which remained long outstanding with non-confirmation from the third party. The amounts carried are Rs 4.499 million for the year 2022-23, Rs 4.499 million for the year 2021-22, Rs 4.749 million for the year 2020-21, Rs 4.749 million for the year 2019-20, Rs 4.749 million for the year 2018-19, and Rs 9.207 million for the year 2017-18 respectively. Justify the reasons for non-recovery of these long term loans and advances, elucidating the efforts undertaken for recovery. Additionally, provide a comprehensive aging analysis of the advances.

3.5.2.6 The company sold property & equipment through auction during the financial year 2017-18 for Rs 7.066 million. Complete procedure adopted for auction of assets be furnished to Audit to ascertain the transparency in process.

3.5.2.7 The company has joint venture arrangements with M/s Durrani Associates, namely Pakistan Hortifresh Processing Private Limited, with a 50% profit-sharing ratio. According to the financial statements for the year 2016-17, the company provided an interest-free loan to the joint arrangement amounting to Rs 3.776 million. Since then, said loan has not been recovered until 2022-23. It is worth mentioning here that since the establishment of the JV arrangement, the company has not received any revenue share from the JV. This position needs to be justified, and strenuous efforts should be made to recover the loan amount. Furthermore, complete records regarding the establishment of JV arrangements should be provided to the Audit to ascertain the viability of the decision.

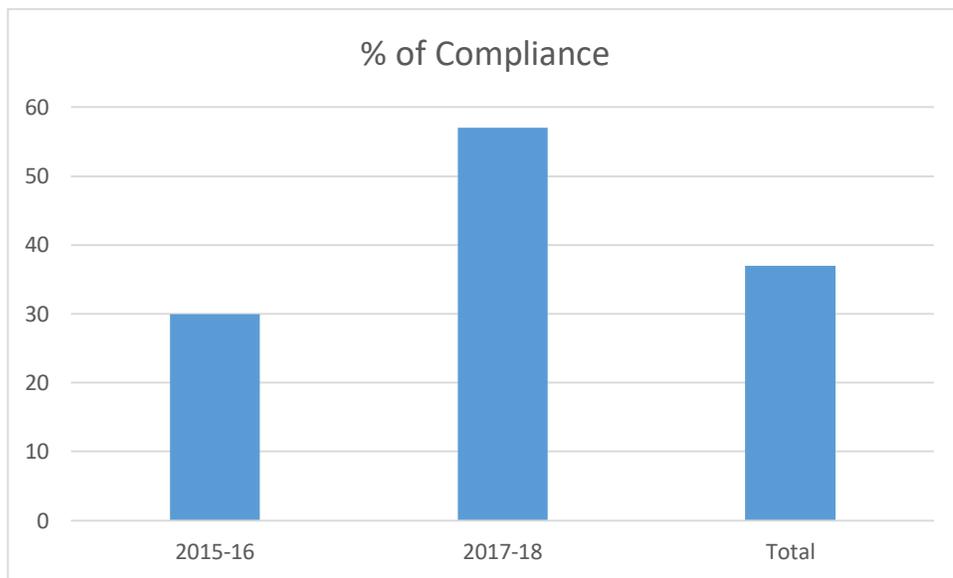
3.5.2.8 The company incurred an expenditure of Rs 11.797 million over the last six years (Rs 2,565,425 in the year 2022-23, Rs 1,648,697 in the year 2021-22, Rs 2,002,502 in the year 2020-21, Rs 1,312,345 in the year 2019-20, Rs 2,388,617 in the year 2018-19, and Rs 1,879,023 in the year 2017-18) under the head of Board Meeting Expenses. The annual performance evaluation of board members, as required by the Corporate Governance Rules, 2013, and the compliance report regarding the implementation of board's decisions, may be shared with the Audit to ascertain performance as well as the effective implementation of BoD's policies.

3.5.2.9 Total expenditure of the company increased by 36.29% to Rs 47.878 million in 2022-23 from Rs 35.130 million in the previous year. The major increase was under the heads salaries, wages and other benefits, travelling and conveyance, repair & maintenance and trade promotional expenses by 24.35%, 2,183%, 100% and 2,178% respectively to Rs 19.276 million, Rs 7.735 million, Rs 3.895 million and Rs 2.392 million. The abnormal increase under the said heads needs to be justified.

3.5.2.10 The company has enlisted the services of M/s Riaz Ahmad, Saqib, Gohar & Co. Chartered Accountants for the past six years, spanning from 2017-18 to 2023. It is worth mentioning that, according to Corporate Governance Rules, every Public Sector Company, excluding those in the financial sector, is required to rotate the engagement partner at least once every five years. However, this rotation has not been carried out by the management. The position needs to be justified.

3.5.3 Compliance of PAC Directives

S. #	Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of Compliance
1	2015-16	20	06	14	4.5.4.1, 4.5.4.2, 4.5.4.3, 4.5.4.5, 4.5.4.7, 4.5.4.8, 4.5.4.9, 4.5.4.11, 4.5.4.12, 4.5.4.13, 4.5.4.14, 4.5.4.15, 4.5.4.16, 4.5.4.17	30
2	2017-18	07	04	03	4.7.2.4, 4.7.2.5, 4.7.2.6	57
Total		27	10	17		37



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

Chapter-4

Ministry of Defence

Overview:

The Ministry of Defence is an executive ministry of the Government of Pakistan, tasked to defend country's national interests.

Functions of MOD under Rules of Business 1973

The following main business have been assigned to the Defence Division amongst the other functions:

Defense of the Federation or any part thereof in peace or war including Army, Naval and Air Force of the Federation and any other armed forces raised or maintained by the Federation; and armed forces which are not the forces of the Federation but are attached to or operating with any of the armed forces of the Federation;

- 1- Civilian employees paid from defense services.
- 2- International Red Cross and Geneva Conventions in so far as they effect belligerents.
- 3- Pardons, reprieves and respites, etc. of all personnel belonging to the Armed Forces.
- 4- Administration of Military Lands and Cantonments Group.
- 5- National Maritime Policy.
- 6- Marine surveys and elimination of dangers to navigation.

Audit Profile of Ministry of Defence

(Rs in million)

Description	Total	Audited	Expenditure audited FY 2022-23	Revenue / Receipts audited FY 2022-23
Formations	2	2	6,998.55	2,048.55
Assignment Accounts (excluding FAP)	-			
Authorities /Autonomous Bodies etc. under the PAO	2	2	6,998.55	2,048.55
Foreign Aided Projects (FAP)	-	-	-	-

Classified Summary of Audit Observations

Audit observations amounting to Rs 3,063.516 million were raised in this audit. This amount also includes recoverable of Rs 184.431 million as pointed out by the audit. Summary of the audit observation classified according to respective subject's nature is as under:

Overview of the Audit Observations

Sr. No.	Classification	Amount (Rs in million)
1	Non-Production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities:	
A	HR/Employees related irregularities	202.365
B	Procurement related irregularities	561.239
C	Management of accounts with Commercial Banks	0
4	Value for money and services delivery issues	2,260.594
5	Others	39.318

4.1 Heavy Mechanical Complex (Pvt.) Limited

4.1.1 Introduction

Heavy Mechanical Complex (Pvt.) Limited was incorporated in Pakistan under the Companies Act, 1913 (now Companies Ordinance 1984) in Jul, 1975. It is a wholly owned subsidiary of State Engineering Corporation.

Corporate Information

The Principal activities of the Company are to manufacture, supply and install machinery for cement, sugar, oil, gas and energy sector industries, to engineer, design, manufacture and supply cranes, boilers, defence and construction equipment and production of ferrous and non-ferrous metals, alloys, casting and forging. The principal place of business of the Company is situated at Hattar Road, Taxila.

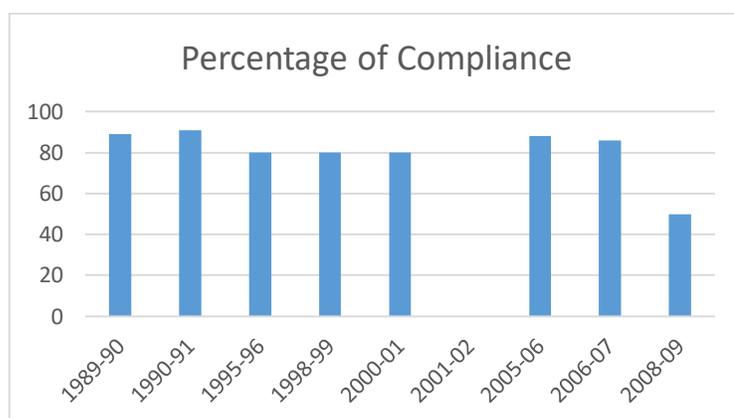
4.1.2 Comments on Audited Accounts

4.1.2.1 The annual audited accounts are required to be provided to Audit for review each year. Contrary to this, the management failed to provide audited annual accounts for the years 2015-16 to 2022-23 till December 31, 2023.

Audit recommends that the annual audited accounts for the years 2015-16 to 2022-23 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*Annex-2*).

4.1.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Paras No.	Percentage of Compliance
1989-90	09	08	01	998	89
1990-91	11	10	01	787	91
1995-96	05	04	01	193	80
1998-99	05	04	01	268	80
2000-01	05	04	01	303	80
2001-02	03	0	03	298,299,300	0
2005-06	08	07	01	133.2	88
2006-07	07	06	01	108.3	86
2008-09	04	02	02	125.1,126	50
Total	57	45	12		79



The overall compliance with PAC directives was not fully satisfactory and needs improvement.

4.1.4 Audit Paras

4.1.4.1 Loss due to sale of products at cost lower than the actual cost of production – Rs 1,009.973 million

As per HMC policy the profit margin is fixed @ 10% of the cost price of product.

During audit of HMC for 2016-17 to 2021-22, a sample analysis of sale price vs. actual cost revealed that in 31 cases, the formation sustained a loss by selling products below the cost price in violation of policy which resulted in a total loss of Rs 1,009.973 million.

Audit is of the view that management should have maintained required profit margin.

The matter was reported to management on 26.06.2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends inquiring the matter besides fixing responsibility.

Para-2 (HMC – 2016-17 to 2021-22)

4.1.4.2 Wasteful expenditure due to non-completion of a PSDP funded projects – Rs 377.59 million

According to Planning Commission's Guidelines issued for implementation of projects under PSDP grants, the project is approved with a specific period completion. Efforts should be made to complete the project within the stipulated period to ensure flow of benefits well in time.

During audit of HMC Taxila from 2016-17 to 2020-21, it was observed that the PC-I of the projects titled "Establishment of Design Institute" and "Establishment of Turbine & Power Plant Equipment Manufacturing Facilities" were approved by the Planning Commission in January & May 2011 respectively with an original implementation period until 2014, later extended to February 2018. The Design Institute project had a PC-I cost of Rs 687.332 million, whereas, Rs 672.770 million was allocated by the Planning Commission out of which Rs 262.964 million was expended by June 2016. Moreover, the Turbine & Power Plant project, with a PC-I cost of Rs 21,543.10 million, had Rs 215.292 million allocated, and Rs 114.63 million was expended by June 2016. However, both projects were stopped, leading to a waste of Rs 377.59 million due to non-completion. The ECC approved the transfer of HMC to SPD/PAEC in June 2016, subject to the condition of self-financing without seeking support from the Federal Government.

Audit is of the view that management was required to complete the projects by utilizing its own resources.

The matter was reported to management on 26.06.2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends inquiring the matter besides fixing responsibility.

Para-1 & 5 (HMC – 2016-17 to 2021-22)

4.1.4.3 Loss due to non-recovery of dues from clients - Rs 504.098 million

According to Rule – 05 of the SECP Corporate Governance Rules, 2013 (Amended 2017), the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety.

During audit of HMC Taxila 2016-17 to 2021-22, it was observed that an outstanding amount of Rs 504.098 million remained uncollected from various clients for periods spanning one to over 20 years. The management failed to recover this amount, resulting in a provision of Rs 174.081 million for doubtful debts.

Audit is of view that the management should initiate legal actions to recover the outstanding amount from clients.

The matter was reported to management on 26.06.2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends inquiring the matter besides fixing responsibility.

Para-26 (HMC – 2016-17 to 2021-22)

4.1.4.4 Loss due to less recovery of electricity & gas charges from the consumers – Rs 248.850 million

According to Rule – 05 of the SECP Corporate Governance Rules, 2013 (Amended 2017), the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety.

During audit of HMC Taxila for the years 2016-17 to 2021-22 it was observed that electricity and gas were purchased at an industrial rate for supply to the HMC and its residential colony. However, the colony was not billed at the same rate, leading to a loss of Rs 128.776 million on electricity from January 2020 to June 2023 and Rs 120.074 million on gas, due to utilities being charged at domestic rates.

Audit is of the view that the management should install separate meters on quarters to avoid additional burdens on HMC and ensure accurate billing for electricity and gas consumption.

The matter was reported to management on 26.06.2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends inquiring the matter, fixing responsibility and effecting recovery.

Para-4 (HMC – 2016-17 to 2021-22)

4.1.4.5 Irregular award of consultancy service on single source basis – Rs 174.00 million and un-justified increase in rates – Rs 21.28 million

According to Rule – 12(2) of the Public Procurement Rules, 2004 “all procurement opportunities over three million Pakistani Rupees should be advertised on the Authority’s website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu”.

During audit of HMC Taxila for the year 2016-17-2021-22 it was observed that the Water & Power Department, Gilgit Baltistan awarded an EPC/Turnkey contract to HMC included design, construction, designing of electromechanical works, manufacturing, testing, delivering, installing and commissioning of Naltar–III Hydro Power Project of 16 MW. Further it was observed that HMC awarded the consultancy services including design work and construction work to NESPAK at a cost of Rs 174.00 million on single source basis vide agreement dated 02.04.2016. The contract amount was also revised to Rs 195.28 million, reflecting an increase of Rs 21.28 million.

Thus, award on contract on single source basis was the cause of weak internal control.

Audit is of the view that management was required to award the contract in accordance with Public Procurement (PP) rules.

The matter was reported to management on 26.06.2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends inquiring the matter besides fixing responsibility.

Para-13 (HMC – 2016-17 to 2021-22)

4.1.4.6 Irregular award of contracts in violation of PPRA - Rs 220.985 million

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

During audit of HMC Taxila for the years 2016-17 to 2021-22, it was observed that various tenders were called for through advertisement for award of Electrical & Instrumentation Works to firms, following deficiencies were found;

1. M/s Green Industrial Solution, Lahore, quoted the lowest rates of Rs 40.95 million, Rs 22.125 million, and Rs 16.648 million (including GST) against three tenders. However, the purchase orders for these packages were issued to M/s ABB, who was 4th lowest with Rs 54.99 million in first tender, 2nd lowest with Rs 30.42 million in 2nd tender and 3rd lowest with Rs 16.648 million in 3rd tenders in violation of Public procurement rules.
2. Similarly, various store items were purchased from the 2nd lowest bidder, disregarding the 1st lowest rate which resulted in a loss of Rs 7.828 million.
3. In response of tender for award of work of Electrical & Instrumentation Works of 100 TPH Boiler in April, 2022, M/s Solution Engineering, Lahore, declared 1st lowest bidder at cost of Rs 68.54 million, was ignored on the plea that country of origin was not intimated. The work was awarded to 2nd lowest bidder M/s ABB Power Automation, Lahore, with an initial quote of Rs 77.10 million, later reduced to Rs 72.54 million.
4. In response of tenders for purchase of Steel Plates for project 100 TPH SM (Mirpur Khas) in December, 2020. Work order was awarded to 3rd lowest bidder namely M/s Loha Corporation at a cost of Rs 26.841 million within delivery period of 2 to 3 weeks by ignoring 1st and 2nd lowest bidders who quoted rate @ Rs 22.015 million and Rs 24.483 million respectively within delivery period of 8-10 weeks. However, the firm actually delivered the store in 5 weeks.

Non observance of Public Procurement rules was the cause of weak internal control.

Audit is of the view that the management was obligated to award the contract to the lowest bidders to ensure savings, in accordance with public procurement rules.

The matter was reported to management on 26.06.2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends inquiring the matter besides fixing responsibility.

Paras- 16,19, 23, 29, 35 and 36 (HMC – 2016-17 to 2021-22)

4.1.4.7 Irregular write off of loan along with markup - Rs 23.10 million

As per terms & conditions of loan sanctioned by the Federal Govt. to HMC, the loan carried interest @ 16% p.a. and is repayable in 10 yearly equal installments.

During audit of HMC Taxila from 2016-17 to 2021-22, it was observed that the Federal Government granted a loan of Rs 21.300 million to HMC in 1999, carrying an interest rate of 16% p.a. The loan, repayable in 10 equal installments of Rs 2.31 million each starting from June 2001, remained unpaid. In June 2016, the ECC of the Cabinet decided to transfer HMC to SPD/PAEC, along with its assets and liabilities, including the outstanding loan. Despite this, the Board of Directors, in its 120th meeting on June 12, 2018, decided to write off the loan, mentioning its longstanding status since 1999 and never claimed by Ministry.

Audit is of the view that the HMC Board's decision to write off the loan liability along with markup without consent of Federal Government is irregular.

The matter was reported to management on 26.06.2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends inquiring the matter besides fixing responsibility.

Para-17 (HMC – 2016-17 to 2021-22)

4.1.4.8 Irregular award of contract for procurement of store – US\$ 124,542 (Rs 21.919 million)

According to advertisement dated 12-09-2021 the tender was published for purchase of 32 M. Tons of Steel Profiles (A572 22.656 M. Tons + A36 9,157 M. Tons). Further, according to PPRA Rules – 42 (c) (iv) Repeat orders not exceeding fifteen per cent of the original procurement. In PPRA Rules, the repeat order means procurement of the same commodity from the same source without competition and includes enhancement of contracts.

During audit of HMC Taxila for the years 2016-17 to 2021-22 it was observed that tenders were issued on 12.09.2021 for the purchase of two items of steel profiles i.e. (Material A572 Gr. 50 - 22,656 kgs and Material A-36 - 9,157 kgs). In response, M/s Roots, the local agent of AGE Steel Limited Dubai UAE, quoted the lowest rates at US \$ 44,398 (A572 US \$ 1,412/M. ton and A36 US \$ 1,355/M. ton). It was further observed that management increased the quantity of both items significantly (195% and 133% increase, respectively) and placed an order for the enhanced quantity at US \$124,542, equivalent to Pak. Rs 21.919 million.

Audit is of the view that management's decision to award order for enhanced quantity exceeding 15% beyond the limit of repeat order was in violation of PPRA, hence was irregular.

The matter was reported to management on 26.06.2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends inquiring the matter besides fixing responsibility.

Para-15 (HMC – 2016-17 to 2021-22)

4.1.4.9 Irregular enhancement of rate after award of contract by Rs 9.350 million and loss due to supply of faulty store – Rs 11.055 million

As per the tender documents issued for the purchase of Seamless Tubes in various sizes, the bid format included third-party inspection charges.

During the audit of HMC Taxila for the years 2016-17 to 2021-22, it was observed that four contracts for the purchase of Seamless Tubes of different sizes were awarded to M/s Engineering Equipment, Islamabad at US \$35,824 (including inspection charges of US \$800) on 19.02.2021. The contract was on a CFR basis with a delivery period of 50 days, initially scheduled for 15.05.2021, and later extended to 04.08.2021. However, the supplier requested an increase of US \$55,000 at a rate of US \$13,500 in each case. Subsequently, revised purchase orders with the increased rates (without included inspection cost) were issued through a letter dated 25.05.2021. The store was dispatched by the supplier without a 3rd party inspection, leading to rejection by the inspection authority of HMC. The management requested the firm either to replace the store or pay the store's cost of US \$64,458, but neither the store was replaced by the firm nor the cost was returned.

Audit is of the view that management should have obtained store inspections from a third party, but this was not executed as required and received faulty store. hence held irregular. Furthermore, enhancement of rate @ 37% of the original value was unjustified.

The matter was reported to management on 26.06.2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends inquiring the matter besides fixing responsibility.

Para-12 (HMC – 2016-17 to 2021-22)

4.1.4.10 Loss due to auction of store below reserve/assessed price - Rs 30.379 million

According to Rule 05 of the SECP Corporate Governance Rules, 2013 (Amended 2017), the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety.

During the audit of HMC Taxila from 2016-17 to 2021-22, it was noted that store items auctioned in two lots through M/s Mohmand Brothers, Haripur, with an initial highest bid of Rs 23.558 million, were later enhanced to Rs 32.054 million. Despite an initial assessed value of Rs 62.497 million for Lot No. 01 and Lot No. 02, incorporating factors like obsolescence and wear & tear, a second assessment, without clear reasons, reduced the values to Rs 45.739 million. The subsequent sale at Rs 32.10 million resulted in a substantial loss of Rs 30.379 million.

Audit is of the view that management should have sold the store at the initial assessed value of Rs 62.497 million rather than the second assessed value, hence, held irregular.

The matter was reported to management on 26.06.2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter besides fixing responsibility.

Para-8 (HMC – 2016-17 to 2021-22)

4.1.4.11 Irregular contract appointment and payment - Rs 18.138 million

According to HMC Employment Policy & Procedure given in HMC Employees Service Regulation 2020, all posts must be advertised in the national press and fully cover the terms and conditions regarding age, educational qualification and experience etc. specific to each post.

During audit of HMC for the years 2016-17 to 2021-22, it was observed that Brig. ® Hamid Mahmood as GM (Admn & HR) was directly appointed on contract basis for three years at HMC through a letter dated 19.02.2019, bypassing established procedures/rules. Later on, he was re-designated as Director (HR & Admin) w.e.f. 19.02.2019. Upon contract expiry in February 2022, SITECH extended it for an additional three years at a lump sum pay of Rs 370,000 (increased more than 42% without justification) vide letter dated 18.05.2022.

Audit is of the view that the officer's appointment, in violation of company policy, and the payment of Rs 18.138 million with an unjustified 42% increase in pay and allowance, held irregular.

The matter was reported to management on 26.06.2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter besides fixing responsibility.

Para-33 (HMC – 2016-17 to 2021-22)

4.1.4.12 Loss due to imposition of LD charges by the clients – Rs 18.093 million

According to Clause – 5 & 9 of the agreement signed with the clients “in case of failure to deliver the consignment within specified delivery period, as agreed in the contract, the purchaser shall be entitled at his own option to recover liquidated damages levied at the rate specified in the contract agreement”.

During audit of HMC Taxila for the years 2016-17 to 2021-22 it was observed that in nine cases the management entered into agreement with the private parties for some specific jobs. In agreement, signed with the client, the delivery period was specifically mentioned and agreed that in case of late delivery beyond said period the client has right to recover the liquidated damages from the suppliers. In said cases the management failed to complete and deliver the job within scheduled time, due to which the client imposed penalty clause and deducted liquidated damages of Rs 18.093 million from the billed amount.

Audit is of the view that the HMC is running its business on commercial lines and the timely completion and delivery of job is the essence of business. But in so many cases the management failed to deliver the jobs within scheduled time due to which the client imposed late deliver charges upon HMC and accordingly deducted the amount from the billed amount which is a loss to the formation.

The matter was reported to management on 26.06.2023 but no reply was received till finalization of report.

The DAC meeting was not convened till finalization of this report despite request dated 29.11.2023.

Audit recommends that matter be probed at appropriate level to find the reasons of delay which caused loss to the formation; fix responsibility thereof; and make the loss good by affecting recovery from the person(s) at fault.

Para-22 (HMC – 2016-17 to 2021-22)

4.1.4.13 Non provision of auditable record – Rs 15.718 million

In Accounting “a voucher is a document normally issued by the accounts payable department to authorize payments. It can also be termed as a memorandum of liability to any organization. An accounting voucher can be seen as a written backup document for the payments done to the suppliers or creditors in any organization for the business conducted with the party”.

When a voucher is issued for payment, it implies that all these prerequisites of the control mechanism process are fulfilled, and the payment towards the supplier is good to go.

During audit of HMC for the years 2016-17 to 2021-22 it was noted that a sum of Rs 11.894 million was spent on stationery and printing charges, along with Rs 3.823 million on the purchase of fixed assets at the school of HMC from 2018 to 2020. Payment vouchers of assets and stationery/printing material was demanded by audit which was not provided. Furthermore, Chartered Firm, while certifying the accounts for the mentioned period, issued a qualified opinion on these expenditures due to the absence of relevant documents and evidence.

Audit is of the view that due to the absence of proper records and supporting evidence for the payments of Rs 15.718 million, the expenditure is considered not authentic.

The matter was reported to management on 26.06.2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter besides fixing responsibility on non-provision of record.

Para-24 (HMC – 2016-17 to 2021-22)

4.1.4.14 Irregular award of contract on higher rate - Rs 11.705 million

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

During audit of HMC Taxila for the years 2016-17 to 2021-22 it was observed that tenders were issued in February 2021 for award of work of unloading & safe storage of material, erection/installation of Penstock, Steep liners for 48 MW Jagran-II Hydel Power Project. M/s Nimra & Co., Taxila, initially quoted the lowest rate of Rs 149.907 million, while M/s Akhtar Engineering Services, Islamabad, was the second lowest at Rs 156.693 million. Later, M/s Akhtar Engineering Services reduced their rate to Rs 148.907 million, and the lowest bidder also decreased to Rs 137.201 million on 20.04.2021. The SCM department proposed awarding the contract to the second lowest bidder at Rs 148.906 million, claiming the first lowest bidder failed to submit the required bid money. However, the A/CFO, HMC vide letter dated 03.06.2021 confirmed M/s Nimra & Co. had the lowest offered rate and submitted the bid money. Despite the Managing Director not approving the contract summary, the contract was awarded to 2nd lowest bidder M/s Akhtar Engineering Services, at their quoted rate of Rs 148.906 million, disregarding the lowest offer in the contract dated 23.07.2021.

Audit is of the view that management should award contract to lowest bidder which was not done. Hence, the company sustained loss of Rs 11.705 million (Rs 148.906 million – Rs 137.201 million).

The matter was reported to management on 26.06.2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter besides fixing responsibility.

Para-48 (HMC – 2016-17 to 2021-22)

4.1.4.15 Non provision of record of renovation work - Rs 8.103 million and loss due to non-deduction of withholding tax - Rs 486,190

As per Rules – 12(2) of the Public Procurement Rules, 2004, “all procurement opportunities over three million Pakistani Rupees should be advertised on the Authority’s website as well as in other print media or newspapers having wide circulation.”

As per Income Tax rules, a 6% withholding tax on maintenance services should be deducted.

During audit of HMC Taxila for the years 2016-17 to 2021-22 it was observed that HMC runs three schools in its colony. A sum of Rs 8.103 million was expended on renovation of school buildings without advertisement. However, the management provided bills of only Rs 2.251 million showing adjusting advances for renovation. Bills for the remaining amount were not provided. Furthermore, some bills were unsigned or blank accompanied only by handwritten receipts without supporting documents. Additionally, Income Tax at a 6% withholding rate on maintenance services was not deducted from bills, resulting in a loss of Rs 486,190 to the treasury.

Consequently, the payment of Rs 8.103 million is deemed irregular, raising concerns about the potential for bogus claims. Additionally, the failure to deduct income tax resulted in a loss of Rs 486,190 to the treasury.

Audit is of the view that the management's procedure for renovation work did not comply with the rules and the non-provision of complete records is a serious lapse.

The matter was reported to management on 26.06.2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter besides fixing responsibility.

Para-11 (HMC – 2016-17 to 2021-22)

4.1.4.16 Loss due to purchase of used steam turbine - US \$ 46,463 (Rs 7.434 million)

As per agreement signed with M/s Technoexponent for supply of Steam Turbine, the supplier was bound to supply brand new Steam Turbine.

During the audit of HMC Taxila from 2016-17 to 2021-22, it was observed that a Steam Turbine for a 140 TH Boiler was purchased from M/s Techno via a purchase order dated 30.09.2019. Subsequently, during the commissioning/installation, it was exposed that the turbine was used or second-hand. The QA Deptt. rejected the turbine due to visible cracks, significant porosity, and repairs at various points. Inspection documents provided by the supplier after four months were found to be tampered with. An inquiry committee constituted in September 2020, recommended disciplinary action against the Manager SCM and Head of QA Deptt., proposing a major punishment of "Removal from Service" for the concerned officers. However, no action was initiated. Thus, company sustained a loss of Rs 7.434 million.

Audit is of the view that management should have taken disciplinary action against concerned along with pursuing efforts to recover the losses incurred.

The matter was reported to management on 26.06.2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter besides fixing responsibility and initiating actions to recover the incurred losses.

Para-30 (HMC – 2016-17 to 2021-22)

4.1.4.17 Non-recovery of rental charges from postal authorities – Rs 4.349 million

The HMC management vide letter dated 02.06.1971 allotted a shop No. 26 to Postal Authorities for establishment of Post Office. As per terms of said letter the shop was allotted for post office on rent free basis for one year i.e. up 31.05.1972 and thereafter the Postal Authorities were required to pay rent at agreed rate.

During audit of HMC Taxila from 2016-17 to 2021-22, it was observed that management had allotted Shop No. 26 (covering an area of 660 sq. ft.) to Postal Authorities for opening a Post Office via a letter dated 02.06.1971 on rent free basis for one year, ending on 31.05.1972. However, after the expiration, there was no proper rental agreement in place, and the Postal Authorities continued to use the shop without paying rent. The management officially notified rental charges at Rs 20/sq. ft. from December 2020 without formal agreement.

Thus, the audit calculated rental charges from 01.06.1972 to November 2020 on an approximate, conservative basis, resulting in loss of Rs 4.349 million to company.

Audit is of the view that the management was obligated to establish a formal agreement to determine the rent for the shop, rather than allowing it to be provided free of cost for an extended period.

The matter was reported to management on 26.06.2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends that recovery of the outstanding rent may be made besides fix responsibility on the person(s) at fault.

Para-40 (HMC – 2016-17 to 2021-22)

4.2 Institute of Space Technology

4.2.1 Introduction

Institute of Space Technology is a statutory organization established under the Institute of Space and Technology Act, 2010 (Act No. XI of 2010), formerly Institute of Space Technology Ordinance, 2007 (Ordinance No. XLII, 2001 and the approval granted shall remain in force until it has been withdrawn under Rules 217 of Income Tax, 2002. The main objectives of the Institute is to promote and finance educational, research and development activities by facilitating the development of world-class degree awarding institute having a bearing on the socio-cultural economic needs of the country. The Institute is engaged in promoting space oriented activities with the help of both national and international experts.

4.2.2 Comments on Audited Accounts

4.2.2.1 The annual audited accounts are required to be provided to Audit for review each year. Contrary to this, the management failed to provide audited annual accounts for the years 2021-22 to 2022-23 till December 31, 2023.

Audit recommends that the annual audited accounts for the years 2016-17 to 2022-23 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*Annex-2*).

4.2.3 Compliance of PAC Directives

There were no pending PAC directives for compliance.

4.2.4 Audit Paras

4.2.4.1 Loss due to non-recovery from unsuccessful employees in PhD studies - Rs 178.924 million

According to clause 5 of statutes and regulations of the Institute of Space Technology (IST) Islamabad every controlling officer is expected to exercise the same vigilance in respect of expenditure incurred from IST funds as a person of ordinary prudence would exercise in respect of expenditure of his own. As per clause 5(b), the expenditure should not be prima facie more than the occasion demands.

During audit of IST Islamabad for FY 2014-23, the management provided the detail of court cases filed by IST for recovery of Rs 178.924 million from different employees. Detail is attached as under:

Court Cases filed by IST for Recoveries				
Sr. No.	Reference	Amount (Rs)	Currency	Amount (Rs)

1	Dr. Faidad	277,835	PKR	277,835
2	Dr. Muhammad Umari Shahid	120,000	PKR	120,000
3	Mr. Sikandar Nawaz	198,514	PKR	198,514
4	Mr. Hamza Ghazanfar Toor	135,375	PKR	135,375
		51,552	USD @ (Rs 284.08 as on 29.11.2023)	14,640,768
		103,065	Aus Doller @ (Rs 188 as on 29.11.2023)	19,376,220
5	Mr. Wajid Minhas	611,731	PKR	611,731
		60,919	USD @ (Rs 284.08 as on 29.11.2023)	17,300,996
6	Mr. Hassan Abbas Khawaja	1,563,823	PKR	1,563,823
		70,564	GBP@ (Rs 360 as on 29.11.2023)	25,403,040
		47,409	USD @ (Rs 284.08 as on 29.11.2023)	13,464,156
7	Mr. Saad Ali Malik	81,376	PKR	81,376
		52,291	GBP @ (Rs 284.08 as on 29.11.2023)	18,824,760

		65,334	USD(Rs 284.08 as on 29.11.2023)	18,554,856
8	Mr. Bilal Aslam Ranjha	980,845	PKR	980,845
		153,263	USD @ (Rs 284.08 as on 29.11.2023)	43,526,692
9	Mr. Husnain Riz (2016)	3,863,341	PKR	3,863,341
				178,924,328

Audit observed that the employees concerned did not return to Pakistan to resume duties in the University, hence they were liable to deposit the amount of surety bond as per laid down conditions. The management failed to take appropriate action against defaulter employees which resulted into non-recovery of Rs 178.924 million.

Audit is of the view the aforementioned employees neither resumed duty nor deposited the amount against them due to which management sustained a loss of Rs 178.924 million.

The matter was reported to the management but no reply was received till finalization of report.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends recovery of the amount from the employees or the surety as per conditions of surety bonds and also initiate disciplinary proceedings against the defaulter employees as per rules.

Para-08 (IST-2014-23)

4.2.4.2 Irregular purchase of vehicles during ban period - Rs 37.680 million

According to Finance Division (Expenditure Wing) OM No.7(1) Exp-IV/2016-540 dated 26.07.2017 and O.M No.7(1) Exp-IV/2016-430 dated 06.08.2020, there shall be complete ban on purchase of all types of vehicles both for current and development expenditure excluding motor cycles.

During audit of IST Islamabad for FY 2014-23, it was observed that the management procured fifteen (15) vehicles amounting to Rs 37.680 million. Detail of purchased vehicles is as under:

Sr. No.	Bill	Date	Description	Amount (Rs)
1	GIL/963	21.04.2020	30-Seater No Air Condition (02)	14,000,000
2	PS15/AOR/PRB/IST	30.06.2015	Suzuki Bolan VX Euro-II (01) Suzuki Ravi Pickup Euro-II (01)	6,502,000

			Suzuki Cultus Euro-II (05)	
3	TGTM/IST-421-A/2020	20.05.2020	Toyota Corolla Altis at 1.6 (01)	3,338,000
4	24977	05.04.2017	HINO SkylinerDlx Coach with 63+1 Seats (01)	5,900,000
5	PRB/IST-01/RM/20/06-09	28.05.2020	Suzuki Cultus AGS (04)	7,940,000
		Total		37,680,000

Audit observed that the vehicles were procured during the period of ban imposed by the Finance Division. Audit is of the view that the purchase of vehicles during ban period was irregular and unauthorized.

The matter was reported to the management but no reply was received till finalization of report.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends that responsibility may be fixed for the irregularity besides regularization from the Finance Division / competent authority.

Para-09 (IST-2014-23)

4.2.4.3 Wasteful expenditure on hiring of consultants and vendors - Rs 34.055 million and non-utilization of HEC grant for the procurement of SAP system - Rs 22.500 million

According to clause 13 of bidding documents, the supplier will provide performance bank guarantee equivalent to 10% of total order value within 14 days of signing of contract from scheduled bank of Pakistan. The performance bond shall be valid till the Guarantee / warranty period of particular supply. According to chapter 2 of Statutes & Regulations of Institute of Space Technology under clause 2 of accounting system and records, the institute will preferably use a computerized accounting system either from market or developed as per their needs.

During audit of IST Islamabad for FY 2014-23, it was observed that the management hired consultants / advisors and made payments of Rs 10.392 million on account of SAP implementation. The management also made payment of Rs 23.664 million to three vendors on account of cloud services and hard ware, SAP licenses and annual maintenance support and ERP implementation cost agreement. However, the management did not obtain performance guarantee from a vendor (M/s Excellence Delivered).

The management received grants of Rs 22.500 million from HEC for SAP implementation which were deposited into bank. Record revealed that SAP project was closed by competent authority but the amount of Rs 22.793 million was still lying in bank account as on 02.08.2021.

The audit observed significant problems with the implementation of the SAP Infrastructure Hardware System and the use of funds. The system remained unimplemented even after 11 years. Complete

financial records were absent, hindering the assessment of fund utilization. The expenses of Rs. 8.993 million were incurred after the closure of project.

Audit is of the view that the payment to the consultants and vendors without any achievement of the project was wasteful and loss to the public exchequer. Further, money was left unutilized over the years, alongside the failure to install the SAP system.

The matter was reported to the management but no reply was received till finalization of report.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the reasons for payments to consultants and vendors without any achievement and delays in SAP system procurement despite availability of funds. Additionally, any unauthorized expenditures from the HEC grant should be rectified through proper channels and approval.

Para-3, 4 & 5 (IST-2014-23)

4.2.4.4 Irregular award of Cafeteria contracts by direct contracting - Rs 19.800 million

According to Rule 12 (1) of PPRA 2004 states that Procurements over five hundred thousand Pakistani Rupees and up to the limit of three million Pakistani Rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the Authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency:

During audit of IST Islamabad for FY2014-23, the management awarded contracts for Cafeteria Services by direct contracting to the following firms at fixed rate for the covered area of 27,400 sq. ft. The detail is as under:

Sr. No.	Firm	Contract period	Tenure Period	Rate per month (Rs)	Payment (Rs)
1	M/s Impression Event Management	13.11.2019 to 31.03.2022	28 months	600,000 (Lump sum) (28 Months *600,000)	16,800,000
2	M/s Daata Sweets	03.04.2022 to 30.06.2022	03 Months	Contract was awarded on trial basis.	0
3	M/s Abbasi & Co.	01.09.2022 to 30.06.2027	60 Months	300,000 (10 Months *300,000)	3,000,000
	Total				19,800,000

The audit revealed shortcomings in procurement and contract management, including direct contracting without competition for cafeteria services, violations of procurement regulations in payments to certain firms, and the re-awarding of a contract to a previously terminated vendor. These findings underscore deficiencies in transparency, compliance, and accountability within the organization's procurement practices, highlighting the need for corrective action to ensure fairness and efficiency in future processes.

Audit is of the view that the management awarded contract for cafeteria in violation of PPRA Rules, and undue favor was extended to the contractors which was irregular.

The matter was reported to the management but no reply was received till finalization of report.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to explain the reasons for award of contract on lump sum rates. Responsibility may be fixed on the person/s at fault for irregular award of contract.

Para-16 (IST-2014-23)

4.2.4.5 Irregular engagement of legal firm - Rs 14.571 million

According to Honorable Supreme Court vide PLD 2017 Supreme Court 121 (Para 24), where Government departments are strictly prohibited to engage Private Council and directed to utilize the service of Attorney General Office. Supreme Court also held that payment to Private Advocate would constitute financial impropriety by person who does on the behalf of Govt.

According to Law, Justice and Human Rights Division vide its letter F. No. 20 (1)87-LA dated 13.01.2010 clarified in its earlier instructions issued vide letter No. F.20(1) 87-

LA dated 22.11.2004 that no Legal Advisor, Advocate or Consultant shall be appointed or engaged by any department, in future, without prior approval of the Ministry of Law, Justice and Human Rights.

During audit of IST Islamabad for FY 2014-23, the management hired M/s International Legal Consultant (ILC) for a period of one year on 05.05.2012. The agreement was further extended for one year from 04.05.2013 to 03.05.2014. IST floated tender for appointment of legal firms on 23.04.2014 and selected M/s International Legal consultant again. The contracts were renewed till 20 November, 2023 and made payments on accounts of Legal and Professional charges Rs 14,571,187 during 2014-15 to 2022-23.

Audit observed that the engagement of M/s International Legal Consultant (ILC) was in violation of Supreme Court decision and without prior approval of Ministry of Law, Justice and Human Rights.

Audit is of the view that the hiring of the firm without fulfilling the codal requirements was irregular.

The matter was reported to the management but no reply was received till finalization of report.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends that responsibility should be fixed on the person(s) at fault besides ex-post facto approval of law division be obtained.

Para-07 (IST-2014-23)

4.2.4.6 Loss due to non-functionality of Financial Information System (FIS) - Rs 5.7 million

Rule 38B (1) (d) of Public Procurement Rules, 2004 states that the procuring agency shall consider single bid in goods, works and services if it has financial conformance in terms of rate reasonability provided that except unsolicited proposal, in case of pre-qualification proceedings single bid shall not be entertained. The procuring agency shall make a decision with due diligence and in compliance with general principles of procurement like economy, efficiency and value for money.

During audit of IST Islamabad for FY 2014-23, it was observed that the management floated tender Notice on 01.11.2020 (Single stage – Two envelope bidding process) for the procurement of Financial Information System (FIS). In response to tender only one firm participated i.e. M/s Soft Consults with financial bid of Rs 5.736 million and work order issued on 12.02.2021.

The Audit observed that contracts was awarded without rate reasonability assessment, Financial Information System was non-functional, and approval of additional modules and establishment of a Service Level Agreement (SLA) lacked thorough evaluation, indicating potential inefficiencies and financial risks. These findings underscore the necessity for enhanced transparency, efficiency, and risk management practices within the organization.

Audit is of the view that due to non-functional of the FIS system, non-installation of the modules and payment made to the vendor without any achievement with regard to the project was wasteful and loss to the university.

Audit is also of the view that had the SLA and additional modules been added in the bidding documents, management would have fetched more competitive offers for the said procurement.

The matter was reported to the management but no reply was received till finalization of report.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends that responsibility should be fixed on the person(s) for non-functional of FIS system and wasting of public money.

Para-06 (IST-2014-23)

4.2.4.7 Non-recovery of outstanding receivables from students – Rs 5.507 million

According to clause 5 of statutes and regulations of the Institute of Space Technology (IST), Islamabad every controlling officer is expected to exercise the same vigilance in respect of expenditure incurred from IST funds as a person of ordinary prudence would exercise in respect of expenditure of his own.

During audit of IST Islamabad for FY 2014-23, it was observed that an amount of Rs 5.508 million was receivable from students on account of fee and other charges as on June, 2022. The management created a provision for doubtful receivable of Rs 707,713 in their annual accounts for the year 2021-22. The annual accounts for the year 2022-23 along with aging were not provide to Audit to ascertain the actual position of receivable from students.

Audit is of the view that the management failed to recover the outstanding dues from students which reflected weak internal controls in the organization.

The matter was reported to the management but no reply was received till finalization of report.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to streamline the system of fee collection to minimize the chances of becoming bad debts besides effecting recovery.

Para-13 (IST-2014-23)

4.2.4.8 Irregular appointment of employees without verification of degrees - Rs 5.303 million

Government of Pakistan Cabinet Secretariat Establishment Division, (Management Services Wing) letter dated March 08 2011 describes that the Prime Minister has been pleased to direct that measures should be taken to authenticate degrees/ certificates of all Federal Government employees of the respective Ministries/ Divisions, their attached department's subordinate offices and autonomous bodies under their administrative control.

During audit of IST Islamabad for FY 2014-23, the management appointed 384 employees against various posts during 2014-15 to 2022-23.

Audit observed during sample based scrutiny of the personal files that degrees of the following employees had not been verified from the concerned issuing authority/ Higher Education Commission:

Sr.	Name of Employee	Designation	Date of Joining	Basic Salary	No. of Months upto Nov, 2023	Total Tentative Amount of Basic Pay (Excluding Allowances)
1	Tufail Sajjad Shah Hashmi	Lecturer (BPS-18)	01.09.2021	38,350	27	1,035,450

2	Amir Rahim	Lecturer (BPS-18)	19.02.2021	38,350	33	1,265,550
3	Muhammad Nadeem Yousaf	Lecturer (BPS-18)	27.08.2021	38,350	27	1,035,450
4	Farooq Ahmed	Additional Director (BPS-19)	31.12.2021	59,210	22	1,302,620
5	Abu Bakar Talal	Lab Engineer (BPS-17)	28.03.2022	30370	20	607,400
6	Saad Akram	Lecturer (BPS-18)	16.10.2023	56,880	1	56,880
		Total				5,303,350

Audit is of the view that non-verification / attestation of degrees of the said employees from respective Boards/ Universities/ HEC was in violation of Government instructions. Thus, payment of Rs 5.303 million on account of pay & allowances was held irregular.

The matter was reported to the management but no reply was received till finalization of report.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to ensure verification of degrees of all employees and responsibility be fixed on the person(s) at fault for violating the Government policy.

Para-22 (IST-2014-23)

4.2.4.9 Loss due to award of contract to second lowest firm - Rs 2.871 million

According to Rule 23 (1) of Public Procurement Rules 2004 states that procuring agencies shall formulate precise and unambiguous bidding documents that shall be made available to the bidders immediately after the publication of the invitation to bid.

During audit of IST Islamabad for FY 2014-23, the management published tender notice for Janitorial services on 27.07.2012. In response ten firms participated in the tendering process out of which 03 firms were technically and financially qualified on 10.08.2012. Consequently, the contract was awarded to M/s National Cleaning Services being lowest bidder and the contract was executed for the period from 15.05.2013 to 14.05.2014 and further extended till 14.05.2016.

The audit identified flaws in the procurement of janitorial services, such as the absence of security verification in bidding documents. Despite the lowest bidder's refusal to undergo security clearance, the contract was awarded to the next lowest bidder, leading to additional expenses and a significant financial loss. Payments were made for services not outlined in the bidding documents, and documentation regarding security clearance was missing. These findings underscore the importance of enhancing transparency, compliance, and efficiency in future procurement practices to mitigate such risks and losses.

Audit is of the view that management sustained loss due to improper bidding documents and award of contract to the firm without the security clearance.

The matter was reported to the management but no reply was received till finalization of report.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends that responsibility may be fixed on the person at fault.

Para-02 (IST-2014-23)

4.2.4.10 Non finalization of annual accounts / financial statements for the years 2021-23

According to Section 29 (6) of IST Act 2010, the audit of the Institute is to be carried out by a reputed chartered accountant firm and audited financial statements should be submitted to the Auditor General of Pakistan every year.

During audit of Institute of Space Technology (IST), Islamabad for the years 2014-23, the management provided approved annual audited accounts till 2020-21.

Audit observed that the management failed to finalize its annual accounts for the years 2021-22 and 2022-23 which is clear violation of IST Act.

Audit is of the view that management was required to finalize its accounts timely to get the true and fair picture of the financial statements of the university accounts.

The matter was reported to the management but no reply was received till finalization of report.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the reasons regarding non-finalization of account and fixing responsibility on the person at fault.

Para-01 (IST-2014-23)

Chapter-5

Ministry of Defence Production

Overview:

This organization was established to meet the requirements of the Armed Forces through a cautious combination of procurement (local and import) and indigenous production of arms & ammunition with a continued effort to enhance the component of indigenous production and in the process, export surplus capacity of defence products to regional and friendly countries.

The mandate is actualized through Defence Production Establishments (DPEs).

Audit Profile of Defence Production

(Rs in million)

Description	Total	Audited	Expenditure audited FY2022-23	Revenue / Receipts audited FY 2022-23
Formations	6	3	51,880.88	10,218.900
Assignment Accounts (excluding FAP)	-			
Authorities /Autonomous Bodies etc. under the PAO	6	3		
Foreign Aided Projects (FAP)	-			

Classified Summary of Audit Observations

Audit observations amounting to Rs 16,106.986 million were raised in this audit. This amount also includes recoverable of Rs 9,161.92 million as pointed out by the audit. Summary of the audit observation classified according to respective subject's nature is as under:

Overview of the Audit Observations

Sr. No.	Classification	Amount (Rs in million)
1	Non-Production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	4.132
3	Irregularities:	
A	HR/Employees related irregularities	48.601
B	Procurement related irregularities	2,163.396
C	Management of accounts with Commercial Banks	-
4	Value for money and services delivery issues	1,975.129
5	Others	11,915.728

5.1 Karachi Shipyard and Engineering Works Limited

5.1.1 Introduction

Karachi Shipyard and Engineering Works Limited (the Company) was incorporated on 18 May, 1957 as an unquoted Public Company Limited by shares under the Companies Act, 1913 (now the Companies Act, 2017), wholly-owned and controlled by the Federal Government. The Company is mainly engaged in ship-building, ship-repairing and general engineering activities. The registered office and its engineering workshops are situated at West Wharf, Dockyard Road, Karachi.

5.1.2 Comments on Audited Accounts

5.1.2.1 The working results of the Company for the financial year 2021-22 as compared with the preceding years are given below:

(Rs in million)

	2021-22	% Inc/ (Dec)	2020-21	% Inc/ (Dec)	2019-20	% Inc/ (Dec)	2018-19
Net contract revenue	8,191.93	32.62	6,176.83	31.48	4,697.86	17.41	4,001.20
Contract Costs	(6,201.00)	28.50	(4,825.82)	29.64	(3,722.57)	17.93	(3,156.54)
Gross profit/(loss)	1,990.93	47.37	1,351.01	39.55	975.29	15.46	844.67
Administrative expenses	(1,024.46)	19.12	(860.04)	19.15	(721.82)	(8.39)	(787.96)
Other Expenses	(132.96)	83.37	(72.51)	60.74	45.11	(237.85)	(32.72)
Profit from operations	833.516	99.19	418.46	100.84	208.36	768.52	23.99
Other income	1,493.99	159.32	576.12	(4.92)	605.95	1.55	596.73
Finance costs	(35.71)	1,317.06	(2.52)	17.76	(2.14)	31.85	(1.62)
Profit before taxation	2,291.80	131.01	992.07	22.15	812.18	31.19	619.10
Taxation	(1,285.49)	291.17	(328.63)	56.48	(210.02)	40.85	(149.11)
Profit/(loss) after taxation as audit	1,006.31	51.68	663.44	10.18	602.16	28.12	439.56
(Accumulated losses) closing/Un-appropriated profit	3,555.43	39.63	2,546.40	31.53	1,936.03	52.42	1,270.16
Income tax paid	(678.24)	14.79	(590.86)	69.50	(348.60)	10.78	(314.67)

Capital expenditure incurred	(3,298.25)	(16.76)	(3,962.57)	50.98	(2,624.63)	(32.93)	(3,913.01)
Govt. Grant received as per cash flow	625.34	(60.95)	1,601.34	(6.00)	1,703.48	(21.45)	2,168.75
Cash & cash equivalent at beginning of the year	7,007.41	63.08	4,296.93	7.48	3,997.89	(10.68)	4,475.91
Amount due from customers Ship Repair	976.11	114.93	454.16				
Amount due from customers General Engineering	416.49	244.26	120.98				
Contract receivables	2,250.26	713.72	276.54	(83.58)	1,684.03	108.96	805.91
Other receivables	51.70	3,846.56	1.31	-	-	-	-
Trade deposits & short-term prepayments	76.55	(19.91)	95.58	42.23	67.20	27.29	52.79
Sales tax receivable	538.07	29.97	414.01	24.45	332.68	(24.63)	441.42
Taxation-net	1,003.23	34.27	747.19	81.66	411.31	55.15	265.11
Cash generated from operations	1,798.37	(63.67)	4,950.32	289.11	1,272.21	(29.77)	1,811.42

(Source: Annual Audited Accounts 2021-22)

Financial cost increased by 1,317% to Rs 35.71 million in the year 2021-22 as compared to Rs 2.520 million in the year 2020-21, due to interest of government loan.

5.1.2.2 An amount due from customers (Ship Repair) increased by 14.93% to Rs 976.11 million in the year 2021-22 as compared to Rs 454.16 million in the year 2020-21. As it is an amount due from customers (General Engineering) increased by 244.26% to Rs 416.49 million in the year 2021-22 as compared to Rs 120.980 million in the year 2020-21.

5.1.2.3 Contract receivables 713.72% to Rs 2,250.26 million in the year 2021-22 as compared to Rs 276.54 million in the year 2020-21 due to non-recovery / non-adjustment from various contractors.

5.1.2.4 Sales Tax receivables increased by 29.97% to Rs 538.07 million in the year 2021-22 as compared to Rs 414.01 million in the year 2020-21 due non-recovery / non-adjustment from tax authorities.

5.1.2.5 Restricted accounts decreased by 59.41 % to Rs 475.38 million in the year 2021-22 as compared to Rs 1,171.12 million in the year 2020-21. This amount represents the grant received by the Company in

relation to Ship Lift and Transfer System (SLTS) and civil work from the GoP representing an allocation of Public Sector Development Program (PSDP).

5.1.2.6 Company received Cash Development Loan (CDL) of Rs 820.00 million during 2021-22 from the GoP under the PSDP fund. The terms and conditions of the loans were not finalized, which have been proposed by Ministry of Defence Production, but have not been endorsed by Ministry of Finance as yet. Under the proposed terms and conditions, the loan will be interest free and is repayable in four equal installments amounting to Rs 205.000 million per year. Contrary to above, the Company short term investment is Rs 1,421.580 million during the year 2021-22 as compared to Rs 1,050.000 million in the year 2020-21.

5.1.2.7 Advertisement and publicity expenses increased by 459.43% to Rs 33.51 million in the year 2021-22 as compared to Rs 5.99 million in the year 2020-21, due to substantial increase in relevant expenditures.

5.1.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
2010-11	6	3	3	4.1.4.1, 4.1.2.1, 4.1.3,	50%
2011-12	8	2	6	5.1.2.5, 5.1.3	25%
2012-13	5	2	3	5.1.2.2, 5.1.3	40%
"2013-14 (Paras More Than 50 M)"	1	1			100%
"2016-17 (Paras More Than 50 M)"	2		2	5.1.4.4, 5.1.4.5	0%
2017-18	7	6	1	7.1.4.4	86%
2018-19	7		7	6.1.4.1, 6.1.4.2, 6.1.4.3, 6.1.4.4, 6.1.4.5, 6.1.4.6, 6.1.4.7	

Total	36	14	22		39%
--------------	-----------	-----------	-----------	--	------------

The overall compliance of PAC directives needs improvement.

5.1.4 Audit Paras

5.1.4.1 *Non-recovery of outstanding dues from different customers – Rs 6,385.179 million*

Rule 7 of Public Sector Companies (Corporate Governance) Rules, 2017 stipulates that the Board shall establish appropriate arrangements to ensure to enable it to carry out its role effectively. (2) For the purpose of sub-rule (1), significant issues shall, inter-cilia, include the following, namely: - (L) failure to recover material amounts of loans, advances, and deposits made by the Public Sector Company, including trade debts and inter corporate finances.”

During audit of Karachi Shipyard & Engineering Works (KS&EW) for the year 2021-22, it was observed that an amount of Rs 6,385.179 million was lying outstanding against different customers.

Audit is of the view that the management failed to recover an amount of Rs 6,385.179 million from the above customers which reflects poor recovery mechanism.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. The management informed that after due verification by audit, outstanding amount was reduced to Rs.920.000 million. DAC directed to reduce the amount of para accordingly. DAC further directed the management that remaining amount may be recovered and verified by Audit on 'priority.

Audit recommends implementation of the DAC directives.

5.1.4.2 *Irregular procurement of Luffing Crane – Rs 1,595.601 million equivalent to USD \$7.980 million*

Rule 04 of PPRA, 2004 states that procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

Rule 11 of PPRA, 2004 states that all procuring agencies shall provide clear authorization and delegation of powers for different categories of procurement and shall only initiate procurements once approval of the competent authorities concerned has been accorded.

Rule 31(1) of PPRA, 2004 states that no bidder shall be allowed to alter or modify his bid after the bids have been opened. However, the procuring agency may seek and accept clarifications to the bid that do not change the substance of the bid.

During audit of Karachi Shipyard & Engineering Works (KS&EW) Karachi for the year 2021-22, it was observed that the management awarded a contract to M/s Shanghai Zhenhua Heavy Industries Company Limited, ZPMC (local representative M/s KARSAZ), valuing USD \$7,980,000 on May 30, 2022, for the procurement of two 60-ton Double Boom Level Luffing Cranes. This procurement did not align with the approved technical specifications, as per the Planning Commission's letter dated November 03, 2020, which clearly authorized the procurement of two 80-ton Luffing Cranes.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

5.1.4.3 Non-receiving of significant stores in transit – Rs 1,110.574 million

Rule 4(3) of the Public Sector Companies (Corporate Governance) Rules, 2017 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance.

During audit of Karachi Shipyard & Engineering Works (KS&EW) for the year 2021-22, it was observed that huge number of stores amounting to Rs 1,110.574 million was lying in transit up to 30.06.2022.

Audit is of the view that the items of significant value should have been transported at KS&EW in time.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. The management confirmed that verification amount of Rs 23.399 million was pending and remaining amount was verified by the audit. DAC directed to reduce the amount of para accordingly and pursue the matter on priority basis.

Audit recommends implementation of the DAC directives.

5.1.4.4 Non-completion of construction work – Rs 1,046.680 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2017 states that the Chief Executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Karachi Shipyard & Engineering Works (KS&EW) for the year 2021-22, it was observed that the management awarded a civil works contract to M/s. ZKB & ZCL in October 2018, worth Rs 1,046.680 million. The contractor began some construction activities, with a completion deadline set for 2019. However, by that time, only 25% progress had been achieved. In December 2019, M/s. ZKB-ZCL requested an extension, which was granted until April 17, 2020. Despite the extension, the contractor's progress remained very slow until March 2020. The project was part of a National Level Program, and for the past two years, no progress has been made on the remaining construction, and the remaining work has not been assigned to another contractor. This suggests that management did not prioritize completing the project.

Audit is of the view that management did not take appropriate action against the contractor to ensure the completion of the assigned work and granted an unjustified extension until March 2020 and that LD charges should have been recovered.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. The management apprised that the work would be completed up to 30th June, 2024. DAC directed the management to submit revised reply w.r.t timeline of payment schedule. DAC further directed the management to get the record verified from Audit upon completion of the work.

Audit recommends implementation of the DAC directives.

5.1.4.5 Non-recovery of refundable sales tax – Rs 538.073 million

Section 10 of Sales Tax Act, 1990 states that Refund of input Tax: if the input tax paid by a registered person on taxable purchases made during a tax period exceeds the output tax on account of zero-rated local supplies or export made during the tax period, the excess amount of input tax shall be refunded to the registered person not later than forty-five days of refund claim in a manner and subject to such condition as the Board may, by notification in the official Gazette specify”.

During audit of Karachi Shipyard & Engineering Works (KS&EW) Karachi for the year 2021-22, it was observed that management has not recovered the refundable sales tax amount of Rs 538.073 million from the tax authorities as mentioned under section 10 of the Sales Tax Act, 1990. KS&EW is allowed under the Sales Tax Act 1990 as a Zero-Rated Sales Tax entity. For the shipbuilding and repairing ships KS&EW procures supplies / material / equipment from the suppliers for which they charged sales tax to KS&EW. Whereas KS&EW does not charge sales tax to its clients due to Zero-rating taxation. Therefore, the sales tax paid by the KS&EW is refundable under section 10 of the Sales Tax Act, which has not been refunded by tax authorities. This refundable sales tax amounting to Rs 538.073 million was outstanding as on June 30, 2022.

Audit is of the view that management failed to take serious efforts to recover its refundable sales tax. The management has not filed claims for the refund of sales tax in the due time.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. The management stated that after due verification by Audit, the amount of para was reduced to Rs 292.476 million. DAC further directed the management to get the record of remaining amount verified by Audit on priority.

Audit recommends implementation of the DAC directives.

5.1.4.6 Non-utilization of government grant – Rs 401.878 million

Rule 4(3) of the Public Sector Companies (Corporate Governance) Rules, 2017 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance.

During audit of Karachi Shipyard & Engineering Works (KS&EW), for the year 2021-22, it was observed that PSDP funds were released by the government during last many years on quarterly basis, but the funds amounting to Rs 401.878 million were neither utilized nor surrendered by the management. The detail of PSDP funds along with relevant files were called for from the management, but the management provided incomplete detail of funds and its utilization.

Audit is of the view that the management did not utilize the huge amount of PSDP Funds of Rs 401.878 million during the year 2021-22 which resulted in blockage of PSDP funds due to non-utilization.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. The management clarified that for opening of LC, there was a requirement of NBP to mark lien. DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

5.1.4.7 Loss of income due to deduction of miscellaneous charges - Rs 306.991 million

Rule 7 of Public Sector Companies (Corporate Governance) Rules, 2017 stipulates that the Board shall establish appropriate arrangements to ensure to enable it to carry out its role effectively. (2) For the purpose of sub-rule (1), significant issues shall, inter-cilia, include the following, namely: - (L) failure to recover material amounts of loans, advances, and deposits made by the Public Sector Company, including trade debts and inter corporate finances.

During audit of Karachi Shipyard & Engineering Works (KS&EW), for the year 2021-22, it was observed from the contracts that the different invoices have been raised by KS&EW. The Director Munitions Production (Navy) has deducted as miscellaneous charges Rs 306.991 million from the invoices without any reasons. Hence, the management sustained a loss of Rs 306.991 million on the account of miscellaneous deduction.

Audit is of the view that the management sustained a loss on account of miscellaneous deduction amounting to Rs 306.991 million, without any apparent reason.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. DAC directed the management to pursue the matter on priority basis.

Audit recommends implementation of the DAC directives.

5.1.4.8 Non-collection of price variation claim – Rs 239.433 million

Clause 3.2 of contract agreement entails that Basic Contract Price (BCP) is calculated at current exchange of NBP i.e. 1 US\$ = PKR 151.40. The exchange rate of US\$ shall be ascertained on the day of release of each milestone payment and recorded. Any deviation from current exchange rate i.e. 1 US\$ = PKR 151.40 as recorded for foreign exchange portion of every milestone shall be compensated to either side with the last milestone payment. Any additional provision of funds in allocated Head shall be recouped by NHQ. Clause 4.2 entails that purchaser will make payments within 30 days of receiving respective invoice of the contractor. If payment is delayed more than 45 days, the excessive period beyond 45 days shall be added in grace period for delivery of the respective tug.

During audit of Karachi Shipyard & Engineering Works (KS&EW), for the year 2021-22, it was observed from the file of contract No. 1262/129/DMP (Navy) dated June 30, 2020 (SB-289) that the management executed a contract agreement with a Pakistan Navy for construction, trials and delivery of 02 x Pusher Tugs along with other deliverables at Rs 1,553.700 million (US\$ 10.260 million @ Rs 151.40) including taxes as per prevailing rates. However, management's letter to the Director Munitions Production (Navy) on February 01, 2023 reflected price variation claim payable after successful delivery of 03 x tugs for amounting to Rs 239.433 million. The variation claim of Rs 239.433 million was lying outstanding.

Audit is of the view that non-collection of price variation claim reflected weak follow up of recoveries.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. The management intimated that the price variation claim was under process. DAC directed the management to pursue the matter on priority basis.

Audit recommends implementation of the DAC directives.

5.1.4.9 *Non-encashment of performance bank guarantee – Rs 207.250 million*

Rule 4(3) of the Public Sector Companies (Corporate Governance) Rules, 2017 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Karachi Shipyard & Engineering Works (KS&EW) for the year 2021-22, it was observed that the management awarded contracts and hired various contractors and consultants for different projects. However, despite a considerable amount of time passing, more than two years, the assigned work was not completed as per the agreed timelines. The contractors and consultants failed to finish the work within the specified period. Surprisingly, the management did not take action to encash the performance bank guarantee, which amounts to Rs 207.250 million, despite this being a violation of the contract agreement. Further a payment schedule is as under:

(Rs in million)				
S. No.	Name of Contractor / Consultant	Schedule date of completion	Status of work	PBG value
1	IFS Research & Development Pvt. Ltd.	December 2019	Work in process	23.991
2	ZKB & ZCL	January 2020	Work stopped. Tasks not completed.	104.668
3	Ziauddin Ahmed & Company (Pvt) Ltd. (ZCL)	July 2020	Work stopped. Tasks not completed.	78.591
Total				207.250

Audit is of the view that the management did not promptly encash a substantial performance bank guarantee worth Rs 207.250 million from the mentioned contractors.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. The management confirmed that bank guarantee in respect of M/s ZCL was encashed. Other two projects were still ongoing and their BGs were intact. Based on the above justification, DAC directed to conduct fact-finding inquiry.

Audit recommends implementation of the DAC directives.

5.1.4.10 Loss due to non-recovery of late delivery charges – Rs 191.378 million

According to clause 8.1.1 of contract agreement 26th March 2021, 15% of the basic contract price (BCP) will be released through Letter of Credit against shipping documents of 1st material package (steel, aluminum & pipes), bill of lading, packing list and commercial invoice, 05% of this payment will be retained as retention money.

According to clause 27 of KS&EW's Store Department procedure, if an item is rejected after inspection, the supplier has three weeks to retrieve it. Failure to do so results in the DGM (Stores) notifying the supplier, with copies to Purchase and Account Department, about storage charges (at KS&EW rates) for uncollected rejected items.

During audit of Karachi Shipyard & Engineering Works (KS&EW) for the year 2021-22, it was observed that the management awarded a contract to M/s Swiftships LLC, USA, on March 26, 2021, for supply of a complete Kit of Material (KoM) for the construction of one Gun Boat at US \$ 8,231,315 equivalent to Rs 1,275.854 million (calculated at an exchange rate of US \$ 8,231,315 x Rs 155 per dollar). However, it was observed that during second shipment, the consignee (KS&EW) received a total of 181 steel plate materials (DH36) for the Gun Boat project, of which 163 plates were rejected by the inspection officer on April 7, 2022. Rejected materials were left unattended for over two months after rejection. The detail of the same is as under:

Date for Inspection	Description	Total quantity material	Rejected quantity material	Accepted quantity material	Remarks
07.04.2022	Shipment No.2 SB-293 (Gun Boat) steel plates	181 (steel plates)	163 (steel plates)	18 (steel plates)	Steel material (DH36) of gun boat has been tested however, steel plates do not meet the acceptance criteria.

Audit requested specific records and information through requisitions No. 43, 45 & 46 dated April 6th and 7th, 2023, which included the complete contract file with payment invoices, Material Inspection Reports for rejected steel materials related to the Gun Boat Project, the total amount released to Company for the first material package, and details of 5% retention money deduction. However, the management did not provide auditable records.

Audit is of the view that management did not impose the penalty of late delivery and non-recovery of LD & storage charges against defective materials which caused loss of Rs 191.378 million (15% of Rs 1,275,853,825).

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. The management intimated that the project was still ongoing and LD if any would be imposed on completion of the project. DAC directed the management to get the relevant record verified from the audit upon completion of the project.

Audit recommends implementation of the DAC directives.

5.1.4.11 *Non-recovery of advances and liquidated damages from the defaulting contractor – Rs 167.491 million*

Section 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2017 states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Karachi Shipyard & Engineering Works (KS&EW), for the year 2021-22, it was observed that an agreement was executed on June 26, 2019 between KS&EW & M/s. Ziauddin Ahmed & Company (Pvt) Limited (ZCL) for project infrastructure up gradation of KS&EW, Package-I, repair / replacement of work shop steel valuing Rs 785.910 million. The completion time of the work was twelve months i.e. July 07, 2020. However, the work was not completed and the contractor defaulted. It was further observed that the management had already granted an advance amounting to Rs 167.491 million in June, 2019, which was not recovered / adjusted.

Audit is of the view that non-recovery of liquidated damages and adjustment of amount reflected inaction and resulted into compromised intended objectives of the project.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. The management apprised that relevant documents regarding recovered amount was provided to the audit for verification. Audit confirmed that an amount of Rs 36.148 million was outstanding. DAC directed to reduce the amount of para accordingly and to get the remaining amount verified by the audit on priority basis.

Audit recommends implementation of the DAC directives.

5.1.4.12 *Irregular award of ERP work & non-completion within specified period - Rs 152.332 million*

Clause 5.1 of contract agreement dated September 07, 2018, the Basic Contract Price (BCP) is US\$ 1,689,546 for the provision of software, implementation and Service Level Agreement. Further, clause 16.1 failure to deliver software / consultancy services according to the provision of this contract within prescribed delivery period or non-fulfillment of any other condition given in the contract will constitute default / failure on the part of the contractor.

During audit of Karachi Shipyard & Engineering Works (KS&EW) for the fiscal year 2021-22, it was observed that the management hired M/s Industrial & Financial System (IFS) Research & Development Pvt. Limited directly to implement ERP (Enterprise Resource Planning) software at KS&EW. The project was initially approved on July 26, 2016, and the contract was signed after a delay of two years, on September 07, 2018, with a total cost of US\$ 1.689 million. The project was required to be completed by December 2019, but it has not been completed yet.

The management has already paid an amount of US\$ 528,922, and upon payment of the remaining balance of US\$ 1,160,624, an exchange loss of Rs 152.332 million will be incurred. The detail is hereunder:

Dollar conversion rate in February 2020	Rs 154.20
Dollar conversion rate in May 16, 2023	Rs 285.45
Difference in (285.45 – 154.20)	Rs 131.25
Exchange loss (1,160,624 x 131.25)	Rs 152,331,893

Audit is of the view that non-completion of works resulted into loss of exchange in conversion rate of Rs 152.332 million was held irregular and unjustified.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. The management confirmed that the said work would be completed up to 30th June, 2024. DAC directed the management to complete the work by 31.01.2024 and get the relevant documents verified by audit.

Audit recommends implementation of the DAC directives.

5.1.4.13 Exchange loss due to collection in previous conversion rate – Rs 125.552 million

Clause 3.1 of contract No. 1262/58 dated 20.04.2015 between KSEW and Pakistan Navy states that the payment of Foreign Exchange (FE) portion of Basic Contract Price (BCP) shall also be made in equivalent at Pak Rupees at the prevailing conversion rate on the day of release of each payment.

Clause 16.4.1 of contract No. 1262/114/DMP(Navy) dated September 06, 2018 between KSEW and Pakistan Navy stated that Milestone payment for “start of Steel Cutting” will be released to KS&EW within 30 days upon submission of these documents (i) Original invoice (in triplicates) of KS&EW for related milestone. (ii) Milestone certificate for start of steel cutting.

During audit of Karachi Shipyard & Engineering Works (KS&EW) for the year 2021-22, it was observed that the management incurred a loss of Rs 125.552 million due to a delay in collecting the Foreign Exchange portion of the Basic Contract Price, which amounted to US\$ 57.016 million and Euro 2,687,500 million. According to the contract agreement, the Basic Contract Price should have been collected in Pakistani Rupees at the prevailing exchange rate on the day of each payment release.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. The management apprised that the case was under process. Pak Navy has confirmed availability of funds. The payment would be released. Based on the above justification, DAC directed the management to verify the relevant record by audit.

Audit recommends implementation of the DAC directives.

5.1.4.14 Loss of income due to payment of liquidated damages – Rs 90.345 million

Clause 16.1 of contract No. 1262/91/B/DMP (Navy) states that the total amount of Liquidated Damages on account of such delay shall not exceed 10% of the basic contract price provided delay is not more than 12 months of delivery of Tug. In case delay exceeds 12 months, then purchaser reserves the right to either cancel the contract on risk and expenses of the contractor or may adopt further course of action with mutual consent of Contractor.

During audit of Karachi Shipyard & Engineering Works (KS&EW) for the year 2021-22, it was observed that the Director Munitions Production (Navy) awarded a shipbuilding construction project to KS&EW. However, an amount of Rs 90.345 million was deducted from various KS&EW invoices as liquidated damages (LD) charges due to delays attributed to KS&EW's management. The detail is hereunder;

Contract No.	Invoice No. & dated	LD Amount (Rs in million)
1262/136/DMP(Navy)/602	4650 dt. 25.11.2022	16.403
1262/91/B/DMP (Navy)	P2021120004 dated 30.03.22 (USD 0.175 million equivalent to Rs 35.757 million (@ Rs 204.56)	35.757
1262/91/B/DMP (Navy)	P2021120004 dated 27.04.2022	38.185
Total		90.345

Audit is of the view that the management sustained a loss of Rs 90.345 million as liquidated damages due to delay in construction of ships.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. DAC directed the management to carry out fact finding inquiry and submit the report for the perusal of PAO within one month before its sharing with audit.

Audit recommends implementation of the DAC directives.

5.1.4.15 Irregular procurement of services contract – Rs 85.756 million

Rule 4 of PPRA Rules, 2004, states that procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical. Further, Rule 20 states that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

During audit of Karachi Shipyard & Engineering Works (KS&EW) for the year 2021-22, it was observed that the management awarded a contract to M/s. Amcrop Gasco Joint Venture (AG-JV) for mechanical and electrical services, along with related civil works for the Ship Lift & Transfer System, valued at Rs 85.756 million through an agreement on August 08, 2021. However, the management did not comply the rule and award the contract without competitive process of bidding.

Audit is of the view that the management failed to employ the standard bidding process for competitive rates.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. The management confirmed that for approval has been obtained and shared with audit for verification. DAC directed for verification of record.

Audit recommends implementation of the DAC directives.

5.1.4.16 Non-imposition of liquidated damages – Rs 56.714 million

According to contract agreement between KS&EW and (M/s. IFS clause 15.1 dated September 07, 2018 (Para 5 of M/s. Continental Enterprises) (Para -6 of M/s WARTSILA) and (Appendix-A of M/s. ECR Tech) stated that any delay in service3s beyond the schedule will render the vender liable for damages @ 2% per week of the subject job not exceeding 10% of basic contract price.

During audit of Karachi Shipyard & Engineering Works (KS&EW) for the year 2021-22, it was observed that the management engaged various suppliers, contractors, and consultants for different services and projects. However, despite significant delays in completing the assigned work beyond the agreed-upon timelines, the management did not enforce the liquidated damages, amounting to Rs 56.714 million. Detail is as under:

S.#	Contractor / consultant	Contract Value	Date of completion	Actual date of completion	LD (Rs in million)
1.	IFS Research & Development	USD 1.689 million (168,955/- x 280)	December 2019	Under process till 31.05.2023	47.983
2.	Continental Enterprises	Rs 41.302	26.11.2021	03.01.22 (Delay 36 days) 41,301,770 x 2% x 5 weeks	4.130
3.	Wartsila	Rs 13.628	31.03.2019 (30 days)	29.11.2020 (13.628*8%)	1.090
4.	M/s. ECR Tech.	Rs 43.874	04.05.22	25.07.22 (Delay 80 days)	3.511
Total					56.714

Audit is of the view that non-imposition of liquidated charges reflected favoritism to the defaulting companies.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. The management apprised that the said para involved 4x contracts, (i) IFS Research and Development (h) Continental Enterprises, (iii) M/s Wartsila and (iv) M/s Esr tech and contracts at serial (i) & (ii) are duplicate which have already addressed, contract at serial (iii) & (iv) concerned force majeure was invoked due to

Covid-19 therefore, LD was waived off. DAC directed the management for verification of the relevant record by audit.

Audit recommends implementation of the DAC directives.

5.1.4.17 Irregular award of contract to non-registered sales tax contractors – Rs 48.441 million

According to Para 2(1)(3) of Sales Tax S.R.O. No.660(I)/2007 dated June 30, 2007, “All withholding agents shall make purchases of taxable goods from a person duly registered under the Sales Tax Act, 1990. Further, Rule-42 (c) (iv) of PPRA, 2004 states that repeat orders not exceeding fifteen per cent of the original procurement provided that the procuring agencies shall specify appropriate for a vested with necessary authority to declare an emergency.

During audit of Karachi Shipyard & Engineering Works, Karachi for the year 2021-22, it was observed that the management entered into various contracts for disposal / sale of scrap material with the non-registered sales tax contractors valuing to Rs 48.441 million. These contractors were awarded the contracts on different dates as tabulated below:

S#	Contract No.	Name of contractor	Amount (Rs)
1	SBST-6/DT-938/CA-1095	M/s Sami Brothers	45,581,760
2	SBST-6/DT-929/CA-1056	M/s Ahsan Aziz	1,975,000
3	SBST-6/957-967-972 & 950	Al-Mustafa Trading & M/s Muzaffar	884,786
TOTAL			48,441,546

Keeping in view of above, the management extended undue favour by awarding the contracts for disposal of scrap items to the non-registered sales tax contractors.

Audit is of the view that the awarding of contracts to non-registered sales tax contractors Rs 48.441 million is held irregular.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. DAC directed for verification of relevant record by audit.

Audit recommends implementation of the DAC directives.

5.1.4.18 Irregular procurement of spare parts and non-recovery of penalty charges for late delivery – Rs 41.301 million

Rule 04 of PPRA, 2004, states that procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

During audit of Karachi Shipyard & Engineering Works (KS&EW) for the year 2021-22, it was observed that management procured spare parts of vessel from supplier M/s Continental amounting to Rs

41.301 million on November 01, 2021 with 26-day delivery time for supply. However, procurement was made with delay of more than 65 days.

Audit is of the view that the procurement was made without competitive bidding and circumstances did not warrant for direct contracting as there was no any emergency. Resultantly, the benefit of competitive rates and fair competition was compromised.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. The management informed that emergency requirement was communicated to audit. DAC directed for verification of relevant record by audit.

Audit recommends implementation of the DAC directives.

5.1.4.19 Granting of un-secured advance to the contractor – Rs 39.803 million

According to Clause-60.11(a), the contractor shall be entitled to receive from the Employer Secured Advance against an indemnity bond acceptable to the Employer of such sum as the Engineer may consider proper in respect of non-perishable materials brought at the Site Works.

During audit of Karachi Shipyard & Engineering Works (KS&EW), for the year 2021-22, it was observed that the management awarded a contract of civil works to M/s ZKB & ZCL in October 2018 valuing Rs 1,046.680 million and contrary to above clause paid an amount of Rs 39.803 million as un-secured advance to the contractor.

It was also observed that neither the amount was recovered nor the management initiated the legal action against the contractor.

Audit is of the view that management made unjustified advance to the contractor.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. The management apprised that said work will be completed upto 30m June, 2024. DAC directed for verification of relevant record by audit. DAC further directed to streamline the procedure for further purpose.

Audit recommends implementation of the DAC directives.

5.1.4.20 Loss due to non-transferring of title of properties – Rs 31.791 million

Rule 4 (3) of the Public Sector Companies (Corporate Governance Rules) 2013 states that the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules.

During audit of Karachi Shipyard & Engineering Works (KS&EW) Karachi for the year 2021-22, it was observed that the management did not transfer the title deed in favour of the KS&EW despite lapse of significant time. Moreover, KPT directly deduct the Annual Ground Rent (AGR) of more than 30% of the total bill payment against work. KS&EW on completion of job receive the payment after deduction of

AGR without any contract agreement. The management paid Rs 31.791 million during the year to KPT on account of AGR irregularly.

Audit is of the view that non-transferring of title of land indicates that the management failed to safeguard company's interest. Hence, the payment of Rs 31.791 million and deduction the Annual Ground Rent (AGR) from the invoice bill against work without any agreement resulting loss to the company.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. DAC directed the management to pursue the matter on priority basis.

Audit recommends implementation of the DAC directives.

5.1.4.21 Irregular award of contract of hiring of mobile cranes and fork lifters – Rs 31.629 million

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

Rule 20 of PPRA Rules, 2004 states that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

During audit of Karachi Shipyard & Engineering Works (KS&EW) Karachi for the year 2021-22, it was observed that the management directly selected M/s Crescent Carriers Pakistan and M/s Crescent Syndicates for hiring of mobile cranes and fork lifters on monthly rental basis. The contract was signed on November 01, 2021 for a period of six months (extendable). The contractors submitted to following quotations:

S #	Equipment Name	Monthly Rental charges (Rs)
1	80 Ton mobile cranes	840,000
2	40 Ton mobile cranes	440,000
3	20 Ton mobile cranes	250,000
4	10 Ton fork lifter	290,000
5	05 Ton fork lifter	200,000
Total		2,020,000

It was further observed that:

1. There was a lack of a docking plan for SLTS awarding of the contract to M/s. crescent syndicate for hiring an 80-ton hydraulic mobile crane.
2. The GM (SR) mentioned that the crane requirement was initiated by SLTS, with limited knowledge within ship repair (SR) regarding its usage and the docking plan.

3. Despite KSEW's own cranes, SLTS currently lacked crane facilities.

Audit is of the view that awarding of contracts without competitive bidding and other requisites were in violation of Public Procurement Rules. Thus, payment of Rs 31.629 million was held irregular and unjustified.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. The management informed that in order to fulfill/complete the work, there was an extreme emergency duly approved by the Managing Director for hiring of mobile cranes and fork lifters. DAC directed the management to get the relevant record verified by Audit and adopt remedial measures in future.

Audit recommends implementation of the DAC directives.

5.1.4.22 Provision for doubtful trade debts – Rs 31.312 million

Section 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2017 states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Karachi Shipyard & Engineering Works (KS&EW), for the year 2021-22, it was observed that management created a provision for doubtful debts (Account No. 391) amounting to Rs 31.312 million as on 30.06.2022.

Audit is of the view that due to non-initiating timely action for recovery, provision for doubtful advances was made. This reflected slackness of management.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. The management apprised that International Financial Reporting Standard-09 (IFRS-09) for the preparation of financial statements was applied as on 30th June, 2022 and accordingly recorded a provisional. Expected credit loss (ECL) amounting to Rs 31.312 million. The management further intimated that due to prompt realization of outstanding debts, substantial amount received in subsequent period resulting in to the reduction in ECL provision to Rs 21.02 million till to date. DAC directed the management to get the whole amount verified by the audit.

Audit recommends implementation of the DAC directives.

5.1.4.23 Irregular award of consultancy work – Rs 25.983 million

Rule 04 of PPRA, 2004, states that procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

Rule 20 of PPRA, 2004 states that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

During audit of Karachi Shipyard & Engineering Works (KS&EW) for the year 2021-22, it was observed that the management directly selected a foreign consultant, M/s Inros Lackner, for consultancy services related to the rehabilitation of Dry Docks 1 & 2. The consultant provided a quotation for reviewing the design and engineering services of the Dry Dock at a cost of Rs 25.983 million. The Managing Director approved this on November 30, 2017, and the services began on June 13, 2018. The management did not follow the proper procurement procedure.

Audit is of the view that awarding contracts without inviting a competitive tender process is irregular and unjustified. This matter needs to be clarified with supporting documents.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. DAC directed the management to submit revised reply and place the case before fora and to obtain the ex-post facto approval by the relevant authority and get the same verified by the audit.

Audit recommends implementation of the DAC directives.

5.1.4.24 Award of consultancy work in excess of PC-1 – Rs 24.720 million

According to revised PC-1 dated 03.11.2020 approved and proposed consultancy work capital cost in revised PC-1 was given @ 2.5% of Rs 7,017.724 million, which is Rs 175.28 million.

During audit of Karachi Shipyard & Engineering Works (KS&EW) for the year 2021-22, it was observed that the management awarded three (03) contracts for services and supervision of works to M/s. NESPAK amounting to Rs 200.00 million without calling tenders as required under the rules. The excess amount of consultancy work of Rs 24.720 million is a violation of aforesaid rule. The agreement of this work was executed in December 2021. The contract work and price are as under:

(Rs in million)			
Description of services	Amount as per PC-1	Actual contract amount	Payment of excess amount
Consultancy @ 2.5%	175.280	200.000	24.720

Audit is of the view that the excess amount of consultancy work from the approved PC-I was held irregular and unjustified.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. The management apprised that approval granted by Ministry was provided to audit. DAC directed the management to get the record verified by audit.

Audit recommends implementation of the DAC directives.

5.1.4.25 Irregular cash withdrawal instead of cross cheques – Rs 22.752 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2017 states that the Chief Executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Karachi Shipyard & Engineering Works (KS&EW) for the year 2021-22, it was observed that the management withdrew an amount of Rs 22.752 million in cash from NBP (PN Dockyard branch Karachi Account No. 3075346718) over a span of 6 months instead of cross cheques.

Audit is of the view that payments should have been made using cross cheques and the cash was withdrawn without any justification.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. The management intimated that tax has been deposited into revenue department and relevant treasury receipts were shared with Audit for verification. DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

5.1.4.26 *Loss due to payment of escalation to the contractor for barrage project – Rs 20.370 million*

As per clause 7.1 of contract agreement dated June 2021, the total contractual cost is Rs 13,221,000/- however, the activities and value of work conducted from activity (1 to 4) is being projected for performance in nine months w.e.f. June 2021 to February 2021. Clause 7.2. Amount payable to contractor may vary i-a-w. the actual duration of performance on same rates. 7.3. 100% payment will be paid on pro-rata basis i.e. amount of work being performed according to contracted work. 7.4. The invoice(s) submitted should be verified by the employer site representative.

During audit of Karachi Shipyard & Engineering Works (KS&EW) Karachi for the year 2021-22, it was observed that an agreement was signed between KS&EW and M/s Bahria Dredging Company limited for “services of operations / handling of tug boat, caisson and bund wall works at SB site for Sukkur barrage project valuing Rs 13.221 million with the nine months’ completion time from June 2021 to February 2022. The subsidiary ledger mentioned the payment to M/s. Bahria dredging company was made a sum of Rs 33.591 million during the whole year 2021-22. Further, the management paid escalation charges Rs 20.370 million to the contractor.

Audit is of the view that the management extended undue favour to the contractor and allowed escalation to M/s Bahria dredging company limited amounting to Rs 20.370 million i.e., 40% escalation than the original contract amount of Rs 13.221 million. Hence, the payment of escalation is considered loss to the company.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. The management apprised that the relevant record was provided to audit for verification. DAC directed for verification of relevant record by audit.

Audit recommends implementation of the DAC directives.

5.1.4.27 *Loss due to unauthorized trade debts write off – Rs 16.224 million*

Rule 7 of Public Sector Companies (Corporate Governance Rules), 2017 stipulates that the Board shall establish appropriate arrangements to ensure it has access to all relevant information necessary to enable it to carry out its role effectively. Significant issues shall be placed before the Board for its information and for corporate decision-making process. Significant issues shall include failure to recover material amounts of load, advances and deposits made by the public Sector Company, including trade debts and inter-corporate finances.

During audit of Karachi Shipyard & Engineering Works (KS&EW), for the year 2021-22, it was observed that an amount of Rs16.224 million was outstanding against customers for last few years which the management had written off from the books of accounts. It was further observed that the matter was not intimated to the Board for authorization.

Audit is of the view that the amount could not be recovered due to weak internal controls and company sustained loss of Rs 16.224 million due to write off.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. The management apprised that as per recommendations of the inquiry committee, action have been taken. LD charges have also been regularized. Based on the above justification. DAC directed for verification of relevant record by audit.

Audit recommends implementation of the DAC directives.

5.1.4.28 *Award of work without competitive bidding – Rs 16.037 million*

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

Rule 20 of PPRA, 2004 states that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

During audit of Karachi Shipyard & Engineering Works (KS&EW) for the year 2021-22, it was observed that the management awarded a contract to M/s Orion Maritime Pvt. Limited on April 12, 2022 for the washing, grit blasting, sweeping, and painting work of PN FD-III without competitive bidding at Rs 14.192 million, excluding a 13% SRB Tax of Rs 1.845 million, amounting to Rs 16.037 million as stated in the minutes of approval. It was further observed that there was delay of 03 months from December 2021 to March 2022 in awarding the work, which was ultimately completed in May 2022.

Audit is of the view that award of work without competitive bidding reflected provision to the contractors.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. The management intimated that the client (Pak Navy) has

reduced the time frame from 180 to 120 days for completion of work therefore, the emergency requirement was emerged and relevant document have been provided to audit for verification. DAC directed the management to get the record re-verified by the audit.

Audit recommends implementation of the DAC directives.

5.1.4.29 Award of contract of dredging without tender – Rs 13.221 million

Rule 4 of PPRA, 2004 states that the procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical. Further, Rule 20 states that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

During audit of Karachi Shipyard & Engineering Works (KS&EW) Karachi for the year 2021-22, it was observed that the management entered into contract agreement with M/s Bahria dredging company limited (BDCL) for “services of operations / handling of tug boat, caisson and bunder wall works at SB site for Sukkur barrage project without open tendering process. The contract agreement valuing Rs 13.221 million for period of nine months w.e.f. June 2021 to February 2022. The management obtained quotation on April 19, 2021 from M/s Bahria dredging for the services of work. In response, BDCL submitted quotation without original letter head and mentioning the date. Similarly, contract was awarded to after issuing the quotation period of (more than one month) i.e., on June 2021. However, it did not justify the emergency. The management had sufficient time period to obtain the open competitive bid instead of negotiated tendering. In addition, no documentary evidence showing employer (KS&EW) about their working schedule and completion thereon.

Audit is of the view that the management extended undue favour to the contractor by awarding amounting to Rs 13.221 million was held irregular / unjustified.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. The management apprised that the emergency requirement duly approved by the MD has been provided to the audit for verification. DAC directed for verification of relevant record by audit.

Audit recommends implementation of the DAC directives.

5.1.4.30 Un-justified award of work to the contractors on negotiated tendering – Rs 13.023 million

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

Rule 20 of PPRA Rules, 2004 states that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

During audit of Karachi Shipyard & Engineering Works (KS&EW) for the year 2021-22, it was observed that contracts were awarded to following companies for various works amounting to Rs 13.023 million without competitive bidding:

S. #	Contractor's Name	Nature of works	Works awarded on	Contracts (Rs in million)
1.	M/s. ESA Engineers	For arrangement of local labor services for OEM assistance etc.	18.11.21	7.853
2.	M/s. Logic Unit	For uplift of offices, conference rooms comprising of paint etc.	20.10.21	5.170
Total				13.023

It was further observed that these works were awarded with a delay of more than 2 months and the work was also completed in more than 2 months against stipulated 18-days' deadline.

Audit is of the view that award of work without competitive bidding and non-imposition of LD against significant delay reflected favoritism to the contractors.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. The Management clarified that an immediate docking of ship was requested by the client as the seal of ASD Thruster was broken and oil was being continuously leaking OEM also recommended for urgent docking of the vessel, therefore, extreme emergency was involved in the matter. The management also intimated that due to emergent visit of Chinese team, emergency was created to complete the work and documentary proof was provided to the audit for verification. DAC directed for verification of relevant record by audit.

Audit recommends implementation of the DAC directives.

5.1.4.31 Provision for loss on incomplete jobs – Rs 5.937 million

Rule 4(3) of the Public Sector Companies (Corporate Governance) Rules, 2017 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance. His responsibilities include implementation of strategies and policies approved by the Board,

making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Karachi Shipyard & Engineering Works (KS&EW) for the year 2021-22, it was observed that there was a provision for a loss on incomplete jobs amounting to Rs 5.937 million in the general ledger (under code 392) as of June 30, 2022. The audit requested Schedules of Accounts from the management through requisition No. 01 dated March 22, 2023, but despite four reminders, no records were provided.

Audit is of the view that these jobs should have been completed within the specified timeframe as non-compliance in time may entail liquidated damage charges.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. The management intimated that an amount of Rs 3.845 million had been got verified from the audit. DAC directed to get the remaining amount of Rs 2.092 million verified from the audit.

Audit recommends implementation of the DAC directives.

5.1.4.32 Irregular promotion of MTOs to Assistant Manager(s) – Rs 5.759 million

As per KSEW Service Rules for employees 2019: 1. Officers in technical cadre grade - ii 1.2. Assistant Manager (technical) including Assistant Manager drawing testing and Assistant Programmer and programmer shall be in this grade. Minimum of 50% of posts to be filled by direct recruitment of persons with BE or MSc or relevant equivalent qualification.

1.2.1. Minimum 20% to be filled-in by promotion of selected KS&EW employees with 3 (three) years diploma or equivalent qualification (B.Sc. in Mathematics, Physics, Chemistry or equivalent) and having not less than 6 (six) years' experience after diploma or equivalent qualification. The avenues for selection shall be all major business units of KS&EW.

2. Officers in non-technical cadre 2.1. Grade-i (a) Assistant Manager minimum 50% by promotion of selected persons from the grade of Senior Supervisor (SG)-cum-P.A. rest by direct recruitment (the above-mentioned percentage will not be applicable if sufficient persons do not qualify the test).

During audit of Karachi Shipyard & Engineering Works (KS&EW) for the year 2021-22, it was observed that the selection committee promoted Management Trainee Officers (MTOs) to Assistant Managers (AMs) by granting waivers for candidates with less experience.

It was further observed that some positions were filled in different departments despite the fact that these departments had excess staff.

Audit is of the view that the promotions and appointments were made contrary to the established selection criteria. Hence, the payment of salary Rs 5.759 million was held irregular.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. DAC directed the management to obtain the approval of Board of Directors and get the same verified by the audit.

Audit recommends implementation of the DAC directives.

5.1.4.33 Irregular award of contract – Rs 5.684 million

Rule 4 of PPRA, 2004 states that procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical. Further, Rule 20 states that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

During audit of Karachi Shipyard & Engineering Works (KS&EW) Karachi for the year 2021-22, it was observed that the management invited tender for services of cranes dismantling of level luffing crane without press advertisement. The offers were invited through negotiated tendering by displaying on KS&EW notice board and the quotations were obtained through telephone. Two subcontractors submitted their quotations. The management assigned mentioned job to M/s. Crescent Transport Syndicate being the lowest bidder an amount of Rs 6.00 million. The management paid Rs 5.684 million to the contractor during the year 2021-22 against work job. Further, no documentary evidence of work completion certificate was found in the record file. However, the job was awarded to selective party without any urgency and benefit of competitive rates was not obtained. Thus, the process for services of cranes - dismantling of level luffing crane was made in non-transparent manners. The circumstances did not warrant invoking Rule 42(d), as there was not emergency or reasonable pretext. Resultantly, the benefit of competitive rates could not be properly ascertained due to negotiated tendering instead of advertisement.

Audit is of the view that the services of cranes-dismantling of luffing crane by the management through negotiated tendering and payment of Rs 5.684 million is held irregular and unjustified.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. The management apprised that work completion certificate and other relevant record has been provided to audit for verification. DAC directed for verification of relevant record by audit.

Audit recommends implementation of the DAC directives.

5.1.4.34 Award of work to a firm without any relevant experience – Rs 5.170 million

Clause 2.1 of tender documents dated November 04, 2021, objective of the tender - proposal and sealed quotations are invited for hiring of services to renovation of offices (comprising of paint / white wash / office furniture /- false ceiling / bathroom fitting / electric socket / LAN / Telecommunication equipment ACs for control environment) at KS&EW from well reputed suppliers / firms, which have the experience of subject work.

During audit of Karachi Shipyard & Engineering Works (KS&EW) for the year 2021-22, it was observed that the management entered into agreement on December 24, 2021 with M/s. Logic Unit for renovating offices, conference rooms, and related areas for Rs 5.170 million and signed the agreement on December 24, 2021. However, it was observed that this Company had no prior experience in this type of work. According to online verification, this company was categorized as a software and IT system development consultant, which didn't match the requirements stated in the tender document.

Audit is of the view that awarding the contract to an inexperienced contractor indicates non-transparent award of work without proper evaluation.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. DAC directed the management carry out fact finding inquiry and submit the report for the perusal of PAO within one month before its sharing with audit.

Audit recommends implementation of the DAC directives.

5.1.4.35 Irregular appointment of external auditors – Rs 4.484 million

According to Finance Division's O.M. No. F.3(1)-Inv.III/80-406 dated March 25, 1981, where appointments (of CA Firms) is to be made by the Federal Government, before submitting the name of the auditor(s) for approval of the Board of Directors, the institution should get the approval of Auditor General of Pakistan (AGP).

Rule 20 of PPRA, 2004 states that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

During audit of Karachi Shipyard & Engineering Works (KS&EW), for the year 2021-22, it was observed that the management appointed a Chartered Accountant firm M/s BDO Ebrahim & Company for the audit of financial statements for the year 2020-21 & 2021-22 without competitive process and concurrence of Auditor General of Pakistan. The management paid an amount of Rs 4.484 million to the Chartered Accountant firm. During audit, file for appointment of Chartered Accountant (Audit Firm) was called for from the management, but no detailed record was produced to audit, despite four reminders.

Audit is of the view that hiring of services without competitive bidding and concurrence of AGP office is held irregular.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. The management apprised that the said appointment was made with the approval of the Board of Directors in 53rd Annual General Meeting. DAC directed to compliance the instruction of Auditor General Office.

Audit recommends implementation of the DAC directives.

5.1.4.36 Irregular expenditure on advertisement – Rs 4.278 million

According to Press Information Department (PID) letter No.18 (47)/2014-Advt dated October 13, 2014 some Ministries / Divisions / Department / Corporations / Autonomous and Semi-Autonomous bodies have been releasing their advertisement to newspapers through advertising agencies, by passing PID. The

competent authority i.e. DG/PIO has taken serious notices of such gross violation of GOP rules and deviation from the approved policy.

During audit of Karachi Shipyard & Engineering Works (KS&EW), for the year 2021-22, it was observed that the management spent Rs 4.278 million on advertising through private agencies, specifically M/s. HAWK Advertising & Communication and M/s National Advertisers Pvt. Limited. However, contrary to above guidelines, the advertisements were directly released to the Companies.

Audit is of the view that since prescribed procedure was not followed, the payment of Rs 4.278 million was held irregular and unjustified.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. The management clarified that being a self-resourced SECP approved company; therefore, the guidelines for advertisement through RID are not applicable on KS & EVV. DAC directed the management to submit revised reply and get the record verified from the audit.

Audit recommends implementation of the DAC directives.

5.1.4.37 Irregular promotion of manager without requisite service experience – Rs 3.538 million

As per rule 2.5 (b) of KSEW Service Rules for employees 2019, Deputy General Managers (Grade-V), Upon promotion from Manager with minimum of 06 years of service but with the recommendation of the concerned GM or when suitable persons are not available for promotion, upon direct recruitment of those possessing professional experience and qualification.

During audit of Karachi Shipyard & Engineering Works (KS&EW) Karachi for the year 2021-22, it was observed that management promoted Mr. Shoaib Ali from Manager to Deputy General Manager (Grade-V) before attaining the minimum of service experience of six (06) years as Manager. Further, the officer was promoted without observing the seniority list/merit & having deficient experience. The promotion within the officers' class was not strictly governed on merit basis in instant case i.e., seniority and length of service.

Audit is of the view that promotion without requisite criteria reflected favoritism to the individual. It reflects weak internal controls and HR management. Hence, expenditure on account of pay and allowance of Rs 3.538 million is held irregular.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. DAC directed the management to get the matter regularized by the Board and relevant record be verified by the audit. DAC further directed that such practice may not be repeated again in future.

Audit recommends implementation of the DAC directives.

**5.1.4.38 Irregular promotion of Manager (Admn) without requisite service experience
– Rs 2.337 million**

As per rule 2.5 (a) of KS&EW Service Rules for employees 2019, Manager - selected (grade-v) by promotion from manager having 03 years of service. Further, (3.2) No Employee will have a claim to be promoted to any particular post by virtue of seniority; Promotion shall only be made in accordance with the guidelines for promotion as per Annexure A. (3.3). The term ‘merit’, wherever prescribed in the criteria for promotion, includes professional (technical) qualification, efficiency, experience, previous record of service and general behavior.

During audit of Karachi Shipyard & Engineering Works (KS&EW) Karachi for the year 2021-22, it was observed that the management promoted Lt. Cdr. (retired) Saeed Ashraf from grade-IV to grade-V before attaining the service experience of three (03) years as required for promotion to next grade. Further, the incumbent got accelerated promotion despite having deficient experience. The promotion within the officers’ class was not strictly governed on merit basis in instant case i.e. seniority and length of service.

Audit is of the view that promotion without meeting criteria reflected favoritism to the individual. It reflects weak internal controls and HR management. Hence, expenditure on account of pay and allowance Rs 2.337 million is held irregular.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 20, 2023. DAC directed the management to get the relaxation and the matter be regularized from the Board of Directors during next Board Meeting.

Audit recommends implementation of the DAC directives.

5.2 Pakistan Ordnance Factories (POFs)

5.2.1 Introduction

POFs Board, Wah Cantt was established under the provisions of POFs Board Ordinance, 1961. POFs are governed by the Board of Directors, chaired by serving Army personnel.

POF's Board consists of six members including the Chairman. Other members are Financial Advisor Ordnance Factories (FAOF), Director Industrial & Commercial Relations (DICR) and Member Production Co-ordination (MPC), Joint.

The objective of POFs is to meet the Arms and Ammunition requirements of Pakistan Armed Forces during peace and war.

POFs main source of funds is regular budget from Ministry of Defence Production under grant. In addition to this, POFs also earn a small portion of revenue from export and local sales of Arms and Ammunitions and related products. For receipts from local and export's sales, POF is operating two public accounts funds as under:

- 1 Revenue, Debt and Remittance Fund (RD&R) for Civil Sales through WIL
- 2 Special Deposit Fund (SDF), for Export Sales.

Receipts and expenditure (variance analysis) for 2022-23

(Rs in million)

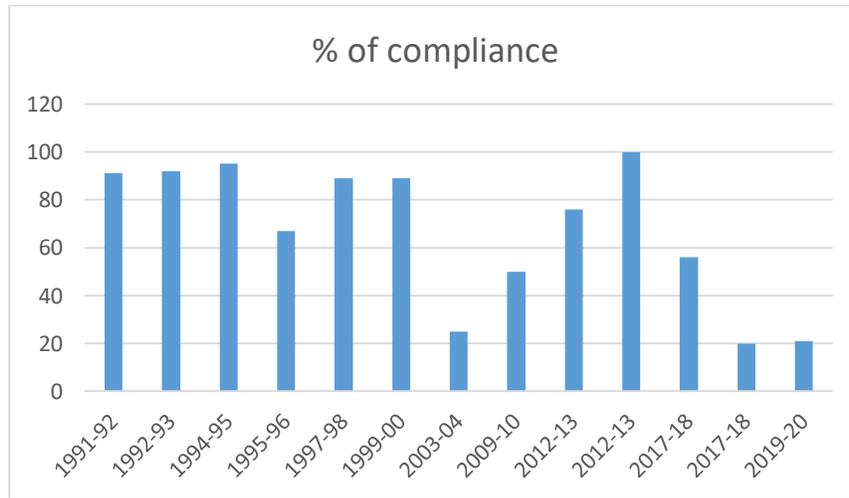
S. No	Head of Account	Budget allocation	Prog. Expenditure	Excess/less
1.	Pay and Allowances	18,051.228	18,663.976	(612.748)
2.	TPT & Misc.(Normal)	1,250.938	1,332.861	(81.923)
3.	Revenue Works			
	(Maintenance) Civil	470.462	412.330	58.132
	Utilities	5,147.725	5,316.645	(168.92)
	Total Revenue Works	5,618.187	5,728.975	(110.788)
4.	Capital Works			
	Capital Works	679.454	63.114	616.34
5.	Common user items			
	Ration	119.960	112.543	7.417
	POL	356.236	337.635	18.601
	Medical Store	593.500	173.707	419.793
	Total common user item	1,069.696	623.885	445.811
6.	Assistance Package	450.000	578.017	(128.017)
7.	Indigenous purchase	6,422.987	6,043.065	379.922
8.	Fresh Import	2,890.000	3,284.023	394.023
9.	Carry over	5,450.450	4,333.194	1117.256
10.	Custom Surcharge	366.622	549.933	(183.311)
11.	Sales Tax	477.832	716.748	(238.916)
	Total:-	42,727.39	41,917.79	809.6

5.2.2 Comments on Audited Accounts

5.2.2.1 Comments on audited accounts are included in the Commercial Appendix to Appropriation Accounts of the Defence Services for the year 2022-23.

5.2.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
1991-92	22	20	02	7, 8	91
1992-93	12	11	01	49	92
1994-95	38	36	02	14, 78	95
1995-96	12	08	04	66, 67, 68, 107	67
1997-98	18	16	02	42, 44	89
1999-00	18	16	02	15, 16	89
2003-04	04	01	03	1.3.14, 1.3.18, 1.3.19	25
2009-10	16	08	08	50 & 51, 52, 53, 54, 55, 56, 58, 1.2	50
2012-13	17	13	04	5.2.3, 5.2.4.12, 5.2.4.14, 5.2.4.15,	76
2012-13 (CADS)	8	8	0	-	100
2017-18	16	09	07	7.2.3, 7.2.4.5, 7.2.4.8, 7.2.4.10, 7.2.4.11, 7.2.4.12, 7.2.4.13	56
2017-18 (POF CADS)	15	03	12	1.4, 1.4.3, 1.4.4, 1.4.5, 1.4.6, 1.4.7, 1.4.9, 1.4.10, 1.4.11, 1.4.12, 1.4.13, 1.4.14	20
2019-20	32	07	25	4.2.1, 4.2.2.1, 4.2.3, 4.2.4.1, 4.2.4.2, 4.2.4.3, 4.2.4.4, 4.2.4.6, 4.2.4.7, 4.2.4.8, 4.2.4.9, 4.2.4.10, 4.2.4.11, 4.2.4.12, 4.2.4.13, 4.2.4.14, 4.2.1.16, 4.2.4.19, 4.2.4.21, 4.2.4.22, 4.2.4.23, 4.2.4.26, 4.2.4.27, 4.2.4.28, 4.2.4.29,	21
Total	228	156	72		68



The compliance of the PAC directives in recent years is not satisfactory which needs immediate attention of the PAO.

5.2.4 Audit Paras

5.2.4.1 Loss due to sale of electricity at self-generation cost/rates - Rs 232.675 million and non-recovery of WAPDA bills amount from consumers - Rs 1,488.434 million

Rule 10 of GFR provides that every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money. Further rule-26 of GFR provides that it is the primary responsibility of the departmental authorities to see that all revenues or debts due to governments which have to be brought to account are correctly and promptly assessed, realized and credited to the public account.

During audit of POFs Director Services for the years 2019-20 to 2021-22, it was observed that the management generated electricity through own Power House to meet the electricity requirement POFs, allied departments, private companies and residential areas of Wah Cantt. The self-generated electricity was sufficient to meet almost 95% requirement of POFs. However, to cater for the electricity need of other private industries, colonies/houses, the management purchased electricity from WAPDA. During this period, total available electricity was 404,994,570 units (Self-generated 304,189,521 units + purchased from WAPDA 100,805,094 units) out of which 377,016,238 units were consumed (i.e. POF 289,832,387 units + private area 87,183,851 units) while the rest units were declared as line losses.

Audit holds that the POF's own production was sufficient to meet its requirement. Thus, units provided to private users had to be charged on WAPDA rate. POFs charged WAPDA rate from private colonies/residents but private companies were provided electricity at self-generated rates which resulted into loss of Rs 232.675 million (Annex-34). Audit, further observed that management procured 100,805,049 units from WAPDA valuing Rs 2,866.401 million against which POFs recovered only Rs 1,377.967 million from the private colonies and commercial areas for utilization of 58,421,465 units. Thus the POFs sustained further loss of Rs 1,488.434 million.

Audit is of the view that electricity provided to private industries, be charged at WAPDA rates to avoid loss.

The matter was reported to the management on 15.08.2023, the management in its reply dated 15.12.2023 stated that the synchronizations of gas Gen sets with IESCO is a technical requirement to meet the abrupt requirements of factories and also to safe guard the gen sets during faults in the network.

The issue was discussed in DAC meeting held on January 02, 2024 wherein the Committee directed the management to get the relevant documents verified from the Audit. DAC further directed the management to streamline the procedure, work out the amount in consultation with Audit and due payment (WAPDA Rate) be obtained from the subsidiaries/consumers.

Audit recommends compliance of DAC directives.

Para-2 (Dir. Services – 2019-22)

5.2.4.2 Loss due to non-reporting / billing of excess units consumed - Rs 693.249 million

Rule-26 of GFR provides that it is the primary responsibility of the departmental authorities to see that all revenues or debts due to governments which have to be brought to account are correctly and promptly assessed, realized and credited to the public account.

During audit of POFs Director Services for the years 2019-20 to 2021-22, it was observed that POF Electrical Department (ED) submitted quarterly consumption report of electricity vs total available KWH/units (self-generation + Import from WAPDA) to CMA. The said reports revealed that the electrical department reported wrong figures of line losses by considering two percent (2%) of available units as allowable limit only. While, other surplus consumed units worked out after adjustment of actual consumption in different factories/departments was not considered as loss rather the same were adjusted against Estate Area. The record revealed that the actual loss on account of surplus units consumed was Rs 693.249 million against which the ED department reported loss of Rs 201.13 million. Thus, loss of Rs 492.12 million remained un-reported. The loss was due to utilization of electricity without installation of meters. Detail of actual loss sustained by the POF and reported is given as under:

Year	Reported million units consumed in Estate Area	Actual million units consumed in Estate Area	Loss (million units)	Loss on account of electricity reported to CMA (million units)	Actual Loss Million units	Average Composite Unit Rate (Self + WAPDA)	Loss Amount (Rs in million)
2019-20	53.181	47.164	6.017	2.582	8.599	22.180	190.726
2020-21	48.778	40.857	7.921	2.778	10.699	23.295	249.233
2021-22	57.757	47.383	6.374	2.945	9.319	27.18	253.290
Total	155.716	135.404	20.312	8.305	28.617	24.218	693.249

Audit is of the view that the concerned department concealed actual loss and only reported loss to the extent of allowable limit. Thus, due to consumption of extra units, the POF sustained loss of Rs 492.12 million.

The matter was reported to the management on 15.08.2023. The management in its reply dated 15.12.2023 was of the point that loss (units) was actual units consumed by official buildings/ barracks/flood lights of Golf clubs & Oval stadium/pumps/tube wells/filtration plants.

Plea of the management is merely a statement. The management was required to install meter at each location to arrive at loss amount.

The issue was also discussed in DAC meeting held on January 02, 2024 wherein the Committee directed the management to install meter at all locations, streamline the accounting procedures and get the relevant record verified from Audit.

Audit recommends to implement the recommendations of the DAC. Besides, investigate the reasons of non-reporting of actual losses, their reflection in Annual Accounts and write off from competent authority at Ministry level besides fixing responsibility and corrective measures be taken.

Para-4 (Dir. Services – 2019-22)

5.2.4.3 Non-recovery against export sales – Rs 84.44 million

According to Rule-26 of GFR “it is the primary responsibility of the departmental authorities to see that all revenues or debts due to governments which have to be brought to account are correctly and promptly assessed, realized and credited to the public account”.

During audit of POF Export Division for the years 2020-21 & 2021-22, it was observed that balance of Rs 84.442 million was lying outstanding on account of export sale proceeds against different parties since long.

Audit is of the view that the management failed to safeguard the entity’s interest to recover the long outstanding amount due against different export orders since long. Thus, non-recovery of Rs 84.44 million led to loss to the POF on this account.

The matter was reported to the management on August 26, 2023; the management in its reply dated 15.12.2023 agreed with Audit and stated that efforts were being made for the recovery of outstanding amount.

The issue was discussed in DAC meeting held on January 02, 2024 wherein the Committee directed the management to pursue the recovery.

Audit recommends compliance of DAC directives.

Para- 4 (Export Div. – 2020-22)

5.2.4.4 Loss due to less charging of rent by Wah Engineering College - Rs 55.651 million and non-deposit of government share into treasury - Rs 11.375 million

According to Policy guidelines on use of A-I land issued vide Ministry of Defense Production Division letter No. F-2/5/D-12/ML&C/99 dated 2nd April, 2008; the rent shall be charged in the light of 1980 Policy Guidelines i.e. @ 6% per annum of the existing revenue rate of the said land, notwithstanding the tenancy/rent agreements of the military authorities with users. 25% of the calculated rent will be deposited into Government treasury and 75% balance will be utilized by the respective Formation/establishment as per policy to be laid down by the respective Services Chief.

During audit of POF Institute of Technology (POFIT) for the years 2016-17 to 2021-22, it was observed that the management entered into an agreement with POF Welfare Trust dated 01.09.2004 for construction, establishment, running and maintaining an Engineering College with in the premises of

POFIT Wah Cantt. Accordingly, management rented out their buildings having covered area of 54,591 Sft. for a period of 33 years at the rate of Rs 6.50 per Sft. with 6% annual increase. The management also leased out its new building for Civil Lab measuring 11,523 Sft. at annual rent Rs 12.33 per Sft. with 6% increase annually w.e.f July, 2021.

However, it was observed that the management did not calculate the rent according to the policy guidelines on use of A-I land issued by the Ministry of Defence Production vide letter referred above which states that the rent shall be charged @ 6% per annum of the existing revenue rate of the said land. Audit observed that the rates being charged from the client was/is very low as compared to DC rates which caused loss of Rs 55.651 million to the formation.

Further, during the period from 2016-17 to 2021-22 rental charges of Rs 45.499 million were received by the POFIT but the management failed to deposit the government share @ 25% amounting to Rs 11.375 million of the rental charges into government treasury.

The matter was reported to the management on September 26, 2023; the management in its reply dated 15.12.2023 stated that Wah Engineering College (WEC) was working under the umbrella of POF Welfare Trust i.e. a Non-Profitable.

The issue was discussed in DAC meeting held on January 02, 2024 wherein the Committee directed the management to follow the A-1 land policy in letter & spirit and get the documents verified from Audit.

Audit recommends compliance of DAC directives.

Para-2 & 3 (POFIT – 2016-22)

5.2.4.5 Loss due to non-recovery of risk purchase cost from the defaulting firm – Rs 22.002 million

As per Clause - 4.3 of Purchase Manual of POFs and Clause 6.4 of Tender Enquiry, in case of failure of supplier to supply the store within original or extended delivery period, the un-supplied store will be purchased from elsewhere at the risk and cost of the supplier.

During audit of POFs SCM for the years 2018-19 to 2021-22 it was observed that the management awarded contract for procurement of four items of Ferrous Material to a firm with delivery period up to 31.12.2018 or earlier. The firm could not supply the said store even after final notice. The management took the action of risk and cost against the said defaulter firm and procured the requisite store from another firm at a higher price. After forfeiture of CDR, Rs 22.002 million were still recoverable from first contractor.

Audit is of the view that due to non-recovery of risk & cost amount from the defaulting firm, the formation was likely to sustain loss on this account.

The matter was reported to the management on 11.09.2023; the management in its reply dated 15.12.2023 was agreed with the facts highlighted by Audit and stated that case had been referred to the Legal Department and was under process.

The issue was discussed in DAC meeting held on January 02, 2024 wherein the Committee directed the management to pursue the case vigorously in the Court of Law.

Audit recommends compliance of DAC directives.

Para-8 (SCM – 2017-22)

5.2.4.6 Loss due to procurement of store at higher rates – Rs 18.049 million

As per Rules – 4 of the Public Procurement Rules, 2004 procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical. Rule 8 of PPRA, 2004 states that all procuring agencies shall devise a mechanism for planning in detail for all proposed procurement to determining the requirement of the procuring agency.

During audit of POF SCM for the years 2017-18 to 2021-22, it was observed that the management did not devised a plan / mechanism for all proposed procurement by determining its annual requirement. Due to non-planning/ determining annual requirement, POF purchased store at higher rates by floating subsequent contracts and sustained a loss of Rs 18.049 million.

Audit is of the view that the management was required to assess its annual requirement at year start and accordingly purchase the store by adopting proper purchase procedure through open tendering but in this specific case, the purchases were made in piece meal which caused loss to the formation. Further store was of routine nature for which sufficient funds were available but the management did not devise/plan a mechanism for all proposed procurement by determining its annual requirement under rule 4 & 8 of PPRA, due to purchase of store in piecemeal at higher rate, the POF sustained a loss of Rs 18.049 million.

The matter was reported to the management on 11.09.2023; the management in its reply dated 15.12.2023 stated that due to fluctuations in production targets/timelines, supplementary indents against the demand of different factories have to be raised. Purchase department is bound to materialize these supplementary demands as and when received.

The issue was also discussed in DAC meeting held on January 02, 2024 wherein the Committee directed the management to conduct a Fact Finding and submit its report for the perusal of PAO through administrative wing of MoDP within one month before sharing with the audit.

Audit recommends compliance of DAC directives.

Para-4 (SCM – 2017-22)

5.2.4.7 Loss due to theft of store (copper) - Rs 4.132 million

As per rule-23 of GFR, “Every Government officer should realize fully and clearly that he would be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence”.

During the Audit of a POFs Factory for the year 2019-20 to 2023, it was observed that a case of theft of copper occurred in March, 2022. As per record a Govt. vehicle driven by an employee was searched

at main gate of the factory and found that the vehicle was carrying three bundles of copper (68 kg). The theft attempt was made by the driver with the help of another employee. Both officials were suspended on 09.03.2022. The copper was procured from abroad during 1982-1987. The store was not entered in ledger/bin card even not taken on charge by the factory management.

A fact-finding inquiry was conducted which proved that the copper was placed in 96 x Packed wooden boxes out of which 56 x were found empty and probable net weight of missing material was 2,262.13 kg the value of which comes to Rs 4.132 million (approx.).

The Fact finding Inquiry Committee recommended a court of inquiry. The Court of inquiry committee mentioned that 35 x wooden boxes with 43.5 kg each, were found missing from the building and calculated that they had stolen 1,522.5 kg copper amounting to Rs 2.709 million. The findings of the Inquiry Committee were contrary to the findings of Fact Finding Committee who pointed out 56 missing wooden boxes with 2262.13 kg. On 09, March, 2023 Chairman, POF Board directed that criminal proceedings and disciplinary action be initiated against besides recovery of Rs 2.709 million from both the culprits.

Audit is of the view that the theft of the precious store was a serious incident and raised concerns about the security of the organization's assets and effectiveness of internal controls.

The irregularity was reported to the management on November 22, 2023. The management in its reply dated December 15, 2023 stated that recovery was under process and would be affected in due course of time.

The issue was discussed in DAC meeting held on January 02, 2024 wherein the Committee directed the management to complete the process immediately and get the relevant documents verified from the Audit.

Audit recommends compliance of DAC directives.

Para-3 (Sanjwal Fy-2019-23)

5.2.4.8 Loss due to in-efficient procurement of store – Rs 3.159 million

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

During audit of POF SCM for the years 2017-18 to 2021-22, it was observed that the management called tender for purchase of 8511 kg. steel tool vide dated 29.3.2019. As a result of open tendering M/s People Steel stood lowest with Rs 500 per Kg. accordingly, contract dated 7.11.2019 was awarded to the firm at his quoted rate.

In the meantime, the user department raised another Tender Enquiry dated 1.7.2019 for procurement of 15,000 Kg same Steel Tool. This time again M/s People Steel submitted its bid offering Rs 680 per Kg. The contract dated 7.11.2019 was awarded to the firm at his quoted rate.

Audit is of the view that rate of Rs 500 per Kg offered by the firm against TE dated 29.3.2019 was lowest as compare to rate of Rs 680 per Kg offered against TE dated 1.7.2019. The management was

required to include the quantity of later indent in 1st tender but two separate contracts were issued on same date due to which POF sustained loss of Rs 3.159 million (15,000 Kg x Rs 680 per Kg – Rs 500 = Rs 2,700,000 + GST Rs 459,000).

The matter was reported to the management on 11.09.2023; the management in its reply dated 15.12.2023 stated that procurements were made against two separate indents.

The issue was discussed in DAC meeting held on January 02, 2024 wherein the Committee directed the management to get the relevant record verified from Audit authorities within 3 x days but no record was provided for verification till finalization of report.

Audit recommends compliance of DAC directives.

Para-3 (SCM – 2017-22)

5.3 Pakistan Ordnance Clothing Factory

5.3.1 Introduction

Pakistan Ordnance Clothing Factory was established under the POFs Board Ordinance 1961 to meet the clothing requirements of Pakistan Armed Forces.

Receipts and expenditure (variance analysis) for the year 2022-23

(Rs in million)

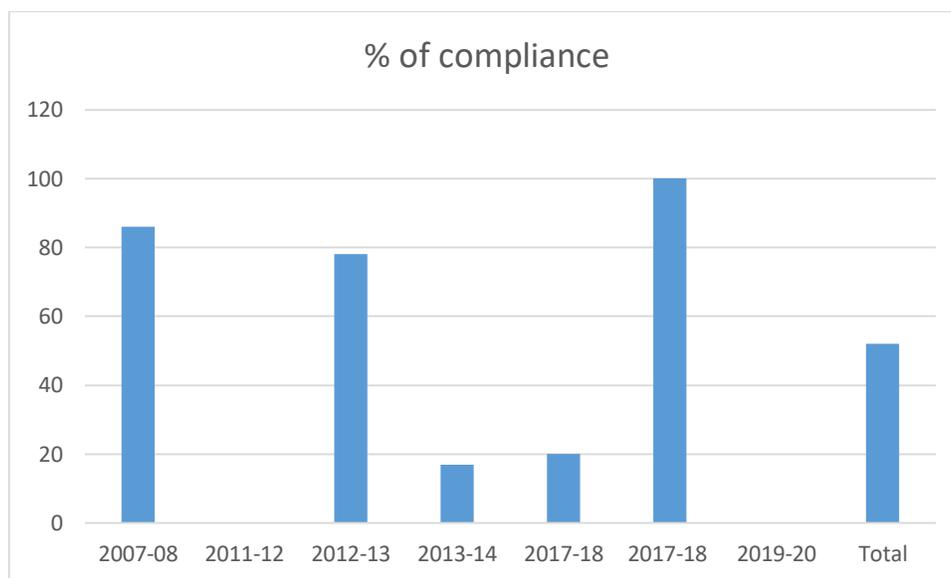
Sr. #	Head of Account	Budget Allocation	Expenditure	Excess/Less
1	Pay & Allowances	140.00	152.128	(12.28)
2	TPT & Misc. (Normal)	5.30	5.03	0.27
Revenue Works				
3	Civil Works	3.14	3.14	0
Common use items				
4	Indigenous Purchases	70.03	70.03	0
5	Salaries of casual manpower	194.00	18.21	175.79
6	Overtime	4.00	0.03	3.97
7	Store	115.73	85.72	30.01
8	Assistance package	6.08	6.08	0
	Total	538.28	340.52	197.76

5.3.2 Comments on Audited Accounts

5.3.2.1 Comments on audited accounts are included in the Commercial Appendix to Appropriation Accounts of the Defence Services for the year 2022-23.

5.3.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Outstanding Paras	% of compliance
2007-08	07	06	01	2.2.6	86
2011-12	02	0	02	5.3.2.1, 5.3.3	0
2012-13 (POCF CADS)	09	07	02	2.2.2, 2.2.5	78
2013-14	06	01	05	5.3.1, 5.3.2 & 5.3.2.1, 5.3.3,5.3.4.1,5.3.4.2	17
2017-18	05	01	04	7.3.1, 7.3.2, 7.3.3, 7.3.4.2	20
2017-18 (CADS)	08	08	00	-	100
2019-20	07	0	07	4.3.1, 4.3.2.1, 4.3.3, 4.3.4.1, 4.3.4.2, 4.3.4.3, 4.3.4.4,	0
Total	44	23	21		52



The overall compliance of PAC directives was not satisfactory and needs improvement.

5.3.4 Audit Paras

5.3.4.1 Un-justified execution of supply contract - Rs 283.296 million

According to Clause-III(1) of Memorandum of Association of M/s Wah Industries Ltd. (WIL) Wah Cantt, the objects for which the Company was established are "to enter into an agreement with Pakistan Ordnance Factories, Wah Cantonment, Pakistan, to secure appointments of the Company as sole selling

agents for the period and upon the terms and conditions as may be agreed upon and for sale and distribution of the products, which are presently in production or are capable of production by the Pakistan Ordnance Factories in Pakistan or elsewhere”.

During audit of Pakistan Ordnance Clothing Factory (POCF) Wah Cantt for the years 2021-22 and 2022-23, it was observed that since 2019-20 POCF had not contributed in export earnings of POF and there was also decreasing trend in civil production/sales. WIL management received order for supply of 1,752 Nos. Bullet Proof Jackets (BPJs) from Police departments. Instead of placing the order on POCF, after getting approval of Chairman POF Board, 2,300 BPJs were procured from a private from Lahore at Rs 283.296 million.

Main objective to establish the Pakistan Ordnance Clothing Factory (POCF) was to meet the garment requirements of Pakistan Defence Forces, LEAs (Law Enforcement Agencies) and IFDs (Inter Factory Demands) during war and peace alongwith utilization of the surplus capacity for commercial and export orders. The POCF was established with government investment and was running in losses due to the reasons of non-getting of production orders from Govt. departments / organizations. POCF had ultimate production capacity and work environment with professional work force to cope with each and every garment related production order.

Audit is of the view that the management of POCF was required to make efforts for getting orders at least from the subsidiary companies of POF. While, being a subsidiary company of POF, WIL management should approach POCF management to fulfill the supply order of Bullet Proof Jackets, as the factory was established to manufacture garments related items for Defense Forces and LEAs. So, negligence on the part of POCF / WIL management resulted in failure of getting order from WIL worth Rs 283.296 million.

Matter was reported to the management on September 10, 2023; the management in its reply dated December 15, 2023 admitted the facts highlighted by Audit and stated that due to urgent requirement, the order could not be placed on POCF.

The issue was discussed in DAC meeting held on January 02, 2024 wherein the Committee directed the management to get the relevant record showing time frame demanded by the client along with other documents, verified from Audit.

Audit recommends compliance of DAC directives.

Para-10 (POCF – 2021-23)

5.4 Wah Brass Mills (Private) Limited

5.4.1 Introduction

Wah Brass Mills (Private) Limited the Company) is wholly owned subsidiary of Wah Industries Limited which was incorporated on January 26, 2012 as a private limited company under the Companies Ordinance, 1984. The registered office of the Company is situated at Quaid Avenue, Wah Cantt.

Corporate Information

The principal activity of the Company is to manufacture and sale of Brass products. The Company is currently under final stage of upgrading its existing plant and machinery and after achieving the same they will have an installed capacity 24,000 MT per annum and actual capacity 19,200 MT per annum. The Company has started its operations from August 01, 2016.

5.4.2 Comments on Audited Accounts

5.4.2.1 The annual audited accounts are required to be provided to Audit for review each year. Contrary to this, the management failed to provide audited annual accounts for the year 2022-23 till December 31, 2023.

Audit recommends that the annual audited accounts for the year 2022-23 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*Annex-2*).

5.4.3 Compliance of PAC Directives

There were no pending PAC directives for compliance.

5.4.4 Audit Paras

5.4.4.1 Irregular award of work at higher rates - Rs 48.389 million

According to ruling of E-in-C Branch GHQ Rawalpindi vide letter No. 2005/22A/Ruling %age/E2 dated 05.09.2014, revised ruling percentage for building works, external services and furniture has been approved by E-in-C provisionally without Schedule-B stores 49% and with Schedule-B stores 33% for Taxila station. According to ruling of E-in-C Branch GHQ Rawalpindi vide letter No. 2005/22A/Ruling %age/DP&W/E2 dated 11.09.2015, revised ruling percentage for year 2015-16 for building works, external services and furniture has been approved by E-in-C provisionally without Schedule-B stores 2% and with Schedule-B stores (1) % for Taxila station.

During audit of Wah Brass Mill for the year 2021-22, it was noted that the management awarded civil work to M/s Architectural & Civil Engineering Related Services through four different contract agreements in 2014-15 on item based rate (MES CSR) valuing Rs 248.672 million.

Audit observed that the management awarded all four contract agreements at 85% above on MES schedule of Rate 2009 and 25% above for non-schedule items. As per above mentioned ruling the management should have awarded contract agreements at 49% above the MES schedule of rates instead of 85% resultantly management sustained loss of Rs 48.389 million.

It is pertinent to mention here that the MES schedule of rates was revised on 28.08.2014 and management awarded the contract agreement mentioned at Serial No. 2, 3 & 4 at the MES schedule of rates 2009 plus 85% premium. It is worth mentioning here that the nomenclature of items of work used in the bill of quantities of all four above-mentioned contract agreements were changed, therefore, Audit was unable to trace and verify rates from the MES Composite Schedule of Rates 2009 & 2014.

Audit is of the view that the award of work in excess of the percentage in above mentioned ruling was irregular and the management sustained a loss of Rs 48.389 million by awarding contracts agreement over and above the definite ruling. It is further added that the management was required to award contract agreements mentioned at serial No. 2, 3 & 4 at PAR rates of CSR 2014 instead of 2009 with 85% premium, which showed undue favor was extended to the contractor.

The irregularity was reported to the management on August 21, 2023. The management in its reply dated December 15, 2023 stated that the civil work was done as per requirement of OEM which was duly supervised by foreign experts. BOQ/Items rates didn't fall in the ambit of MES schedule.

The issue was discussed in DAC meeting held on January 02, 2024 wherein the Committee directed the management to get the relevant record, complete in all respect, verified from Audit within 3 x days.

Audit recommends compliance of DAC directives.

Para-22 (WBM – 2021-22)

5.4.4.2 Irregular provision of gratuity in addition to provident fund scheme - Rs 32.483 million

In accordance with Finance Division (Regulation Wing) Memo No: F.15 (8) R-84 dated October 16, 1984 “it has come to notice of this division that in number of autonomous/semi-autonomous bodies and corporation etc. under the Administrative Control of the Federal Government, where pension scheme does not exist, the payment of Gratuity is allowed in addition to Contributory Provident Fund. The payment of gratuity cannot therefore be made part of the CPF Scheme, and as such should not be paid in addition to CPF contribution”.

During audit of Wah Brass Mill (Pvt.) limited for the year 2021-22, it was observed that Wah Brass Mill (Private) Limited, a subsidiary of WIL, was established under Company Act 1984

on February, 2017. The company extended gratuity scheme to its employees in addition to payment of contributory provident fund. A provision of Rs 32.483 million was made against payment of gratuity (Rs 13.617 million as on 30.6.2021 & Rs 18.866 million as on 30.06.2022). The benefit of provision of gratuity scheme in addition to the Contributory Provident Fund was clear violation of the Finance Division's instructions, referred above, thus, held irregular.

The irregularity was reported to the management on August 21, 2023. The management in its reply dated December 15, 2023 stated that the benefit was granted with the approval of Board.

The issue was also discussed in DAC meeting held on January 02, 2024 wherein the Committee settled the proposed draft para subject to verification of the Board's approval from the Audit within 3 x days, however, no record was provided to Audit for verification till finalization of this report.

Audit recommends compliance of DAC directives.

Para-3 (WBM – 2021-22)

5.4.4.3 Irregular award of contract to 2nd lowest bidder - Rs 11.440 million

According to PPRA rules 38 A “the procuring agencies may seek unconditional discount by incorporating the same in bid solicitation documents. The bidder may offer unconditional discount in percentage of their quoted price or bids, before opening of the financial proposal. The discounted bid price shall be considered as original bid for evaluation being an integral part of the bid. No offer of discount shall be considered after these bids are opened”.

During audit of WBM for the year 2021-22 it was noted that in response to the tender inquiry dated 27.09.2021 for procurement of Diesel Generator capacity 400 KVA, three (03) firms participated out of which two were technically qualified. Accordingly, financial bids of technically qualified bidders were opened on 09.11.2021 and M/s Greves Pakistan Ltd. Islamabad offered Rs 13.030 million while, M/s Synergy Corporation Karachi offered Rs 12.666 million and stood lowest. Afterwards the firms were approached to offer maximum discount, as a result the firms reduced their prices to Rs 11.440 million and Rs 11.260 million respectively.

The record revealed that the management did not consider the lowest offer and awarded the contract to 2nd lowest vide order dated 22.12.2021. Therefore, the procurement of Rs 11.440 million was termed as irregular which resulted in loss of Rs 180,000 to the Company.

Audit is of the view that rejection of 1st lowest bid and award of contract at higher rate after negotiations was against the norms of PPRA Rules as it defeated the element of economy and transparency.

The irregularity was reported to the management on August 21, 2023. The management in its reply dated December 15, 2023 stated that the supplier offered higher rate offered foreign assembled generator set (CBU) thus, the procurement was made from the bidder.

The issue was discussed in DAC meeting held on January 02, 2024 wherein the Committee directed the management to get the relevant record verified from Audit. The Committee further directed to take decision in future by clearly spelling out the requirements in relevant documents.

Audit recommends compliance of DAC directives.

Para-8 (WBM – 2021-22)

5.4.4.4 Loss due to inordinate delay in finalization of sale agreement – Rs 3.091 million

According to Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During the audit of Wah Brass Mills for 2021-22, a tender for selling 100 Metric Ton Copper ingots attracted M/s Zurich Metal UAE and M/s Al-Qammar Alabyad UAE with initial rates of USD \$10,058 and USD \$9,760 per M. Ton respectively. Despite negotiations, both firms refused to adjust their prices, prompting management to cancel and obtain rates from previous participants, ultimately awarding the contract to M/s Zurich Metal at USD \$9,890 per M. Ton.

The audit is of the view that failure to consider the highest bid in an open tender resulted in a loss of Rs 3.091 million (i.e. Last offer USD \$ 10,058 - current offer USD \$ 9,890 = USD \$ 168 x 100 M Ton conversion rate Rs 184/ USD \$), which could have been avoided with timely management decision-making.

The irregularity was reported to the management on August 21, 2023. The management in its reply dated December 15, 2023 admitted the facts highlighted by Audit and stated that LME prices of Copper and Zinc crashed.

The issue was discussed in DAC meeting held on January 02, 2024 wherein the Committee directed the management to get the relevant record verified from Audit and review the market conditions while determining the rates in future.

Audit recommends compliance of DAC directives.

Para-13 (WBM – 2021-22)

Chapter-6

Ministry of Energy (Power Division)

Overview

The Ministry of Energy, Power Division is a Government's Federal level ministry created on August 4, 2017, after the merger of the Ministry of Petroleum and Natural Resources with the Power Division of the Ministry of Water and Power (now renamed Ministry of Water Resources), respectively. The ministry has two divisions - Petroleum and Power. The Petroleum Division is headed by the Petroleum Secretary and the Power Division is headed by the Power Secretary.

Aims & Objectives

To ensure availability and security of sustainable supply of power for economic development and strategic requirements of Pakistan, and to coordinate the development of natural resources.

Governing Laws and Policies

- Power Policy 2002
- National Policy for Power Co-Generation by Sugar Industry
- Guidelines for setting up private power projects
- Guidelines for determination of tariff for independent power producers.
- NEPRA Mechanism for Determination of Tariff for Hydro Power Projects
- National Power Policy 1994
- National Power Policy 1995
- National Power Policy 1998
- RE Policy for Development of Power Generation 2006

Audit Profile of Ministry of Energy (Power Division)

(Rs in million)

S. No.	Description	Total	Audited	Expenditure audited FY 2022-23	/Receipts audited FY 2022-23
1	Formations	1	1	8,822.00	11,011.00
2	Assignment Accounts (excluding FAP)			-	-
3	Authorities /Autonomous Bodies etc. under the PAO	1	1	-	-
4	Foreign Aided Projects (FAP)	-	-	-	-

Classified Summary of Audit Observations

Audit observations amounting to Rs 8259.314 million were raised because of this audit. This amount also includes recoverable of Rs 5,774.148 million as pointed out by the audit. Summary of the audit observations classified by nature is as under:

Overview of the Audit Observations

Sr. No.	Classification	Amount (Rs in million)
1	Non-Production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities:	
A	HR/Employees related irregularities	2.040
B	Procurement related irregularities	127.796
C	Management of accounts with Commercial Banks	-
4	Value for money and services delivery issues	1,741.521
5	Others	6,387.957

6.1 National Engineering Services Pakistan (Pvt.) Ltd.

6.1.1 Introduction

The Company was incorporated in 1973 under the Companies Act 1913 (now Companies Ord. 1984). The Government of Pakistan owns it and is engaged in providing engineering consultancy services through its Divisional Offices at Lahore, Islamabad, Karachi, Peshawar and Quetta in Pakistan and Masqat, Oman, Riyadh, Qatar and Kabul abroad.

6.1.2 Comments on Audited Accounts

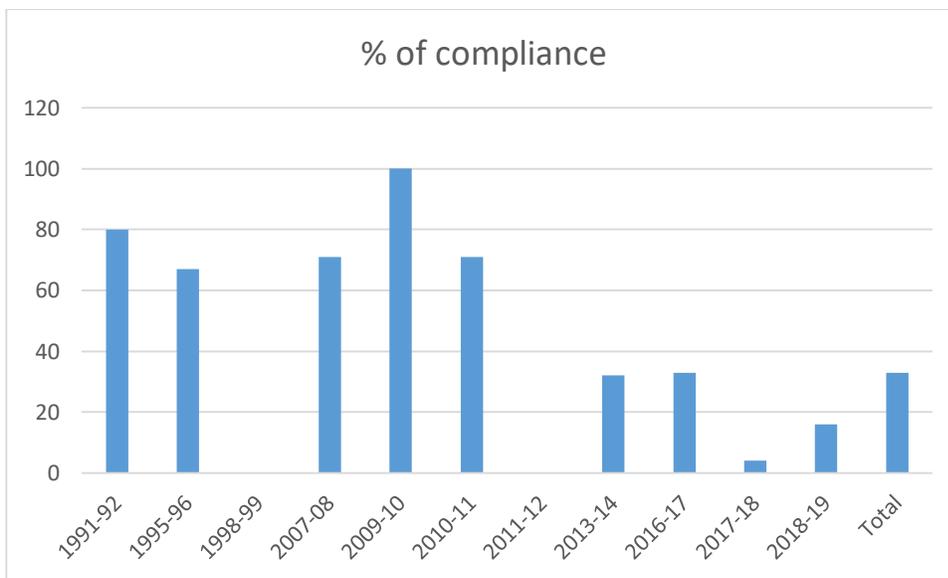
6.1.2.1 The annual audited accounts are required to be provided to Audit for review each year. Contrary to this, the management failed to provide audited annual accounts for the year 2019-20 to 2022-23 till December 31, 2023.

Audit recommends that the annual audited accounts for the years 2019-20 to 2022-23 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*Annex-2*).

6.1.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
1991-92	05	04	1	754	80
1995-96	06	04	2	252, 254	67
1998-99	01	0	01	295	-
2007-08	07	05	02	178,178.1	71
2009-10	06	06	00	-	100
2010-11	21	15	06	25.1.2.1,25.1.2.4,25.1.4.1,25.1.4.2, 25.1.4.3,25.1.4.5	71
2011-12	15	0	15	25.1.1,25.1.2.1,25.1.2.2,25.1.2.3, 25.1.2.4,25.1.2.5,25.1.2.6,25.1.2.7, 25.1.3,25.1.4.1,25.1.4.2,25.1.4.3, 25.1.4.4,25.1.4.5,25.1.4.6,	0
2013-14	22	07	15	18.1.2.2,18.1.2.3,18.1.2.4,18.1.2.5, 18.1.4.1,18.1.4.2,18.1.4.4,18.1.4.5, 18.1.4.6,18.1.4.7,18.1.4.8,18.1.4.9, 18.1.4.10,18.1.4.12,18.1.4.14	32
2016-17	21	07	14	18.1.2.1,18.1.2.2,18.1.2.3,18.1.3, 18.1.4.1,18.1.4.2,18.1.4.4,18.1.4.5, 18.1.4.6,18.1.4.7,18.1.4.8,18.1.4.9, 18.1.4.11,18.1.4.12	33

2017-18	26	01	25	8.13.2.1,8.13.2.3,8.13.2.4,8.13.2.5, 8.13.2.6,8.13.3,8.13.4.1,8.13.4.2, 8.13.4.3,8.13.4.4,8.13.4.5,8.13.4.6, 8.13.4.7,8.13.4.8,8.13.4.9, 8.13.4.10,8.13.4.11,8.13.4.12, 8.13.4.13, 8.13.4.14,8.13.4.15, 8.13.4.16,8.13.4.17,8.13.4.18, 8.13.4.19	04
2018-19	32	05	27	7.1.2.1,7.1.2.2, 7.1.3,7.1.4.1, 7.1.4.2, 7.1.4.3, 7.1.4.4, 7.1.4.5, 7.1.4.6, 7.1.4.7, 7.1.4.9, 7.1.4.12, 7.1.4.13,7.1.4.15,7.1.4.16,7.1.4.17, 7.1.4.18,7.1.4.19,7.1.4.20,7.1.4.21, 7.1.4.22,7.1.4.23,7.1.4.24,7.1.4.25, 7.1.4.26,7.1.4.27,7.1.4.28	16
Total	162	54	108		33



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

6.1.4 Audit Paras

6.1.4.1 Loss due to poor performance and non-recovery of consultancy fee from subsidiary companies - Rs 5,139.516 million

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

During audit of National Engineering Services of Pakistan (NESPAK) for the year 2022-23, it was observed that the management established three subsidiary companies in Musqat-Oman, Doha-Qatar and Riyadh-Saudi Arabia. The management was submitting bills to said companies against the work done and was bearing salary cost of NESPAK staff posted. These companies were not paying to NESPAK against the billing due to which these receivables were increasing year by year. Resultantly, the receivable from these subsidiaries had increased to Rs 4,502.971 million on June, 30, 2023. Further, audit observed that the performance of these subsidiaries was poor and all of them were generating losses which accumulated to Rs 636.545 million as on June 30, 2022.

Due to weak financial management, the performance of the subsidiaries remained poor and resulted into non-recovery of consultancy fee from these subsidiaries.

Audit is of the view that the management was required to enhance the performance of the subsidiaries and effect early recovery from these subsidiary companies.

The matter was reported to PAO and the management on October 09, 2023. The management in its reply stated that the entire matter pertaining to overseas companies including performance, receivables is currently under review by the sub-committee of BoD and Board of Directors of NESPAK.

DAC in its meeting held on January 05, 2024, recommended that the directives of Board of Directors pertaining to overseas offices should be shared with DAC and Audit.

Audit recommends compliance of DAC's directives.

Para-15 & 24 (Nespak-2022-23)

6.1.4.2 Loss due to incurring of extra expenditure on miscellaneous jobs – Rs 1,707.716 million

According to Project Control Estimates, profit @ 10% of the salary cost of the project was to be ensured.

During audit of NESPAK for the year 2022-23, it was observed that the management executed 56-jobs but did not focus to earn profit. Due to posting of unnecessary staff by management in these jobs, NESPAK sustained loss of Rs 1,707.716 million.

Due to weak HR management, the staff was posted in excess of actual requirement.

Audit is of the view that the management was required to deploy human resources keeping in view the requirements of jobs.

The matter was reported to PAO and the management on October 09, 2023. The management in its reply stated that an internal due diligence exercise is under process at organizational level to ascertain reasons for losses and avoid such instances in the future.

DAC in its meeting held on January 05, 2024 directed the management to place the matter before the appropriate forum for necessary action.

Audit recommends compliance of DAC's directives.

Para-4 (Nespak-2022-23)

6.1.4.3 Loss due to hiring of human resources without determining actual requirement - Rs 607.886 million

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

During audit of NESPAK for the year 2022-23, it was observed that the management deployed technical and non-technical human resources in excess of actual requirement of the projects which resulted into burden of 240,954 idle man hours on the company. This indicated that excessive human resources were charged to overheads which was additional financial burden and caused loss of Rs 547.665 million to the company. Further, the management posted twenty-five employees in office just from one day to maximum three months in a year. Thus, the payment of salaries to these employees valuing Rs 60.221 million was held unjustified.

Due to weak HR management, the company had to sustain loss.

Audit is of the view that the management was required to hire and post the employees on projects by determining actual requirement to avoid loss.

The matter was reported to PAO and the management on October 09, 2023. The management in its reply acknowledged idle hours in consultancy as necessary for maintaining a specialized pool of expertise and asserted that the demand of professionals having specific expertise could be generated in future on new projects. The management had been taking all necessary measures to reduce the idle hours by acquiring new projects.

DAC in its meeting held on January 05, 2024 directed the management that a policy pertaining to idle hours may be formulated and approved from the Board of Directors.

Audit recommends compliance of DAC's directives.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2018-19, and 2022-23 vide para numbers 7.1.4.23, 7.1.4.12, 7.1.4.16 and 7.1.4.38 having financial impact of Rs 395.410 million, Rs 237.813 million, Rs 53.860 and Rs 721.755 million respectively. Recurrence of same irregularity is a matter of serious concern.

Para-8 & 14 (Nespak-2022-23)

6.1.4.4 Non recovery of consultancy fee due to non-reconciliation - Rs 354.255 million

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

During audit of NESPAK for the year 2022-23, it was observed that the management provided consultancy services to M/s Rawalpindi Development Authority against the project namely Rawalpindi-Islamabad Metro Bus. The NESPAK raised invoices to client of Rs 1,138.939 million from time to time against the consultancy services out of which an amount of Rs 354.255 million was not paid by client due to non-reconciliation of billing submitted by NESPAK. The client constituted a committee for reconciliation of outstanding amount. The committee in its meeting held on January 19, 2022 reconciled that an amount of Rs 118.010 million was payable to NESPAK. Thus, management failed to recover the billing amount as well as reconciled amount from the client.

Due to weak internal controls, the management could not provide evidence for reconciliation of recovery.

Audit is of the view that the management failed to provide the relevant record to committee for reconciliation of billing amount.

The matter was reported to the management and PAO on October 09, 2023. The management in its reply stated that the delay is due to non-reconciliation with the client. However, the project management team is working diligently to resolve the issue.

DAC in its meeting held on January 05, 2024 directed the management to pursue recovery vigorously.

Audit recommends compliance of DAC's directives.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2013-14, 2015-16, 2016-17, 2017-18 and 2019-20 to 2022-23 vide Para numbers 18.1.4.14, 20.1.4.5, 20.1.4.7, 18.1.4.1, 8.13.4.7, 5.1.4.2, 6.1.4.3, 5.1.4.14 and 7.1.4.8 having financial impact of Rs. 61.290

million, Rs. 12.990 million, Rs. 574.460 million, Rs. 451.264 million, Rs. 8.238 million, Rs. 223.048 million, Rs. 550.297 million, Rs. 1,077.022 million and Rs. 260.905 million respectively. Recurrence of same irregularity is a matter of serious concern.

Para-16 (Nespak-2022-23)

6.1.4.5 Non receipt of outstanding consultancy fee from Foreign Regional Offices - Rs 149.725 million

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

During audit of NESPAK for the year 2022-23, it was observed that the Regional Offices Saudi Arabia, Afghanistan, Iran and Abu Dhabi completed various projects. All these Regional Offices except Afghanistan were closed but the outstanding amount of Rs 149.734 million was not recovered till date. An amount of Rs 118.540 million out of total recoverable amount pertained to Regional Office Afghanistan.

Due to weak internal controls, the management could not recover outstanding amount.

Audit is of the view that the management was required to take up the matter with clients for receipt of outstanding amount.

The matter was reported to the management and PAO on October 09, 2023. The management in its reply stated that the mentioned outstanding receivables pertain to overseas branch offices and are very old in nature. Thus, chances of their recovery is remote. Moreover, provision for doubtful debts has already been made in the books of accounts of NESPAK.

DAC in its meeting held on January 05, 2024 directed the management to place the matter before the appropriate forum for necessary action.

Audit recommends compliance of DAC's directives.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2016-17, 2018-19, 2020-21 and 2022-23 vide para numbers 18.1.4.2, 7.1.4.26, 6.1.4.5 and 7.1.4.3 having financial impact of Rs. 286.963 million, Rs. 53.210 million, Rs. 120.005 and Rs. 576.249 million respectively. Recurrence of same irregularity is a matter of serious concern.

Para-7 (Nespak-2022-23)

6.1.4.6 Irregular expenditure on hiring of vehicles without obtaining competitive bids - Rs 127.796 million

According to rule 12(2) of the Public Procurement Regularity Authority 2004, all procurement opportunities over three million rupees should be advertised on the authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

During audit of NESPAK for the year 2022-23, it was observed that the management incurred expenditure of Rs 127.796 million on account of hiring of the vehicles from 42 vendors. Hiring of vehicles was made without proper planning and by splitting the cost of hiring in order to keep cost of each hiring below the NESPAK prescribed financial limit of Rs 0.500 million to avoid tendering. Thus, the expenditure of Rs 127.796 million was considered irregular.

Due to weak procurement planning, PPRA Rules were not followed.

Audit is of the view that said services were hired on splitting basis without keeping in view the actual annual requirements in violation of procurement rules.

The matter was reported to the management and PAO on October 09, 2023. The management in its reply stated that hiring of vehicles on rental basis is practically very difficult to predict due to the nature of operations/materialization of projects in both urban and rural areas of Pakistan. Thus, the management pre-qualified vendors through quotations at competitive rates which are lower than open market rates. Moreover, the benchmark rates for hiring of vehicles were acquired through advertisement in 2019-20.

DAC in its meeting held on January 05, 2024 directed the management to advertise the requirement to obtain current market rates. The analysis of the same should be shared with audit and DAC in its next meeting for further direction.

Audit recommends compliance of DAC's directives.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2013-14, 2015-16, 2016-17, 2018-19, 2021-22 and 2022-23 vide Para numbers 18.1.4.9, 20.1.4.3, 18.1.4.5, 18.1.4.7, 18.1.4.9, 18.1.4.10, 7.1.4.10, 5.1.4.10, 7.1.4.4, 7.1.4.22, and 7.1.4.30 having financial impact of Rs 1.780 million, Rs 34.785 million, Rs. 369.377 million, Rs. 43.806 million, Rs. 9.736 million, Rs. 1.996 million, Rs. 13.710 million, Rs. 5.907 million, Rs. 8.132 million, Rs. 6.654 million and Rs. 30.070 million. Recurrence of same irregularity is a matter of serious concern.

Para-10 (Nespak-2022-23)

6.1.4.7 Non-recovery from clients due to inactive status of NESPAK in sales tax payer list - Rs 64.321 million

According to clause-35(1) of Punjab Sales Tax on Services Act 2012, every registered person (individual, Association of Persons, Company, Federal/Provincial/Local Government) shall furnish to the authority, not later than the due date, a true, correct and properly filled-up return in the form notified by the authority, indicating the tax due and paid during a tax period and such other information or particulars as may be notified by the Authority.

During audit of NESPAK for the year 2022-23, it was observed that the management provided consultancy services to two clients namely M/s National Power Parks Company and M/s Quaid-e-Azam Thermal Power Limited from 2015 to 2020. These clients withheld an amount of Rs 64.321 million from invoices of NESPAK on the plea that the Punjab Revenue Authority refused to adjust input sales tax against the payments already made to NESPAK. The matter was probed and found that the NESPAK was registered with Punjab Revenue Authority since 2012, but did not exist in Active Sales Tax Payer List of Punjab Revenue Authority due to non-filing of sales tax returns. Thus, due to non-submission of sales tax return, the NESPAK failed to recover the input sales tax against the payments.

Due to weak financial management, the company was deprived of input sales tax.

Audit is of the view that the management did not submit sales tax return in time resulting into deduction on account of sales tax.

The matter was reported to the management and PAO on October 09, 2023. The management in its reply stated that the Federal Board of Revenue (FBR) had condoned the same and the issuance of refund voucher is in process. As soon as it is completed, the amount withheld by the companies will be disbursed to NESPAK.

DAC in its meeting held on January 05, 2024 directed the management to pursue recovery vigorously.

Audit recommends compliance of DAC's directives.

Para-6 (Nespak-2022-23)

6.1.4.8 Loss due to non-recovery of consultancy fee from IDAP - Rs 36.936 million

According to clause 6.4 (b) of the contract, any amount due to the consultant shall be paid the client within 28 days in case of local currency and 56 days in case of foreign currency after consultant invoice has been delivered to the client.

During audit of NESPAK for the year 2022-23, it was observed that a consultancy agreement was signed between NESPAK and Infrastructure Development Authority of Punjab (IDAP) for construction supervision services of Lahore Knowledge Park with remuneration of Rs 36.936 million. The contract was signed on January 16, 2018 and the same had been completed since September, 2022. The management issued total fifteen number of invoices amounting to Rs

36.936 million but despite completion of all supervision work, the client failed to pay even a single invoice raised by NESPAK uptill September 2022.

Due to weak internal controls, the management could not ensure timely recovery.

Audit is of the view that no recovery even after completion of construction supervision services indicated poor financial management.

The matter was reported to the management and PAO on October 09, 2023. The management in its reply stated that an amount of Rs 15.664 million was pending in the book of accounts pertaining to the mentioned Job and efforts for recovery of the outstanding amount were underway.

DAC in its meeting held on January 05, 2024, directed the management to verify the record and to pursue the remaining amount vigorously.

Audit recommends compliance of DAC's directives.

Para-25 (Nespak-2022-23)

6.1.4.9 Loss due to inadequate consultancy services - Rs 33.805 million

According to Clause 3.1.1 of Consultancy Agreement, the consultants shall perform the services and carry out their obligations with all due diligence, efficiency and economy, in accordance with generally accepted professional techniques and practices, and shall observe sound management practices, and employ appropriate advanced technology and safe methods.

During audit of NESPAK for the year 2022-23, it was observed that the management provided consultancy services to client namely M/s Federal Government Employees Housing Authority (Bara Kahu Housing Scheme). The client raised deep concerns many times i.e. to study and purpose suitable solution, demobilization of machinery and sharing of confidential observations with contractor with the request to resolve the matter but the same was not expedited by the consultant. Thus, due to provision of inadequate/sub-standard consultancy services, the client withheld an amount of Rs 33.805 million.

Due to poor contract management, company failed to discharge its duties satisfactorily.

Audit is of the view that had the management provided consultancy services in professional manners, the NESPAK could avoid loss.

The matter was reported to the management and PAO on October 09, 2023. The management in its reply stated that the current project is still under process. Moreover, the delay in the project was due to the contractors' shortcomings which were pointed out to the client by NESPAK. The client is satisfied with the consultancy services provided by NESPAK and consultancy payments are also received on regular basis.

DAC in its meeting held on January 05, 2024 directed the management to pursue recovery vigorously.

Audit recommends compliance of DAC's directives.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2015-16, 2017-18, 2018-19, 2019-20 and 2021-22 vide para numbers 20.1.4.6, 8.13.4.10, 8.13.4.11, 7.1.4.19, 5.1.4.5 and 5.1.4.13 having financial impact of Rs. 10.712 million, Rs. 40.680 million, Rs. 4.504 million, Rs. 17.300 million, Rs. 26.956 million and Rs. 19.601 million respectively. Recurrence of same irregularity is a matter of serious concern.

Para-2 (Nespak-2022-23)

6.1.4.10 Loss due to non-revision of consultancy agreement - Rs 22.143 million

According to clause 6.6 of General Conditions of Contract, if, in the opinion of the Client, it is necessary to perform additional services during the currency of the contract for the purpose of the project, the Consultants, with the prior written authorization of the Client, shall carry out such additional services on the basis of the billing rates set out in the Contract. In case for any reasons these rates and prices are determined by both the Parties to be not applicable for said additional services, then suitable billing rates and the additional time, shall be agreed upon between the Client and the Consultant.

During audit of NESPAK Islamabad Office for the year 2022-23, it was observed that the management provided consultancy services to client namely PWD for projects under Access to Justice Program. The construction work was awarded to M/s Progressive Engineers & Contractor for valuing Rs 155.456 million by client. Later on, the client cancelled the construction agreement due to change in scope of work and awarded new contract with extended scope of work valuing Rs 2,185.762 million. Due to cancellation of construction agreement, the consultancy agreement was also required to be canceled and fresh consultancy agreement be signed as per scope of work along with revised rates of consultancy services. Contrary to that, the NESPAK did not revise contact with client despite enhancement in scope of work and continuously rendered the consultancy services. Thus, due to non-revision of consultancy agreement, the client refused to make payment of Rs 22.143 million against the service provided by the NESPAK.

Audit is of the view that if the management had taken up the matter with client immediately after revision of scope of work, the cost of consultancy services would have been received.

The matter was reported to the management and PAO on October 09, 2023. The management in its reply stated that the client has not refused to pay the additional design remunerations to the consultant (NESPAK), rather, the client had requested for negotiation of

revised design fee which had been increased manifold from the original one. Accordingly, it is expected that all pending payments would be received from the client after approval of revised PC-1.

DAC in its meeting held on January 05, 2024, directed management to pursue recovery vigorously.

Audit recommends compliance of DAC's directives.

Para-1 (Nespak-2022-23)

6.1.4.11 Loss due to deduction of sales tax by client in violation of agreement - Rs 10.383 million

According to clause 5.3 of general conditions of contract, after the date of this contract, there is any change in the applicable law which increases or decreases the cost of the services rendered by the consultants under this contract shall be increased or decreased accordingly.

During audit of NESPAK for the year 2022-23, it was observed that management made an agreement with Central Design Office, Azad Jammu & Kashmir having value of Rs 61.341 million for provision of consultancy services. The contract was signed on June 15, 2015. At the time of signing of agreement, the sales tax on services in AJK was not applicable. The AJK Government imposed sales tax on services w.e.f July 01, 2015. As per clause 5.3, the contract value was to be increased accordingly. However, the same was not allowed by client and made payments to NESPAK after deducting sales tax of Rs 10.383 million.

Due to non-revision of contract, the NESPAK sustained loss.

Audit is of the view that management was required to take up the matter with client immediately after imposition of sales tax by AJK Government.

The matter was reported to the management and PAO on October 09, 2023. The management in its reply stated that at the time of signing of agreement, the sales tax on service in AJK was not applicable and accordingly the value of sales tax was not included in cost of services by NESPAK. However, after a month the AJK Government imposed Sales tax on Services. The client did not amend the contract by incorporating a provision of Sales Tax in the agreement but rather made payments to NESPAK after deducted the value of sales tax. Despite the same, the project management team has been pursuing the client to resolve the issue and release NESPAK's unlawfully deducted amount.

DAC in its meeting held on January 05, 2024, directed the management to pursue recovery vigorously.

Audit recommends compliance of DAC's directives.

Para-11 (Nespak-2022-23)

6.1.4.12 Loss due to deduction of income tax at higher rates by the client- Rs 2.792 million

The assistant commissioner Inland Revenue E&C Unit-6 LTU Lahore has issued clarification vide letter dated November 21, 2019 to NESPAK that withholding tax rate on engineering services U/S 153(1)(b) of the income tax ordinance 2001 is 3% w.e.f July 01, 2019 the same circulated by NESPAK to all the concerned to ensure that the withholding of income tax from payments made by the clients in accordance with revised/reduced rate from 8% to 3% with effect from July 1, 2019.

During audit of NESPAK Karachi Office for the year 2022-23, it was observed that a consultancy agreement was signed between NESPAK & Karachi Port Trust. The management issued various invoices from December 2020 to April 2023 for collection of services fee as per agreement amounting to Rs 55.837 million inclusive of all applicable taxes. As per FBR clarification circulated above, the client was required to make payment after deduction of 3% income tax rates applicable on engineering services. But contrary to that the client made payment to NESPAK after deduction of income tax at higher rate of 8% instead of 3% which resulted into loss of Rs 2.792 (Rs 55.837 million x 5%).

Due to non-following of FBR rules, the excess tax was deducted.

Audit is of the view that deduction of income tax at higher rate despite clear instruction of FBR caused financial loss.

The matter was reported to the management and PAO on October 09, 2023. The management in its reply stated that the client (Karachi Port Trust) deducted Income Tax from NESPAK's Consultancy Services invoices at the rate of 8% instead of 3%. The management requested the client multiple times to provide reasons/justifications of deduction of income tax at higher rates which was violation of FBR, however the client did not give any reason for the same.

DAC in its meeting held on January 05, 2024 directed the management to place the matter before the client to ensure application of current law and get the refund from client.

Audit recommends compliance of DAC's directives.

Para-13 (Nespak-2022-23)

6.1.4.13 Irregular appointment of Health & Safety Expert Cum Social Development Officer - Rs 2.040 million

According to advertisement dated July 24, 2022 for the post of Health & Safety Expert Cum Social Development Officer, MSc/M. Phil in Environmental Engineering / Environmental Sciences / Social Sciences having verifiable experience from six to ten years after graduation in the field of occupational health, safety & environment (HSE) and social safeguard studies of

infrastructural development projects and knowledge about relevant legislations and guidelines pertinent to Pakistan and international funding agencies. Proficiency in report writing and use of relevant computer software will also be required.

During audit of NESPAK for the year 2022-23, it was observed that the management hired a Health & Safety Expert Cum Social Development Officer (Grade-09) with a monthly salary of Rs 0.170 million during December, 2022. It was noted that the MSc/M. Phil in Environmental Engineering/ Environmental Sciences/Social Sciences was required for said appointment. However, the appointed officer had foreign degrees in Biology and MSc. Degree in Agricultural Extension rendering him ineligible for the position, and thus his salary payment of Rs 2.040 million (Rs 0.170 million x 12 months) was deemed irregular.

Audit is of the view that the management should have made appointments in fair and transparent manner but the same was not done.

The matter was reported to the management and PAO on October 09, 2023. The management in its reply stated that the officer was hired on the basis of his M.Sc. agriculture degree which is a branch of Social Sciences as confirmed by the Director, Institute of Agriculture Extension, Education & Rural Development, University of Agriculture Faisalabad, which is an institute of Faculty of Social Science.

DAC in its meeting held on January 05, 2024, directed the management to get clarification from HEC regarding M.Sc. Agriculture degree being a branch of Social Sciences.

Audit recommends compliance of DAC's directives.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2013-14 and 2016-17 to 2022-23, vide Para numbers 18.1.4.1, 18.1.4.7, 18.1.4.8, 18.1.4.11, 18.1.4.13, 18.1.4.11, 8.13.4.2, 8.13.4.8, 7.1.4.1, 7.1.4.2, 7.1.4.4, 7.1.4.5, 7.1.4.9, 7.1.4.11, 5.1.4.9, 6.1.4.9, 5.1.4.15, 7.1.4.6 and 7.1.4.9 having financial impact of Rs. 9.880 million, Rs. 1.280 million, Rs. 7.200 million, Rs. 1.040 million, Rs. 5.270 million, Rs. 1.473 million, Rs. 147.180 million, Rs. 69.379 million, Rs. 10.700 million, Rs. 4.270 million, Rs. 14.520 million, Rs. 5.040 million, Rs. 3.900 million, Rs. 2.210 million, Rs. 5.188 million, Rs. 151.564 million, Rs. 157.260 million, Rs. 9.448 million and Rs. 10.050 million respectively. Recurrence of same irregularity is a matter of serious concern.

Para-17 (Nespak-2022-23)

Chapter-7

Ministry of Federal Education and Professional Training

Overview

Ministry of Federal Education and Professional Training was established in July 2011 in the wake of the 18th Amendment. Some of the Departments / Organizations previously under MOLM and MOE were placed under this Ministry. Supreme Court of Pakistan in its Judgment dated November 25, 2011, directed that because of insertion of Article 25-A in the Constitution, the Federal Government cannot absolve itself from the responsibility of providing education to its citizens.

In the light of Supreme Court Judgment, a Summary was moved to Prime Minister of Pakistan who was pleased to approve the renaming of Ministry as “Ministry of Education and Training” which was duly notified by the Cabinet Division on July 24, 2012. Subsequently, the Council of Common Interest (CCI) in its meeting held on November 8, 2012, endorsed the renaming of Ministry and approved its functioning with the subjects already assigned to it.

On the reorganization of Federal Secretariat, the Ministry renamed as Ministry of Education, Trainings & Standards in Higher Education vide Cabinet Division’s notification No. 4-8/2013-Min-I dated 07th June, 2013.

On June 19, 2014, Ministry has now renamed as Ministry of Federal Education and Professional Training vide Cabinet Division’s notification No. 4-10/2011-Min-I dated 19th June, 2014.

Aims & Objectives

- National cohesion on education policies and reforms, and focusing national attention on education issues
- Lead Educational Standard setting
- Leading programs of national importance to ensure equity and cohesion
- Leading international cooperation and coordination on education matters
- Integration of Religious Educational Institutions
- Collect, analyze and disseminate information on key education indicators including student learning assessments and education financing
- Manage, supervise and implement formal education in schools and colleges under ICT through the Federal Directorate of Education
- Registration & regulation of Private Educational Institutions in ICT and enforcement of relevant rules & regulations on the private education sector
- Lead coordination of academic evaluation across Pakistan, especially for quality in large scale student exams through the Inter Board Committee of Chairmen (IBCC).

Governing Laws and Policies

- Rule of Business 1973

Audit Profile of Ministry of Federal Education and Professional Training

(Rs in million)

S. No.	Description	Total	Audited	Expenditure audited FY 2022-23	Revenue /Receipts audited FY 2022-23
1	Formations	5	01		
2	Assignment Accounts (excluding FAP)				
3	Authorities /Autonomous Bodies etc. under the PAO		01		
4	Foreign Aided Projects (FAP)				

Audit observations amounting to Rs 481.594 million were raised as a result of this audit. This amount also includes recoverable of Rs 4.325 million as pointed out by the audit. Summary of the audit observation classified by nature is as under:

Overview of the Audit Observations

S. No.	Classification	Amount (Rs in million)
1	Non-Production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities:	
A	HR/Employees related irregularities	20.698
B	Procurement related irregularities	45.222
C	Management of accounts with Commercial Banks	213.900
4	Value for money and services delivery issues	3.234
5	Others	198.54

7.1 NFC Institute of Engineering and Technological Training (Pvt.) Limited, Multan

7.1.1 Introduction

The company was incorporated on June 26, 1984 as a Private Limited Company under the name “NFC Technical Training Centre (Pvt.) Limited”. Subsequently the name of the Company was changed to “NFC Institute of Engineering and Technological Training (Pvt.) Limited” on August 30, 1994. Later on, all assets, properties, rights and interests of whatever kind, used, enjoyed possessed, owned or vested in or held in trust by and liabilities legally against the company were transferred to NFC Institute of Engineering and Technology. This transfer was done in accordance with the provisions of NFC Institute of Engineering and Technology Multan Act, 2012 passed by the National Assembly on 8th October 2009 and by the Majlis-e-Shoora (Parliament) in its joint sitting on 5th April 2012 which was published in “The Gazette of Pakistan” on 8th May 2012 and recognized as Degree Awarding Institute. The Institute is engaged in educational and training programs leading to higher degree in the field of Engineering.

7.1.2 Comments on Audited Accounts

7.1.2.1 The working results of the Institute for the year 2022-23 as compared to the previous years is given below:

(Rs in million)

Particulars	2022-23	% Inc./ (Dec)	2021-22	% Inc./ (Dec)	2020-21
Income					
Tuition & training fee and other income	602.068	2.95	584.819	(2.57)	600.217
Expenditure					
Teaching	446.036	7.44	415.136	(0.89)	418.859
Training	7.262	8.71	6.680	(15.45)	7.901
Admin & general	117.600	9.38	107.512	(4.48)	112.56
Bank charges	0.340	(3.41)	0.352	35.38	0.26
Total Expenditure:-	571.238	7.85	529.680	(1.83)	539.58
Excess of income over expenditure	30.829	(44.09)	55.139	(9.07)	60.637

(Source: Annual Audited Accounts)

7.1.2.2 The income of the Institute increased by 2.95% from 584.819 million during 2021-22 to Rs 602.068 million during 2022-23. Whereas, the profit of the institute was decreased by

44.09% from 55.139 million during 2021-22 to Rs 30.829 million during 2022-23 which indicates that the institute failed to control its expenses. The decrease in profit despite increase in income may be explained.

7.1.2.3 Tuition fee under engineering head was decreased from 269.636 million during 2021-22 to Rs 237.022 million during 2022-23 registering a decrease of 12.10%. The decrease in Engineering Income indicates that the Institute is not focusing on its core operations i.e. engineering education. The decrease of engineering income needs justification.

7.1.2.4 Capital work in process under head Building were increased from Rs 24.788 million during 2021-22 to Rs 257.675 million during 2022-23 registering an increase of 939.52%. The detail of contract awarded, execution status and completion schedule may be shared with audit.

7.1.2.5 Plant & Equipment valuing Rs 39.484 million was shown in asset schedule during 2022-23. The detail of Plant & Equipment purchased along with purchase procedure may be shared with audit.

7.1.2.6 The deferred liability under head Government Grant was stood at Rs 13.267 million as on June 30, 2023. Two years earlier i.e. as on June 30, 2021, the said grant was stood at Rs 28.898 million. The purpose of grant and reasons for non-utilization of said grant during the year when it was received may be explained.

7.1.2.7 The accrued liabilities and other liabilities were stood at Rs 11.597 million and Rs 48.502 million as on June 30, 2023 respectively. There was no explanatory note in the accounts against these liabilities. The detail of said liabilities along with current status may be explained to audit.

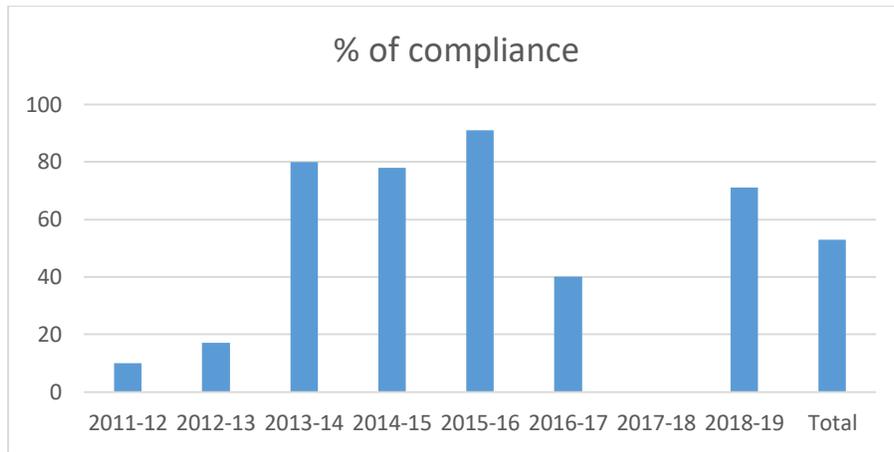
7.1.2.8 As per Balance Sheet income tax valuing Rs 23.514 million was recoverable during 2021-22 and the almost same stood at Rs 23.980 million during 2022-23 which indicates that the management was not pursuing the matter with FBR for early recovery of tax resulted blockage of funds. The matter may be pursued with FBR vigorously.

7.1.2.9 Current ratio of the company stood at 11.06: 01 times against a standard of 2:1 which means company failed to utilize its assets efficiently and blocked its funds in short term deposits. Management needs to revisit its current ratio and meet the standard of 2:1 by diversification of its portfolio to earn good return on its assets.

7.1.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No	% of compliance
2011-12	10	01	09	9.5.2.1,9.5.2.2,9.5.2.3, 9.5.2.4,9.5.2.5,9.5.2.6,	10

				9.5.2.7,9.5.2.8,9.5.3	
2012-13	06	01	05	9.4.2.1,9.4.2.2,9.4.2.3, 9.4.3,9.4.4.1	17
2013-14	05	04	01	8.23.2.3	80
2014-15	09	07	02	9.25.3,9.25.4.1	78
2015-16	11	10	01	8.24.3	91
2016-17	05	03	02	7.21.3,7.21.4.2	40
2017-18	06	0	06	10.20.1, 10.20.2.1, 10.20.2.2, 10.20.2.3, 10.20.2.4,10.20.3	0
2018-19	07	05	02	9.20.2.1,9.20.2.5	71
Total	59	31	28		53



The compliance of the PAC directives was not satisfactory which needs immediate attention of the PAO.

7.2 NFC Institute of Engineering and Fertilizer Research, Faisalabad

7.2.1 Introduction

The Company was incorporated on June 26, 1984 as a private limited company under the name “Fertilizer Research and Development Institute (Pvt.) Limited”. Subsequently, the name of the Company was changed to NFC Institute of Engineering and Fertilizer Research (Pvt.) Limited on January 15, 1998. The Company is engaged in educational programs leading to higher degree in the field of Chemical Engineering since 1998. Later on, it started disciplines of Electrical Engineering, Mechanical Engineering and Computer Sciences in 2003, 2004 and 2007 respectively. It is affiliated with the University of Engineering and Technology Lahore. The Company is also engaged in research and development activities with reference to fertilizer industry.

7.2.2 Comments on Audited Accounts:

7.2.2.1 The working results of the Institute for the year 2022-23 as compared to previous years are as under:

(Rs in million)

	2022-23	%Inc/ (Dec)	2021-22	%Inc/ (Dec)	2020-21
Income					
Tuition fee	287.672	2.13	281.678	(19.82)	351.314
Research income	2.559	(45.70)	4.713	21.00	3.895
Other income	45.122	30.65	34.537	(24.19)	45.555
Total Income	335.353	4.49	320.928	(19.92)	400.764
Expenses					
Teaching expenses	271.989	2.95	264.206	(0.06)	264.369
Research and development	12.815	(1.90)	13.063	2.56	12.737
Total Cost of Services	284.804	2.718	277.269	0.059	277.106
Administrative expenses	134.99	7.10	126.04	7.18	117.597
Total Expense	419.794	4.09	403.309	2.18	394.703
Profit before taxation/(loss)	(84.44)	2.50	(82.381)	(1,459.20)	6.061

(Source: Annual Audited Accounts)

The ‘Research Income’ of the Institute decreased by 45.70% from 4.713 million (2021-22) to 2.559 million in 2022-23. Whereas, teaching expenditure increased by 2.95% from 264.20 million (2021-

22) to Rs 271.989 million in 2022-23 and Administrative expenses increased by 7.10% from Rs 126.04 million (2021-22) to Rs 134.99 million in 2022-23 including vehicle running and maintenance cost increased by 165% from Rs 1.423 million (2021-22) to Rs 3.773 million in 2022-23, heating & lighting expense increased by 27% from Rs 29.947 million (2021-22) to Rs 38.089 million in 2022-23 and repair & maintenance increased by 147% from Rs 0.487 million (2021-22) to Rs 1.204 million in 2022-23. The disproportionate increase in expenditure as compared to income resulted increase in loss before taxation from Rs 82.381 million (2021-22) to Rs 84.44 million in 2022-23. The expenses of the Institute particularly the administrative expenses, need to be justified.

7.2.2.2 Short term investments made of Rs 180.00 million including 155.00 million in First Women Bank Ltd. and Rs 25.00million in The Bank of Punjab during 2022-23. Profit from this investment earned of Rs 24.424 million. Complete record of investment alongwith determination of working balance limit be provided to audit to ascertain the prudence of treasury management and transparency of investment process.

7.2.2.3 There is a negative cash generation of Rs 41.726 million from operating activities during 2022-23 which shows that operations of the institute are not generating enough cash and management is using investment income to meet its operational expenditure. Management is stressed upon to increase its cash flow from operations.

7.2.2.4 The management written off receivable loan of Rs 1.784 million from National Fertilizer Marketing Limited (NFML), Lahore during 2022-23. Detailed justification of write off the loan be provided to audit.

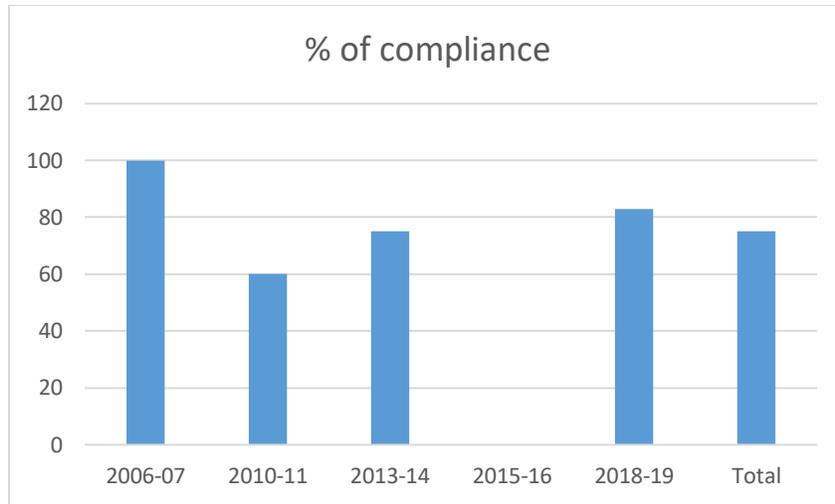
7.2.2.5 The Institute had established specific purpose funds namely Endowment Fund and Development Fund amounting to Rs 95.00 million and Rs 817.580 million respectively in order to commence Chemical Degree Classes in 1996. Institute had been investing these funds over the years. Detail of utilization of these funds may be provided to Audit to ascertain the prudence and transparency of investment process.

7.2.2.6 The Institute had been maintaining ‘employees provident fund’ trust having total balance of Rs 194.792 million. The accounts of said trust have not been audited since its establishment. Further, no actuarial valuation was carried out as required under International Accounting Standards-19 which needs to be justified. Complete breakup of expenditure and investments made out of trust funds along with annual audited accounts may be provided to audit.

7.2.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
-------------------	--------------------	------------------------	---------------------------	--------------------------	------------------------

2006-07	04	04	00	-	100
2010-11	05	03	02	11.15.2.2, 11.15.4.1	60
2013-14	04	03	01	8.24.2.2	75
2015-16	01	0	01	8.25.4.1	0
2018-19	06	05	01	9.1.3	83
Total	20	15	5		75



The compliance of the PAC directives was not satisfactory which needs immediate attention of the PAO.

7.3 National Textile University Faisalabad

7.3.1 Introduction

The Government of Punjab with the help of leading textile industrialists formed an Institute of Textile Technology at Faisalabad in 1954. It was affiliated with University of Engineering and Technology, Lahore in 1965. Federal Government took over the administrative control of Pakistan Institute of Textile Technology, Faisalabad on July 01, 1976. It was renamed as “National College of Textile Engineering” in 1983. The management of the College was transferred to All Pakistan Textile Mills Association (APTMA) in September 1993. The College was upgraded as National Textile University (NTU) under National Textile University Ordinance, 2002 on November 15, 2002. It is controlled by the Board of Governors consisting of 17 members, 7 from APTMA, Vice-Chancellors LUMS and UET, Secretary Ministry of Textile Industry, Textile Commissioner, a representative from Government of Punjab, Khyber Pakhtunkhwa (KP) and Higher Education Commission.

The main purpose of the University is the promotion and dissemination of knowledge and technology in the textile sector, and to provide for instruction, training, research, demonstration and service in the said areas of learning. The Faisalabad Campus of the university is situated at Main Sheikhpura Road Manawala, Faisalabad and the Karachi Campus is situated at Street 2/1, Sector 30, Korangi Industrial Area Karachi.

7.3.2 Comments on Audited Accounts

7.3.2.1 The working results of the University for the year 2022-23 as compared to previous years are as under:

(Rs in million)

	2022-23	% Inc. / (Dec)	2021-22	% Inc. / (Dec)	2020-21
Income from grants:					
The grant from the Higher Education Commission (HEC) for recurring	343.256	28	267.663	(3)	274.791
Grant from HEC for Tenure Track Faculty	0	(100)	69.991	194	23.791
Textile Cess for recurring	3.665	(39)	6.006	(14)	6.955
Total grants	346.921	1	343.661	12	305.537
Income from own sources:					
Fee from students	536.89	16	464.697	32	352.811
Income from sample testing and research projects	38.44	40	27.374	64	16.684
ORIC Performance overhead	3.964	(39)	6.501		0
Other income	97.098	56	62.235	65	37.724
Total income from own Sources	686.391	22	560.808	38	407.22
Grants amortized during the year	206.252	(5)	217.932	(14)	253.195
Total income	1239.565	10	1,122.40	16	965.953
Expenditure:					
Salaries, wages and other benefits	671.391	19	561.949	39	404.554
Employees retirement benefits	246.305	37	180.08	23	146.453
Repair and maintenance	22.808	(20)	28.684	14	25.18
Communication	27.426	25	21.996	(16)	17.674
Utilities	48.442	(7)	52.369	(35)	33.755
Travelling and transportation	28.382	86	15.278	128	6.708

Printing and stationery	4.24	19	3.551	(17)	4.277
Remuneration to part-time / visiting teachers	13.834	9	12.673	3	12.326
Merit scholarships and gold medals	15.599	6	14.759	19	12.451
HEC need based financial assistance	11.575	(2)	11.785	(8)	12.836
Others	0	-100	77.34	137	32.629
Amortization of Development Grant	206.252	(5)	217.932	(14)	253.195
Total Expenditure	1340.729	15	1,160.87	21	962.038
Surplus / (deficit) before depreciation	(101.163)	163	(38.463)	(1083)	3.914
Depreciation	43.281	16	37.408	4	35.981
Surplus / (deficit) after depreciation	(145.318)	89	(76.744)	134	(32.794)
Other comprehensive income/(loss)					
Total Surplus/(deficit) for the year	(156.709)	45	(108.184)	62	(66.766)

(Source: Annual Audited Accounts)

7.3.2.2 Textile cess decreased by 39% from Rs 6.007 million (2021-22) to Rs 3.665 million in 2022-23. Furthermore, income from Research, Innovation and Commercialization had also decreased by 39% from Rs 6.502 million (2021-22) to Rs 3.963 million in 2022-23. The abnormal decrease in textile cess and income from Research, Innovation and Commercialization be justified.

7.3.2.3 Revenue of the University has increased by 10% from Rs 1,122.404 million (2021-22) to Rs 12.39.565 in 2022-23. Whereas total expenditure increased by 15% from Rs 1160.867 million (2021-22) to Rs 1,340.729 million in 2022-23. The substantial increase of 5% in total expenditure as compared to revenue be justified to audit.

7.3.2.4 The total operating expenses increased by 20% from Rs 942.934 million (2021-22) to Rs 1,134.476 million in 2022-23. The major increase includes in Research & Survey by 17%, Communication by 25%, Traveling and transportation by 86%, Contribution, subscriptions and accreditation fee by 165%, Students expenses by 54% and Security Service Charges by 113% during 2022-23 as compared to previous year 2021-22. Provide justification alongwith supporting documents for such a huge increase in the operating expenditure.

7.3.2.5 Short term investments increased by 4% from Rs 213.900 million (2021-22) to Rs 221.900 million in 2022-23. Profit from this investment increased by 100% from Rs 34.466 million (2021-22) to Rs 69.045 million in 2022-23. Complete record of investment alongwith

determination of working balance limit be provided to audit to ascertain the prudence of treasury management and transparency of investment process.

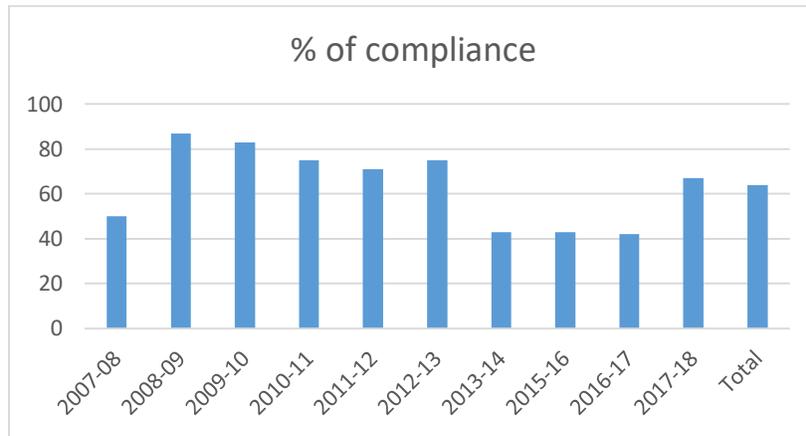
7.3.2.6 The University had received grant from HEC of Rs 11.419 million for procurement of equipment for research projects and PSDP grant for Karachi Campus of Rs 22.00 million in 2022-23. Complete Utilization of grant, releases alongwith terms and conditions be provided to audit.

7.3.2.7 The University had Rs 56.579 million under the head 'retention' and 'tender money' as on 30.06.2023. Complete record alongwith aging related to the retention money from contractors be provided to audit.

7.3.2.8 The University is in deficit since last 3 years. The deficit increased by 89% from Rs 76.744 million (2021-22) to Rs 145.318 million in 2022-23. The abnormal increased needs to be explained.

7.3.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras #	% of compliance
2007-08	02	01	01	172.2	50
2008-09	08	07	01	221.5	87
2009-10	06	05	01	233.5	83
2010-11	08	06	02	23.1.2.4, 23.1.3	75
2011-12	17	12	05	24.1.2.5, 24.1.2.6, 24.1.3, 24.1.4.1, 24.1.4.2	71
2012-13	04	03	01	24.1.3	75
2013-14	07	03	04	17.1.2.1, 17.1.2.3, 17.1.2.4, 17.1.3	43
2015-16	07	03	04	18.1.2.1, 18.1.2.2, 18.1.2.5, 18.1.3	43
2016-17	12	05	07	17.1.2, 17.1.2.1, 17.1.2.2, 17.1.2.3, 17.1.3, 17.1.4.1, 17.1.4.4	42
2017-18	18	12	06	4.6.3, 4.6.4.2, 4.6.4.3, 4.6.4.5, 4.6.4.6, 4.6.4.8	67
Total	89	57	32		64



The compliance of the PAC directives was not satisfactory which needs immediate attention of the PAO.

7.3.4 Audit Paras

7.3.4.1 Irregular investment of funds – Rs 213.900 million

According to Finance Division O.M. No. F.4(1)/2002-BR-11 dated 02.07.2003, investment of working balances/surplus funds be made subject to fulfillment of various requirements such as investment in A rating banks, competitive bidding process, investment exceeding Rs 10 million shall not be kept in one bank, setting up of in-house professional treasury management functions, formation of Investment Committee, employment of qualified investment management staff, utilization of services of professional fund managers approved by SECP, annual certificate of the Chief Executive of the organization, etc.

During audit of NTU, Faisalabad for the year 2019-22, it was observed that the management made investment in Short Terms Investment (TDRs) during the year 2019-20 to 2021-22 in different banks. Detail is as under:

Invested In	2019-20	2020-21	2021-22
TDR	80,000,000	60,000,000	213,900,000

Audit observed significant deficiencies in the organization's financial management practices, including the absence of approved working balance limits, non-compliance with competitive bidding processes, and the lack of an Investment Committee. These shortcomings highlight gaps in authorization, transparency, and risk management. Addressing these issues is essential to bolstering governance, transparency, and financial accountability, ultimately ensuring sound and responsible financial management within the organization.

Audit is of the view that investment in violation of the instructions of the Finance Division was irregular and unauthorized. The matter was reported to the management on December 05, 2023 the management replied that on the directive of DAC in its meeting held as on 10.03.2022, The BoG in its 42nd meeting held on 28.06.2022 Constituted investment Committee.

The reply is not cogent as the investment committee was composed on 26.07.2022. Hence investment was made in violation of Finance Division instructions.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends that Government instructions regarding investment should be followed in letter and spirit.

Para-02 (NTU – 2019-22)

7.3.4.2 Irregular Construction work by NTU – Rs 194.215 million

According to clause 2(aa) of PEC Consulting By-Laws statutory notification S.R.O.809(I)/86 dated August 24, 1986,"consulting engineer" means any person, partnership, corporate body or any other legal entity which independently performs study, prepares reports, makes design, supervises construction or similar advisory activities in the engineering disciplines and is registered or licensed as such by the Council; further, as per clause 3(7), the individual consulting engineer or the sole proprietor of a partnership firm of consulting engineers shall give an undertaking to the Council that he is an independent consulting engineer and has no interest in construction and conflicting commercial, industrial and business activities which are likely to influence his professional independence and neutrality.

During audit of NTU, Faisalabad for the year 2019-22, the management of NTU executed civil works projects worth Rs 194.215 million.

The audit exposed significant shortcomings in the civil department and construction projects, revealing a lack of technical expertise in the Works Committee, insufficient staff to execute projects, and breaches in procurement and financial regulations. The absence of proper oversight and quality checks led to delays, cost escalations, and compromised project integrity. Urgent corrective measures are imperative to rectify these deficiencies, ensuring effective project management and regulatory compliance to safeguard NTU's reputation and resources.

Audit is of the view that in the absence of technical staff /engineers/ technical expertise and without supervision of consultant for execution and monitoring of civil works the expenditure incurred on civil works is irregular and unjustified.

The matter was reported to management on December 05, 2023 the management replied that the University hired the services of Engineering Consulting Firms for detailed planning, designing of the projects worth Rs 166.96 million out of the total projects amount of Rs 194.215 million as mentioned in the original para by the audit. Further, NTU had hired full time technical staff on a regular payroll.

Reply is not cogent in the absence of technical staff/engineering management hired consultant for planning and designing for few projects instead of supervision, execution and monitoring.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends fixing of responsibility against persons concerned for the lapses. Besides, strengthen the civil department of the NTU for better quality of the work.

Para-01 (NTU – 2019-22)

7.3.4.3 Irregular procurement of vehicles in violation of PPRA - Rs 26.500 million

According to Finance Division (Expenditure Wing) OM No.7(1) Exp-IV/2016-440 dated July 15, 2020, there shall be complete ban on purchase of all types of vehicles both for current and development expenditure excluding motor cycles, student buses, ambulances and firefighting vehicles. According to rule 42 (c) (vii), the procuring agency shall only engage in direct contracting if the purchase of motor vehicle is from local original manufacturers or their authorized agents at manufacturer's price.

During audit of NTU, Faisalabad for the year 2019-22, it was observed that the management purchased 01 Bus (63 Seater) and 02 Coasters (32 Seater) from the PC-I titled "Upgradation of Synthetic Fiber Development and application Center (SFDAC) and Plastic Technology Center (PTC) as sub Campus of National Textile University Karachi" amounting to Rs 26.500 million.

Audit observed that procurement was made in violation of Finance Division instruction dated 15.07.2020. Audit further observed that procurement was made by direct contracting with M/s Ghandara Industries Limited (GIL) in clear violation of prescribed procedure as defined in rule 42(c)(vii). As M/s Ghandara Industries Limited (GIL) were neither the local original manufacturer nor the authorized agent of a local original manufacturer but were a dealer of M/s Isuzu of Japan (a foreign manufacturer). No LD charges were deducted as the buses were delivered after two months of delivery date.

The matter was reported to the management on December 05, 2023 the management replied that the procurement of the Bus/Coasters was conducted under rule 42-C (VII) of PPRA Rules. According to Finance Division (Expenditure Wing) OM No.7(1) Exp-IV/2016-440 dated July 15, 2021, the purchase of student buses had been excluded as mentioned in the above said letter, hence the question of regularization for purchase of buses from austerity committee does not arise.

The reply is not convincing as the case for purchase of buses was initiated on 30.07.2020 and delivery period was extended to M/s GIL as ISUZU buses were delayed from Japan.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the reasons for the purchase of vehicles during ban period, fixing responsibility on the person (s) at fault besides, regularizing expenditure from the Finance Division.

Para-03 (NTU – 2019-22)

7.3.4.4 Irregular hiring/appointments of officers after superannuation and payment thereof - Rs 18.010 million

According to the Cabinet Secretariat (Establishment Division) Government of Pakistan O.M. No.4/2/90-R- 1-I dated December 05, 1990 and subsequent instructions issued through letters dated May 26, 1999 and December 04, 2007 the re-employment after the age of superannuation in the government, semi-government, autonomous bodies and semi-autonomous bodies was required to be made by obtaining the approval of Prime Minister.

During audit of NTU, Faisalabad for the year 2019-22, it was observed that the management hired the services of Dr. Tahir Hussain Shah, Professor (Consultant) and Mr. Ata Muhammad, Internal Auditor

after attaining the age of superannuation and paid Rs 18.010 million on account of pay and allowances. Detail is as under:

Sr. No.	Name / Designation	Grade	D.O.B	D.O.A	Pay Package (Rs)	Total Amount (Rs)
1.	Dr. Tahir Hussain Shah, Professor	21	21.12.1951	18.12.2017	292,500	3,510,000
			Extension	18.12.2018 to 17.12.2019	350,000	4,200,000
			Extension	18.12.2019 to 17.12.2020	350,000	4,200,000
			Extension	18.12.2020 to 17.12.2021	350,000	4,200,000
2.	Mr. Atta Muhammad, Internal Auditor	18	14.09.1960	(02.11.2020 to 30.06.2022 @ 100,000 per month)	100,000	1,900,000
Total						18,010,000

Audit observed irregularities in hiring superannuated officers, such as rule violations, absence of Prime Minister's approval, and non-advertisement of posts. Consequently, hiring officers beyond 60 years was deemed irregular and unauthorized. These findings underscore the necessity for corrective actions to uphold regulatory compliance and fairness in future hiring practices.

The matter was reported to the management on December 05, 2023, the management replied that as per clause 11(1) of the University Ordinance, The general supervision and control of the affairs of the University and the power to lay down the policies of the University, shall vest in a Board. As per clause 11(6)(h) of the University Ordinance, the Board has power to select and appoint all administrative and academic staff of the University. As per clause 32(2)(b) of NTU Service Statutes-2017, re-employment beyond the superannuation in all cases shall be subject to approval of the Board.

The reply is not plausible as re-employment after the age of superannuation in the government, semi-government, autonomous bodies and semi-autonomous bodies was required to be made by obtaining the approval of Prime Minister.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to intimate the reasons regarding appointment of officers against the rules. Fix the responsibility on the person (s) at fault. Approval of Prime Minister for such appointments required to be obtained.

Para-13 (NTU – 2019-22)

7.3.4.5 Irregular procurement of IT/Misc. items - Rs 17.627 million

According to Rule 38B of Public Procurement Rules, 2004 states that Single responsive bid in goods, works and services.- (1) The procuring agency shall consider single bid in goods, works and services if it- (a) meets the evaluation criteria, ensures compliance of specifications and other terms & conditions expressed in advertisement or bid solicitation documents; (b) is not in conflict with any provision of the Ordinance; (c) conforms to the technical specifications; (d) has financial conformance in terms of rate reasonability provided that except unsolicited proposal, in case of pre-qualification proceedings single bid shall not be entertained. The procuring agency shall make a decision with due diligence and in compliance with general principles of procurement like economy, efficiency and value for money.

During audit of NTU, Faisalabad for the year 2019-22, it was observed that the management floated tenders for procurement of different items and incurred expenditure of amounting to Rs 19.866 million for the year 2019-22 (Annex-35).

Audit observed that management procured these items without obtaining rate reasonability from the market as required under rule 38(B). Audit also observed that routine practice of management was to place a certificate of rate reasonability signed only by a single person of the concerned department. The subject certificate does not fulfill the requirement of rate reasonability, proper proof of the same should be obtained from the market and certificate be signed by all the members of procurement committee. Further, the items procured were not included in annual procurement plan.

Audit is of the view that non-adherence to PPRA Rules, and entertaining the single bidder, without assessing the rate reasonability was irregular.

The management's response to the audit's concerns regarding procurement emphasized wide advertisement and market-competitive rates, asserting fair and transparent processes. However, the audit found shortcomings in adherence to PPRA rules, particularly in accepting a single bidder without rate reasonability assessment. Moreover, the explanation provided for the non-uploading of the procurement plan during the COVID-19 pandemic was considered inadequate in justifying the deviation from procurement regulations. These findings underscore the need for improved compliance and transparency in procurement practices within the organization.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the reasons for procurement without obtaining rate reasonability from the market and fixing responsibility.

Para-08 (NTU – 2019-22)

7.3.4.6 Loss due to non-recovery from unsuccessful employees in PhD studies - Rs 4.325 million

Board of Governors (BoG) in its 36th meeting held on 15.11.2019, approved to follow the conditions of the surety bonds. As per clause-3(vi) of the Surety Bonds submitted for study leave, in the event of breach of any terms & conditions on their part, not arising from their illness certified to the satisfaction of the university, the scholars bind themselves firmly to pay on demand a sum of Rs 1,000,000 (Rupees Ten Lacs) as liquidated damages and not as penalty to the university.

During the audit of NTU, it was found that management granted study leave for employees pursuing PhD degrees abroad. The leave, initially for 3 to 4 years, was extended upon request. However, after completing their studies, these employees neither returned to work nor submitted progress reports. Consequently, they faced potential liquidated damages of Rs 1.00 million each for breach of bond terms or failure to complete their studies as per detail given below:

Sr. No.	Name of Student	Designation	Date of Start of Program	Date of Completion of Program	Air Ticket & Insurance (Rs)	Amount of Surety Bond (Rs)	Total (Rs)
1	Maqsood Ahmed	Lecturer	05.09.2016	04.09.2021	0	1,000,000	1,000,000
2	Mubeen Aslam	Asstt. Professor	01.11.2016	31.10.2021	0	1,000,000	1,000,000
3	Shoaib Iqbal	Lecturer	23.09.2014	22.09.2018	325,094	1,000,000	1,325,094
4	Adeel Zulfiqar Rao	Lecturer	01.07.2015	-		1,000,000	1,000,000
Total					325,094	4,000,000	4,325,094

The employees concerned did not return Pakistan and resumed duties to serve the University, hence they were liable to deposit the amount of surety bond as per laid down conditions. The management also failed to take appropriate action against un-successful employees which resulted in non-recovery of surety bond amount.

Audit is of the view that the chances of recovery were remote as a considerable period had elapsed but neither the employees resumed duty nor management made concrete efforts for recovery of bonds amount.

The matter was reported to the management on December 05, 2023, the management replied that Mr. Adeel Zulfiqar Rao, Lecturer deposited whole liquidated damages. A letter had been addressed to Maqsood Ahmed, Lecturer. In response, he was agreed to pay liquidated damages. Further, the case of Mubeen Aslam had already been referred to the Inquiry Committee and proceedings were in process.

The reply is not persuasive as management failed to recover liquidated damages from candidates.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends recovery of the amount in question from the employees or the surety as per conditions of surety bonds and also initiate disciplinary proceedings against the defaulter employees as per rules.

Para-14 (NTU – 2019-22)

7.3.4.7 Irregular appointment of Senior System Analyst – Rs 2.688 million

Establishment Division vide its O.M. No. F.53/1/2008-SP dated 22.10.2014 circulated the Recruitment Policy for the Federal Services/ Autonomous Bodies/ Corporations. As per S. No. (i) and (ii) of the policy, the recruitment to posts in BPS-16 and above shall be made through the FPSC. As per S. No. (v), initial appointment shall be made strictly in accordance with the provisions contained in the Recruitment Rules of the post concerned. In the absence of Recruitment rules, Ministries / Divisions / Attached Departments / Subordinate Offices / Autonomous Bodies / Semi-Autonomous Bodies /

Corporations/ Companies / Authorities etc. are first required to frame the Recruitment Rules and lay down the eligibility conditions for such appointments. No recruitment shall be made in the absence of approved Recruitment Rules. As per S. No. (xvii), draft advertisement to be published for recruitment may be submitted to Establishment Division for routing of same to Ministry of Information, Broadcasting and National Heritage. No direct advertisement would be place by any organization.

During audit of NTU, Faisalabad for the year 2019-22, it was observed that the management advertised the post of Senior System Analyst dated 22.01.2017. Total 05 applications were received, out of 05 applicants, 03 were shortlisted for interview. Mr. Abdul Fawad was selected for the post and was issued offer of appointment on contract at a consolidated salary of Rs 45,000 (Lump sum) per month vide letter dated 30.05.2017 for a period of one year. The officer joined his duties w.e.f. 02.06.2017. The contract period was extended from 02.06.2018 to 01.06.2019 and 02.06.2019 to 01.06.2020 at a consolidated salary of Rs 49,532 per month and Rs 55,000 per month respectively. Later on, the services of the officer were converted on BPS contract retrospectively w.e.f. 02.06.2018 vide notification dated 10.12.2019 after approval by the BOG in its 36th meeting held on 15.11.2019.

The audit observed several irregularities in the appointment process, including violations of Establishment Division orders, lack of clarity in job advertisements regarding contract terms, absence of testing, deviation from prescribed criteria in score allocation, retrospective award of contracts, and incomplete experience certificates. These findings underscore significant deficiencies in recruitment practices, highlighting the need for corrective action to ensure compliance with regulations, transparency, and integrity in future appointments.

The matter was reported to the management on December 05, 2023, the management replied that the appointment was made as per the then in vogue policy of the University and duly approved by BOG. The Establishment Division OM referred by the Audit had not been adopted by the University through BOG hence, not applicable in the rule book of the University.

The reply is not tenable because NTU rules and regulation were contradictory to Establishment Division OMs. Besides NTU rules were not vetted by the Establishment Division.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends that irregular appointment in violation of Govt. orders and award of BPS contract retrospectively should be investigated for fixing responsibility.

Para-15 (NTU – 2019-22)

7.3.4.8 Non forfeiture of earnest money form the supplier - Rs 0.712 million and non-obtaining of Performance Guarantee - Rs 2.522 million

According to tender documents, eligible firms should submit their bids along with 2% earnest money of the total quoted price in sealed envelope of financial bid in the shape of CDR/ Bank Draft in favor of NTU, Faisalabad drawn on Faisalabad. A per Tender document clause 7, an amount of 6% will be deducted as a performance guarantee from the bill and shall be retained for the period of two years. Two years will start from the date of installation (commissioning certificate issued by the technical committee

of NTU) or Bank Guarantee (from the scheduled bank of Pakistan) will also be accepted but it should be valid for two years.

During audit of NTU, Faisalabad for the year 2019-22, it was observed that the management of NTU floated tender for purchase and installation of Solar system (Turnkey Solution) having capacity of 495 KW, On-grid (Net Metering) of Rs 42.044 million with the approval of BoG in its 36th meeting held on 15.11.2019. In response to tender, 05 firms participated and all were technically qualified for financial bid opening.

Audit observed several irregularities in the contract award process. M/s Energy Solution, the lowest bidder, submitted a fake CDR of Rs 712,599 but faced no consequences from the management. The work awarded to 2nd lowest bidder i.e. M/s Creative was completed late without LD charges, and the contract lacked a performance security clause. Moreover, M/s Creative's registration with AEDB was not documented.

Audit is of the view that contracts were awarded in violation of rules/ criteria which was held irregular.

The management responded that M/s Energy Solution, the bidder with the fake CDR, was disqualified from the competition. The blacklisting committee recommended forfeiting the bid security of Rs 114,471.00 but the same couldn't be forfeited due to the fake CDR of Rs 712,599. The successful bidder, M/s Creative Electronics Pvt. Ltd., requested a time extension, which was approved and project completed within timelines i.e. 17.06.2022. The performance security was obtained as per the tender terms & conditions.

The reply is not convincing as management failed to forfeit the bid security and blacklist the firm despite irregularities. Moreover, the performance security should have been obtained before awarding the work.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter and fixing responsibility on the person at fault.

Para-10 (NTU – 2019-22)

7.3.4.9 Loss due to delay in procurement - Rs 1.095 million

According to rule 2(A) of Public Sector Companies (Corporate Governance) Rules, 2013, for the purposes of these rules, the following shall be the criteria for sound and prudent management of a Public Sector Company, which shall be bound to comply with it at all times namely:

(a) the business of the Public Sector Company is carried on with integrity, objectivity, due care and the professional skills appropriate to the nature and scale of its activities.

During audit of NTU, Faisalabad for the year 2019-22, it was observed that the management prepared cost estimates of Rs 700,000 for procurement of “Membrane Filtration Assembly” on 26.12.2019. A tender was floated on 29.12.2019 for purchase of subject item. Resultantly single bidder participated in the tender. Technical Committee evaluated technical requirements of the Membrane Filtration Assembly

and revised the specification. However, vendor had not participated in revised technical and financial bid. Subsequently, the management floated fresh tender dated 23.05.2020 and procured the same items in Rs 1.795 million instead of Rs 0.700 million.

Audit is of the view that due to mis-management in finalizing the specification of the item, loss of Rs 1.095 million was sustained by NTU.

The matter was reported to the management on December 05, 2023. The management replied that the tender was published on 26.12.2019 initially as per PPRA Rule 36(d). Single bidder participated in the tender with initial technical specification. While he did not participate in revised technical bid. The tender was canceled and re-tendered on 28.05.2021. The two bidders participated in the tender, and both qualified in initial, but one M/s Marjan Polymer qualified in the revised technical bid and the other bidder was disqualified technically. The initial specification was very generic, and the revised specifications were more wide range and specific to project.

The reply is not convincing as management failed to finalize the specification in time and sustained loss.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter and fix responsibility on the person(s) at fault for making procurement on higher rates.

Para-11 (NTU – 2019-22)

Chapter-8

Finance Division

Overview

The Finance Division deals with the subjects pertaining to finance of the Federal Government and financial matters affecting the country as a whole, preparation of annual budget statements and supplementary / excess budget statements for the consideration of the parliament accounts and audit of the Federal Government Organization etc. as assigned under the Rules of Business, 1973.

Moreover, Finance Division maintains financial discipline through financial advisors in organizations attached to each Ministry / Division etc.

Aims & Objectives

To pursue sound and equitable economic policies that put Pakistan on the path of sustained economic development and macroeconomic stability with a view to continuously and significantly improving the quality of life of all citizens through prudent and transparent public financial management carried out by dedicated professionals.

Governing Laws and Policies

- Rule of Business 1973
- General Financial Rules

Audit Profile of Finance Division

(Rs in million)

S. No.	Description	Total	Audited	Expenditure audited FY 2022-23	Revenue /Receipts audited FY 2022-23
1	Formations	8	6	128,691.786	174,528.476
2	Assignment Accounts (excluding FAP)				-
3	Authorities /Autonomous Bodies etc. under the PAO	8		-	-
4	Foreign Aided Projects (FAP)	-	-	-	-

Classified Summary of Audit Observations

Audit observations amounting to Rs 651,499.673 million were raised as a result of this audit. This amount also includes recoverable of Rs 51,877.51 million as pointed out by the audit. Summary of the audit observation classified by nature is as under:

Overview of the Audit Observations

Sr. No.	Classification	Amount (Rs in million)
1	Non-Production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	41,387.603
3	Irregularities:	
A	HR/Employees related irregularities	28,172.357
B	Procurement related irregularities	1,197.187
C	Management of accounts with Commercial Banks	-
4	Value for money and services delivery issues	23,291.663
5	Others	557,450.863

8.1 House Building Finance Company Limited

8.1.1 Introduction

House Building Finance Company Limited (HBFCL) is the only housing finance institution in Pakistan, established in 1952 by the Government of Pakistan.

It was corporatized in 2007 and is now an unlisted public limited company. State Bank of Pakistan (SBP) and Government of Pakistan (GoP) jointly hold the capital of HBFC with 90.31% and 9.69% shareholding, respectively.

House Building Finance Company Limited (HBFCL) provides financing facilities for construction and purchase of houses through its deep-rooted and national footprint of 51 Branches, 7 Area Offices, 3 Regional Offices and the Head Office based in Karachi.

8.1.2 Comments on Audited Accounts

8.1.2.1 The working results of the Corporation for the year ended December 31, 2022 as compared with the preceding years are given below:

(Rs in million)

Description	2022	% Inc / (Dec)	2021	% Inc / (Dec)	2020
Net markup / interest income	3,193	39	2,302	(29)	3,249
Markup / interest expensed	(688)	244	(200)	1	(198)
Total non-markup / interest income	89	16	76	(44)	136
Total income	3,282	38	2,378	(30)	3,385
Total non-markup / interest expense	(1,636)	8	(1,520)	(190)	1,686
Operating expenses	(1,594)	7	(1,492)	(190)	1,658
Various reversal / (provision) made (net)	277	(35)	426	(240)	(304)
Profit/(loss)before taxation	1,908	49	1,282	(8)	1,390
Taxation	(430)	26	(342)	(195)	361
Profit/(loss) after taxation	1,478	57	940	(9)	1,029
<i>(Source: Annual Audited Accounts)</i>					

8.1.2.2 Markup / interest expenses were 244%, increased from Rs 200.063 million in 2021 to Rs 688.000 million in 2022 due to repurchase agreement of borrowing (Repo).

8.1.2.3 Dividend income decreased by 35% from Rs 1.217 million in 2021 to Rs 0.797 million in 2022 due to poor earnings of invested companies.

8.1.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
1994-95	14	9	5	37, 38, 39, 41, 42	64%
1998-99	2	1	1	89	50%
1999-00	5	3	2	132, 135	60%
2000-01	5	2	3	101, 102, 103	40%
2001-02	5	4	1	95	80%
2002-03	3	2	1	56.1	67%
2003-04	14	8	6	41.4, 41.5, 41.6, 42, 43, 48	57%
2004-05	3	-	3	31	0%
2005-06	14	11	3	57, 58	79%
2006-07	5	4	1	38	80%
2007-08	8	3	5	43, 44(a), 44(b), 44(c), 44(d)	38%
2010-11	10	6	4	7.1.2.1, 7.1.2.3, 7.1.4.1, 7.1.4.4	60%
2013-14	12	1	11	6.1.2, 6.1.3.1, 6.1.3.2, 6.13.3, 6.1.3.4, 6.1.3.5, 6.1.3.6, 6.1.3.7, 6.1.3.8, 6.1.3.9, 6.1.3.10	8%
2015-16	7	1	6	6.2.4.2, 6.1, 6.2.2, 6.2.3, 6.2.4.1, 6.2.4.3	14%
2016-17	12	2	10	6.1.4.3, 6.1.4.6, 6.1.4.1, 6.1.2.1, 6.1.2.2, 6.1.3, 6.1.4.2, 6.1.4.4, 6.1.4.5, 6.1.4.7	17%
2019-20	2	2		6.1.4.1, 6.1.4.2	
Total	124	62	62		50%

The overall compliance of PAC directives was not satisfactory which needed improvement.

8.1.4 Audit Paras

8.1.4.1 *Non-achievement of disbursement & non-performing loan reduction targets – Rs 4,117.000 million*

Section 15(4) of Financial Institutions (Recovery of Finance) Ordinance, 2001, states that where a mortgager fails to pay the amount and after the due date given in the final notice has expired, the financial institution may, without the intervention of any Court, sell the mortgaged property or any part thereof by public auction and appropriate' the proceeds thereof towards total or partial satisfaction of the outstanding mortgage money.

During audit of House Building Finance Company Ltd (HBFCL) Head Office, Karachi for the year 2022, it was observed that the management failed to achieve disbursements and non-performing loan reduction targets amounting to Rs 4,117.000 million (Annex-36).

Audit is of the view that non-achievement of disbursement targets and non-performing loan reduction targets reflected negligence and poor financial management.

The matter was reported to the management in December 2023. The irregularity was discussed in DAC meeting held on January, 25, 2024.

- a. The management informed the DAC that the target set for CY'22 was the highest target ever set in history of HBFC, also the performance achieved during tenure was the highest of all performance of business in history of HBFC.
- b. The management informed the DAC the NPL reduction target (budget) for 2022 set by the management was 506 Million. Actual reduction at the end of 2022 was 393.5 Million. The increased target of 700 Million was internally set by the recovery department to get the maximum out of the recovery team and achieve results exceeding expectations.

DAC directed the management to provide aging and get verified the recovered amount.

Audit recommends implementation of the DAC directives.

(DP No. 712, 715 & 721)

8.1.4.2 *Borrowing beyond approved limit – Rs 3,963.000 million*

As per HBFCL Treasury Policy 2022 states that these limits may be restricted to PKR 200 million in unsecured limits and PKR 2 billion in repurchase or reverse repurchase transactions for financial institutions rated not below A minus by a SBP approved rating agency.

During audit of House Building Finance Company Ltd (HBFCL) Head Office, Karachi for the year 2022, it was observed that the management borrowed Rs 13,034 million from State Bank of Pakistan (SBP) on account of Repo through Open Market Operations (OMO) against the approved limit of Rs 2,000.000 million as detailed below:

Rs in million

S#	Date of Borrowing	Borrowing Amount	Approved limit	Excess
1	19-Aug-22	1,889	2,000	111
2	19-Aug-22	927		
3	16-Sep-22	500	2,000	1500
4	16-Sep-22	2,000		
5	16-Sep-22	2,000		
6	23-Sep-22	3,100	2,000	1,100
7	21-Oct-22	748	2,000	1,252
8	21-Oct-22	934		
9	21-Oct-22	936		
Total				3,963

Audit is of the view that management made excess borrowing of Rs 3,963.000 million in violation of rules which is irregular and unjustified.

The matter was reported to the management in December 2023. The irregularity was discussed in DAC meeting held on January, 25, 2024. The management informed that these transactions were executed under the treasury policy prior to the one approved on October 28, 2022. DAC directed the management to get the investment data verified in connection to SBP circular.

Audit recommends implementation of the DAC directives.

8.1.4.3 Non-recovery of loans & outstanding penalties - Rs 3,734.054 million

Section 15(4) of Financial Institutions (Recovery of Finance) Ordinance, 2001, states that where a mortgager fails to pay the amount and after the due date given in the final notice has expired, the financial institution may, without the intervention of any Court, sell the mortgaged property or any part thereof by public auction and appropriate the proceeds thereof towards total or partial satisfaction of the outstanding mortgage money.

During audit of House Building Finance Company Ltd (HBFCL) Head Office, Karachi for the year 2022, it was observed that a number of loans were sanctioned to various customers for purchase & construction of houses which were not recovered. Furthermore, penalties on late payment of loans were also not recovered (Annex-37). The details are as under:

S #	Description	Rs in million
1.	Defaulting customer of various regions	3,081.000
2.	Less recovery against the assigned targets	307.000
3.	Non-recovery from penalties	346.054
Total		3,734.054

Audit is of the view that the management failed to recover outstanding amount of Rs 3,734.054 million which reflected inefficiency and negligence.

The matter was reported to the management in December 2023. The irregularity was discussed in DAC meeting held on January, 25, 2024.

- a. The management informed that the observation is incorrect as the complete portfolio was reported as non-performing without analyzing the classification of the portfolio. The non-performing portfolio was 2.82 billion instead of 16.8 Billion.
- b. The management informed the DAC that accounts auction under Section 15 of FIO were properly mortgaged and the company did not have to face prolonged court proceedings in this regard, secondary collateral was a credit decision and the matter might be taken up with credit for decision. The NPL reduction target (budget) for 2022 set by the management was 506 Million. Actual reduction at the end of 2022 was 393.5 million.
- c. The management informed the DAC that Rs 23.000 million were recovered.

The DAC directed the management to provide the aging of the receivables and get recovered amount verified by Audit and pursue the recovery vigorously.

Audit recommends implementation of the DAC directives.

(DP No. 706, 713 & 728)

8.1.4.4 Irregular borrowing by using employees' funds – Rs 1,084.000 million

According to Section 218 (1) of Companies Act, 2017 Employees' provident funds, contributory retirement funds and securities, all moneys or securities deposited with a company by its employees in pursuance of their contracts of service with the company shall be kept or deposited by the company within fifteen days from the date of deposit in a special account to be opened by the company for the purpose in a scheduled bank or in the national saving schemes, and no portion thereof shall be utilized by the company except for the breach of the contract of service on the part of the employee as provided in the contract and after notice to the employee concerned.

During audit of House Building Finance Company Ltd (HBFCL) Head Office, Karachi for the year 2022, it was observed that the management made borrowings from invested securities by using Employees Gratuity, Contributory Provident & Pension funds in violation of above rules. The detail is as under:

Rs in million						
S#	Borrowed From	Borrowing Date	Maturity Date	Borrowing Amount	Rate (%)	Borrowing Settlement
1	G.F	08-Dec-22	09-Dec-22	185,059	17	185,144
2	C.P.F	08-Dec-22	09-Dec-22	633,924	17	634,215
3	E.P.F	08-Dec-22	09-Dec-22	182,763,099	17	182,847,057

4	E.P.F	08-Dec-22	09-Dec-22	33,133,367	17	33,148,588
5	C.P.F	09-Dec-22	12-Dec-22	634,215	16	635,073
6	G.F	09-Dec-22	12-Dec-22	185,144	16	185,395
7	E.P.F	09-Dec-22	12-Dec-22	33,148,588	16	33,193,454
8	E.P.F	09-Dec-22	12-Dec-22	182,847,057	16	183,094,539
9	E.P.F	12-Dec-22	13-Dec-22	183,094,539	17	183,177,809
10	C.P.F	12-Dec-22	13-Dec-22	635,073	17	635,362
11	G.F	12-Dec-22	13-Dec-22	185,395	17	185,479
12	E.P.F	12-Dec-22	13-Dec-22	33,193,454	17	33,208,550
13	E.P.F	13-Dec-22	14-Dec-22	33,208,550	16	33,223,107
14	E.P.F	13-Dec-22	14-Dec-22	183,177,809	16	183,258,106
15	E.P.F	14-Dec-22	15-Dec-22	33,223,107	16	33,237,898
16	E.P.F	14-Dec-22	15-Dec-22	183,258,106	16	183,339,694
Total				1,083,506,486		1,084,189,470

Audit is of the view that the management made borrowing settlement of Rs 1,084.000 million which reflects negligence and stands irregular and unjustified.

The matter was reported to the management in December 2023. The irregularity was discussed in DAC meeting held on January, 25, 2024. The management informed the DAC that HBFC was the custodian of all employees' fund and hold fixed income bonds of PKR 5.504 billion as of 8th Dec 2022 on behalf of all employees' funds. In our responsibility, we received funds of PKR 216.7 million resulting from coupon maturity on 8th Dec 2023 from GoP via SBP. Out of PKR 216.7 million, PKR 182.76 million resulted from securities held by Employees' Pension funds. HBFC treasury has been given a mandate by employees' fund trustee to manage its fund at the best possible return. Employees' fund accounts with schedule banks were paying 14.50% in the month of Dec 2022.

DAC directed the management to get verified the charter of demand and approval of trust.

Audit recommends implementation of the DAC directives.

8.1.4.5 Loss due to encroachment of land – Rs 121.121 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules.

During audit of House Building Finance Company Ltd (HBFCL) Head Office, Karachi for the year 2022, it was observed that actual covered area of Faisal Town Commercial, Lahore was 9.86 kanals but the

same was reported as 7 kanals due to encroachment 2.86 kanals equal to 1,730.3 sq. yd @ of Rs 70,000 per sq. yd amounting to Rs 121.121 million.

Audit is of the view that the management sustained a loss of Rs 121.121 million due to encroachment of land which reflects negligence and inefficiency.

The matter was reported to the management in December 2023. The irregularity was discussed in DAC meeting held on January, 25, 2024. The management informed the DAC that HBFC was allotted 200 kanal land for construction of houses in faisal town scheme out of which 09 kanals 17 marlas 47 sq ft. amenity plot was earmarked for a bus stop, mosque and shops. However, mosque was constructed by the area residents themselves, therefore; the available area of the plot as per physical is approximately 07 Kanals. The DAC directed the management to again take up the matter with LDA for removal of encroachment.

Audit recommends implementation of the DAC directives.

8.1.4.6 Increase in non-performing loans and cost – Rs 117.000 million

Duties and responsibilities of Group Head- Business & Operations include among others, monitoring the disbursements of loans of the branches in South, Central and North regions and monitoring key factors and drivers that influence business operational performance and develop strategies and recommend improvements to enhance the financial performance of the company.

Regional Head is mainly responsible to manage overall business, administrative and financial affairs of the region and achieve organization's objectives.

During audit of House Building Finance Company Ltd (HBFCL) Head Office, Karachi for the year 2022, it was observed that the management failed to achieve the assigned reduction of Non-Performing Loans (NPLs) targets in various branches despite incurring an expenditure of Rs 107.000 million. This also resulted in increase of NPLs amounting to Rs 41.000 million. The detail is as under:

Rs in million

Region	S#	Branch	Target	Achieved	% Achieved	Required NPLs	Total Cost
South	1	Karachi	147	(106)	(72)	41	11
Central	2	Multan	29	(14)	(50)	14	9
South	3	Khairpur	18	(8)	(47)	9	5
North	4	Islamabad	10	(7)	(67)	3	50
Central	5	Rahim Yar Khan	8	(5)	(61)	3	7
Central	6	Faisalabad	33	(30)	(92)	3	9
Central	7	Bahawalpur	4	(1)	(38)	2	7
Sub-total			248	(172)	(426)	76	98

Region	S#	Branch	Target	Increased	% increased	Required NPLs	
North	1	Peshawar Branch	-7	-2.7	-40	10	9
Central	2	Gujranwala Branch	31	-0.1	(0.4)	32	-
Sub-total			25	(3)	(40)	41	9
Grand Total			272	(174)	(467)	117	107

Audit is of the view that due to poor performance, not only the cost was increased but NPLs have also been increased which reflected negligence and weak financial management.

The matter was reported to the management in December 2023. The irregularity was discussed in DAC meeting held on January, 25, 2024.

- a. The management informed the DAC that expenses were incurred to refurbish and relocate branches for business potential in different locations, this expenditure was incurred for renovation and relocation project where branches were located in residential areas with extremely poor working conditions.
- b. The management informed the DAC that NPLs in Gujranwala branch reduced by Rs 15.59 million and in Peshawar branch reduced by Rs 4.32 million as of November, 2023. Audit contented that the cost was 61% of the reduced NPLs 174 million and management should find the reasons of loss making branches.

The DAC directed the management to rationalize the expenditure and efforts might be made to reduce the NPLs.

Audit recommends implementation of the DAC directives.

(DP No. 707 & 714)

8.1.4.7 Payment of dual rent for branches – Rs 0.909 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that The chief executive is responsible for the management of the public sector company and for its procedures in financial and other matters, subject to the oversight and directions of the board, in accordance with the ordinance and these rules.

During audit of House Building Finance Company Ltd (HBFCL), Karachi for the year 2022, it was observed that after the instructions of relocation of branches, rent was paid for more than one location in Khairpur city. The detail of rental payment is as under:

Name of Branch	Name of Property Owner	Date of Contract Execution	Renewal Due Date	Rent Per Month (Rs)	Payment already made till	Amount (Rs)
Khairpur (Old)	Mr. Ghulam Murtaza Suhag	September 1, 2022	July 31, 2023	28,118	July 31, 2023	309,298
Khairpur (New)	Mr. Amanullah Shaikh	December 29, 2022	December 28, 2032	50,000	December 28, 2023	600,000
Total						909,298

Audit is of the view that the management paid dual rental charges to branches which reflects negligence and slackness. Thus, expenditure incurred amounting to Rs 0.909 million was held irregular and unjustified.

The matter was reported to the management in December 2023. The irregularity was discussed in DAC meeting held on January, 25, 2024. The management informed the DAC that due to the prevailing economic conditions; the relocation and subsequent Renovation of Branch Office, Khairpur was put on hold by the Management as conditions were not favorable for business. The DAC directed the management to conduct fact-finding inquiry.

Audit recommends implementation of the DAC directives.

8.1.4.8 Irregular promotions of employees on fast track basis

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

According to HBFC Promotion Policy, 2019 dated 08-09-2020, (14) Promotion on Fast Track Basis up-to EVP (OG-7): 14.1 the mode of promotion on fast track will be used on exceptional basis for high potential officers and to retain the talent. Following criteria will be observed while recommending promotions on fast track basis: (a) the minimum service period in the current grade should be at least two yearly PMS/ PER reports. (b) The concerned group head shall submit a detailed report on the achievements of the officer to be considered for fast track promotion stating his/her key performance indicators (KPIs), contribution in achievement of departmental/ organizational objectives.

During audit of House Building Finance Company Ltd (HBFCL) head office, Karachi for the year 2022, it was observed that various officers were promoted on fast track basis despite being junior in the seniority list. The KPIs of all employees were incomplete as no grading was mentioned to reflect them as exceptional performers to justify their promotions on fast track. In fact, it was revealed that the assigned targets were not achieved by promoted employees. The detail of promoted employees on fast track basis is as under:

S#	Name of Employee	Promotion date	Promoted to Designation	Number in seniority list

1	Mr. Kazim Raza Bhayani	15.3.2023	SVP	7 th
2	Ms. Samina Naveed	15.3.2023	VP	16 th
3	Mr. Fakhar Abbass	15.3.2023	AVP	68 th
4	Mr. Hammad Hassan	15.3.2023	Manager	30 th

It was also observed that Mr. Kazim Raza Bhayani SVP was promoted on fast track basis despite his appointment and previous promotions were objectionable.

Audit is of the view that the management extended undue favor to the officers in their promotions which undermined the rights of other deserving employees.

The matter was reported to the management in December 2023. The irregularity was discussed in DAC meeting held on January, 25, 2024. The management informed the DAC that promotions of above mentioned officers were made in accordance with relevant rules & laws. Further, the appointment and promotion of Mr. Kazim Raza were made in accordance with policy. The DAC directed the management to provide the annual grading reports along with achievement of targets to Audit for verification. Further, matter regarding appointment and promotion of Mr. Kazim Raza place before the PAC.

Audit recommends implementation of the DAC directives.

(DP No.730, 727 & 731)

8.1.4.9 Unjustified revision of promotion policy

Rule 7 of Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall also formulate significant policies of the Public Sector Company, which may include the following, namely:
- Human resource policy including succession planning.

Rule 12 (c) of Public Sector Companies (Corporate Governance) Rules, 2013, Human Resource Committee, to deal with all employee related matters including recruitment, training, remuneration, performance evaluation, succession planning, and measures for effective utilization of the employees of the Public Sector Company;

During audit of House Building Finance Company Ltd (HBFCL) Head Office, Karachi for the year 2022, it was observed that the management formulated a new policy titled as fast track promotion policy on 08-09-2020 in parallel with existing HR promotion policy issued on 16-11-2018. The comparison of both policies is as under:

Old promotion policy as on 16.11.2018					Revised promotion policy as on 08.09.2020	
No. of minimum & maximum years	3 to 5 years	Improvement in qualification (%)	Seniority (%)	Interview (%)	Designation	No. of minimum & maximum years

					Up to Manager	3 to 5 years
					AVP to EVP	4 to 6 years
					SEVP	On the recommendation of MD & approval from BoD
	PMS / PERs grading				On fast track up to EVP OG- 7	2 yearly PMS/ PERs reports
JOs OG-1	60	10	10	20	Same as Previous	
AM OG-2	60	10	10	20		
MGR OG 3	50	10	10	30		
AVP OG-4	50	10	10	30		
VP OG-5	50	-	10	40		
SVP OG-6	50	-	10	40		
EVP OG-7	40	-	10	50		
SEVP OG-8	40	-	10	50		

It is evident from the above table that in fast track promotion policy, two yearly service period PMS/PER reports were needed. These reports were prepared and submitted by concerned group heads on unidentified standards without establishment of sound SOPs. In addition to that, promotional parameters were vague. Only 10% weightage was given to improvement in qualification for OG 1 to OG 4. However, there was no percentage required for VP, SVP, and AVP to improve their qualifications and get certain weightage. Moreover, no regular promotions were made during last four years, only selected employees were being promoted on fast track irrespective of their true performance.

Audit is of the view that the fast track promotion policy was unequal and detrimental to the organization as it was favoring few employees.

The matter was reported to the management in December 2023. The irregularity was discussed in DAC meeting held on January, 25, 2024. The management informed the DAC that BoD was authorized to create or approve policies and the HR policy did not benefit particular employees. The DAC directed the management to place the policy before BoD for reassessment.

Audit recommends implementation of the DAC directives.

8.2 National Bank of Pakistan

8.2.1 Introduction

National Bank of Pakistan is a leading Commercial Bank established on November 8, 1949 under the National Bank of Pakistan Ordinance 1949 by Government of Pakistan (where Government of Pakistan is major shareholder as more than 75 % of total No of shares are owned by GoP). The Bank's registered Head Office is situated at Karachi and is listed on the Pakistan Stock Exchange. While NBP have been entrusted to act as trustee of public funds and as the agent to the State Bank of Pakistan (Central Bank of Pakistan), over the years, bank redefine its role into a modern growth oriented commercial bank by expanding network across continents and by capturing largest market shares in the debt equity market, corporate investment banking, retail and consumer banking, agricultural financing and treasury services globally.

Together with its local and foreign subsidiaries, NBP is providing commercial banking services including Corporate Loans, Asset Management, Leasing, Forex, Modarba, Global Remittances, Underwriting, Broking, Agency, Investment Advisory and such other services. The Bank's services are available to individuals, corporate entities and the government. NBP strive in promoting financial inclusion of unbanked masses in the Countries it is operating, creating equal employment opportunities, identifying & delivering its responsibility as a corporate citizen. Bank Regions are: Far East / Asia Pacific, South Asia, Middle East, Central Asia, Europe & North America. The Bank operates with 34 Foreign Branches / Offices & 1,450+ Branches in Pakistan.

8.2.2 Comments on Audited Accounts

8.2.2.1 The working results of bank for the year ended December 31, 2022 as compared to previous years are given below:

(Rs in million)

	2022	% Inc /Dec	2021	% Inc /Dec	2020
Markup/Return /Interest earned	503,310	117.05	231,883	-10.06	257,811
Markup expense	386,474	187.80	134,285	-12.60	153,652
Capital gain & dividend income	6,193	-42.22	10,718	9.95	9,748
Profit after tax	30,410	8.58	28,008	-8.35	30,559
Bills payable	55,268	152.97	21,848	30.09	16,795
Borrowings	1,940,486	520.11	312,925	125.88	138,539
Deposits & other accounts	2,666,184	-11.69	3,019,155	37.36	2,198,049
Non-performing loans	205,300	3.72	197,938	15.55	171,294
Return on equity	12.68%	-6.07	13.50%	-21.51	17.20%

The markup/Return/interest earned by the Bank increased by 117.05%, from Rs 231,883 million in 2021 to Rs 503,310 million in 2022 due to high interest rates. Markup expense/payments has seen a drastic increase of 187.80% during 2022, from Rs 134,285 million in 2021 to Rs 386,474 million in 2022. This higher increase has overshadowed the interest earned, which is mainly due to payments to depositors at higher interest rates prevailing during 2022 and securities sold under repurchase agreements (Repo & Reverse Repo).

8.2.2.2 Capital gain & dividend income declined by 42.22%, from Rs 10,718 million in 2021 to Rs 6,193 million in 2021. This change is mainly due to weak economic conditions in the country, investments in non-dividend paying companies and less diversification of investment portfolio.

8.2.2.3 Bills payable of the bank reflected an increase of 152.97%, from Rs 21,848 million in 2021 to Rs 55,268 million in 2022, which shows NBP's liability on account of import LCs.

8.2.2.4 Borrowings of NBP increased by 520.11%, from Rs 312,925 million to Rs 1,940,486 million in 2022, this increase shows that NBP has entered into short term agreements and purchase securities from market for investment purpose.

8.2.2.5 Deposits & other accounts witnessed a decline of 11.69% during 2022, from Rs 3,019,155 million in 2021 to Rs 2,666,184 million in 2022; this major decrease is due to decline in deposits of financial institutions.

8.2.2.6 Non-performing loans of NBP has been increased by 3.72%, from Rs 197,938 million in 2021 to Rs 205,300 million in 2022. This is an indicator of slow or poor loan & recovery management.

8.2.2.7 Return on equity, a key performance indicator seen a decline of 6.07% in 2022, from 13.50% in 2021 to 12.68% in 2022, this decline is mainly due to decrease in surplus on revaluation of assets.

8.2.2.8 Debt to equity ratio has seen an increase of 1.70% in 2022; debt is 94.26% of equity in 2022 as compared to 92.56% in 2021, this is due to increase in overall debts of the bank.

8.2.2.9 Current ratio of the bank is 1.0493 times in 2022 as compared to 1.0802 in 2021. Decline of 0.03 times is due to increase in liabilities of the bank.

8.2.3 Compliance of PAC Directives

There were no pending PAC directives for compliance.

8.2.4 Audit Paras

8.2.4.1 *Loss due to defaulted loans against in-adequate guarantees – Rs 190,710.790 million*

Section 15(4) of Financial Institutions (Recovery of Finance) Ordinance, 2001, states that where a mortgager fails to pay the amount and after the due date given in the final notice has expired, the financial institution may, without the intervention of any Court, sell the mortgaged property or any part thereof by public auction and appropriate' the proceeds thereof towards total or partial satisfaction of the outstanding mortgage money.

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that the management granted various types of loans to different borrowers, but failed to safeguard and recover advances/ loans of Rs 190,710.790 million (Annex-38) from the concerned parties. Resultantly, the management considered it as a loss and accordingly made its provision and might convert into write off.

Audit is of the view that the non-recovery of loans on time was poor financial management and violation of recovery policy causing huge losses to the organization.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that properties were mortgaged of all borrowers with NBP, some cases were under litigation. However, an amount of Rs 12,439.30 million has been recovered. The DAC directed to make efforts for early recovery, pursue the legal cases and auction the mortgaged property as per Ordinance.

Audit recommends implementation of the DAC directives.

8.2.4.2 Non-recording of contingencies / provisioning in respect of pensionary benefits to retired employees - Rs 89,700.000 million

Rule 5 of Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that employees of the Bank were getting pension in compliance with Federal Government instructions letter No.17(9) 17 XI/ 177 dated November 30, 1977. However, the management vide Circular No.371/1999, revised the formula for monthly gross pension of Bank employees, effective from January 01, 1999. After attaining the age of superannuation, the employees filed Writ Petitions before the Lahore High Court and the Peshawar High Court, praying for re-calculation of their pensionary benefits and increases and furthermore, for allowing the increases in their pension as per the increases allowed by the Federal Government to its employees in the year 2010 & 2011. The Lahore High Court decided the matter in favour of employees and also dismissed the Intra Court Appeals filed by Bank. The Honorable Supreme Court of Pakistan vide its judgement dated September 25, 2017 upheld the decision of the Lahore High Court. Later on, the Bank filed review petitions against the aforesaid judgment which was still pending.

Further, the management did not record the contingent liability / make provisioning in respect of pensionary benefits to retired employees amounting to Rs 89,700.000 million in Annual Report 2022.

Audit is of the view that non-recording of the contingent liability/ provisioning of pensionary benefits resulted into overestimation of assets and underestimation of liabilities which reflected poor financial management.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that based on opinion of the legal counsel, the bank believes that outcome of the case would be favourable. Accordingly, no provisioning was made. The DAC directed the management to pursue the case vigorously and clarification regarding recording of contingent liabilities may also be sought from SECP. Further, share the total legal and professional expenses incurred in respect of subject case since inception to Audit.

Audit recommends implementation of the DAC directives.

8.2.4.3 Loss due to granting financing / credit facilities to the company involved in fraudulent activities – Rs 23,866.381 million

Clause 9.12.5 of Chapter 9 of Credit Management Policy of NBP requires that an important component to be assessed in Credit investigation process. It involves determining respectability, reputation and commercial integrity of the borrower i.e. Borrower's relationship with the suppliers/ customer and

commitment towards satisfying the trade related obligations and debt repayment” and CPB clause 14.72 requires to discuss Major suppliers and Major Customers (buyers) in Credit Proposals.

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that the management extended various financing / credit facilities without keeping in view the relevant prudential regulations while granting such facilities to M/s Hascol Petroleum Limited, without assessing its financial worth. The details of financing facilities extended by the Bank are given as under:

(Rs in million)				
S #	Finance Facility	Date of finance	Amount of Principal	Total outstanding with mark up as on 31.08.2022
1.	Term loan	09.03.2016	500.00	115.989
2.	Term loan	22.05.2018	1,050.00	853.261
3.	Term Loan	21.05.2018	600.00	422.811
4.	FPAD (forced payment against documents)	2016 to 2020	35,645.71	12,465.43
5.	Running Finance facility	18.10.2018	15,356.19	1,206.15
6.	Restructured term loan	22.06.2020	7,100.55	8,605.47
7.	Diminishing Musharakah		500.00	197.27
Total				23,866.381

Following irregularities were observed:

1. Personal and corporate guarantees held by NBP as security were removed and un-tagged without clearance/adjustment of loans in credit committee 613th meeting dated November 21, 2017.
2. SEVP, corporate banking group recommended and allowed routing of credit proposal through his own group instead of routing it through investment banking group.
3. Group chief CIBG recommended and allowed additional running finance facility of Rs 1,000 million vide credit committee meeting 613th dated November 21, 2017 HPL against the security of stocks and receivables that were already encumbered against LC lines.
4. Instead of reducing exposure, aggressive exposure was allowed to the company despite oil industry was facing many challenges in 2018 and decline in profitability of most of oil refineries and OMCs at that time including HPL, increased letter of credit facility from Rs 12,000 million to Rs 18,000 million on October 01, 2018.
5. Allowed charge up-gradation deferrals and opening of LC in presence of overdue FATR/FPADs (forced payment against documents).

6. Allowed restricting facilities i.e. conversion of short term facilities into long term facilities.
7. Allowed and converted defaulted LCs of Rs 8,000 million to long term loan and LC line was reduced to Rs 10,000 million from Rs 18,000 million.
8. Again allowed opening of LCs in presence of overdue to utilize full LC limit of Rs 18,000 million just lapse of about one month.
9. Condition of maintaining FPADs at the level of Rs 8,000 million for restricting was also relaxed.
10. Subsequently management filed a law suit No. B-47 of 2022 against the defaulter in the High Court of Sindh.

The FIA has submitted challan against 11 officers in the law Court, whereas 08 officers resigned from NBP before the case surfaced and received all end service benefits (Annex-39).

Audit is of the view that the management unjustifiably granted financing facilities and extended undue favor to the involved officers which needed to be probed at highest level.

The matter was reported to the management on October 23, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that disciplinary action against the concerned employees were under process and legal proceedings against the company were started. DAC directed to take action against the involved employees of NBP and pursue the legal case properly for recovery of amount and share inquiry report with Audit.

Audit recommends implementation of the DAC directives.

(DP No. 832 & 835)

8.2.4.4 Default of loan by sugar mills - Rs 23,348.040 million

Section 15(4) of Financial Institutions (Recovery of Finance) Ordinance, 2001, states that where a mortgager fails to pay the amount and after the due date given in the final notice has expired, the financial institution may, without the intervention of any Court, sell the mortgaged property or any part thereof by public auction and appropriate' the proceeds thereof towards total or partial satisfaction of the outstanding mortgage money.

During audit of National Bank of Pakistan (NBP) for the year 2022, it was observed that the management granted advances / loans of Rs 15,283.000 million to various sugar mills (Annex-40). However, management failed to recover the amount of loan from the above parties and the amount was shown as a loss. This indicated that the loans/advances were not properly secured as per prevailing policies of SBP which resulted in non-repayment of loan of Rs 23,348.040 million (principal Rs 15,283.000 million & interest Rs 8,065.040 million).

Audit is of the view that non-recovery of loans tantamount to gross negligence and weak financial management by the NBP authorities which resulted in massive loss to the bank.

The matter was reported to the management on November 06, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that efforts were being made to recover the amount from defaulted sugar mills. The DAC directed the management for early recovery of defaulted amount and pursue the case vigorously and also directed to place the para before PAC.

Audit recommends implementation of DAC directives.

8.2.4.5 Non-recovery of loan from the borrowers at NBP Hyderabad Region - Rs 18,079.65 million

Section 15 (4) of the Financial Institutions (Recovery of Finances) Ordinance, 2001 states that where a mortgagor fails to pay the amount as demanded within the period prescribed under sub-section (2), and after the due date given in the final notice has expired, the Financial Institution may, without the intervention of any Court, sell the mortgaged property or any part thereof by public auction and appropriate the proceeds thereof towards total or partial satisfaction of the outstanding mortgage money.

During audit of National Bank of Pakistan (NBP), Hyderabad Region for the year 2022, it was observed that management granted/renewed/enhanced financing facilities to the borrowers under various categories at NBP Hyderabad region, who defaulted in repayment of their loans of Rs 18,079.65 million. The detail is given as under:

S#	No of Borrowers	Category	Rs in million
1.	1940	Irregular	17,661.78
2.	145	Substandard	168.21
3.	504	Watch list	249.66

Total	2589		18,079.65
--------------	-------------	--	------------------

It was further observed that in some defaulted cases, the borrowers were near to default or defaulted and to the same borrower was granted another loan as enhancement / restructuring of the previous loan with opening of a new bank account in the same branch. This restructuring was done without recovery of previous loans in violation of rules.

Audit is of the view that non-recovery and subsequent restructuring of loans was irregular and against the rules to give undue favor to the selected borrowers.

The matter was reported to the management on November 06, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that enhancement in loan were made after recovery of previous loans and bank authorities were making efforts for recovery of outstanding loans. DAC directed the management to provide relevant record for verification and make efforts for early recovery of remaining amount.

Audit recommends implementation of DAC directives.

8.2.4.6 Loss due to allowing excess salary to the MTOs - Rs 17,500.000 million

Rule 5(1) of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the directors of a Board shall be persons who, in opinion of the Government, shall assist the Public Sector Company to achieve its principal objective and the Board shall accordingly exercise its powers and carry out its fiduciary duties with a sense of objective judgment and in the best interest of the company.

During audit of National Bank of Pakistan (NBP) for the year 2022, it was observed that the management allowed salary to the Management Trainee Officers in excess of salary paid to the regular employees. The regular employees challenged the decision of management in High Court of Sindh, Sukkur which was decided in their favor. The management challenged the decision in the Supreme Court of Pakistan, which was also decided in the favor of regular employees. Subsequently, management opted for out of court settlement with the regular employees and had to pay an amount of Rs 17.5000 billion to the employees as difference of pay and allowances.

Audit is of the view that the management extend undue favor to the newly recruited officer, while fixation of salary beyond the minimum approved salary, which caused continuous burden on the Bank.

The matter was reported to the management on December 21, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that the enhanced salary was allowed as per advertisement and new structured posts. DAC directed to share the relevant documents with Audit.

Audit recommends implementation of DAC directives.

8.2.4.7 Loss to national exchequer due to loan default– Rs 17,200.570 million

Rule 5 (1) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the board shall exercise its power and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that the management granted two advances/ loans of Rs 10,302.350 million and Rs 6,898.210 million to M/s Tuwairqi Steel Mills Limited without observing the financial position of company and obtaining proper security against loans. In September, 2014 company defaulted in repayment of loan amounting to Rs 17,200.570 million.

Audit is of the view that the management failed to follow the policy of securing the advances and extended undue favor by non-recovering and non-filing of suit in the Court against the party. Thus, national exchequer sustained a loss of Rs 17,200.570 million excluding interest.

The matter was reported to the management on October 31, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC about the latest status of defaulted loans. The DAC directed to place the para before the PAC.

Audit recommends implementation of DAC directives.

8.2.4.8 Non-recovery of loan from borrowers of various categories – Rs 17,120.710 million

Section 15 (4) of the Financial Institutions (Recovery of Finances) Ordinance, 2001 states that where a mortgagor fails to pay the amount as demanded within the period prescribed under sub-section (2), and after the due date given in the final notice has expired, the Financial Institution may, without the intervention of any Court, sell the mortgaged property or any part thereof by public auction and appropriate the proceeds thereof towards total or partial satisfaction of the outstanding mortgage money.

During audit of National Bank of Pakistan (NBP) for the year 2022, it was observed that the management granted/renewed/enhanced financing facilities to the borrowers amounting to Rs 17,120.710 million (Annex-41) under various categories, the borrowers defaulted and repaying their loan not in time, due to which the same has been categorized as irregular and on watch list.

Audit is of the view that the management failed to pursue the cases of repayment of loans by the borrowers which reflects negligence and poor recovery mechanism.

The matter was reported to the management on December 06, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that this is regular portfolio and varies from time to time. DAC directed the management to recover the amount at earliest.

Audit recommends implementation of DAC directives.

8.2.4.9 Posting of suspicious entries in blocked head of account – Rs 9,338.050 million

Clause 2(a) of the agency agreement between State Bank of Pakistan and National Bank of Pakistan made on this day of 2022 states that:

- (a) To collect taxes, duties, fees, levies and receipts of whatever description or nomenclature [hereinafter referred to as "receipts"], of the Federal Government, Provincial Governments and District Governments;
- (b) To effect payments of Federal Government, Provincial Governments and District Governments;
- (c) To maintain separate counters at the designated branches dealing with Government receipts and payments wherever prescribed by the Bank and agreed by the National Bank.

During audit of National Bank of Pakistan (NBP) Head Office, Karachi and special study of Role of NBP as agent of SBP for the years up to 2022, it was observed that the management at Shikarpur Branch collected government receipts and posted an amount of Rs 9,338.050 million from July 2021 to June, 2022 in the blocked head of chart of account. The detail is given as under:

Branch Name	BRCOD	ZAHEAD	ZPROV	Prov	Category	CAN	Total (Rs)
MB Shikarpur	61	B02105	FED	F	B AND C	11646205	9,388,054,241

As per Chart of accounts, the above head of account 'B02105' pertaining to "Sea Custom" was marked as blocked and non-functional. However, the management entered the collection and posted the amount into blocked head of account.

Audit is of the view that the chances of deliberate posting of entries of revenue collection in the blocked head of account reflects negligence and slackness.

The matter was reported to the management on October 24, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that blocked Head of account was not in the knowledge of branch, however the amount was transferred to the Federal Government account. DAC directed the management to provide relevant record for verification.

Audit recommends implementation of DAC directives.

8.2.4.10 Default of loan regarding import financing and investment – Rs 9,055.680 million

Rule5(1) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the board shall exercise its power and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that the management granted advances/loans amounting to Rs 5, 771.230 million to M/s ASG Metals for the purpose of import financing and investment during the years 2012 to 2021(Annex-42). However, the management failed to recover the amount of loan and the amount had been shown as loss

which indicated that the loans/advances were not properly secured. Further, the party continued default in repayment of loan and additional loans were granted without receiving the previous payments and party defaulted in repayment of loan Rs 9,055.68 million (Rs 5,771.230 million principal and Rs 3,284.290 million interest).

Audit is of the view that the management extended undue favor to the defaulted party by granting continuous loans against the SOPs thus causing massive losses to the bank.

The matter was reported to the management on November 01, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC about the latest status of defaulted on import financings. DAC maintained the para to be decided by PAC.

Audit recommends implementation of DAC directives.

8.2.4.11 Unjustified enhancement of HBF advance to employees - Rs 8,687.700 million

Rule 5 (5) of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders, in the following manner, namely:- (a) the principle of probity and propriety entails that company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage."

During audit of National Bank of Pakistan (NBP) for the years 2022, it was observed that management of NBP granted House Building Finance advance at nominal markup rate to its employees and allowed frequent enhancement after every three years. Following irregularities were observed in HBF loan to the employees (Regular/contract):

1. House Building Advance was granted to the employees on nominal interest rate of just 3% against the SBP approved rate of 18%. In 2022 an amount Rs 57,918.000 million of HBA was outstanding against NBP employees on which NBP was charging less interest amount of Rs 8,687.700 million (18% - 3% = 15%).
2. HBA policy of government allows advance equal to 36 basic salaries of the employees, whereas the bank allowed 180 basic salaries of NBP employees.
3. The government of Pakistan has allowed maximum three times house building advance subject to clearance of previous HBF loan, whereas the bank is frequently allowing enhancement/revision of HBA after every three years/ on promotion without clearing previous HBF loan.
4. On enhancement of HBA, the property is revalued by the NBP evaluators and the evaluators mostly evaluate the value of property more than its revised enhancement entitlement. This indicates that the valuation of property is not properly made as per actual market value, as in one case while review, the value of property was Rs 500,000 in small town of Sindh in 2003 and it was revalued in 2022 for more than Rs 60,000,000, which seems illogical.

Audit is of the view that the management was providing undue favor to its employees which needed to be reconsidered.

The matter was reported to the management on December 13, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that follows the industry practice and HR policies in HBF loan. DAC maintained the para to be decided by PAC.

Audit recommends implementation of DAC directives.

8.2.4.12 Loss due to poor performance of groups -Rs 7,507.000 million

Section 4(3) of Public Sector Companies (Corporate Governance), 2013 Rules states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During the audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that the management changed the organizational structure and introduced various new groups but the performance of following groups in terms of profit / (loss) was declining. The collective loss of the 04 groups was Rs 7,507.000 million as detailed below:

Rs in million (As of 31.12.2022)

Group name	No. of Employees	Profit/(Loss) before Tax		
		2020	2021	2022
Inclusive Development Group (IDG)	633	(1,226)	(1,559)	(5,331)
Corporate and Investment Banking Group (CIBG)	161	(18,690)	(2,713)	1,926
International, Financial Institution and Remittance (IFRG)	82	(975)	(1,168)	(1,366)
Special Asset Management Group (SAMG) / Head Office	86	(9,418)	(6,744)	(2,736)
Total		(30,309)	(12,184)	(7,507)

Audit is of the view that due to poor financial management and weak administrative controls the above groups were making huge losses which needed to be justified.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC about the reasoning of losses in each group. DAC pended the para to be decided by PAC.

Audit recommends implementation of DAC directives.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year 2022-23 vide para(s) number 6.2.4.1 having financial impact of Rs 70,087.670 million. Recurrence of same irregularity is a matter of serious concern.

8.2.4.13 Mismanagement of bank funds - Rs 5,793.000 million

As per the NBP document Finances/Bills General Instructions (Operation)

- i) The commodities pledged with the bank should be of current season and readily saleable.
- ii) Stocks pledged for more than six months is a symptom of watch list
- iii) The stocks pledged with the bank must tally with mucaddum / godown keeper's register, branch stock register and party stock register.
- iv) No withdrawal from stocks should be allowed without delivery order.

During audit of National Bank of Pakistan (NBP) for the year 2022, it was observed that M/s Omni group started acquiring financings from NBP since 2008 and a sharp rise in financings was seen during 2012 to 2017. The borrower made shortages of stocks, late repayments of principal / markups, and reported incidents of fraudulent activities. NBP financed cash finance pledge to the extent of Rs 5,793.000 million. It was noted that 90% of bank's funds were utilized in other businesses and only 10% of the financing was available for stocks. The total NBP financed cash pledge was Rs 5,793.000 million against the security of Rs 565.000 million.

Audit is of the view that despite negative reports of mucaddums and non-payment of loans management continued to extend undue favor to the defaulted party against the interest of bank which was irregular and unjustified.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC about the latest status of OMNI group defaulted loans. DAC maintained the para to be decided by PAC.

Audit recommends implementation of DAC directives.

8.2.4.14 Irregular restructuring and non-recovery of loan – Rs 4,212.810 million

Section 15 (4) of the Financial Institutions (Recovery of Finances) Ordinance, 2001 states that where a mortgagor fails to pay the amount as demanded within the period prescribed under sub-section (2), and after the due date given in the final notice has expired, the Financial Institution may, without the intervention of any Court, sell the mortgaged property or any part thereof by public auction and appropriate the proceeds thereof towards total or partial satisfaction of the outstanding mortgage money.

During audit of National Bank of Pakistan (NBP) for the years 2022, it was observed that the management restructured the loan of M/s JK Sugur Mill without prior approval of the Board of Directors of NBP. The detail of outstanding loans are as under:

S#	Name of Party	Type of finance	Principal Amount (Rs in million)

1.	JDW Sugar Mills	Demand Finance II	1,068.444
2.	JK Sugar Mill (Formerly AKT)	Demand Finance	1,360.227
3.	JK Sugar Mills	Cash Finance Pledge	691.168
4.	JK Sugar Mills	Demand Finance	1,092.975
Total			4,212.814

Audit is of the view that instead of taking legal action against the defaulter, the management restructured the loans irregularly thus causing losses to the bank.

The matter was reported to the management on December 12, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that Out of Rs 4,212.810 million, Rs 1,199.99 million was recovered as provided in bank statement of JK Sugar. DAC directed the management to get the recoveries verified from audit.

Audit recommends implementation of DAC directives.

8.2.4.15 Loss due to default in repayment of salary advances – Rs 1,827.05 million

Clause 6.1.3 of Credit Policy Manual of NBP defines clear exposure as Financing facility granted without securities including those granted against personal guarantees shall be deemed as ‘clean’ for the purpose of this regulation.

The employer undertaking while granting advance salary states that “we irrevocably undertake that the salary and all other employment related remuneration and payments, including settlements, retirement or end service benefits relating to this employee will only be paid through above stated NBP bank account till the employee has repaid all amounts outstanding and would not be transferred to any other bank/branch unless prior NOC/written confirmation is obtained from NBP Branch Manager/ authorized signatory at the above noted branch.”

During audit of National Bank of Pakistan (NBP) for the year 2022, it was observed that the management granted salary advances to the government/private employees from 2002 to 2022, out of which 9,632 employees defaulted in repayment of salary advances amounting to Rs 1,616.700 million. As per above undertaking, employer in addition to the borrower (employee) was bound to repay the loan granted to the employee of his department, as the loan was granted as ‘Clean’ i.e. on the personal guarantees as defined above. The borrowers were freely transferred and retired without settlement of dues, and the management failed to recover the amount of Rs 1,616.700 million from concerned employee/ department and no action was taken to recover despite undertaking from the employee as well as concerned Department (Annex-43).

It was also observed that the management granted salary advances to the government/private employees from 2012 to 2022 in different regions, out of which 572 employees were not repaying their installment of loan regularly against whom an amount of Rs 210.350 million was outstanding as on December 31, 2022.

Audit is of the view that the management failed to pursue the case of outstanding dues of salary advances properly, due to which the cases of such category 'sub-standard' turn into default/loss.

Audit is of the view that non-recovery of loans and advances was poor financial management and weak internal controls of the management which was unjustified.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that efforts were being made to recover the amount. DAC directed the management to recover the amount at the earliest.

Audit recommends implementation of DAC directives.

(DP No. 849 & 858)

8.2.4.16 Non-closure of branches on time caused outflow of foreign exchange - Rs 1,386.671 million

According to condition No.II of SBP letter No. SBPHOK-EPD-INVTTCR-NBP-204866 dated 24-04-2022, (II)The bank (NBP) shall immediately initiate the branch closure procedure, as approved by their BoD, and gather necessary approvals to finalize the closure of the Paris Branch with minimum possible time but before the end of September 2022.

According to Rule No.33 of Governance Framework for Bank Overseas Operations issued by SBP the bank shall conduct a cost benefit analysis of its overseas Representative Offices on periodic basis and shall consider closing those offices that do not provide any net financial benefit to bank. In cases where bank wants to continue those offices despite the fact that they do not provide any net financial benefit to bank, proper reasons & justifications should be recorded for such a decision at board level.

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that the management operated various foreign branches in different regions which were loss making as detailed below:

(Rs in million)				
Particulars	Chittagong Branch	Baku Branch	Paris Branch	Total Loss
Total Assets	749.876	1,182.751	1,645.595	647.471
Total Liabilities	839.113	30.452	598.472	
Loss for the period	89.672	40.606	517.193	

It was also observed that in April 2022 due to continuous operational losses and stagnant operational status, management decided to close its Paris branch. SBP approved closure of Paris branch with the timelines of September 2022, but the same was not closed till December 2022. During this time, compliance requirements of Paris Central Bank were changed which required further injection of Euro 3.08 million equivalent to Rs 739.20 million (EURO 3,008,000 * Rs 240).

Audit is of the view that non-closure of bank branch on time caused additional outflow of foreign exchange which reflected negligence and poor planning.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024.

- a) The management informed the DAC that operational losses were incurred due to Covid-19 and penalties by regulators. DAC pended the para to be decided by PAC.
- b) The management informed the DAC that due to change in regulatory requirements in France, injection of EURO 3.08 million was inevitable. DAC directed the management to justify the delay in closure of Paris branch.

Audit recommends implementation of DAC directives.

(DP No. 853, 854 & 859)

8.2.4.17 Irregular grant of enhanced loan to the defaulter – Rs 1,327.360 million

Section 15 (4) of the Financial Institutions (Recovery of Finances) Ordinance, 2001 states that where a mortgagor fails to pay the amount as demanded within the period prescribed under sub-section (2), and after the due date given in the final notice has expired, the Financial Institution may, without the intervention of any Court, sell the mortgaged property or any part thereof by public auction and appropriate the proceeds thereof towards total or partial satisfaction of the outstanding mortgage money.

Sr. No. 14 of the sanction advice dated 10.07.2023 mentions that repayment of loan would be made from own sources in lump-sum.

During audit of National Bank of Pakistan, Hyderabad Region for the year 2022, it was observed that management granted/renewed/enhanced financing facilities to 3,673 borrowers under various categories at NBP Hyderabad region, who defaulted in repayment of their loans amounting to Rs 1,327.36 million during 2022. In most of defaulted cases, the management facilitated the defaulter by granting another enhanced loan with opening of new bank account while hiding its previous default account history.

Audit is of the view that non-recovery and subsequent enhancement of loans was irregular and against the rules to give undue favor to the selected borrowers.

The matter was reported to the management on December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that enhancement in loan were made after recovery of previous loans and bank authorities were making efforts for recovery of outstanding loans. DAC directed the management to provide relevant record for verification and make efforts for early recovery of remaining amount.

Audit recommends implementation of DAC directives.

8.2.4.18 Misappropriation by bank staff – Rs 1,125.870 million

According to clause 40 (b) of the National Bank of Pakistan Staff Service Rules, 2021, the act of Misconduct includes “theft, fraud, dishonesty, misappropriation, or embezzlement in connection with employer’s business or property”.

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that the employees of NBP committed frauds at various branches as detailed below”

- i. Following employees of Phulelli Branch Hyderabad, were found involved in fraud and parallel banking by issuing Term Deposit Receipts (TDR) and Call deposit Receipts (CDR) without recording in books of accounts, utilizing bogus check books with fictitious account numbers, Government payments. An amount of Rs 1,026.470 million was found misappropriated during the year 2020 to 2022.

S#	Name of Official	Description
1.	Mr. Noor Ahmed Chandio	OG-1/Head Cashier (Criminal negligence)
2.	Mr. Muneer Hussain	OG-I/Head Cashier (Criminal negligence)
3.	Mr. Altaf Hussain Gopang	OG-III/Operation Manager (Criminal negligence)
4.	Mr. Aftab Hussain Shaikh	OG-III/Operation Manager(Criminal negligence)
5.	Mr. Muhammad Ismail,	OG-1/Remittance Officer(Criminal negligence)
6.	Mr. Muhammad Asim	VP/Regional compliance & Control head (negligence)
7.	Mr. Muhammad Imran	AVP/Regional Manager Operation (Negligence)

- ii. Mr. Samiullah Memon & others embezzled /pocketed Rs 69.964 million of demand finance gold loan accounts of NBP Qasimabad Branch, RO Hyderabad. However, no recovery was made.

- iii. Mr. Umar Asghar Qureshi, VP and Mr. Usman Arshad, OG-II were involved in fraudulent activities at NBP Jinnah Colony branch and Peoples Colony branch, RO Faisalabad markup on demand finance gold through various fraudulent entries which caused loss of Rs 22.456 million to the bank.
- iv. Mr. Safdar Lashari (OG-II) withdraw Rs 6,978,297 fraudulently at Gulistan-e-Johar Branch Karachi. He managed to transfer the amount mostly to his brother's account from different account holders. The officer was dismissed/terminated from service on 25-05-2022 on the charge of unauthorized absence with advice to adjust all direct/indirect liabilities against him, his guarantor is liable to pay the same, failing which recovery suit will be filed against the employee as well as his guarantor. He was promoted from typist to OGIII & OG-II officer without fulfilling the criteria.

Audit is of the view that due to weak internal controls employees committed frauds/misappropriation which needed to be curbed and action be taken against the culprits.

The matter was reported to the management on December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that the incumbent were involved in misappropriation of funds and action was taken in light of investigations. DAC directed the management to provide relevant record and efforts be made to recover of fraudulent amount.

Audit recommends implementation of DAC directives.

(DP No. 851, 862, 870 & 877)

8.2.4.19 Irregular expenditure on various head of accounts - Rs 901.009 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that Finance Control Group failed to provide GLs / Subsidiary GLs of following operating expenditures amounting to Rs 901.009 million along with supporting documents/ vouchers etc. despite issuance of reminders.

(Rs in million)		
S#	Description	Amount
1.	Advertisement	204.311
2.	Furniture & fixture	6.290
3.	Janitorial services	98.00
4.	Retainer-ship fee	6.00
5.	Repair & maintenance other than HO	50.00
6.	Motor car fuel	25.00
7.	Repair & maintenance of vehicles	9.784
8.	Motor car taxes	66.504
9.	Outsource charges	112.480
10.	Professional & consultancy charges	82.00
11.	Rent paid on office premises	16.00
12.	Cafeteria	48.00
13.	Water tanker charges	11.00
14.	Sponsorships	22.640
15.	Security services	143.00
Total		901.009

Audit is of the view that non-provision of record was a serious lapse as audit could not examine the expenses and payments amounting to Rs 901.009 million.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that the GLs were provided to audit through email whereas physical voucher / record were available and could be inspected by audit. The DAC directed the management to provide all record to Audit without further delay.

Audit recommends implementation of the DAC directives.

8.2.4.20 Loss due to waiver/written off loan of sugar mill – Rs 742.88 million

Rule 5(1) of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the directors of a Board shall be persons who, in opinion of the Government, shall assist the Public Sector Company to achieve its principal objective and the Board shall accordingly exercise its powers and carry out its fiduciary duties with a sense of objective judgment and in the best interest of the company.

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that the management written off an outstanding amount of Rs 742.880 million of M/s Ansari Sugar Mills Limited (ASML). M/s ASML availed loan in 1990 and defaulted in September 1997. The recovery suit was filed for Rs 535.472 million, which was decreed in favour of NBP against guarantors/sponsoring directors of ASML. Later, sponsoring directors offered for out of court settlement of Rs 326.000 million against the principal outstanding of Rs 308.00 million, which was accepted and accordingly decree was set-aside in 2008 an additional finance facility of Rs 150.000 million and Rs 200.000 million was approved by the Credit Committee in its 192nd and 198th meeting held on 10-11-2008 and 30-12-2008, respectively.

The Special Assets Management Group (SAMG) submitted on January 29, 2009 for approval of settlement of total liabilities of Rs 956.437 million of ASML at Rs 213.551 million with waiver of Rs 192.532 million and reversal of Rs 550.354 million, which was approved by BoD in its 179th meeting dated March 18, 2009 and Rs 213.551 million to be settled by the client in cash after 10 years i.e. by January 31st, 2019 on terms specially, ASML to pledge DSC of Rs 72.000 million as additional security till the recovery of settlement amount and NBP to retain the 1st charge but release the pledge shares in lieu of additional security of DSC of Rs 72.000 million, to be kept under lien with NBP till recovery of entire settlement. However, an amount of Rs 742.880 million was written off despite decree in favor of NBP.

Audit is of the view that the management extended undue favor to the defaulter and waived of huge amount against the interest of the bank which was irregular and unjustified, which needed to be probed.

The matter was reported to the management on December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that recovery of Rs 213 million has been made in this regard. The DAC directed the management to provide the relevant record regarding write off and get the recovery verified from Audit.

Audit recommends implementation of DAC directives.

8.2.4.21 Payment of mandatory deductions to service provider without due diligence - Rs 708.798 million

According to clause 6 of service level agreement (SLA) executed between NBP and M/s Icon consultates private limited, service provider shall be liable/ responsible for all its liabilities on account of any regulatory or non-regulatory payments including but not limited to taxes, duties, charges, minimum wages gratuity, EOBI, social security, group life insurance, health insurance, indemnity & fidelity insurance, miscellaneous charges, uniforms, training or any other expenses / cost borne by the company. Record of all such paid taxes/ charges/ EOBI/ social security, etc. shall be providing by service provider to the concerned NBP representatives if and when required.

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that the management awarded outsource services contract to M/s. Icon Consultants (Pvt.) Ltd in 2022, before award to this contract M/s Icon was providing outsource services to NBP since 2012. In compliance of rules management was paying monthly charges on account of EOBI, SESSI, group life insurance, and gratuity & indemnity & fidelity insurance to the contractor on monthly basis. However,

proof regarding deposition of deductions and registration of workers with authorities was not available with management. Detail of payment made to contractor is tabulated below:

Monthly contribution (Rs)					
No of HR deployed	Cost of Gratuity	GL Insurance Cost	EOBI Cost	SESSI/ PESSI Cost	Insurance Cost
1,211	2,500	100	1,250	1,800	125
Total of deductions of last one year = (Monthly deduction per resource Rs 5,775*1,211 No. of Resource*12 months= Rs 83.922 million)					
Estimated cost of Social Security contribution paid by the NBP since 2012(Amount in Rs)					
Monthly deduction per resource Rs 1,800*1,211 No. of Resource*12 months*10 years=Rs 261.576 million					

It was also observed that the management paid Rs 363.300 million gratuity to M/s Icon for third party employees. However, the contractor did not pay gratuity to the employees on expiry of service level agreement as detailed below:

Estimated cost of gratuity paid by the NBP since 2012(Amount in Rs)
Monthly deduction per resource Rs 2,500*1211 No. of Resource*12 months*10 years=Rs 363.300 million

Audit is of the view that non-transferring of benefits to the third party employees was a serious negligence on the part of contractor which bank authorities need to monitor strictly.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that NBP diligently follows and pays regulatory payments/ charges to service provider as per SLA. The service provider also assured that employees were also registered with EOBI/ SESSI etc. As far as gratuity is concerned, it is part of end service benefits and according to the OSP they have released the gratuity to those resources who have separated from the services. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

8.2.4.22 Inordinate delay in recovery of outstanding house building finance loan - Rs 449.662 million

Clause 6.0 of Staff Loan Policy of NBP states that if an employee resigns from the Bank's service or his/ her service is terminated/ dismissed for any reason whatsoever before complete recovery of the finance, the amount outstanding against him/ her shall be recovered in lump sum with mark-up before release of his end service benefits.

The branch manager/ operation manager of loan disbursing branch will initiate the process of loan recovery along with markup through legal action in case of default and, if needed, the assets recovery group will also take necessary action for recovery process.

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that the management provided house building finance loan facility to its employees. The

entitlement amount of loan was ranging from 150 to 180 basic pays at the rate of 3% markup per annum against the mortgaged properties. It was also observed that amount of Rs 449.662 million was outstanding / recoverable from ex- / suspended/ terminated etc employees since many years. However, neither the management takes any action against the defaulters nor tried to recover the loan through disposal of mortgaged properties. (Annex-44).

Audit is of the view that non-recovery of outstanding loan from ex-employees reflected weak internal controls & poor financial management.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that most of the highlighted cases pertain to the staff who were dismissed from bank service and the bank has not released their end service benefits. Bank is making efforts for recovery / settlement of the loans. The DAC directed the management share the efforts/action taken for recovery of loan and expedite the recovery process under intimation to Audit.

Audit recommends implementation of the DAC directives.

8.2.4.23 Irregular payment made to the service provider - Rs 377.671 million

According to agreement executed between NBP and M/s Icon (outsource service provider), the service provider was liable to provide all such record to the concerned NBP representatives if and when required.

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that management awarded a contract to M/s Icon for deployment of employees/ resources required by NBP at its various offices/ premises, etc. Audit requisitioned the record for examination which was not provided by the management as follows:

- i. Premises wise monthly attendance record of all outsourced employees for the last 2 years (soft/hard) and performance/ evaluation report of contractor.
- ii. Total amount paid on account of service wages plus additional services.
- iii. Detail of advance payments made to the contractor and onsite visit reports.
- iv. Original performance guarantee, equivalent to two percent (02%) of the gross payments along-with verification report.
- v. Rating of commercial bank who provided the performance guarantee.
- vi. Proof regarding deposition of taxes and other mandatory deductions.

Audit is of the view that non-provision of record was a serious lapse as audit could not examine the genuineness and actual deployment of resources.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that most of the record was provided to audit through emails. However, some record could not be provided as the

requisitioned record was available at regional offices/ branches/ other wings. The DAC directed the management to provide all relevant record to Audit for scrutiny/ examination.

Audit recommends implementation of the DAC directives.

8.2.4.24 Loss due to settlement with the defaulter – Rs 307.199 million

Section 15 (4) of the Financial Institutions (Recovery of Finances) Ordinance, 2001 states that where a mortgagor fails to pay the amount as demanded within the period prescribed under sub-section (2), and after the due date given in the final notice has expired, the Financial Institution may, without the intervention of any Court, sell the mortgaged property or any part thereof by public auction and appropriate the proceeds thereof towards total or partial satisfaction of the outstanding mortgage money.

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed the management filed the case against M/s Cast-N-Link for recovery of defaulted amount Rs 272.675 million. The High Court of Sindh vide decision dated July 2015 decided the decree in favour of NBP. However, the management made out of court settlement with defaulter at Rs 80.000 million against total amount of Rs 272.675 million worked as on 30.04.2019. Balance amount of Rs 192.676 million was waived by the management. Resultantly, bank sustained a loss of Rs 307.199 million (Rs 192.676 million plus additional interest of Rs 114.523 million=Rs 272.675 million *14% * 3 years from 2019 to 2022).

Audit is of the view that sale of property at nominal rates on the discretion of defaulted buyer and waiver of huge amount reflects poor financial management and weak internal controls.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that due to long court proceedings, out of court settlement was done. DAC directed to place the para before PAC.

Audit recommends implementation of DAC directives.

8.2.4.25 Un-justified payment to employees / ex-employees for coverage of legal cost, bail security, TA/DA etc. for inquiries - Rs 109.130 million

Rule 5 of Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that the management allowed the payment of legal fee surety and other related incidental expenses in advance to the employees of NBP (up to Rs 5.000 million and above) whose names were included in FIA inquires to defend the cases. In case the employee was acquitted, the advance was not required to be returned. This was specially approved to favor the accused employees facing FIA inquiry in M/s Hascol Petroleum Limited case and Rs 109.130 million (Annex-45) was provided to the serving and ex-employees. The legal counsel had also

concluded that based on clause 65(1) of NBP bye-laws, there was currently no obligation on the bank to indemnify ex-President NBP, for any legal costs / expenses. Despite this, Board allowed the legal costs / expenses for investigation / court cases etc.

Audit is of the view that the provision of bank resources to the accused involved in frauds / forgeries was unjustified which needed to be stopped.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that the amount was paid to serving/ ex-employees on account of reimbursement of legal expenses related to the HASCOL matter and also obtained indemnity bond. The DAC directed to place the matter before PAC.

Audit recommends implementation of the DAC directives.

8.2.4.26 Irrational increase in remuneration of board members for attending board/committee meetings - Rs 104.000 million

Rule 5 of Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that the Board of Directors (BoD) in its 344th meeting held on February 28, 2023 enhanced the Directors meeting fee from Rs 150,000 to Rs 400,000 for attending board / committee meetings. Besides, additional remunerations were also allowed to Chairman, Board such as seprate office facility with 5 secretarial staff (max. expenses up to Rs 2.0 million per month) and 2 security guards at residence. Conversely, board members of SBP and other state owned enterprises / corporations / companies allowed remuneration / package to its members for attending meetings, was lower in comparison to NBP as follows:

S#	Name of Organization	Board Meeting Fee (Rs)
1.	State Bank of Pakistan (Regulator of NBP)	80,000
2.	Pakistan Industrial Development Corporation	75,000
3.	Pakistan Re-insurance Co. Ltd	50,000
4.	Trading Corporation of Pakistan	50,000

Audit is of the view that enhancement of remuneration of BoD members was not rationalized which needed to be reconsidered.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that the State Bank of Pakistan, vide Regulation G-14 of the Corporate Governance Regulatory Framework (CGRF) has directed the banks to "pay reasonable and appropriate remuneration to their board members". Moreover, the Board Remuneration Policy, approved by the shareholders in EOGM held on July 27, 2020. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

8.2.4.27 Irregular grant of loan to the defaulting parties – Rs 77.378 million

Section 15 (4) of the Financial Institutions (Recovery of Finances) Ordinance, 2001 states that where a mortgagor fails to pay the amount as demanded within the period prescribed under sub-section (2), and after the due date given in the final notice has expired, the Financial Institution may, without the intervention of any Court, sell the mortgaged property or any part thereof by public auction and appropriate the proceeds thereof towards total or partial satisfaction of the outstanding mortgage money.

Sr. No. 14 of the sanction advice dated 10.07.2023 mentions that repayment of loan would be made from own sources in lump-sum.

During audit of National Bank of Pakistan (NBP), Hyderabad Region for the year 2022, it was observed that management granted enhanced Cash Finance (hypothecation) of Rs 75.00 million to M/s Kiran Fertilizer Shop in 2023. The borrower defaulted in repayment of previous advance of Rs 45 million granted in 2022 which was adjusted from new loan/advance.

It was also observed that management renewed/enhanced financing facilities under seasonal rice policy for the season 2022-23 & 2023-24 to M/s Badin cotton ginning pressing factory and oil mills amounting to Rs 34.105 million. The above borrower defaulted in repayment of running finance loan and other advance unjustifiably.

Audit is of the view that management extended undue favor to defaulting parties by allowing new loans which showed poor financial management.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that previous loans were cleared before sanctioned of next loans. The DAC directed the management to provide the relevant record for verification.

Audit recommends implementation of DAC directives.

(DP No. 867 & 869)

8.2.4.28 Delay in completion of project - Rs 76.212 million

Rule 5 of Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that SBP issued guidelines on compliance risk management vide circular dated August 09, 2017. The management advertised on August 31, 2019 and two firms participated in bidding process and found responsive, submitted financial proposals as below:

(Rs in million)			
Name	Bid amount	Standing	Remarks
M/s PWC	64.000	Lowest	Did not mention bid validity period
M/s EY	123.463	2 nd lowest	06 months bid validity period

Later on, the management scrapped the tender with the reason that bid validity period of six months was expired. However, the lowest evaluated bidder did not mention bid validity period. The management retendered the project on April 15, 2021 which was also scrapped with a view that audited financial statements were not submitted by the bidders as the statements were not required in EOI. The management retendered the project 3rd time on August 22, 2021. In response two responsive firms submitted bids as follows:

Rs in million			
Name	Technical Score	Financial Score	Financial Proposal
M/s KPMG	69.8	100	76.212
M/s EY	77.8	53	143.811

Finally, the management awarded the contract to M/s KPMG amounting to Rs 76.212 million and agreement was signed in July, 2022. The project was divided into 4 stages and the expected completion timelines of work were around 16 months i.e. December 2023. However, even not a single phase was completed till close of audit.

Audit is of the view that non-completion of important task on time resulted in escalation of cost and violation of SBP guidelines might result in penalties.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that the reasons to scrap the tender was well documented and completely based on the facts and entire task was anticipated to be finished by Q2 2024. The DAC directed to conduct fact finding inquiry at Ministry level.

Audit recommends implementation of the DAC directives.

8.2.4.29 Irregular payment of end benefits & non-recovery of loan / dead stock items from ex-employees – Rs 75.494 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that following officers were found involved in fraud case of Hascol. However, the management paid end service benefits to the following employees instead of taking disciplinary action.

Rs in million			
S#	Name	SAP ID	Amount
1.	Mehwish Hyder	5237	2.224
2.	Akbar Hassan Khan`	15266	4.529
3.	Syed Misbah Hussain	5241	1.850
4.	Hidayat Ali Shar	5116	13.101
5.	Azra Naila	21112	0.838
6.	Aneela Nokhaiz	19149	3.703
Total			26.245

It was also observed that Mr. Saeed Habib Ex- Executive Vice President (EVP) relived from Bank vide letter dated December 16, 2020. He was advised to hand-over bank's assets. However, loan / liability & fixed assets amounting to Rs 37.849 million were recoverable from him till date and no action was taken against him.

It was further observed that Ms. Rima Athar was appointed as Senior Vice President-Corporate & Investment Banking in November, 2014 without advertisement, qualification, age and relevant experience. Officer was found involved in the fraudulent activity of Hascol. A complaint was lodged against her leveling various allegations in the Senate of Pakistan, which was forwarded to NBP on 25th January, 2018 for taking necessary action till 9th February, 2018. However, she resigned on 29.01.2018 which was accepted by the President w.e.f 27.02.2018 and no action was taken against her. Thus appointment and pay & allowances of Rs 11.400 million were held irregular.

Audit is of the view that management failed to recover the assets and loan & liabilities from incumbents despite lapse of considerable time. Further, the management paid end service benefits despite the fact that incumbents were involved in fraud case. This showed weak internal controls and poor financial management.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that as per the

bank's policy, end service benefits of mentioned 6 employees were released after getting necessary approval and clearance. Further, there is no loan outstanding against the subject ex- officials. As far as end service benefits of Mr. Saeed Habib, Ex-EVP is concerned, HR has not yet released the same, however bank has received back the bank vehicle from Mr. Saeed Habib on 1.01.2024. The DAC directed the management to share the internal inquiry report on account of irregular disbursement of loan to M/s Hascol Ltd to ascertain whether the incumbents were involved or not. Further, the DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

(DP No. 875 & 893)

8.2.4.30 Loss due to default in repayment of loan – Rs 63.622 million

Section 15 (4) of the Financial Institutions (Recovery of Finances) Ordinance, 2001 states that where a mortgagor fails to pay the amount as demanded within the period prescribed under sub-section (2), and after the due date given in the final notice has expired, the Financial Institution may, without the intervention of any Court, sell the mortgaged property or any part thereof by public auction and appropriate the proceeds thereof towards total or partial satisfaction of the outstanding mortgage money.

During audit of National Bank of Pakistan (NBP), Hyderabad Region for the year 2022, it was observed that management granted demand finance-I of Rs 50.00 million on 11.11.2011 and demand finance-II of Rs 50.00 million on 29.11.2012 at markup 6 months KIBOR+5.25% to M/s S.S builders & developers for the period of 03 years and grace period of 03 months for the purpose of ‘development work of the project’ against the mortgage of 12 acres of property. It was also observed that the management granted advance for construction of housing societies to the Builders in contravention of CPM as there was no provision in the policy and builder had no any HDA License.

The borrower failed to repay its dues to the bank, nor did the bank take any action against the defaulter according to above provision of Ordinance, 2001. It is important to mention here that the Credit Officer visited the site on various dates in 2014, 2015 and 2016 and reported that “from the 1st day no any progress was found, hence the Bank’s funds go in vain”.

Audit is of the view that the management disbursed the loan to borrower irregularly and did not pursue the case vigorously. Thus, the Bank sustained a loss of Rs 63.622 million (principal amount + markup).

The matter was reported to the management on December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that some amount has been recovered and efforts are being made for remaining amount. DAC directed the management to provide the record for verification and efforts be made for remaining amount.

Audit recommends implementation of DAC directives.

8.2.4.31 Non-recovery of commission - Rs 45.103 million

As per Organizational Circular No. 05/2018) of NBP, Branch Manager (BM), key task is to establish localized control environment as first line of defense and maintain stringent or proactive internal control environment.

During audit of National Bank of Pakistan (NBP) Regional Office, Hyderabad for the years 2021 & 2022, it was observed that an amount of Rs 45.103 million was outstanding on account of commission receivable against various parties as on 31.12.2022 (Annex-46).

Audit is of the view that the management failed to recover the outstanding amount of Rs 45.103 million which indicates inefficiency, weak financial management and poor internal controls.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that majority of amount pertains to Pakistan Railway. DAC directed the management to submit revised reply along with recovery details.

Audit recommends implementation of DAC directives.

8.2.4.32 Delay in completion of renovation work - Rs 38.280 million

According to letter of award / agreement executed between contractor and bank the renovation work of main branch, Karachi was required to be completed before 03-12-2022 or within 180 days.

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that the management awarded a contract for renovation and refurbishment work of NBP main branch, Karachi to M/s Khan traders amounting to Rs 38.280 million on May 30, 2022. According to letter of award of work, the work was required to be completed before 03-12-2022 (180 days). However, the contractor did not complete the work till 5-12-2023 but the management did not impose the liquidated damages. Further, following record was also not provided to Audit.

- Fixed asset register of NBP-main branch before execution of repair & renovation work.
- Detail of assets / dead stock scrapped / sold out during 2021 & 2022 along with amount recovered at NBP-main branch.
- Detail of furniture & fixture available before repair work and its sales / scrap.
- Detail of marble available before repair work and its sales / scrap.
- Detail of advances made to suppliers/contractors and its adjustments.
- Schedule of payments and current status / progress (%) of repair & renovation work.

Audit is of the view that non-imposition of liquidated damages despite significant delays and non-provision of record was a serious lapse on part of management which needed to be justified.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that since commencement of the project work was delayed, due to various reasons beyond the control of management / contractor. The renovation work was completed during the month of January 2024 with no escalation of cost. The record regarding fixed asset register and scrap details were available in main branch Karachi. The DAC directed the management to provide relevant record for examination and verification.

Audit recommends implementation of the DAC directives.

8.2.4.33 Irregular fixation of pay & allowances of newly appointed officers - Rs 38.044 million

According to revision in Basic Pay in the 337th Board meeting and Circular No.07/2022 dated 23rd August, 2022 of the National Bank of Pakistan, the basic salary of EVP and SVP were as under;

Grade	Regular		Contract	
	Minimum (Rs)	Maximum (Rs)	Minimum (Rs)	Maximum v
Executive Vice President	185,000	687,000	219,000	1,041,000
Senior Vice President	110,000	462,000	142,000	685,000

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that the management appointed various executives on contract basis at the pay & allowances of Rs 38.044 million in excess of approved initial pay & allowances, which was unjustified (Annex-47).

Audit is of the view that the management extended undue favour to above officers while fixation of pay & allowances.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that pay was fixed within the pay range approved by the Board. The Audit contented that some specific stages/increments should be added in initial basic pay on basis of additional qualification and experience. The DAC directed the management to place the matter before BoD for review of pay & allowance to new appointees.

Audit recommends implementation of DAC directives.

8.2.4.34 Irregular disbursement of loan to employee without obtaining required documents - Rs 34.493 million

According to National Bank of Pakistan Staff Loans Policy, the property must be mortgaged in Bank's favor within a period of one month after registration of sale deed / transfer / lease / sub-lease with the concerned revenue record of rights / society. Bank's interest until mortgage of the property in favour of the bank, is covered through a guarantee of an Official of equal status or above. Mutation Certificate in the

name of the borrower will also be obtained. The funds are disbursed after the completion of following formalities: 1. Creation of mortgage / Bank's charge over the property, 2. Submission of Approved Building Plan; and 3. Mutation Certificate/Sale Deed/Transfer of property in the name of the borrower. All original documents of the property will be kept in the Bank's custody at the relevant branch.

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that the management disbursed house building finance loan to Mr. Raza ur Rehman (SVP), amounting to Rs 34.493 million without obtaining required documents such as creation of mortgage / bank's charge over the property and without execution of mortgaged deed and obtaining of sale deed in violation of Staff Loan Policy.

It was also observed that lien in the record of rights against the properties was not marked in favor of National Bank of Pakistan / respective branch in RO Hyderabad (Annex-48).

Audit is of the view that disbursement of loan without obtaining required documents and non-marking of lien against the mortgaged properties reflected undue favor to the incumbents. Hence, disbursement of loan amounting to Rs 34.493 million stands irregular and unjustified.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that missing documents for employee having SAP IDs 5055, 26255, 5061 (Sr. No. 1, 2 & 4 in the table) have been collected, whereas as mortgaged deed of employee at serial No. 3 will be executed in due course as transfer deed is now collected. Further, out of 21 HBF Staff Loans, 15 have been marked with a lien and letters for confirmation of lien has been submitted for remaining 6 cases. The DAC directed the management to get the record verified from Audit and revised the para accordingly.

Audit recommends implementation of the DAC directives.

8.2.4.35 Irregular extension of contracts of secretary, board beyond 60 years - Rs 34.095 million

NBP Staff Service Rules 2021 states that no employee shall be re-employed in service beyond the age of 60 years except in rare and exceptional circumstances and with the prior approval of the Board.

Para 12.3. & 12.3 1 of HR Policy Booklet of NBP states succession planning will be an ongoing, continually readjusting process, a process that is woven into overall strategic plan. It focuses more broadly on ensuring that the right talent meets long-term organizational challenges, such as handling planned product and/or service changes, preparing for anticipating market changes, and so on. Furthermore, identification of Key Positions to achieve maximum benefits from a systematic succession planning program, the key management positions needs to identified, as defined by SBP and other potentially vulnerable positions i.e. the positions that are likely to be impacted the most by imminent employee retirements and departures, and are to be filled immediately or in the near future.

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that management appointed Syed Muhammad Ali Zamin EVP / Secretary, Board retired on 30-07-2017 after attaining the age of 60 years. The management continuously extended his employment

contract for last six years in violation of above policy. It was also observed that the BoD meeting held on June 15, 2017, emphasized to identify suitable person(s) as his replacement and succession planning, which was not done at yet. The management did not fill the vacancy either through advertisement or another candidate was appointed internally.

Audit is of the view that the multiple extensions given after superannuation were unjustified and irregular.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that, BoD, from time to time, renewed/extended contract, keeping in mind, his experience and institutional knowledge which make him a critical resource. With regards to appointment/placement of internally available candidates for the said position Mr. Asad Saleem, EVP and Mr. Saleem Saleemi, SVP were placed in BoD office for continuity and succession planning. The DAC directed the management to provide the record for verification and avoid further extension in his contract.

Audit recommends implementation of the DAC directives.

8.2.4.36 Irregular conversion of termination into resignation and non-taking of disciplinary action - Rs 29.823 million

Clause 5.2 (a) of letter of appointment states that in the event that you are found guilty of misconduct after show cause notice and inquiry, the Bank may terminate this Contract. In the event of termination of the Contract under this clause, you shall not be entitled to receive any compensation or any other benefits as provided under this Contract.

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that an FIR was registered by FIA in inquiry pertaining to disbursement of loans to M/s Hascol petroleum limited against Syed Jamal Baquar, group chief and Syed Hasan Irtiza Kazmi EVP (CIBG). Subsequently, management terminated the services of both officers which were converted into resignations and were issued non-involvement certificate to them and they were paid end service benefits. (Annex-49).

Audit is of the view that the provision of end service benefits to the accused was serious negligence and favor to the incumbents which was irregular and against the law.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The decision of termination of contract into resignation of Mr. JB was approved by the BoD. Based on decision, management released his end service benefits, after getting legal opinion from the bank's legal division. The President terminated the employment contract of Mr. Kazmi on 24.05.2021. Later, on recommendations of GC-CIBG dated 27.05.2021, the President

converted his termination into resignation. Further, disciplinary action could not be initiated against incumbents as they left the Bank. The DAC directed the management to share inquiry report and place the matter before PAC.

Audit recommends implementation of the DAC directives.

8.2.4.37 Unjustified termination of legal head and non-recovery of advances - Rs 27.853 million

Rule 5 of Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of National Bank of Pakistan (NBP), Karachi for the year 2022, it was observed that the management appointed Mr. Aamir Zareef Khan, Executive Vice President (EVP) head of legal division on 22-02-2016 for period of three (03) years contract extendable for further three years. He was transferred and posted to corporate investment group (HO) on 26-12-2019 but he was directed to report to his junior officer in legal division. In July 2020, the management terminated his employment before completion of his contract without any reason. His termination was not as a result of any misconduct or unsatisfactory performance but was aimed to accommodate a junior officer in legal division. It was also observed that loan / liability & fixed assets amounting to R.27.853 million were recoverable from him till date.

Audit is of the view that the termination of the officer without any justification was irregular which might result in lengthy legal proceedings.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that transfer/ posting of Mr. Aamir Zareef to CIB Group was an administrative decision taken by the management in view of business needs of the Group and later on, his services were terminated simplicitor with immediate effect as per Clause 5.3 of his Employment Contract. With regards to two Legal Heads at same time in the Bank, it is submitted that the process of hiring another legal Head was started in May-2019 paving way for replacement of existing Legal Head. Upon joining in October-2019 and after getting familiar with the Bank's Legal Cases, AZ was transferred out to CIBG. Further, matter is also subjudice. The DAC directed the management to get the record verified from Audit and pursue the case vigorously.

Audit recommends implementation of the DAC directives.

8.2.4.38 Unauthorized lifting of pledged stock - Rs 19.990 million

As per CPM chapter No. 15 (15.3.1.5) Pledge/Hypothecated/Mortgages etc. will be inspected by CAD on surprise basis. However, periodic mandatory visits will be conducted by Branch Manager or Relationship Manager or delegates at least monthly /preferably fortnightly. Moreover, inspection on 'as & when needed' basis may also be carried out.

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that an incident of lifting of pledged stock was reported, wherein the borrower lifted the stock without adjustment/repayment of cash finance loan of Rs 14.990 million.

Audit is of the view that lifting stocks without payment and loan adjustment was irregular and unjustified which reflected poor monitoring on part of branch manager and mucaddum.

The matter was reported to the management in December 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC about the legal and disciplinary action taken in this regard. DAC maintained the para to be decided by PAC.

Audit recommends implementation of DAC directives.

8.2.4.39 Unjustified increase in basic pay as special increase - Rs 18.088 million

Rule 5 of Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that the management unjustifiably increased the basic pay of few selected officers as a special case during the year 2022. This was in addition to yearly increase in pay (Annex-50).

Audit is of the view that provision of benefits to the selected officers was undue favor which resulted in discrimination with other employees. Thus, increase in pay as special case held irregular and unjustified.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that the subject employees were equipped with experience/ institutional knowledge which make them critical resource. In case of non-increase in the pay, they could have left the bank. Hence, on the basis of legal opinion and on recommendations of the concerned Group Chief with proper justification and after analyzing the existing salary ranges of the employees the pay was increased. Further, contract of employment also allowed negotiation of pay at the time of renewal of contract. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

8.2.4.40 Loss due to cash shortage & non-recovery of loan from cashier – Rs 17.660 million

As per 1.20 section of Code of Conduct of NBP, any employee found to be engaged in, attempting to, or conspiring as to fraud or theft of assets of the Bank or its clients, or attempting to engage in fraud or theft, may be subject to immediate dismissal and criminal prosecution, subject to the rules, regulations or law applicable thereto.

According to clause 7.5 (vi) Chapter 7, Staff Finances of HR Policy Booklet, 2018 of NBP, if an employee concerned resigns from bank`s service or his/her service is terminated/dismissed for any reason whatsoever before complete recovery of the finance, the amount outstanding against him/her shall be recovered in lump sum with interest before release of his end service benefits.

During the audit of National Bank of Pakistan(NBP) Head Office, Karachi for the year 2022, it was observed that Mr. Nadeem Haroon Jameel, OG-III / Universal Teller was placed under suspension on 08-

09-2020 on account of unauthorized absence & cash shortage Rs 12.302 million at NBP Khewra Branch, RO Jhelum. Furthermore, loans were also not recovered from him or his guarantor as detailed below;

(Rs in million)					
S#	Nature of Account	Date of loan	Advance	Recovered	Outstanding
1	House Building Finance	11.09.2020	4,885,898	534,026	4.351
2	Motor Car Finance	06.06.2017	1,300,000	293,327	1.006
Total					5.357

Audit is of the view that the management failed to implement effective internal controls, which resulted in non-recovery of Rs 17.660 million.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that an amount of Rs 12.301 million has been recovered. DAC directed the management to provide the relevant record for verification and efforts be made for recovery of remaining amount.

Audit recommends implementation of DAC directives.

8.2.4.41 Irregular award of contract by short and late receipt of performance guarantee - Rs 15.106 million

Clause 2 of Service Level Agreement for Miscellaneous & Engineering Support Services between National Bank of Pakistan and M/s ICON Consultants Private Limited (service provider) executed on 16th day of August 2022, states that the term of this Agreement is initially for a period of 36 months commencing from September 16, 2022 and expire on September 15, 2025.

Further, Clause 40 (a), (d) and (e) states that service provider shall be required to submit Performance Guarantee for which the Bid has been accepted, equivalent to two percent (02%) of the Gross Payments to be made over the contract period. Failure to comply and submission of Performance Guarantee constitute sufficient grounds for the annulment of the award and forfeiture of the Bid Security. In case of non-submission of Performance Guarantee within sixty (60) days after signing of the contract, the contract may be awarded to the next lowest bidder.

During audit of National Bank of Pakistan (NBP) Head Office Karachi for the year 2022, it was observed that the management awarded a contract amounting to Rs 1,133,014,032 to M/s ICON consultants private limited (outside service provider) for providing human resource for the period of 36 months (September 16, 2022 to September 15, 2025). The applicable performance guarantee (2%) of total gross amount was Rs 22,660,281. However, the management obtained performance guarantee of Rs 7,553,427 after delay of 300 days which required to be paid in 60 days.

Audit is of the view that less receipt of performance guarantee with delays showed weak financial management and poor internal controls which needed to be justified.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that Rule 40 of PPRA Rules 2004 allowed the procuring agency to negotiate special conditions with the successful bidder

with a view to streamline work processes and smooth completion/execution of the task. Hence, the management obtained the guarantee amounting to Rs 7.553 million on negotiation basis. The DAC directed the management to get recover the remaining amount from contractor without further delay and take action against the person(s).

Audit recommends implementation of the DAC directives.

8.2.4.42 Irregular appointment of relationship manager (corporate banking) - Rs 14.502 million

As per advertisement, the requirement for the post of Manager-Corporate Banking was:

Academic / Professional Qualification	Age Limit
MBA (Finance) / CA from a reputed Institute/ University recognized by HEC	Up to 30 years, also mention the place of domicile

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that the management appointed Syed Shamim Bukhari as Manager (Corporate Banking). He joined the bank on June 26, 2009 on contractual basis for a period of three (03) years at Rs 60,000 per month along with other benefits. Following irregularities were observed in his appointment:

- He was granted a waiver in age and qualification.
- His M.Sc degree from European Business School London neither was verified nor equivalency certificate was obtained from HEC and no domicile/ PRC was provided at the time of appointment.
- He was appointed by rejecting suitable candidates meeting the eligibility criteria.

It was also observed that his basic salary was increased from Rs 29,760 to Rs 59,000 as special case and management did not take disciplinary action on account of 61 days un-authorized absent from duty and regularized the same. Further, against the NBP rotation policy he was posted in financial control division since November 2015 and was frequently promoted as AVP, VP & SVP.

Audit is of the view that the management extended undue favours to the incumbent which was unjustified.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that relaxation in age and qualification of Mr. Shamim Bukhari, was approved by the President, in exercise of powers conferred upon by the BoD. At the time of appointment his MA degree was considered and his MSc Degree is being sent for verification. Moreover, he submitted Domicile after his appointment and as a special case, salary adjustment was given to him which was approved by the then President. The DAC directed to place the matter before the PAC.

Audit recommends implementation of the DAC directives.

8.2.4.43 Payment of pension funds to the unauthorized persons - Rs 14.090 million

Clause 28 of the National Bank of Pakistan Staff Service Rules-2021 regarding obligations of employees states that every employee shall serve the bank honestly and faithfully and shall maintain strict secrecy regarding the Bank's affairs of its constituents. He/ She shall use his utmost endeavors to promote the interest of the Bank, shall show courtesy, vigilance and attention in all that he comes across in performance of his official duties. Failure to maintain confidentiality will be a cause for dismissal.

During audit of National Bank of Pakistan for the year 2022, it was observed that the pension funds of Rs 14.09 million were transferred in the accounts of the persons, who were not authorized pensioners in Hyderabad region. The CNIC numbers of these persons were not available in the list of pensioners provided to audit. The above position indicates that there is no strong internal control system in the National Bank of Pakistan due to which the payment of pensioners is transferred to the accounts of irrelevant persons without any hindrance.

Audit is of the view that the management failed to enhance internal control to stop unauthorized pension payments.

The matter was reported to the management on December 19, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that NBP had taken up the matter with concerned office for provision of CNIC of pensioners. DAC directed the management to provide relevant record for verification.

Audit recommends implementation of DAC directives.

8.2.4.44 Fresh loan categorized as loss - Rs 13.063 million

According to SBP circular on Refinance Scheme for Payment of Wages and Salaries to the Workers and Employees of Business Concerns, part 7. Period of Financing and its Repayment stated that "In case the borrower fails to make repayment of the amount of installment as per the original repayment schedule, the PFI (Participating Financial Institution) will be entitled to charge normal rate of mark up on such overdue principal amount besides taking other actions to recover the same as are incidental to such defaults. In no case, the liability of PFI to repay to SBP BSC (Bank) the principal amount of refinance, or mark-up or any other charges or penalty thereon shall be dependent upon the recovery from the borrowers nor shall such liability be affected by any default on part of the borrowers."

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that State Bank of Pakistan (SBP) sanctioned various loans under SBP refinance schemes through NBP to support employment and prevent layoff of workers in the wake of Covid-19. Six (06) customers of NBP were allowed loan of Rs.160.000 million, out of which one loan has been categorized as loss. These loans were disbursed during 2020 to 2021, out of which loan amounting to Rs 13.063 million was categorized as loss.

Audit is of the view that categorization of any loan as loss in early stages on financings creates doubts that the said loan was irregularly disbursed, compliance requirements were not fulfilled while scrutinizing loan and customer modalities.

The matter was reported to the management in December 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that the loss has been recovered from SBP and recovery efforts are underway. DAC directed the management to provide evidence of recovery from SBP and pursue the outstanding more vigorously.

Audit recommends implementation of DAC directives.

8.2.4.45 Irregular payment of pay & allowances without rendering services -Rs 10.800 million

According to Clause 12.2 of NBP Deputation Policy approved by BoD dated 26.12.2013, all staff cost pertaining to deputationist i.e. salary, allowances, bonuses, benefits and perks including deputation allowance will be borne by the borrowing organization. Further, as per Clause 12.4 states that, the deputationist will draw pay in his/her own pay scale/pay range from his/her parent organization. The reimbursement claim will be lodge by the Bank within 15 days.

During the audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that the service of Mr. Junaid Shafqat Sheikh, VP was required by National Counter Terrorism Authority, Islamabad (NACTA) on deputation basis as Director (BS-19) for a period of two (02) years. Following irregularities were observed in his deputation case:

1. The management paid an amount of Rs 10.800 million to the incumbent during deputation period which was in contradiction to Federal Government deputation policy.
2. Risk & deputation allowance of Rs 71,480 + Rs 39,570 p.m admissible at NACTA was continuously paid after repatriation to NBP.

Audit is of the view that payment of pay and allowance by the bank to the deputationist and allowance after repatriation held irregular and unjustified.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that that NBP's board has approved the deputation policy and payments on account of salary and other benefits is reclaimed from NACTA. DAC directed the management to get this fact verified from audit.

Audit recommends implementation of DAC directives.

8.2.4.46 Irregular appointment / up-gradation to the next higher grade on negotiated terms & conditions - Rs 9.333 million

Rule 5 of Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

Cabinet Secretariat (Establishment Division) letter dated May 06, 2000 stated that vacancies should be advertised in the leading national and regional newspapers.

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that the management appointed / upgraded the following IT personals to the next higher grade on negotiated terms & conditions without observing codal formalities and competitive process.

S #	Name	Date of Joining	Grade	Appointed as	Monthly Salary (Rs)
1.	Raheel Iqbal	30.06.2017	VP	Senior Vice President	710,485
2.	Faheem Haider Naqvi	30.06.2017	OG-I	Assistant Vice President	343,983
3.	Muhammad Umair	30.06.2017	OG-I	Assistant Vice President	501,105
Total					1,555,573
Rs 1,555,573*6 months= Rs 9,333,438					

Audit is of the view that the appointment and upgradation of IT officers was unjustified and against the merit.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC, to retain the existing and experienced resources or to curtail the employee's turnaround, the Board of Directors' approved a policy for resources associated with core banking application upgrade specifically for the resources involved in the core banking application upgrade which entails renegotiation of contracts upon the renewal of contract of existing IT employees. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

8.2.4.47 Irregular appointment of litigation officers - Rs 9.250 million

The basic eligibility criteria for the position of Litigation Officer were minimum Bachelor's degree, preferably LLB/ LLM from a reputable HEC recognized University and minimum 04 years of relevant experience in handling recovery and litigation.

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that the management floated an advertisement in March 2020 for the post of litigation officer for Karachi (OG-II / OG-I). After screening, management shortlisted 10 candidates against the 05 positions for final selection. Out of which, management appointed the following candidates without having relevant qualification of LLB/LLM:

S#	Name	Grade	Qualification	Total Experience	Expected Salary (Rs)	Salary per month (Rs)
1	Aijaz Ali	OG-II	MA & BA	13.3	140,000	82,000

2	Sheikh Zeesah Ali	OG-I	B.Com	14.6	130,000	78,000
3	Masood Zaman Khan	-	MA (IR) and BA	14.11	140,000	78,000
						238,000
Rs 238,000 *40 No of months (from September 2018 to December 2023=Rs 9.520 million)						

It was further observed that management rejected other suitable candidates with relevant qualification i.e. LLB/ LLM and extensive experience, demanding less salary.

Audit is of the view that the management ignored the suitable candidates and appointed the incumbent having irrelevant qualification and less experience than the rejected candidates was irregular and un-justified.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that eligibility criteria was set by the concerned Group, keeping in view the dynamics of the advertised position within the Bank. The selected candidates fulfill the minimum eligibility criteria and were found suitable by the interview panel. The DAC directed to place the matter before the PAC.

Audit recommends implementation of the DAC directives.

8.2.4.48 Irregular appointment as general manager and award of corporate grade to local based employee - Rs 6.392 million

Rule 5 of Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

According to Overseas Posting Policy, all local based employees are assigned functional titles only and not Corporate Grade i.e. VP/SVP/ EVP etc.

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that the management advertised the position of General Manager (NBP Frankfurt Branch-Germany) internally vide circular dated 21-09-2021 and initiated the selection process whereby interviews were conducted by Overseas Posting, Selection & Review Committee (OPS&RC). However, no candidate was found suitable. Later on, the management appointed Mr. Qamar Hameed Khan (German National) as General Manager Frankfurt, Germany who was serving as Deputy General Manager, NBP Frankfurt, Germany on the basis of his association with the branch and on the recommendation of group chief (IFRG) & President NBP instead of competitive process i.e. advertisement and Selection Committee. Furthermore, upon his appointment as GM, 20% salary was also increased (US\$ 7,135 to 8,562). It was further observed that incumbent was serving as DGM, NBP Frankfurt, Germany (functional title). According to overseas posting policy, all local based (other than Pakistan) employees are assigned functional titles only and not corporate grade i.e. VP/SVP/ EVP etc. However, the board assigned him corporate grade of vice president

/ general manager by exempting to the existing policy, in order to exercise financial powers associated with the position Frankfurt, Germany.

Audit is of the view that the appointment of foreign national without competitive process was irregular and violation of laid-down criteria.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that position was advertised internally, however, no suitable candidate was found. Resultantly, on the recommendation of BHRRC, Board appointed him General Manager, Frankfurt, Germany. The Board also approved/ allowed corporate grade of Vice President to Mr. Qamar Hameed Khan to authorize him to exercise financial power. The DAC directed to place the matter before the PAC.

Audit recommends implementation of the DAC directives.

8.2.4.49 Unjustified placement of outsource employees - Rs 5.718 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that following outsourced employees of NBP were deployed at different offices of NAB and FIA since their appointment in 2012 and NBP were paying their salaries.

S#	Employee Name	CNIC	Designation	Location	Monthly Salary (Rs)
1.	Imtiaz Ahmed	45202-0689144-1	Office Attendant	FIA	34,036
2.	Mehreen Asim	42101-3820128-6	Data Entry Operator	NAB	34,036
3.	Muhammad Usman	42301-4716259-5	Data Entry Operator	NAB	34,036
4.	Naveed Ghouri	41304-2292384-1	Data Entry Operator	NAB	34,036
5.	Sikandar	42501-2074419-7	Data Entry Operator	NAB	34,036
6.	Syed Muhammad Waqas Jawed	42101-0295937-5	Data Entry Operator	NAB	34,036
7.	Mansoor Ahmed	45202-3230322-1	Processor	NAB	34,036
Total					238,254
Grand Total (Rs 238,254*24 months)					5,718,096

Audit is of the view that placement of services of outsourced employees at FIA & NAB offices at Banks cost reflected weak internal controls. Thus, payments of Rs 5.718 million on account of outsource employees held irregular & un-justified.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that the outsourced resources were placed at the disposal of NAB and FIA as per their request since 2012. The DAC directed the management to provide justification and SoPs for deployment of outsource staff and take up the matter with FIA / NAB.

Audit recommends implementation of the DAC directives.

8.2.4.50 Overstay of employees at foreign branches

Clause 1.8 of Overseas Posting Policy, 2022 of National Bank of Pakistan (NBP) states that for all overseas postings, the period of overseas postings of any Pakistan based employee shall be for a maximum period of three (03) years from the date of joining at Bank's overseas branch/office. The performance of the employee will be monitored after three years for extending the tenure of posting for another two years. The president / CEO will approve the recommendations for extending the tenure from 3 to 5 years. After completion of five years, employee will be repatriated except in retirement cases and after completion of three (03) years, the employee will be repatriated.

During audit of National Bank of Pakistan (NBP) Head Office, Karachi for the year 2022, it was observed that officers were posted at various foreign branches for initial period of three (03) years. Later on, the management extended the tenure of posting for another two years. However, following ten (10) officers were not repatriated after the completion of specified tenure (i.e. five years).

S #	Name	Grade	Present Place of Posting	Date of Posting
1.	Muhammad Rafiq	SVP	NBP JSC, Almaty, Kazakhstan	2-Dec-2016
2.	Muhammad Amin	VP	NBP Bishkek, Kyrgyzstan	26-Oct-2015
3.	Shaikh Ahtsham Ahmed	AVP	NBP Baku Branch, Azerbaijan	2-Nov-2017
4.	Muhammad Ismail	AVP	NBP Paris, France	20-Sep-2016
5.	Shaikh Muhammad Shariq	VP	NBP Beijing RO, China	3-Jan-2017
6.	Arif Hussain	AVP	NBP Osaka, Japan	13-Nov-2017
7.	Hafeez Ullah Memon	AVP	NBP EPZ, Karachi	28-Jun-2016
8.	Adnan	AVP	NBP Kabul, Afghanistan	5-Mar-2011
9.	Hyder Abbas	OG-I	NBP EPZ, Karachi	6-Jan-2018
10.	Syed Alim Hussain	OG-I	NBP EPZ, Karachi	9-Dec-2012

Audit is of the view that non-repatriation of officers after completion of time period was irregular and unjustified which reflected favouritism and weak internal controls.

The matter was reported to the management in December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that selection process has been started and up to 1st quarter of 2024 all employees will be repatriated. The DAC directed the management to discontinue the overstay practice in future and action may also be taken for immediate repatriation of employees under intimation to Audit.

Audit recommends implementation of the DAC directives.

8.2.4.51 Non-maintenance of proper record of performing loans

Section 15 (4) of the Financial Institutions (Recovery of Finances) Ordinance, 2001 states that where a mortgagor fails to pay the amount as demanded within the period prescribed under sub-section (2), and after the due date given in the final notice has expired, the Financial Institution may, without the intervention of any Court, sell the mortgaged property or any part thereof by public auction and appropriate the proceeds thereof towards total or partial satisfaction of the outstanding mortgage money.

During audit of National Bank of Pakistan for the years 2022, it was observed that total amount of performing loan was Rs 1,230,521.800 million as per annual accounts 2022. Audit requested the management to provide the party wise breakup of performing loans. However, management did not provide the requisite record despite issuance of requisitions, reminders and verbal requests.

Audit is of the view that the non-provision of record showed negligence on part of management.

The matter was reported to the management on December, 2023. The irregularity was discussed in the DAC meeting held on January 23 & 24, 2024. The management informed the DAC that the record was divided among different groups. DAC directed the management to provide relevant record for verification.

Audit recommends implementation of DAC directives.

8.3 National Security Printing Corporation (Pvt.) Limited

8.3.1 Introduction

National Security Printing Company (Private) Limited was incorporated in Pakistan under the Companies Ordinance, 1984 (now Companies Act, 2017) on April 18, 2017 and is wholly owned by the Government of Pakistan. The registered office and the factory are located at Jinnah Avenue, Malir Halt, Karachi. The Company is principally engaged in the printing of security documents on behalf of the Government of Pakistan, government agencies and private institutions.

8.3.2 Comments on Audited Accounts

8.3.2.1 The working results of the Company for the year ended June 30, 2021 as compared with the preceding years are given below:

(Rs in million)						
	2020-21	% Inc/ (Dec)	2019-20	2018-19	% Inc / (Dec)	2017-18
Sales	3623.109	1.06	3584.789	4,827.37	51.80	3179.986
Cost of Sales	(2,547.090)	16.16	(2192.723)	(2,927.21)	73.89	(1,683.341)
Gross Profit	1076.019	(22.70)	1392.066	1,900.16	26.95	1,496.645
Administrative Expenses	(436.386)	24.67	(350.017)	(272.29)	(38.50)	(442.789)
Other Expenses	(64.928)	(40.89)	(109.856)	(260.18)	57.16	(165.547)
Other income	740.795	(12.90)	850.546	707.124	188.15	245.399
Operating Profit	1315.500	(26.20)	1782.739	2,074.80	83.01	1133.708
Finance Cost	(672)	484	(115)	(209)	7578.18	(2.722)
Profit before Taxation	1314.828	(26.24)	1782.624	2,074.59	83.43	1130.986
Taxation	(352.227)	(39.79)	(585.002)	(547.699)	11.72	(490.247)
Profit after Taxation	962.601	(19.62)	1197.622	1,526.89	138.30	640.739

(Source: Annual Audited Accounts 2020-21)

Gross Profit rate decreased from 38.83% in the year 2020 to 29.70% in the year 2021, registering decrease of 9.13%. The decrease in gross profit ratio is contributed by relatively higher increase in cost of sale.

8.3.2.2 Operating Profit rate decreased from 49.73% in the year 2020 to 36.31% in the year 2021, registering decrease of 13.42%. The decrease in operating profit is due to increase in expected credit losses, administrative services expenditure along with salary and wages etc.

8.3.2.3 Net Profit rate decreased from 49.73 % in the year 2020 to 36.29 % in the year 2021, registering decrease of 13.44 %. The decrease in net profit is due to increase in expected credit losses, administrative services expenditure along with salary and wages etc.

8.3.2.4 Return on Asset Rate decreased from 12.94 % in the year 2020 to 8.83 % in the year 2021, registering decrease of 4.11 %. The decrease in return on asset is due to decline in Net profit in the year 2021.

8.3.2.5 Return on Equity Rate decreased from 16.94 % in the year 2020 to 11.35 % in the year 2021, registering decrease of 5.58 %. The decrease in return on equity is due to decline in Net profit in the year 2021.

8.3.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
2019-20	2	1	1	6.2.4.2	
Total	2	1	1		50%

The overall compliance of PAC directives was not satisfactory which needed improvement.

8.3.4 Audit Paras

8.3.4.1 Irregular placement of funds – Rs 4,000.000 million

According to Finance Division office memorandum No.F.4 (1)/2002-BR.II dated 02.07.2003, the process of selection of Bank(s) for investment purpose should be transparent. Therefore, prior to placing deposits into a banks, under this new policy, and in case the total working balances exceeds Rs 10 million, the selection of the bank(s) as well as the terms of deposits would be approved by the concerned Board of Directors / Governing body on the basis of competitive bids from at least three independent banks / investment companies.

During audit of National Security Printing Company (NSPC) for the year 2021-22, it was observed that the management re-invested / rolloverd its funds of Rs 4,000.000 million in various banks without obtaining competitive rates as per rules. Details are as under:

S#	Name of Bank / investment institution	Investment made in the year 2021-22 (06 months)	Rollover for the 12 month) wef 03-02-2022

1	Bank Alfalah Limited	1,500,000,000	1,500,000,000
2	Bank Al-Habib Limited	1,500,000,000	1,500,000,000
3	Habib Bank Ltd	1,000,000,000	1,000,000,000
Total			4,000,000,000

Audit is of the view that roll over of funds without obtaining competitive rates were irregular and against the rules.

The matter was reported to the management in July 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. The management informed the DAC that BoD had approved an investment policy whereby investment of surplus funds were made in accordance with its stipulations. Further, the management informed that it had complied with all relevant sections prior to investment in TDRs with respective banks and rates quoted by the banks were the maximum offered for investment in fixed term deposit. The DAC directed the management to provide relevant documents to Audit for examination.

Audit recommends implementation of the DAC directives.

8.3.4.2 Non-recovery of trade receivables – Rs 3,540.452 million

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of National Security Printing Company (NSPC) for the year 2021-22, it was observed that an amount of Rs 3,540.452 million was lying outstanding against various organizations on account of trade receivables as on May 31, 2023. Details as given below:

(Rs in million)	
Customer Name	Amount
Directorate General Immigration & Passport	2,472.948
Director General Pakistan Post	1,015.722
Election commission of Pakistan	51.782
Total	3,540.452

Audit is of the view that non-recovery reflected weak recovery mechanism within the organization.

The matter was reported to the management in July, 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. The management informed the DAC that an amount of Rs 2,847.398 million has been recovered and verified by the Audit. The DAC directed the management to provide relevant documents to Audit for verification and pursue the remaining amounts vigorously.

Audit recommends implementation of the DAC directives.

8.3.4.3 Irregular investment in Term Deposit Receipts - Rs 2,500.000 million

Section 3 (b) of Finance Division letter No.F.4 (1)/2002-BR.II Islamabad, dated: 02.07.2003 the process of selections of banks should be transparent. Therefore, prior to placing deposits with a bank under this new policy, and in case working balances exceed Rs 10 million, the selection of the bank as well as the terms of deposits will be approved by the concerned Board of Directors/Governing Body on the basis of competitive bids from at least three independent banks.

During audit of National Security Printing Company (NSPC) for the year 2021-22, it was observed that the management invested an amount of Rs 2,500.000 million in TDRs in various banks without the approval of Board of Directors (BoD) as detailed below:

(Rs in million)						
S#	Bank Name	Amount	Rate @	Tenure	Investment date	Premature date
1.	Bank Al-Habib Limited	1,500.00	10.75	06 months	31-01-2022	30-07-2022
2.	Habib Bank Limited	1,000.00	12.70	01 years	30-03-2022	30-03-2023
Total		2,500.00				

Furthermore, funds invested were more than Rs 10.000 million which required diversification to minimize risk.

Audit is of the view that management made investment without the approval of BoD and Finance Division, which was held irregular.

The matter was reported to the management in July 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. The management informed the DAC that BoD approved an investment policy whereby investment of surplus funds was made in accordance with its stipulations. The DAC directed the management to share BoD approved investment policy with relevant documents reflecting management stance that the investment was made in accordance with investment policy.

Audit recommends implementation of the DAC directives.

8.3.4.4 Irregular sale of postal / non-postal stamps – Rs 1,123.770 million

According to instructions of Finance Division No.700/CCAO/91 dated 26.10.1991 under the existing formula vide para (8) sub para (vii) PPO representative were informed that CAO independently verifies the cost of ‘Postal Work’ and it should be acceptable to PPO.

The Board of Directors in its meeting held on October 13, 2021 directed the management to take up the matter for fixation of prices of postal/non-postal stamps with the mutual consent between NSPC and Pakistan post office and also directed to get approval from Chief Cost and Accounts officer (CCAO) of Finance Division Government of Pakistan.

During audit of National Security Printing Company (NSPC) for the year 2021-22, it was observed that in contravention to above Finance Division and BoD's directives, the management sold postal and non-postal stamps to Director General Pakistan Post Office (DGPPPO) amounting to Rs 1,123.770 million without getting approval of the Finance Division and without seeking verification of cost and fixation of price from Chief Cost and Accounts officer (CCAO) and this practice was followed since 2017-18.

Audit is of the view that sale of postal and non-postal stamps without determining / authentication of its cost was held irregular.

The matter was reported to the management in August, 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. The DAC directed the management to place the matter before BoD.

Audit recommends implementation of the DAC directives.

8.3.4.5 Non-installation of machines – Rs 310.940 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of National Security Printing Company (NSPC) for the year 2021-22, it was observed that a smart card manufacturing system for manufacturing E-DATA page for E-passports, was procured at a cost of Rs 1, 100.00 million in the year 2018 which was not installed till close of Audit. Due to non-installation of machine, the management acquired the services for personalization of ATM cards amounting to Rs 95.940 million from out source.

It was also observed that the management procured a screen printing machine including cost of Rs 31.220 million from M/s. Sacurai graphic systems corporation. The machine was delivered in March, 2019 and same was not installed till close of Audit.

Audit is of the view that the management failed to install machines despite lapse of considerable time which reflected negligence and poor financial management.

The matter was reported to the management in July 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. The management informed the DAC that the matter was under process for installation of machines. The DAC directed the management to place the matter before PAC and BoD for appropriate decision.

Audit recommends implementation of the DAC directives.

(DP No. 82 & 85)

8.3.4.6 Irregular / unjustified payment to the suppliers – Rs 217.437 million (equivalent to Euro 1,105,419)

According to clause 15.1 of the agreement between M/s Muhlbauer GMBH & Co for the procurement of Smart Card Manufacturing System for Manufacturing of E-DATA page for E-Passports;

- c) 10% (Euro 5, 64,012) of total amount to be paid after successful completion of training of NSPC team.
- d) 10% (Euro 5, 64,012) of total amount to be paid upon the site acceptance certificate (SAT) signed duly by both parties.

As per clause 15.1 of the agreement between M/s Muhlbauer GMBH & Co for the procurement of laser perforator machine and inkjet printer for barcoding;

- c) 30% (Euro 420,364.725) of total amount to be paid after issuance of site acceptance test certificate (SAT).

During audit of National Security Printing Company (NSPC) for the year 2021-22, it was observed that the management procured the following machines and paid an amount of Rs 217.437 million in violation of payment terms and conditions of the agreement:

S#	Name of Machine	Contract Value	Payment	Remarks
1.	Smart Card Manufacturing System for Manufacturing of E-DATA page for E-Passports	Euro 5,640,129 equivalent to Rs 1,100.000 million	Euro. 874,219 (Euro 564,013 + 310,207) equivalent to Rs,172.153 million	10% payment without training & 50% of 10% part payment without Site Acceptance Certificate (SAT)
2.	Laser Perforator Machine and Inkjet Printer for Barcoding	Euro 1,401,215.75 equivalent to Rs 247.975 million	Euro. 231,200.60 equivalent to Rs 45.824 million	16.50% payment without Site Acceptance Certificate (SAT)
Total			Rs 217.437 million	

Audit is of the view that the payment of Rs 217.437 million to the supplier without obtaining training and without issuance of SAT certificate was held irregular and unjustified.

The matter was reported to the management in August 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. The DAC directed the management to place the matter before PAC and BoD for appropriate decision.

Audit recommends implementation of the DAC directives.

(DP No. 83 & 95)

8.3.4.7 Non-payment of Sindh Workers Welfare Fund - Rs 159.991 million

According to section 5 (1) of the Sindh Worker's Welfare Fund Act 2014 (Sindh Act No xxxiii of 2015), every industrial establishment located in the Province of Sindh and the total income of which in any year of account commencing on or after the date of closing of account on or after 31st December 2013, in this behalf is not less than five hundred thousand rupees, shall pay to the fund in respect of that year.

Further, Section 5 (2) states that every industrial establishment, which is liable shall pay the amount due from it to the Sindh Revenue Board for the purpose of this Act.

During audit of National Security Printing Company (NSPC) for the year 2021-22, it was observed that an amount of Rs 159.991 million was payable to Sind Board of Revenue on account of Sindh Worker Welfare Fund as on 30.06.2022. The management was making provisions on yearly basis instead of paying the fund regularly.

Audit is of the view that the management failed to deposit the amount of fund timely in order to avoid any penalties by the Sind Board of Revenue.

The matter was reported to the management in July 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. The management informed the DAC that workers welfare fund @ 2% of the taxable amount was duly incorporated in the financial statements and payment would be cleared after seeking tax advice from tax consultant. The DAC directed that the matter be pend till final decision.

Audit recommends implementation of the DAC directives.

8.3.4.8 Exchange loss due to delay in installation of machines - Rs 131.200 million

Rule 04 of PPRA, 2004 states that procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

During audit of National Security Printing Company (NSPC) for the year 2021-22, it was observed that the management procured two machines i.e. smart card manufacturing system and laser perforation machine from M/s. Muehlbauer Id Services GmbH. at a contract price of Euro.5, 640,129 and Euro.1, 401,215 respectively including an installation cost of Euro.778, 686. The machines were received in September and October, 2019. However, even after the lapse of 4.5 years, the machines could not be installed. The installation cost of machines would increase with the passage of time as detailed below:

Contract price in Euro	Exchange rate in Sept- 2018 (Rs)	Existing Exchange Rate (Rs)	Difference in Exchange Rate (Rs)	Amount (Rs)
778,686	143.00	311.49	168.49	131,200,804

Audit is of the view that the machines were procured without proper planning and due diligence which showed poor financial management, resultantly corporation would sustain loss in shape of higher currency exchange rate.

The matter was reported to the management in July 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. The DAC directed the management to conduct an internal inquiry in the matter and share the report with Audit.

Audit recommends implementation of the DAC directives.

8.3.4.9 Wasteful expenditure on purchase of stores and spares - Rs 81.651 million

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

During audit of National Security Printing Corporation (NSPC) for the years 2021-22, it was observed that the management procured spares & stores items of Rs 63.003 million and paper & ink valuing Rs 18.648 million. The said inventory remained unutilized as on 30.06.2022 and declared as obsolete which was also being showed as work in process.

Audit is of the view that due to ill-planning and lack of due diligence on part of the management, wasteful expenditure of Rs 81.651 million was incurred.

The matter was reported to the management in July 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. The management informed the DAC that engineering stores was procured to keep machinery operational. These spare parts have been kept very carefully and are useful for a period of 20 years. The provision of General store having value Rs 14.000 million becomes obsolete

due to change of design of product. The provision of stock in trade regarding paper, ink and other raw material only used on need basis. The DAC directed the management to share the policy / SOP regarding purchase of stores, spare parts from manufacturer and declare obsolete for verification.

Audit recommends implementation of the DAC directives.

8.3.4.10 Irregular payment of additional duty allowances - Rs 42.864 million

Section 2.4 of common facilities and cost sharing agreement between PSPC and NSPC dated 18-05-2017 states that no rental, service fee or any other amount by whatever name called shall be charge by PSPC to NSPC for sharing the Facilities of Common and Administrative Nature with NSPC other than the recharge as mentioned in clause 2.3.

Section 2.3 states that PSPC shall recharge the common costs of running the facilities of common and administrative nature to NSPC on annual basis based on the common costs report.

During audit of National Security Printing Company (NSPC) for the year 21-22, it was observed that the management had been paying service fee for additional duty allowance @ 5% for officer, staff and workers and 10% to deputations on NSPC to M/s Pakistan Security Printing Corporation (PSPC) in violation of above mentioned agreement. The details of amount paid is hereunder:

(Amount in Rs)					
S#	Year	Officer @ 5%	Staff @ 5%	Deputatonist @ 10%	Total
1	2021-22	8,626,263	5,442,786	2,451,522	16,520,571
2	2020-21	8,662,367	5,530,769	-	14,193,136
3	2019-20	7,223,329	4,927,868	-	12,151,197
Total					42,864,904

Audit is of the view that payment of service fee against additional allowance for PSPC employees in violation of agreement stands irregular and unjustified.

The matter was reported to the management in July 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. The management informed the DAC that additional allowance was being paid to its employees for the additional duties performing for NSPC and subsequently charged to NSPC in accordance with CFCS agreement. The DAC directed the management to provide relevant documents to Audit for examination.

Audit recommends implementation of the DAC directives.

8.3.4.11 Non-imposition of liquidated damages - Rs 21.960 million

According to terms and conditions 17 of the agreement between NSPC and M/s Muhlbauer GMBH & Co, the supplier shall pay to the buyer at the rate 2% per month or part of the month for the value of the

stores which the supplier have failed to deliver within the stipulated delivery period, provided that damages shall not exceed @10 of the total price payable under the purchase contract.

During audit of National Security Printing Company (NSPC) for the year 2021-22, it was observed that the management awarded a contract for supply of electronic data page for electronic passport contract price of Euro 1, 031,000 equivalent to Rs 183.780 million to M/s. Muhlbauer GMBH & Co on May 04, 2020. The supplier was required to supply goods within 08 to 20 weeks from the issuance of Letter of Credit (LC) dated 26-06-2020. However, the supplier provided consignment (300,000 sheets) in three shipments and final shipment was shipped on 10.09.2022 i.e. after delay of twenty-two weeks. The management did not impose penalty @10% per month on the supplier i.e. Euro 103,100 (equivalent to Rs 21,960,300).

Audit is of the view that the management granted undue favor to the supplier by not imposing the penalty despite making delay in delivery of consignment.

The matter was reported to the management in July, 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. The management informed the DAC that Purchase Committee had the authority to extend the delivery period on request of user department. The DAC directed the management to provide relevant documents to Audit for examination.

Audit recommends implementation of the DAC directives.

8.3.4.12 Dual payment of employer's contribution - Rs 21.441 million

According to Finance Division letter No. F.2 (14) IF. IV/91/Vo;II/151 dated 27.11.1993, Finance Division allow pensionary benefits to the employees of PSpC as per Government Pension Scheme with effect from 01.11.1993 in replacement of GPF, Gratuity and EOBI, subject to condition that the Labour Division have also no objection to the replacement of Employees Old Age Benefits Scheme by the Government Pension Scheme.

During audit of National Security Printing Company (NSPC) for the year 2021-22, it was observed that the management had been paying pension contribution to Pension Fund (established in PSpC) for NSPC employees. This pension fund is maintained in PSpC to pay pensions of NSPC / PSpC employees after retirement. The management paid an amount of Rs 18.562 million in employees' pension fund during the year. Furthermore, the management also paid an amount of Rs 2.879 million as EOBI contribution for permanent and 3rd party employees. The details are hereunder:

S#	Employers Contribution	Amount (Rs in million)
1.	Employer's contribution for pension fund	18.562
2.	Employer's EOBI contribution for permanent employees	01.015
3.	Employer's EOBI contribution for 3 rd party employees	01.864
Total		21.441

Audit is of the view that the payment of two pension benefits to the employees at the same time is a violation of Finance Division instructions which is held irregular and unjustified.

The matter was reported to the management in July 2023, but no reply was received. The irregularity was discussed in the DAC meeting held on December 06, 2023. The DAC directed the management that the matter may be referred to Finance Division for further clarification.

Audit recommends implementation of the DAC directives.

8.3.4.13 Non-payment of stamp duty - Rs 9.552 million

According to Section 15 of the Sindh Revenue Board (Amendment) Act, 2020 any instrument in the nature of memorandum of agreement made or entered into by contractor with Government, a Corporation, local body, local authority, commercial or industrial concern, whether singly owned or run through partnership, body registered under the Company Law, a cooperative society or any other organization to execute any work or to supply or to undertake cartage of stores and materials and to provide engineering consultancy services or any other services covered under above documents including a purchase order, work order, cargo bill, a railway ticket of ACC, a running rate contract and other levies and taxes pertaining to local bodies shall pay twenty paise for every hundred rupees or part thereof of the amount of the contract.

During audit of National Security Printing Corporation (NSPC) for the year 2020-21, it was observed that an amount of Rs 9.552 million was payable to Sindh Revenue Board (SRB) on account of Stamp Duty as on 30-06-2022. The management had been making provisions on yearly basis instead of paying the stamp duty regularly.

Audit is of the view that management failed to pay the duties and taxes in violation of above rules.

The matter was reported to the management in August 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. The management informed the DAC that it compels all suppliers to pay the stamp duty through contract on non-judicial paper and accordingly pays stamp duty at applicable rates. Further management informed that stamp duty on purchase of paper has to be paid by M/s Security Papers Limited. The DAC directed the management to provide relevant documents to Audit for examination.

Audit recommends implementation of the DAC directives.

8.3.4.14 Irregular award of contract to 2nd lowest bidder - Rs 7.956 million

Rule 38 of PPRA Rules, 2004 states that the bidder with the lowest evaluated bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract, within the original or extended period of bid validity.

During audit of National Security Printing Company (NSPC) for the year 2021-22, it was observed that the management invited a tender for purchase of Fork Lifter. In response, two (02) bidders participated. The bid of first lowest bidder M/s. Akber Ali & Sons was rejected during technical evaluation having less speed. However, its offered speed was higher than the speed of M/s AL Majid Int Co as per catalogue specification. Despite that, the contract was awarded to the 2nd lowest M/s Al Majid International Co amounting to Rs 7.956 million. The detail is as under:

S#	Name of Bidders	Position	Offered (Rs)
1	M/s Akber Ali & Sons	1 st Lowest	7,056,210.00
2	M/s Al Majid Int. Co	2 nd Lowest	7,956,000.00

Audit is of the view that contract was awarded to the 2nd lowest bidder, which reflects favoritism and violation of PPRA, 2004. Thus, award of contract amounting to Rs 7.956 million is held irregular and unjustified.

The matter was reported to the management in August 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. The DAC directed the management to provide relevant documents to Audit for examination.

Audit recommends implementation of the DAC directives.

8.3.4.15 Irregular award of contract on single stage one envelope procedure - Rs 5.406 million

Rule 37 (a) of PPRA Rules, 2004 states that single stage two envelope bidding procedure shall be used where the bids are to be evaluated on technical and financial grounds and price is taken into account after technical evaluation.

During audit of National Security Printing Company (NSPC) for the year 2021-22, it was observed that following tenders were awarded on the basis of single stage one envelope procedure despite the fact that technical evaluation for accepting the bids were carried out in these cases and where bids were to be evaluated on technical ground, single stage two envelope procedure had to be adopted:

S #	Bidder	Description	Date of technical evaluation	Bid price	Quantity	Contract price (Rs)
1.	M/s. Naveed Chemicals.	ISO Propyle Alcohol	14-06-2021	240.85 per ltr.	3,990 ltrs	1,124,361
2	M/s. Marium & Co.	MICR red bleed Ribbon	02-06-2021	6,100 per unit	600 units	4,282,200
Total						5,406,561

Audit is of the view that the management failed to adopt single stage two envelope procedure where bids were been evaluated on the basis of technical evaluation in violation of PPRA Rules, 2004.

The matter was reported to the management in August 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. The DAC directed the management to provide reasons for contracts awarded to suppliers on the basis of single stage one envelope. DAC further directed the management to provide relevant documents i.e. sample rejected or not by laboratory to Audit for examination.

Audit recommends implementation of the DAC directives.

8.4 Pakistan Security Printing Corporation (Pvt.) Limited

8.4.1 Introduction

Pakistan Security Printing Corporation (Private) Limited was incorporated in Pakistan under the Companies Act, 1913 (now the Companies Act, 2017) and is wholly owned by the State Bank of Pakistan (SBP). The registered office and the factory of the Corporation are located at Jinnah Avenue, Malir Halt, Karachi. The Corporation is principally engaged in the printing of currency notes and prize bonds on behalf of State Bank of Pakistan.

8.4.2 Comments on Audited Accounts

8.4.2.1 The working results of the Corporation for the year ended June 30, 2023 as compared with the preceding years are given below:

(Rs in million)					
	2022-23	% Inc / (Dec)	2021-22	% Inc / (Dec)	2020-21
Sales	21,836.38	11.71	19,548.095	(0.66)	19,678.11
Cost of Sales	(17,775.09)	14.86	(15,475.543)	(1.82)	(15,762.849)
Gross Profit	4,061.30	(0.28)	4,072.552	4.02	3,915.263
Administrative Expenses	(857.23)	8.39	(790.864)	(6.32)	(743.85)
Other expenses	(502.11)	2.17	(491.426)	1,335.32	(34.238)
Other Income	1,527.48	58.91	961.207	41.04	681.50
Financial Cost	(3.28)	144	(1.343)	(27.52)	(1.853)
Share of profit from associates excluding dividend	725.96	(4.81)	762.677	(42.99)	1,337.861
Profit before taxation	4,952.12	9.73	4,512.803	(12.46)	5,155.403
Profit after taxation	3,073.97	(0.26)	3,081.888	(19.76)	3,840.679
Current Ratio	5.99	0.28	5.716	8.257	5.280
Debt Ratio	0.11	(9.80)	9.913	(3.682)	10.292
Equity Ratio	0.89	(0.01)	0.90	0.004	0.897
<i>(Source: Annual audited Accounts)</i>					

8.4.2.2 Other expenses increased by 2.17% to Rs 502.11 million in 2022-23 from Rs 491.426 million in 2021-22 may be justified.

8.4.2.3 Finance cost increased by 144% to Rs 3.280 million in the year 2022-23 from Rs 1.343.000 million in 2021-22.

8.4.2.4 Share of profit from associated has decreased by 4.81% to Rs 725.96 million in year 2022-23 as compared to previous year 2021-22 Rs 762.677 million which may be justified.

8.4.2.5 Administrative expenses & cost of sales increased by 8.39% & 14.86% respectively which needed to be justified.

8.4.2.6 Profit after taxation has decreased by 0.26% to Rs 3,073.97 million inspite of increase in sales in the year 2022-23 as compared to previous year 2021-22 Rs 3,081.88 million which may be justified.

8.4.2.7 Equity Ratio in the year 2022-23 stands at 0.89 showing slight declined position against preceding year value of 0.90.

8.4.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	% age of compliance
2002-03	4	3	1	67.2	75%
2007-08	5	2	3	49.2, 50	40%
2010-11	13	-	13	7.3.1, 7.3.2, 7.3.2.1, 7.3.2.2, 7.3.2.3, 7.3.2.4, 7.3.3, 7.3.4.1, 7.3.4.2, 7.3.4.3, 7.3.4.4, 7.3.4.5, 7.3.4.6	-
2013-14	7	4	3	6.2.2.1, 6.2.2.3, 6.2.2.5, 6.3.3	57%
2015-16	8	1	7	6.3.4.4, 6.3.2.2, 6.3.2.3, 6.3.3, 6.3.4.1, 6.3.4.2, 6.3.4.3, 6.3.4.5	13%
2016-17	6	1	5	6.2.2.1, 6.2.3, 6.2.4.1, 6.2.4.2, 6.2.4.3	17%
2019-20	5		5	6.3.4.1, 6.3.4.2, 6.3.4.3, 6.3.4.4, (6.3.4.5 DAC level)	0%
Total	48	11	37		23%

The overall compliance of PAC directives needs to be improved.

8.4.4 Audit Paras

8.4.4.1 Non deduction of sales tax – Rs 3,930.500 million

As per section 3(1) of Sales Tax Act 1990, subject to the provision of this Act, there shall be charged, levied and paid on tax known as sales tax at the rate of 18% of the value of (a) taxable supplies made by a registered person in the course or further of any taxable activities carried on by him (b) goods imported in to Pakistan. According to eleventh schedule sub-section of (7) of section (3): whole of the tax involved or as applicable to supplies on the basis of gross value of supplies shall be withheld by withholding agent.

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2022-23, it was observed that the management printed bank notes & prize bonds having quantity of 3,753.700 million pieces valuing at Rs 21,836.382 million. However, the management did not deposit the applicable sales tax @18% amounting to Rs 3,930.500 million.

Audit is of the view that the non-deduction of sales tax was a serious lapse on the part of management which needed to be justified.

The matter was reported to the management on December 08, 2023, but no reply was received.

Audit recommends to probe the matter.

8.4.4.2 Non-recovery of outstanding dues – Rs 2,892.840 million

Rule 23 of GFR, provides that every government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2022-23, it was observed that an amount of Rs 2,892.84 million was outstanding balance against the trade debtors and associates as on June 30, 2023 are as under:

S#	Description(s)	(Rs in million)
1	Trade debtors (SBP)	2,843.26
2	Other Receivables Associated, SICPA	6.189
3	Other Receivables Associated, SPL	43.392
Total		2,892.84

Audit is of the view that non-recovery of outstanding amount reflects weak financial management.

The matter was reported to the management on December 08, 2023, but no reply was received.

Audit recommends early recovery of the outstanding amount.

(DP No. 915 & 927)

8.4.4.3 Non-maintenance of super orlof intaglio machine -Rs 1,438.000 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters. He is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2022-23, it was observed that the management has two (2) super orlof intaglio machines for more than 15 years. Machine's production capacity has decreased from 10,000 sheets/hr to 7,000 sheets/hr due to wear and tear. It was observed that Board approved capital budget of Rs 1,438.000 million for complete overhauling of machine for the year 2022-23. However, no overhauling of the machine was carried out by the management despite allocation of huge amount.

Audit is of the view that due to non-maintenance of machine by the Corporation has decreased its production substantially which is causing losses to the organization.

The matter was reported to the management on December 08, 2023, but no reply was received.

Audit recommends to justify the matter.

8.4.4.4 Non-settlement of sales tax - Rs 292.000 million

Section 3(1) of Sales Tax Act 1990, subject to the provision of this Act, there shall be charged, levied and paid on tax known as sales tax at the rate of 18% of the value of – (a) taxable supplies made by a registered person in the course or further of any taxable activities carried on by him (b) goods imported in to Pakistan. According to eleventh schedule sub-section of (7) of section (3): whole of the tax involved or as applicable to supplies on the basis of gross value of supplies shall be withheld by withholding agent.

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2022-23, it was observed that an amount of Rs 292.000 million of sales tax was recoverable as on June 30, 2023.

Audit is of the view that non-recovery / adjustment of sales tax reflected weak financial management.

The matter was reported to the management on December 08, 2023, but no reply was received.

Audit recommends to justify the matter.

8.4.4.5 Irregular procurement of various items - Rs 137.506 million

Rule 20 of PPRA Rules, 2004 stipulates that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2022-23, it was observed that the management purchased various items from suppliers without open competitive bidding on splitting basis during the year. The detail is as under:

(Rs in million)			
S#	Agency	Item	Amount
1	M/s Metro stores		95.727
2	M/s Al- Majid Co.	Various items	24.448
3	M/s H2O	Water	17.331
Total			137.506

Audit is of the view that the direct purchases without competitive bidding were irregular and unjustified.

The matter was reported to the management on December 08, 2023, but no reply was received.

Audit recommends to probe the matter.

(DP No. 924, 930 & 934)

8.4.4.6 Un-justified expenditure on gardening & poly culture forest - Rs 27.822 million

Rule 20 of PPRA Rules, 2004 stipulates that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2022-23, it was observed that the management incurred an expenditure of Rs 27.822 million on account of gardening & poly culture forest against its core business. The main purpose of PSPC was to achieve production targets of finished goods as per law & SoPs and not to promote the culture of forestry. Further, the expenditure was incurred without competitive bidding. The detail is as under:

S#	Description	Rs in million
01	Gardening	20.828
02	Poly culture forest	6.994
Total		27.822

Audit is of the view that an expenditure on gardening & poly culture forest was against its core business and in violation of rules.

The matter was reported to the management on December 08, 2023, but no reply was received.

Audit recommends to justify the matter.

8.4.4.7 Non-adjustment of advances – Rs 24.800 million

Rule 4(3) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters.

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2022-23, it was observed that management did not adjust advance payments of Rs 24.800 million outstanding against various parties up to 30th June 2023.

Audit is of the view that no-adjustment of advance payment reflects weak financial management.

The matter was reported to the management on December 08, 2023, but no reply was received.

Audit recommends early adjustment of the advance payments.

8.4.4.8 Loss due to purchase of spare parts at higher rates – Rs 13.473 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2022-23, it was observed that the management procured spare parts (technical items) from M/s UNO seisakusho Ltd. amounting to Rs 43.000 million and paid higher amount being proprietary item. However, the inventory record indicated that these items were not urgently required and sufficient stock of similar 720 items was available at PSPC store which was not utilized in time. It was further observed that the unit price quoted by the same supplier in 2023 was 43% (Rs 13.473 million) higher than the previously supplied items in year 2021.

Audit is of the view that procurement of such items which were already available in stock at higher rates was irregular and wastage of resources, which reflects weak inventory and financial management.

The matter was reported to the management on December 08, 2023, but no reply was received.

Audit recommends to investigate the matter.

8.4.4.9 Irregular payment of extra charges to contractor – Rs 8.651 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2022-23, it was observed that the management issued work order to M/s Aneel for renovation of office building valuing Rs 29.600 million including extra charges on March, 2021. However, management again revised work order and paid another extra charges amounting to Rs 8.651 million. The details are as under:

Description	Work order dated 29.3.2021		Amended / revised work order		Remarks
	Total (Rs)	25,388,699	?	25,388,699	
Services of a construction for the renovation of office building	Extra charges (Rs)	4,211,300		8,651,300	No justification for extra charges and amend in work order.
	Grand total (Rs)	29,600,000		34,040,000	

Moreover, contractor failed to complete the job within stipulated period i.e. 29.8.2021 and was granted extension up to 30.11.2021. However, no job completion certificate was provided to Audit.

Audit is of the view that payment of extra charges to the contractor was irregular and un-justified.

The matter was reported to the management on December 08, 2023, but no reply was received.

Audit recommends to justify the matter.

8.4.4.10 Irregular award of consultancy work – Rs 7.061 million

Rule 20 of PPRA Rules, 2004 stipulates that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2022-23, it was observed that the management selected consultant M/s. National electronics complex of Pakistan (NECOP) for consultancy services for Integrated Security System (ISS) directly at cost of Rs 6.248 million exclusive of tax. Further, boarding / lodging and transport services shall be rendered to NECOP team by PSPC. Audit further, observed the following:

- The management negotiated with bidder and accepted the cost effective option for PSPC which incurred extra expenditure.
- Purchase committee on 29.05.2023 granted waiver of bank guarantee to M/s NECOM by extending undue favor.
- The management issued PO.No.25110 dated 30.05.2023, & completion schedule date was 20.09.2023.
- The management released 50% advance payment Rs 2.625 million on 15.06.2023.

Audit is of the view that the award of contract without invitation of tender was irregular and unjustified.

The matter was reported to the management on December 08, 2023, but no reply was received.

Audit recommends to justify the matter.

8.4.4.11 Irregular appointment without advertisement - Rs 5.709 million

Rule 20 of PPRA Rules, 2004 stipulates that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

As per guidelines / letter dated January 02, 2002 issued by the Auditor General of Pakistan in accordance with the provisions of section 15(1) of the Auditor General's (Functions, powers and terms and conditions of Service) Ordinance, 2001, the auditors should be appointed in consultation with Auditor General of Pakistan and rotated after every 5 years. Instructions were issued in compliance of Finance Division's letter dated March 25, 1981.

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2022-23, it was observed that management appointed external auditor M/s KPMG & Co. and tax consultant, M/s A.F. Ferguson & Co. without advertisement. Further, concurrence of the Auditor General of Pakistan was also not obtained for appointment of external auditor.

Audit is of the view that appointment of external auditor and tax consultant without tender was held irregular.

The matter was reported to the management on December 08, 2023, but no reply was received.

Audit recommends to justify the matter.

(DP No.958 & 959)

8.4.4.12 Loss due to stolen / shortage of currency notes – Rs 5.000 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules.

During audit of Pakistan Security Printing Corporation (PSPC) for the year 2022-23, it was observed that an incident for theft of currency was occurred at Samar Satta. The stolen amount was Rs 5.000 million. The management lodged Police case FIR No. 02/21 Police Station Sama Satta Bahawalpur, Punjab. Moreover, the management did not provide the inquiry report despite several verbal requests. However, the matter was still unresolved, which needs justification.

Audit is of the view that stolen / shortage of currency notes reflects negligence and slackness on the part of management.

The matter was reported to the management on December 08, 2023, but no reply was received.

Audit recommends to justify the matter.

8.5 State Bank of Pakistan

8.5.1 Introduction

State Bank of Pakistan (SBP) is the Central Bank of Pakistan and is incorporated under the State Bank of Pakistan Act, 1956. It is an autonomous institution. Under the provisions of the SBP Act, 1956, the general superintendence and direction of the affairs and business of the Bank rests with the Central Board of Directors. Through an amendment in SBP Act in 1994, the Central Board of Directors was enlarged and now consists of the Governor, Secretary Finance Government of Pakistan and seven directors nominated by the Federal Government. From these seven directors, one Director from each province is nominated while ensuring representation to agriculture, banking and industrial sectors.

Strategic objectives are:

- i. Broadening access of Financial Services.
- ii. Ensuring viability of the Financial Sector.
- iii. Maintaining Price Stability with Economic Growth.
- iv. Exchange and Reserve Management.
- v. Strengthening the Payment System.
- vi. Human Resources Development.
- vii. Information Technology Development.

8.5.2 Comments on Audited Accounts

8.5.2.1 The working results of bank for the year ended June 30, 2023 as compared to previous years are given below:

(Rs in million)					
Particulars	2022-23	% Inc /(Dec)	2021-22	% Inc /(Dec)	2020-21
Interest expense	147,668.48	143.7	60,596.15	15.0	52,695.37
Exchange (Loss) / Gain	(875,024.85)	1,310.8	(62,023.08)	(145.8)	135,327.77
Operating expenses - Bank note & Prize bond printing charges	17,775.05	14.9	15,475.54	(1.8)	15,762.13
Provision / (reversal) against other doubtful debts	896.12	138.1	376.38	(1,628.7)	(24.62)
Charge of credit loss allowance on financial instruments	213.33	11,211.1	1.89	(102.9)	(63.95)
General administrative and other expenses	42,741.50	13.9	37,535.47	28.0	29,320.54
Foreign Currency accounts and investments	1,590,147.39	(27.0)	2,178,557.20	(23.8)	2,858,844.8 1
Special Drawing Rights (SDRs) of IMF	5,380.67	(87.6)	43,460.78	(28.5)	60,771.01
Other Assets	35,029.91	(19.6)	43,563.28	20.1	36,275.43

(Source: Annual Audited Accounts)

8.5.2.2 Interest expense has significantly increased by 143.7% from Rs 60,596.15 million in year FY-2022 to Rs 147,668.48 million in FY-2023, mainly due to increase in interest expense on bilateral currency swap and SDRs, securities sold under agreement to repurchase and charges on allocation of SDRs of IMF.

8.5.2.3 Exchange loss has considerably increased by 1,310.8% from Rs 62,023.080 million in year FY-2022 to Rs 875,024.85 million in FY-2023, on account of loss on foreign currency placements, securities, IMF fund facilities and SDRs of IMF.

8.5.2.4 Operating expenses under bank note & prize bond printing charges has increased by 14.9% from Rs 15,475.54 million in FY 2022 to Rs 17,775.05 million in FY 2023 owing to increase in manufacturing cost

8.5.2.5 General administrative and other expenses have increased by 13.9% during year under review to Rs 42,741.50 million from Rs 37,535.47 million in previous year mainly due to increase in salaries and retirement benefits and employees compensated absences.

8.5.2.6 Foreign Currency accounts and investments have significantly declined by 27% from Rs 2,178,557.200 million in year 2022 to Rs 1,590,147.39 million in FY 2023 due to withdrawal of funds / investments from international fund managers by the management.

8.5.2.7 Other assets of the bank have significantly decreased by 19.6% to Rs 35,029.91 million during the FY 2023 from Rs 43,563.28 million in year 2022, mainly due to decrease in advances and deposits.

8.5.2.8 Provision for credit loss ratio has deteriorated slightly during the year representing an increase in credit risk of loans of the bank.

8.5.2.9 Return on equity has declined from 45.9% to 41.6% during the year representing a relative decrease on equity.

8.5.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	% of compliance
2005-06	13	11	2	73, 76	85%
2006-07	9	3	6	43.2, 43.3, 44, 45, 46, 47, 48	33%
2007-08	5	2	3	51.2, 52,53	40%
2008-09	5	4	1	63	80%
2009-10	6	4	2	68,69	67%
2010-11	12		12	7.4.1, 7.4.2, 7.4.2.1, 7.4.2.2, 7.4.2.3, 7.4.2.4, 7.4.2.5, 7.4.3, 7.4.4.1, 7.4.4.2, 7.4.4.3, 7.4.4.4,	
2013-14	24	1	23	6.3.2.1, 6.3.2.2, 6.3.2.3, 6.3.2.4, 6.3.2.5, 6.3.2.6, 6.3.2.7, 6.3.2.8, 6.3.2.9, 6.3.2.10, 6.3.3, 6.3.4.1, 6.3.4.2, 6.3.4.3, 6.3.4.4, 6.3.4.5, 6.3.4.6, 6.3.4.7, 6.3.4.8, 6.3.4.9, 6.3.4.10, 6.3.4.11, 6.3.4.12	4%
2015-16	15	1	14	6.4.4.3, 6.4.4.8, 6.4.2.1, 6.4.2.2, 6.4.2.3, 6.4.2.4, 6.4.3, 6.4.4.1, 6.4.4.2, 6.4.4.4, 6.4.4.5,	7%

				6.4.4.6, 6.4.4.7, 6.4.4.9	
2016-17	12	5	7	6.3.4.1,6.3.2.1, 6.3.3, 6.3.4.2, 6.3.4.3, 6.3.4.5, 6.3.4.8,	42%
2019-20	4	1	2	6.4.4.1, 6.4.4.3 (6.4. 4.4 DAC level)	25%
Total	105	32	72		30%

The overall compliance of PAC directives needs improvement.

8.5.4 Audit Paras

8.5.4.1 Disbursements of loan beyond validity period - Rs 90,310.706 million

According to SBP circular No. IH&SMEFD Circular No. 3 of 2020 dated 17.03.2020 to combat the impact of COVID-19, State Bank of Pakistan (SBP) introduced a time bound emergency support for hospitals & medical centers by providing refinance facility to develop capacity for treatment of infected patients of COVID 19, and the validity of this scheme was up to September 30,2020.

According to SBP circular No. IH&SMEFD Circular No. 1 of 2020 dated 17.03.2020 In order to support sustainable economic growth especially in the backdrop of challenges being faced by the industry in post-pandemic scenario, State Bank of Pakistan (SBP) has introduced Temporary Economic Refinance Facility (TERF). The facility will provide concessionary refinance for setting up of new industrial units. Validity period was 31.03.2021.

During audit of State Bank of Pakistan (SBP) and SBP- Banking Services Corporation (BSC) for the year 2021-22, it was observed that State Bank of Pakistan allowed disbursements under two schemes, Refinance Facility for Combating COVID-19 (RFCC) and Temporary Economic Refinance Facility (TERF), beyond validity period. The detail is hereunder:

(Rs in million)			
Scheme	Amount Disbursed beyond validity	Validity Period	Period of Disbursements
RFCC	2,484.706	30.09.2020	2022
TERF	87,826.000	31.03.2021	
Total	90,310.706		

Case-wise data was requisitioned for above schemes to ascertain the grounds of these disbursements and reason for delay in disbursements (if any), but record was not provided.

Audit is of the view that the schemes which were marked by timelines and validity period should have been disbursed in the due course. Delayed disbursements and the same beyond validity period compromised objectives of schemes.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. The management informed the DAC that the disbursement under TERF continued after March 31, 2021, for cases approved till deadline. In this regard, disbursements of Rs 398.000 billion has been made till June end, 2023 which may increase in future. DAC directed the management to re-verify the data to Audit.

Audit recommends implementation of the DAC directives.

8.5.4.2 Non-detection of irregular transactions in time - Rs 19,552.203 million

As per SBP Act section 4C (h), the functions of the Bank to achieve the objectives set forth in section 4B and as further described in this Act, shall be to license, regulate and supervise scheduled banks and financial institutions that fall under the domain of the Bank as further specified in this Act or any other Act;

During audit of State Bank of Pakistan H.O (SBP) for the year 2021-22, it was observed that M/s Energy Global International FZE (EGI) for promoting investments under the umbrella of BIT (Bilateral Investment Treaty) between the Government of Pakistan and Iran opened an account with defunct KASB and started its operations. The accounts were initially opened in EURO and Yen currencies, then on 14.12.2012, it was converted into Special Convertible Rupee Account (SCRA). It was further revealed from the records that beneficial owner and authorized owner of EGI is on OFAC (Office of Foreign Assets Control), USA list since 26.11.2008 on account of involvement in alleged illegal transactions as defined by OFAC (USA) and warned defunct KASB on the affairs of EGI. This illegal company continued its operations from 2008 up-till 14.12.2012, when SBP finally froze their accounts. Here it is worth mentioning that the illegal transaction continued for 4 years and remained unidentified till December 2012, the volume of transactions/investment in those fake/illegal accounts was up to Rs 19,552.203 million.

Audit is of the view that non-detection of irregular transaction in time reflected weak internal controls.

The matter was reported to the management in June, 2023. The management in its reply stated that the observation is beyond the scope of AGP audit. The reply is not tenable as specific reply was not provided.

Audit recommends for such a strong control system and fixing of responsibility on the person(s) at fault.

8.5.4.3 Shortfall of financing to women under Kamyab Jawan Youth Entrepreneurship Scheme - Rs 9,190.500 million

According to para 2(6) of IH&SMEFD Circular No. 21 of 2020 dated July 10, 2020, Government of Pakistan has taken measures to provide self-employed opportunities to unemployed youth. Among the key features of the program as approved by the Prime Minister, 25% of the loans under this scheme will go to the women borrowers.

During audit of State Bank of Pakistan (SBP) (HO) and BSC for the year 2021-22, it was observed that management did not take any action against the banks violating conditions of Kamyab Jawan SME lending program. Record reflected share of disbursed loans to women entrepreneurs was only 7% as against requirement of 25%. As a regulator, SBP did not take any action against those banks violating the rules. Detail of disbursed loans by commercial banks is as under:

Banks	Total amount disbursed	Amount disbursed to male	Amount disbursed to female	Amount disbursed to female (%)	Difference (Rs in million)	
					Less than 25%	Remaining amount
Commercial Banks	47,181	43,839	3,342	7	25-7=18	8,453.25
Islamic Banks	4,609	4,194	415	9%	25-9=16	737.25
Total	51,790	48,033	3,757	100		9,190.5

Audit is of the view that non-disbursement of the loans to women entrepreneur upto required share of 25% reflected negligence on part of commercial banks in promoting women entrepreneurship and SBP should have taken action against those banks.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. DAC directed the management to submit revised reply containing all facts and figures to Audit.

Audit recommends implementation of the DAC directives.

8.5.4.4 Loss of funds due to poor performance by fund managers - Rs 6,198.048 million

According to Section 23 (2) SBP Act, 1956, the Bank may appoint managers, custodians, and any other professional advisors for the effective management of foreign exchange reserves of the country.

During audit of State Bank of Pakistan (SBP) and SBP-Banking Services Corporation (BSC) for the year 2021-22, it was observed that management hired services of two fund managers on 01.07.2021 to invest public money/funds on its behalf. However, M/s. BNY Mellon as custodian of SBP submitted monthly statements of change in net assets to SBP and intimated that the fund was not managed in a profitable manner by both of the fund managers and net assets invested in the funds had decreased significantly. This resulted into loss of Rs 6,198.048 million approx. (Rs 2,362.602 million + Rs 3,835.446 million) (Annex-51).

Audit is of the view that fund managers failed to secure the interest of SBP and caused loss of Rs 6,198.048 million.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. The management informed the DAC that M/s UBS reported realized gain of \$ 16.679 million (eq. PKR 2,969 million) in contrary to \$ 10.272 million (PKR 2,362.602 million) realized loss and M/s PIMCO reported realized gain of \$ 6.567 million (eq. PKR 1,169 million) in contrary to \$ 18.709 million (PKR 3,835.446 million) realized loss. DAC directed the management to re-verify the documents to Audit and place the matter to Board of Directors (BoD) for their decision and share the directives with Audit.

Audit recommends implementation of the DAC directives.

8.5.4.5 Loss due to allowing delayed concessionary loans ignoring real interest rates - Rs 1,038.730 million

According to SBP circular No. IH&SMEFD Circular No. 1 of 2020 dated 17.03.2020, in order to support sustainable economic growth especially in the backdrop of challenges being faced by the industry in post-pandemic scenario, State Bank of Pakistan (SBP) has introduced Temporary Economic Refinance Facility (TERF). The facility will provide concessionary refinance for setting up of new industrial units.

According to SBP circular No. IH&SMEFD Circular No. 03 of 2020 dated 17.03.2020, to combat the impact of COVID-19, State Bank of Pakistan (SBP) has introduced a time bound emergency support for hospitals & medical centers by providing refinance facility to develop capacity for treatment of infected patients of Covid-19 (valid upto 30th September, 2020).

During audit of State Bank of Pakistan H.O (SBP) & SBP BSC for the year 2021-22, it was observed that several concessionary loans were introduced to cater the impact of Covid-19 on the economy. In this regard SBP on the instructions of Govt. of Pakistan launched Temporary Economic Refinance Facility & Loans and Advances under Covid-19. The data regarding the disbursements during 2021-22 was called upon and analysis revealed that SBP kept on disbursing on the said schemes till June 2022. On the other hand, upon the normalization of world economy post Covid-19, significant upward movement in the interest rates was seen. Audit made a sample comparison in the interest rates that were allowed as per the schemes and interest rates at the time of disbursements of said loans which revealed that a huge benefit was transferred in the shape of discounted interest rates tabulated below:

Scheme Name	Loan Disbursed during June 2022 (Rs)	Interest rate on inception of scheme	Interest rate at the time of disbursement	Loss of interest income (Rs)
Covid-19 loans	700,183,511	3%	13.80%	75,619,819
TERF	10,944,434,550	5%	13.80%	963,110,240
Loss (3%-13.8) & (5%-13.8%) due to allowing low interest rates				1,038,730,059

Audit is of the view that the management should have devised a policy so that the loans disbursed after the normalization of economy could have adjusted as per the real interest rates prevailing at that time. Hence, the discounted rates not only benefitted the borrowers, the same constituted a loss, if taken at real terms. Ultimately the cost burden was taken by SBP.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. The management informed the DAC that the deadlines were only for the approvals of TERF and RFCC, actual disbursements took place later and these facilities are fixed in terms of interest rates. DAC directed the management to re-verify the data to Audit.

Audit recommends implementation of the DAC directives.

8.5.4.6 Non-adjustment of advances of different dealers – Rs 975.615 million

Para 10 (iv) of Code of Corporate Governance Regulations, 2019 states that a system of sound internal control is established, which is effectively implemented and maintained at all levels within the company.

During audit of State Bank of Pakistan (SBP) and SBP- Banking Services Corporation (BSC) for the year 2021-22, it was observed that approved dealers (AD) deposited a sum of Rs 975.615 million to SBP-BSC in respect of import advance payment /FE-25 export loan/advance payments of Hajj & Umrah organizers. However, such amount was not adjusted since long. Details are as under:

Accounts Statement Period 01-07-2021 to 30-06-2022			
Account No.	Title of Accounts	Description	Balance at period end (Rs)
02013999990057	RTGS CLR processing fee-refund-ads	Import Advance Payment\FE-25 Export loan/advance payments of Hajj & Umrah organizers	975,615,534

Audit is of the view that non-adjustment of advances of different banks since long caused increase in liability of SBP.

The matter was reported to the management on 21.06.2023. The management in its reply stated that after discussion with all internal stakeholders, SoP was devised for transfer of amount from this account to relevant income head. Accordingly, deposited amount was adjusted and stands regularized. However, the management did not provide any documentary evidence to audit for examination.

Audit recommends management may adjust the amount of advances as per SBP policy.

8.5.4.7 Loss due to allowing export refinance schemes without due diligence - Rs 615.000 million

Section (4) (3) of Public Sector Companies (Corporate Governance) Rules, 2017 states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

As per the objectives of SBP Export Refinance Schemes, this initiative will help exporters meet their working capital needs and incentivize them to bring in their export proceeds in a timely manner to help improve foreign exchange inflows in the interbank market.

During audit of State Bank of Pakistan H.O (SBP) & SBP BSC for the year 2021-22, it was observed that during 2015-16, management allowed M/s AFN Enterprises, a Yemen & Ethiopia - based exporter, loan facility under Export Refinance Facility (ERF) amounting to Rs 615.000 million without taking into account the fact that at the time of availing loan facility, both the countries were in state of war.

Subsequently, export contracts were cancelled and the exporter was unable to adjust/repay the loan already availed.

Audit is of the view that being a regulator and final authority of the ERF schemes, SBP should have devised a policy taking into account the ground realities and regional circumstances before allowing loans on such risky export contracts. The exporter did not execute export orders due to ongoing war in the region. Thus, allowing refinance scheme by SBP was not justified.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. The management informed the DAC that EFS is a performance based facility where exporters have to show export performance for financing availed and in case of failure, fine at prescribed rate was charged to exporters. It may be noted that no shipment had been made; there was no question of foreign exchange loss. DAC directed the management to re-verify the record / data to Audit.

Audit recommends implementation of the DAC directives.

8.5.4.8 Unjustified payment of property tax – Rs.558.309 million

According to section 99 of Cantonment Act 1924, exemption in the case of buildings (2) the following buildings and lands shall be exempt from any tax on property (f) any building or lands, used or acquired for the public service or for any public purpose, which are the property of [the Government], or in the occupation of [the [Federal] or any Provincial Government].

During audit of State Bank of Pakistan (SBP) and SBP- Banking Services Corporation (BSC) for the year 2021-22, it was observed that SBP BSC possessed buildings in Rawalpindi, Hyderabad and Peshawar cantonment areas and paid property tax amounting to Rs 558.309 million despite the fact that government buildings were exempted off any tax on property.

Audit is of the view that payment of property tax was in violation of Cantonment Act 1924. Thus, payment of property tax was held irregular in audit.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. The management informed the DAC that since Bank procured properties in Cantonment areas under lease agreements, the bank was obligated to fulfill and comply with all the terms and conditions of the lease including property tax obligations. Later on, SBP filed appeals before the Cantonment Board Authorities for consideration of property tax and upon their refusal, the SBP approached Court of Law. Three High Courts have ruled in favor of SBP except Sindh High Court (SHC). SBP had thus filed an appeal with Supreme Court of Pakistan against SHC. DAC directed the management to provide latest progress of the matter to Audit for examination.

Audit recommends implementation of the DAC directives.

8.5.4.9 Loss due to non-achievement of benchmark return by fund managers - Rs 503.114 million equivalent to USD 2.456 million

According to para (1.1) & (1.2) of investment agreement, the manager shall seek to achieve excess return relative to the Benchmark Index while seeking to protect principal. (1.2) The manager's performance

in the management of portfolio will be assessed at regular intervals by comparing the returns earned on the portfolio, both before and after fees, with notional returns on the benchmark index.

During audit of State Bank of Pakistan (SBP) and SBP-Banking Services Corporation (BSC) for the year 2021-22, it was observed that the following fund managers failed to achieve benchmark rate of return during the year. Detail is hereunder:

Fund Manager	Portfolio (USD)	Rate of return (%)	Benchmark Return (%)	Non-achievement of Benchmark return (%)	Loss (USD)
JPM	536,564,659	(3.07)	(2.73)	(0.34)	1,824,320
Black Rock	485,916,036	(2.86)	(2.73)	(0.13)	631,691
Total	1,022,480,695				2,456,011

It was further observed that SBP invested funds through fund managers at negative rate of return which further deteriorated and caused losses.

Audit is of the view that fund manager's failure to achieve at least benchmark rate of return resulted in loss of USD 2.456 million equivalent to Rs 503.114 million (1USD as on 30.06.2022=Rs 204.85).

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. DAC directed the management to place the matter to Board of Directors (BoD) for their decision and share the directives with Audit.

Audit recommends implementation of the DAC directives.

8.5.4.10 Non-recovery of loans against rozgar scheme - Rs 496.000 million

According to Refinance Scheme for payment of wages & salaries to the workers and employees of business concerns popularly known as SBP rozgar scheme. The financing was available for maximum of two years with a grace period of 06 months.

During audit of State Bank of Pakistan (SBP) and SBP- Banking Services Corporation (BSC) for the year 2021-22, it was observed that SBP launched rozgar scheme on April 10, 2020, preventing layoff by financing wages and salaries of employees (permanent, contractual, daily wagers as well as outsourced) for a period of six months (April 2020-Sep 2020). Financing was available for maximum of two years with a grace period of 06 months. However, an amount of Rs 496.000 million was still outstanding from the debtors as the validity period of recovery under the scheme was 10th March, 2023. Details are as under:

(Rs in million)			
Validity of scheme	Tenor of scheme	Maturity date	Amount outstanding

April 2020-Sep 2020	Maximum 02 years and 06 month grace period	March 10,2023	496.0
---------------------	--	---------------	--------------

Audit is of the view that non-recovery from the defaulters showed weak internal controls.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. The management informed the DAC that full amount was recovered. DAC directed the management to verify the recovered amount to Audit.

Audit recommends implementation of the DAC directives.

8.5.4.11 Unjustified payment of income continuation plan – Rs 423.000 million

As per section 5(1) of Public Sector Companies (Corporate Governance) Rules, 2017, the directors of a Board shall be persons who, in opinion of the Government, shall assist the Public Sector Company to achieve its principal objective and the Board shall accordingly exercise its powers and carry out its fiduciary duties with a sense of objective judgment and in the best interest of the company.

During audit of State Bank of Pakistan (SBP) and SBP-Banking Services Corporation (BSC) for the year 2021-22, it was observed that the management approved income continuation plan (ICP) for deceased employees of the Bank unjustifiably. In order to get the ICP approved by Board, management initially explained to the Board by drawing comparison with benefits provided to the deceased employee by the Federal Government. Management approved last drawn monetized salary of the deceased employee to their dependents on monthly basis for a period of 5 years or till the age of superannuation, whichever is earlier with a reduction of 10% every year. Pension to the dependents were already being provided by the bank under old monetized structure (OMS). A consultant hired to develop a comprehensive mechanism recommended the ICP on prospective basis, whereas management approved the same retrospectively with effect from January 2020, resulting in cash outlay of Rs 423.000 million.

Audit is of the view that approval of monthly income continuation plan by the bank is unjustified as no such facility is being provided by any Public Sector Entity (PSE).

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. DAC directed the management to verify Audit that on what date the proposal was send and no back date benefits were given and further, directed to place the matter to Board of Directors for their decision and share directives with Audit.

Audit recommends implementation of the DAC directives.

8.5.4.12 Loss on investments by external fund manager – Rs 263.996 million

As per Guiding Principles of Reserve Investment, subject to capital preservation and liquidity constraints, the reserves shall be invested with objective of maximizing risk adjusted returns.

During audit of State Bank of Pakistan (SBP) and SBP-Banking Services Corporation (BSC) for the year 2021-22, it was observed that management allocated US\$ 488.638 million to M/s. BlackRock. However, said fund manager incurred loss of Rs 263.996 million. The detail is hereunder:

S #	Booking Date	Amount (Rs)
1	8-Sep-21	3,527,052
2	23-Sep-21	(16,643,168)
3	28-Oct-21	(101,424,622)
4	26-Nov-21	(76,622,309)
5	27-Dec-21	(21,695,544)
6	27-Jan-22	116,934,895
7	23-Feb-22	(12,106,089)
8	21-Mar-22	(80,520,525)
9	25-Apr-22	53,735,829
10	30-May-22	(121,423,854)
11	23-Jun-22	(7,757,704)
Total		(263,996,043)

Audit is of the view that the losses on investment portfolio made by fund manager reflected that the investments were made without any due diligence on maximizing risk adjusted return.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. DAC directed the management to re-verify the documents to Audit and place the matter to Board of Directors (BoD) for their decision and share the directives with Audit.

Audit recommends implementation of the DAC directives.

8.5.4.13 Loss due to short sale by fund manager – Rs 261.263 million

According to para 6.4 of Investment Policy guidelines, 2020 for externally managed reserves, short selling of fixed income securities in the portfolio is not permitted.

During audit of State Bank of Pakistan (SBP) and SBP- Banking Services Corporation (BSC) for the year 2021-22, it was observed that the bank allocated foreign reserves amounting to USD 488.638 million to fund manager, M/s. Black Rock, in July, 2021 to be invested in accordance with Investment guidelines. However, the said fund manager invested in securities through short sale. Resultantly, fund manager, incurred losses as detailed below:

Month	Loss (in USD)	Month	Loss (in USD)
June-22	44,092	Jan-22	36,975
May-22	218,866	Dec-21	41,854
Apr-22	178,583	Nov-21	107,049
Mar-22	304,863	Oct-21	117,221
Feb-22	92,206	Sep-21	133,632
Total			1,275,341

Audit is of the view that short sale by fund manager, being in violation of the investment guidelines resulted in losses amounting to US\$ 1.275 million equivalent to Rs 261.263 million (1US\$ = Rs 204.85).

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. DAC directed the management to re-verify the documents to Audit and place the matter to Board of Directors (BoD) for their decision and share the directives with Audit.

Audit recommends implementation of the DAC directives.

8.5.4.14 Unjustified grant of additional financial assistance package – Rs 150.670 million

As per section 4(3) of Public Sector Companies (Corporate Governance) Rules, 2017, the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of State Bank of Pakistan (SBP) and SBP- Banking Services Corporation (BSC) for the year 2021-22, it was observed that management unjustifiably granted financial assistance package to the dependents of employees in case of death in service. Such ex-gratia payments were equal to last drawn gross salary by deceased employee for each year of the remaining years of his service till superannuation or 10 years and monthly grant equal to 1/4th of last monetized salary of deceased till superannuation or 15

years. Monthly grant was to be revised annually to compensate for inflation as well. Thus, management paid an amount of ex-gratia payments (Rs 124.480 million) and monthly grants (Rs 26.190 million).

This was in addition to the benefits the bank was already providing to the dependents of deceased employee including monthly income continuation plan (ICP) at rate of last drawn monetized salary for a period of five years or till the age of superannuation, funeral grant, encashment of unutilized leaves, full medical facility for dependents, full waiver of house building advance and other advances, benevolent fund grant, payment of utility bills, petrol ceiling, rent ceiling for iddat period, education and marriage grant (for children), group term assurance / life insurance up to Rs 11.000 million, gratuity & provident fund.

Audit is of the view that management's decision to grant additional financial assistance package to the dependents of deceased employees is unjustified considering numerous financial assistance benefits already being provided by the bank.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. DAC directed the management to re-verify the documents to Audit and place the matter to Board of Directors (BoD) for their decision and share the directives with Audit.

Audit recommends implementation of the DAC directives.

8.5.4.15 Loss of rental income due to charging of nominal rent and non-vacation / non-renovation of flats – Rs 133.203 million

According to clause 6 of Residential Accommodation Policy, 2016 of SBP Banking Services Corporation, the rent for residential facility / accommodation owned by SBP/SBP BSC will be determined on market-cum need basis by a Committee consisting of officials from SBP and BSC and approved by the MD, SBP BSc. The rent so fixed shall be reviewed every third year, coinciding with the asset revaluation cycle. Further, an employee on allotment of accommodation will be required to pay the monthly rent @ Rs 8,000 for type C and Rs 4,000 for type D flats which may be revised from time to time.

Following are the year wise market rental rate (per sq. ft) of residential colony of State Bank of Pakistan situated at G-7/1 Islamabad.

Floors	Rate (per sq. ft) (Rs)					
	2017	2018	2019	2020	2021	2022
Ground	21.7	25.36	30.4	32	36	44
1st Floor	18.11	23.1	26.2	29.1	33.2	39.8
2nd Floor	14.49	20.2	21.7	26	28.9	36.2
3rd Floor	13.0	18.11	20.2	25	27.5	32.6

According to clause 8.2 of Residential Accommodation Policy, 2016 of SBP Banking Services Corporation, officers separating from the service of bank will be required to vacate the housing facilities within three months from date of retirement. In case of non-compliance, the bank will not release title documents of their properties mortgaged with the bank and withheld payment of Retirement Benefits, in accordance with the rules. The bank will also charge market rent from concerned on occupation of residential property beyond three months, in case the residential facility is not vacated within six months, the bank will initiate legal proceedings against the concerned.

During audit of State Bank of Pakistan, Banking Services Corporation (SBP-BSC), Islamabad for the years 2020-21 & 2021-22, it was observed that the management had been charging nominal rent of Rs 4,000 to 8,000 per month (per flat) from the allottees far below than the market rates which resulted in a loss of rental income amounting to Rs 120.840 million. It was also observed that the following retired employees did not vacate the residential accommodation till close of Audit and management failed to recover the market based rent from the occupants as per above mentioned policy which resulted in rental loss of Rs 3.531 million (Annex-52).

It was also observed that 77 flats were vacant out of 192, due to deteriorated condition of flats which resulted in loss of rental income against vacant flats amounting to Rs 8.832 million.

Audit is of the view that the management failed to recover the market based rent, get the flats vacated from the retired employees and failed to take concrete efforts to get the flats repaired and loss of rental income which showed favoritism and weak internal controls.

The matter was reported to the management on March 20, 2023. The irregularity was discussed in DAC meeting held on December 06, 2023.

- a. The management informed the DAC that Rent Review Committee was constituted by the MD-BSC. The committee already convened multiple meetings to identify basic factors pertaining to revision of rents. The DAC directed the management for revision of rates within one month.
- b. The management informed that Bank is looking into the option of initiating legal proceeding against the ex-employees residing illegally. DAC directed the management to recover the rent as per market prevailing rates, vacate the property and take legal action. Further, verify that retirement benefits and title documents of their properties mortgaged with the bank withheld or not.
- c. The management informed the DAC that no allotment requests are pending to date. The DAC directed the management to prepare policy for renovation / repair & maintenance and utilization of vacant flats.

Audit recommends implementation of the DAC directives.

(DP No. 35, 40, 43 & 51)

8.5.4.16 Unjustified benefits on account of waiver of leave preparatory to retirement - Rs 54.000 million

As per clause No. 7 of SBP Leave Policy, officers due for normal retirement on attaining superannuation age shall be required to compulsorily proceed on Leave Preparatory to Retirement (LPR) for period not exceeding 180 days (subject to available balance in a RLA/SLA). The management shall have the prerogative to decline or curtail the request for LPR due to exigencies of service in which case the officer will be entitled to encashment of LPR of the leave so declined/curtailed.

During audit of State Bank of Pakistan (SBP) and SBP- Banking Services Corporation (BSC) for the year 2021-22, it was observed that LPR application of some Executive Directives have been declined on the grounds of exigencies of services despite the fact that the post of Executive Director carries huge perks & benefits and after allowing the waiver of LPR, employee receives monthly gross salary along with monthly LPR, this makes two monthly salaries. It was also being noticed that the no other employee was allowed this kind of facility/exemption in near past except E.Ds. Three cases of waiver on a sample basis are summarized as under:

(Amount in Rs)		
Name of Employee	Avg. Salary	Total impact of benefits
Mr. Qasim Nawaz	3,500,000	21,000,000
Mr. Muhammed Ashraf	3,000,000	18,000,000
Mr. Amjad Manzoor	2,500,000	15,000,000
Total		54,000,000

Audit is of the view that apparently the waiver of LPR look like providing benefits to some individuals, especially in recent times. This practice will only create financial burden on the bank and its exchequer.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. The management informed the DAC that the Bank has the prerogative to decline or curtail the request for LPR due to exigencies of service in which case the officer will be entitled to encashment of the leave so declined / curtailed. DAC directed the management to place the matter to Board of Directors.

Audit recommends implementation of the DAC directives.

8.5.4.17 Loss of funds on account of imprudent forex swap transactions - Rs 51.549 million

Section 17 and 23 of the SBP Act 1956, states that State Bank of Pakistan, being the central bank of the country, is entrusted with the responsibility of managing the country's foreign exchange reserves. The Bank may appoint managers, custodians, and any other professional advisors for the effective management of foreign exchange reserves of the country.

During audit of State Bank of Pakistan (SBP) and SBP- Banking Services Corporation (BSC) for the year 2021-22, it was observed that management executed forex swap (sold) deals at lower rates and Forex Swap (bought) deals on higher rates from different commercial banks on the same day. This resulted into loss of funds amounting to Rs 51.549 million. Further, in few transactions selling and buying was on same rates having no spread (Annex-53).

Audit is of the view that management granted undue favor to counter parties by selling funds at low rates and buying funds at higher rates on same day, causing a loss of Rs 51.548 million.

The matter was reported to the management in June, 2023. The management in its reply stated that SBP ensures that all swap transactions were executed as per prevailing (published) market prices of that day in accordance with the policy objectives of the central bank. The reply of the management was not tenable because such transactions caused substantial loss.

Audit recommends fixing responsibility on the person(s) responsible for loss.

8.5.4.18 Non-inclusion of EOBI contribution clause in contracts – Rs 46.421 million

Section 11(1) of EOBI Act, 1976 states that every employer shall, before the expiration of thirty days from the day on which this Act becomes applicable to the industry or establishment in respect of which he is the employer, communicate to the Institution the name and other prescribed particulars of the industry or establishment.

During audit of State Bank of Pakistan, Banking Services Corporation (SBP-BSC), Islamabad for the years 2020-21 & 2021-22, it was observed that the management awarded following contracts without inclusion of clause (s) regarding EOBI contribution. The service providers remained non-compliant in fulfilling obligatory responsibility of depositing EOBI contribution on behalf of their workers / labors /employees.

S #	Contract Description	Service provider	Amount (Rs)
1.	Janitorial services	M/s Outsiders	14.093
2.	Gardening & maintenance services	M/s SSKO	6.119
3.	Management services for AC equipment		0.897
4.	Currency contractor	M/s Mehmood & Co	25.317
Total			46.426

Audit is of the view that exclusion of relevant clauses of EOBI and other contribution(s) and non-deposition of deducted amount was a gross violation of government instructions / orders. Therefore, contracts awarded amounting to Rs 46.421 million stands irregular and un-justified.

The matter was reported to the management on March 20, 2023. The irregularity was discussed in DAC meeting held on December 06, 2023. The DAC directed the management to follow the law of land and include the clause and ensure that the payments were made to the institution prior to future payments to the contractors/ suppliers.

Audit recommends implementation of the DAC directives.

8.5.4.19 Irregular procurement of medicines – Rs 46.290 million

Rule 12(2) of PPRA, 2004 states that all procurement opportunities over three million Pakistani Rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu. Further, Rule 20 of PPRA, 2004 states that save as otherwise provided hereinafter, the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

During audit of State Bank of Pakistan, Banking Services Corporation (SBP-BSC), Islamabad for the year 2020-21 & 2021-22, it was observed that the management procured medicines from various suppliers / pharmaceutical companies / distributors amounting to Rs 46.290 million without tender (Annex-54).

Audit is of the view that the whole procedure of procurement of medicines stood irregular, non-transparent and in violation of PPRA Rules, 2004.

The matter was reported to the management on March 20, 2023. The irregularity was discussed in DAC meeting held on December 06, 2023. The management informed the DAC that similar para was discussed in PAC in its meeting held on October 06, 2021 where in the Committee directed to adopt complete process. In compliance to directives of PAC, direct procurement of medicines has been discontinued across Pakistan and open competitive bidding has been adopted. DAC observed that BSC Islamabad procured the medicines in violation of PAC directives. DAC directed the management to justify the delay in implementation of directives of PAC and share the current status.

Audit recommends implementation of the DAC directives.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year 2022-23 vide para(s) number 6.6.12.5 having financial impact of Rs.198.288 million. Recurrence of same irregularity is a matter of serious concern.

8.5.4.20 Irregular acquisition of services from Bloomberg - Rs 45.000 million

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

Rule 20 of PPRA, 2004 states that, the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

During audit of State Bank of Pakistan, Banking Services Corporation (SBP, BSC) H.O for the year 2021-22, it was observed that the management obtained services from M/s Bloomberg Index Services Ltd by signing an agreement in 2004 without any competitive bidding in violation of PPRA rules, which was still continued.

Audit is of the view that hiring of services of Bloomberg without tender and for such lengthy period was not justified. Thus, payment of Rs 45.000 million is held irregular.

The matter was reported to the management in June, 2023. The management in its reply stated that contract with Bloomberg was of long term nature as it was one of the top most financial service provider, hence, its replacement was not easy. The reply was not tenable as procurement of services was in violation of public procurement rules.

Audit recommends that management may fix the responsibility on the person (s) at fault.

8.5.4.21 Loss due to unjustified excess expenditure on renovation of building – Rs 23.438 million

As per clause (2) license agreement dated 12-02-1997 between Government of Pakistan through the Law Secretary (Licensee) and the State Bank of Pakistan (licensor), the amount of expenditure incurred by the licensee on renovation/improvement of State Bank old building premises to make it suitable for housing branch registry of the Supreme Court of Pakistan will be adjusted against the yearly compensation charges payable to the SBP by the licensee. The charges incurred on renovation/improvement by the licensee may not exceed the amount of compensation charges of six years.

During audit of State Bank of Pakistan (SBP) and SBP-Banking Services Corporation (BSC) for the year 2021-22, it was observed that contrary to above, Housing Branch Registry Office of Supreme Court of Pakistan Nabha Road, Lahore had renovated the building and adjusted the amount of expenditure incurred on renovation/improvement of Rs 57.188 million (equivalent to nine years' compensation charges instead of adjustment of Rs 33.750 million i.e. six years' compensation charges payable to SBP). Thus, an amount of Rs 23.438 million was excess charged to SBP. Details are as under:

(Rs in million)			
No. of year	Period	Rent Receivable	Remarks
06	1997 to 2003	33.75	Rent to be adjusted
03	2004 to 2006	23.43	Excess amount of rent adjusted
09	1997 to 2006	57.18	Total adjusted amount

Audit is of the view that such adjustment of Rs 23.438 million from compensation charges to SBP was in violation of license agreement.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. The management informed the DAC that Supreme Court of Pakistan informed the Bank that the amount of six years of compensation was insufficient for making payment against some of the works already done in the building and as such charges equivalent to nine years of compensation might be adjusted. The said request was agreed by SBP. DAC directed the management to place the matter before PAC.

Audit recommends implementation of the DAC directives.

8.5.4.22 Non recovery of service / compensation / rent charges from NADRA - Rs 20.961 million

According to Public Accounts Committee (PAC) directives vide meeting held in April 07, 2009, the PAO was directed to recover service charges from National Database and Registration Authority (NADRA) & Narcotics Control Department (NCD).

According to directives of Joint Secretary (IF) vide meeting held on July 31, 2012, it was decided that compensation charges @ Rs 7.000 per sqft will be paid by NADRA & NCD to State Bank of Pakistan (SBP) since occupation till 2003 and thereafter with enhancement as per provision of Rent Restriction Ordinance, 2000.

As per directives of Joint Secretary, Cabinet Division, Islamabad vide meeting held on February 22, 2018 it was decided that NADRA to initiate renegotiation with SBP and enter into a formal agreement directly with SBP on mutually agreed terms & condition including time frame for vacation of the building.

During audit of State Bank of Pakistan, Banking Services Corporation (SBP-BSC), Islamabad for the year 2020-21 & 2021-22, it was observed that National Database and Registration Authority (NADRA) occupied building of SBP-BSC, Islamabad since year 2000, without any agreement and payment of rent. The Ministry of Finance (MoF) convened several meetings to resolve the issue between SBP and NADRA in which it was decided that compensation charges @ Rs 7.00 per sq. ft will be paid by NADRA & NCD to SBP since occupation till year 2003 and thereafter with enhancement as per provision of Rent Restriction Ordinance, 2000. However, it was observed that Rs 20.961 million (124,770 sq. ft @ Rs 7.000 per sq. ft. @ 24 months) for the year 2020-21 & 2021-22 was not recovered by the management nor the space was vacated by NADRA till date.

Furthermore, it was also observed that the NADRA has been occupying the building of SBP-BSC, Islamabad since year 2000 without any agreement or consent of SBP.

Audit is of the view that the management failed to recover a hefty amount of outstanding from NADRA and neither had it vacated the premises despite the directives of PAC and Finance Division. Furthermore, no formal rent agreement has also been signed by the management with NADRA despite a lapse of considerable time.

The matter was reported to the management on March 20, 2023. The irregularity was discussed in DAC meeting held on December 06, 2023. The DAC directed the management to place the para before PAC.

Audit recommends implementation of the DAC directives.

(DP No 41 & 52)

8.5.4.23 Investment by fund manager in violation of Investment Policy of the Bank & subsequent loss – Rs 17.819 million

Para 2.1.1 (g) of Investment Policy of the Bank (year 2020) states that investment shall only be made in countries where the issuer, the guarantor and the ultimate parent company of risk is an OECD member country (as on 1st January, 2008) or Singapore.

During audit of State Bank of Pakistan (SBP) and SBP- Banking Services Corporation (BSC) for the year 2021-22, it was noted that SBP fund manager made an investment of funds in a bond issued by M/s. Ali Baba Holdings. However, it was observed that the investment was irregular as ultimate parent country of risk was China, which was a non-OECD member country. This breach was not highlighted by M/s. Bank of New York (BNY) being primarily responsible for compliance of SBP investment policy guidelines.

It was further observed that there was loss of USD 86,985 equivalent to Rs 17.819 million (1USD=Rs 204.8467). The detail is hereunder:

SBP Fund Manager	Investment date	Total investment (USD)	Liquidated amount (USD)	Liquidation date	Loss (USD)
M/s. UBS	17.11.2021	1,326,806	1,239,821	17.05.2022	86,985

Audit is of the view that investment by fund manager in violation of Investment Policy of the Bank & subsequent loss reflected poor financial management / risk management.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. DAC directed the management to re-verify the documents to Audit and place the matter to Board of Directors (BoD) for their decision and share the directives with Audit.

Audit recommends implementation of the DAC directives.

8.5.4.24 Irregular award of internet infrastructure optimization contract - Rs 14.918 million

Rule 10 (1) of PPRA Rules, 2004 states that the procuring agency shall allow the widest possible competition by defining such specifications that shall not favour any single contractor or supplier nor put others at a disadvantage.

During audit of State Bank of Pakistan (SBP) and SBP- Banking Services Corporation (BSC) for the year 2021-22, it was observed that management awarded a contract of internet infrastructure optimization to M/s. Wateen Solution (Pvt.) Ltd at Rs 14.918 million on 28-03-2022. However, it was observed that there was variation of specification. Details are hereunder:

Quantity Required	Required Specs (SBP bidding docs Dec, 2021)	Specs Supplied (Form-II of M/s. Wateen Solution Jan 7,2022)	Remarks
02	Type 1 Routers (Cisco Catalyst C 8300-1N1 S-6T Router)	Cisco C-8200 (Qty. 04)	Catalyst 8300 Series is built on an x86 System-On-Chip (SoC) multicore CPU system architecture (8 or 12 cores)
02	Type 2 Routers (Cisco Catalyst C 8200-1 N-4T Router)		Catalyst 8200 Series is built on an x86 System-On-Chip (SoC) multicore CPU system architecture (4 or 8 cores)

Further, the project was not completed as per schedule.

Audit is of the view that procurement of the routers was irregular as the same was not in accordance with the specs defined in the bidding documents. Further, management extended undue favor to supplier by non-imposing L.D of Rs 1.491 million on account of delayed supplies.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. DAC directed the management to physically verify the Audit that the installed equipment was same as per bidding documents.

Audit recommends implementation of the DAC directives.

8.5.4.25 Non-recovery of penalty – Rs 8.027 million

SBP approved M/s. Gatron Industries Ltd. request for Exchange Risk Cover under the following terms and conditions:

- i. Exchange risk coverage fee @ 5% per annum would be charged from M/s. Gatron Industries Ltd.
- ii. Fee will be payable by M/s. Gatron Industries Ltd. from the date of Letter of Credit.
- iii. One year fee is required to be deposited with SBP in advance by M/s Gatron Industries Ltd.

During audit of State Bank of Pakistan (SBP) and SBP-Banking Services Corporation (BSC) for the year 2021-22, it was observed that M/s. Gatron Industries Ltd. obtained three loans from M/s. Kreditanstalt Fur Wiederaufbau (KfW), a promotional bank of Germany. All three loan agreements were registered with State Bank of Pakistan. After obtaining these loans M/s. Gatron Industries Ltd. requested its bank to get approval of SBP for exchange risk cover for these loans. The SBP approved this request subject to above terms and conditions. However, M/s. Gatron Industries Ltd. failed to meet the terms and conditions of SBP's approval regarding exchange risk cover. Accordingly, SBP imposed penalty of Rs 8.027 million which was not recovered as yet.

Audit is of the view that non-recovery of penalty amount reflected weak internal controls.

The matter was reported to the management on June 21, 2023. The management in its reply stated that it relates to regulatory functions of the bank. The reply of the management was not tenable as recovery of penalty amount was reflected in bank's accounts, but the same was not recovered.

Audit recommends recovery on priority.

8.5.4.26 Non-completion of wireless LAN project - Rs 7.990 million

As per SBP document the urgency of the project is evident from the extract presented below:

“SBP senior management has to attend important online video conferencing meeting with higher officials; therefore, it is essentially required to procure the wireless LAN and associated equipment to address the performance issues”.

During audit of State Bank of Pakistan H.O (SBP) & SBP BSC for the year 2021-22, it was observed that a contract for supply, installation, maintenance and technical support of wireless LAN at SBP Lahore and Islamabad office was awarded to M/s GBM Pakistan Private Ltd. However, the company did not complete or even initiate the project till the completion of SBP's financial year.

Audit is of the view that the management extended undue favor to supplier by ignoring project completion schedule of supplies and implementation. Thus, the contract amounting to Rs 7.990 million was unnecessarily delayed and would ultimately involve more cost to SBP on its completion.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. The management informed the DAC that multiple reminders were issued to the supplier but equipment was not yet received. DAC directed the management to impose liquidated damages on the supplier and verify to Audit.

Audit recommends implementation of the DAC directives.

8.5.4.27 Non-recovery of liquidated damages – Rs 5.067 million

Section 4(3) of Public Sector Companies (Corporate Governance) Rules, 2017 states that the chief executive (Governor, in case of SBP) is responsible for the management of the Public Sector Company and for its procedures in financial and other matters. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources

are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of State Bank of Pakistan (SBP) and SBP- Banking Services Corporation (BSC) for the year 2021-22, it was observed that management awarded contracts for supply of items to different suppliers amounting to Rs 50.691 million. However, said suppliers did not supply the requisite items as per contract agreements in time. Details are as under:

(Rs in million)					
S#	Name of supplier	Description	Amount	Time required	Amount of L.D. @ 10%
1	M/s. Mansha Brothers	Supply and installation of IP Based CCTV	31.446	90 days (06-12-2021)	3.144
2	Ms/. Megaplus	Installation,maintenance & support of desktop IT equipment	4.327	20 weeks (14-04-2022)	0.432
3	M/s. Wateen Solutions	Infrastructure optimization	14.918	60 weeks (07-01-2022)	1.491
Total					5.067

Audit is of the view that management extended undue favor to above mentioned suppliers by ignoring the completion date of project / non-imposition of liquidated damages amounting to Rs 5.067 million.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. The management informed the DAC that delay in completion of the projects could not be attributed to the supplier's end. The late execution of the project would be dealt in accordance with the terms and conditions of the contract as and when operational acceptance payment invoice would be processed. DAC directed the management to verify the Audit that equipment was received and installed and the project was completed.

Audit recommends implementation of the DAC directives.

8.5.4.28 Unjustified ex-gratia payment to employees – Rs 4.00 million

As per section 4(3) of Public Sector Companies (Corporate Governance) Rules, 2017, the Chief Executive (Governor, in case of SBP) is responsible for the management of the Public Sector Company and for its procedures in financial and other matters. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of State Bank of Pakistan (SBP) and SBP- Banking Services Corporation (BSC) for the year 2021-22, it was observed that management made ex-gratia payment amounting to Rs 4.000 million to following officers/employees of Deputy Governor’s staff without any justification. Detail is as under:

S #	PIN	Name	Designation	Amount (Rs)
1	9111	Aqeel Ashraf Rana	Joint Director	800,000
2	7323	Asghar Khan	Joint Director	800,000
3	7846	Muhammad Mushtaq	Joint Director	800,000
4	5135	Abdul Sattar	Messenger	800,000
5	3959	Qamaruzzman	Head Messenger	800,000
Total				4,000,000

Audit is of the view that ex-gratia payment to employees by management was without any justification.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. DAC directed to pend the para.

Audit recommends implementation of the DAC directives.

8.5.4.29 Unjustified / wasteful expenditure on car rental services despite own vehicles – Rs 3.320 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2017, states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of State Bank of Pakistan, Banking Services Corporation (SBP-BSC), Islamabad for the years 2020-21 & 2021-22, it was observed that the management had sixteen (16) different vehicles like Fortuner, Hilux, Corolla GLI, Altis Grande & Civic in their pool for official use. However, the management also hired the services of M/s Unique Travels on rental basis for pick/drop of SBP officers, such as Governor, Deputy Governors, Executive Directors, Directors, etc. and incurred an expenditure of Rs 3.320 million. Incurrence of such huge expenditure on car rental services in the presence of its own pool of vehicles was unjustified and wasteful.

Audit is of the view that the expenditure incurred on the procurement of car rental services amounting to Rs 3.230 million was unjustified and wasteful.

The matter was reported to the management on March 20, 2023. The irregularity was discussed in DAC meeting held on December 06, 2023. The management informed the DAC that in case pool cars of the office are already engaged, external transport facility is required for such proposes due to inflexibility in the schedule. The DAC directed the management to get verified visit wise record.

Audit recommends implementation of the DAC directives.

8.5.4.30 Non recovery of fire insurance claim – Rs 3.169 million

As per section 4(3) of Public Sector Companies (Corporate Governance) Rules, 2017, the chief executive (Governor, in case of SBP) is responsible for the management of the Public Sector Company and for its procedures in financial and other matters. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of State Bank of Pakistan (SBP) and SBP- Banking Services Corporation (BSC) for the year 2021-22, it was observed that the management did not recover fire insurance claim of Rs 3.169 million from M/s. NICL. An incident of fire occurred on June 15, 2022 on the first floor of SBP BSC Islamabad office. Subsequently, the management filed the claim with the insurer on Sep 09, 2022. However, said claim is still outstanding despite lapse of considerable time. Complete detail of damages claimed but not received by the Bank from M/s. NICL is as follows:

S. #	Description	Amount of claim (Rs)
1.	Main Cables & Wiring	982,300
2.	UPS Power & Supply	827,300
3.	False ceiling	40,000
4.	CCTV & Communication Cables	479,140
5.	Various Furniture	840,600
Total		3,169,340

Audit is of the view that non-recovery of fire insurance claim by the management from the insurer despite lapse of considerable time period tantamount to loss to the Bank.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 06, 2023. DAC directed the management to recover full amount of claim lodged to M/s NICL and verify the same to Audit.

Audit recommends implementation of the DAC directives.

**8.5.4.31 Re-appointment of Chairman Shariah Advisory Committee –
Rs 2.470 million**

Clause 5 (b) of Terms of reference (TORs) of Shariah Advisory Committee (SAC) states that the Chairman of SAC will be required to disassociate himself from other Islamic banking Institutions (IBIs) after first 3 year term. In case of not fulfilling this requirement, he may be reappointed only a member of SAC for the subsequent term.

During audit of State Bank of Pakistan (SBP) and SBP- Banking Services Corporation (BSC) for the year 2021-22, it was noted that contrary to above rule the management approved Mufti Arshad Ahmed Aijaz as Chairman of SAC for 3 years in 2017-18 despite having his presence in various Islamic Banking Institutions (IBIs). SBP Board waived off that condition and re-appointed him again for next three years citing the reason that there was no other Shariah scholar of his caliber in Pakistan.

Audit requisitioned appointment files along with personal files of Chairman and members of SAC and expenditure on SAC meetings, which were not provided by the management despite various reminders.

Audit is of the view that management granted undue favor to the incumbent by appointing & re-appointing him as Chairman Shariah Advisory Committee (SAC) without his disassociation from other IBIs which caused conflict of interest. Hence, payment of Rs 2.47 million is held irregular.

The matter was reported to the management in June, 2023. The management in its reply stated that the agenda items presented at the SAC are on industry-wide matters and not for matters related to individual bank. Management's response was not tenable as there was conflict of interest and appointment was in violation of standing orders.

Audit recommends the management may duly appoint a new Chairman SAC.

8.5.4.32 Management's inaction against banking cartel resulting in costly Government borrowing

Section 25(1) of Banking Companies Ordinance, 1962, relating to Power of State Bank to control advances by banking companies, states that whenever the State Bank is satisfied that it is necessary or expedient in the public interest so to do, it may determine the policy in relation to advances to be followed by banking companies generally or by any banking company in particular, and, when the policy has been so determined, all banking companies or the banking company concerned, as the case may be, shall be bound to follow the policy as so determined.

During audit of State Bank of Pakistan (SBP) and SBP- Banking Services Corporation (BSC) for the year 2021-22, it was observed that after February, 2022 commercial banks unjustifiably increased spread margin on Government borrowings from 0.66% to 2.22% in March-22 and then again increased it to 3.21% in April, 2022 which resulted in interest payment of the Government exponentially. The trend of marginal spread is hereunder:

Auction Number	Auction Date	Maturity Date	Competitive Bids (Realized Value)	Cut-off Yield
614	22-Mar-22	16-Jun-22	209,725	11.999%
617	27-Apr-22	28-Jul-22	308,784	14.789%
618	18-May-22	11-Aug-22	193,575	14.499%
619	01-Jun-22	25-Aug-22	532,953	15.249%
620	15-Jun-22	8-Sep-22	666,268	15.250%
621	29-Jun-22	22-Sep-22	1,652,864	15.230%
Total Government borrowing at high bank's spread (Rs in million)			3,564,169	

Audit is of the view that SBP as regulator did not take any action against the banking cartel for charging higher interest rates on Government borrowing.

The matter was reported to the management in June, 2023. Management in its reply stated that the overnight interest rate remained close to SBP's policy rate and auction of government securities that entail government borrowing from domestic market, was a separate and independent activity. The management's reply was not tenable as commercial banks charged higher rates on Government borrowing and SBP could not safeguard the interest of Government being regulator of the banking industry.

Audit recommends that management may investigate the matter against commercial banks and financial institutions involved in banking cartel.

8.5.4.33 Foreign exchange manipulation by commercial banks

As per chapter 2 of the FE Manual issued by the SBP, banks are barred from charging more than a defined margin set by the SBP.

Section 4C(h) of the State Bank Act, 1956, states that one of the Bank to achieve the objectives set forth in section 4B and further described in (h) license, regulate and supervise scheduled banks and financial institutions that fall under the domain of the Bank as further specified in this Act or any other Act.

During the audit of State Bank of Pakistan H.O (SBP) & SBP BSC for the year 2021-22, it was noted that during year 2022, news circulated that commercial banks allegedly made unjustified profits of Rs 100 billion by manipulating forex market. Up to June, 2022, around 8 commercial banks were identified to have made exorbitant profits by exploiting the rupee fluctuation against the dollar and through huge spreads between the open market and interbank rates. SBP being a regulator penalized these banks by imposing penalty of Rs 290 million. The penalty was just 0.29% of the alleged forex manipulation. However, detailed record on the matter was not provided to audit.

Audit is of the view that involvement of commercial banks in forex manipulation affected local currency rupee depreciation and reflected weakness of the internal controls.

The matter was reported to the management in June, 2023. The management in its reply stated that this pertained to regulatory functions of the Bank and was beyond the scope of AGP audit. The reply was not tenable as it was irrelevant.

Audit recommends for more strong regulations and oversights by SBP, fact-finding and provision of detailed record to audit on the subject matter.

8.5.4.34 Unjustified disbursement of loans to the exporter under export finance scheme despite repetitive fines

According to Export Finance Scheme (EFS) Manual, Part-I is a transaction based facility in which Annual financial limits are allocated to Commercial Banks on revolving basis. Banks / ADs having EFS limits provide export finance to the exporters at pre-shipment and/or post-shipment stage on case to case basis against Letter of Credit/Contract for export of eligible goods. Indirect exporter/manufacture, who supply inputs to direct exporter can also avail the facility against Inland Letters of Credit/Standardized Purchase Order established by direct exporter. Part-II is a performance-based export financing facility. This means that based on the exporter's previous year's performance; i.e. export proceed realized through the export of eligible commodities, a revolving limit equivalent to 50% of that performance is fixed on annual basis.

During audit of State Bank of Pakistan, Banking Services Corporation (SBP-BSC), Islamabad for the years 2020-21 & 2021-22, it was observed that the management granted loan facility to the exporter M/s Kohinoor Textile Mills Ltd via different authorized dealers/ commercial banks. The exporter made different type of irregularities i.e. short shipment / late shipment, misreporting, delayed repayment etc. The details of different type of fines/ penalties imposed are at (Annex-55). It was evident that the exporter was penalized for fifty two (52) times for different loans cases due to misreporting/incorrect reporting / non-shipment/ delay in repayment / short shipment etc. despite the fact management continuously financing loans to the exporter under the subsidized scheme. Further, the rate of fines/ penalties charged to the exporter were very nominal.

Audit is of the view that despite repeated irregularities on part of exporter, the management continuously allowed export financing facility. This shows favoritism and weak controlling over the affairs of export.

The matter was reported to the management on March 20, 2023. The irregularity was discussed in DAC meeting held on December 06, 2023. DAC directed the management to revisit the policy of disbursement of loans to the exporters and issue warnings to exporter on non-compliance of SoPs.

Audit recommends implementation of the DAC directives.

8.6 Kissan Support Services (Pvt.) Limited

8.6.1 Introduction

Kissan Support Services is Private Limited Company established in 2006 as a subsidiary of ZTBL. The purpose of establishing this subsidiary was to provide support staff to ZTBL, undertake its non-core activities and carry out any business for its sustainability. The main objectives of this subsidiary are as under:

1. To carry on business of providing consultancy, advisory and other agency and support services on contractual basis or otherwise to ZTBL.
2. To provide all kind of support staff and ancillary services to the bank and marketing of Bank's products and services.
3. To provide quality products and services to ZTBL clients for efficient and improved farming including seeds, fertilizers, pesticides, Agri-machinery and technical services like irrigation & drainage system and repair and maintenance of agricultural machinery.
4. To provide welfare services to the employees of the Bank including education, vocational training, sports and recreation facilities.

8.6.2 Comments on Audited Accounts

8.6.2.1 The working results of the KSSL for the year 2021 in comparison of the previous years are given below:

(Rs in million)

Description	2022	% Inc/ (Dec)	2021	% Inc/ (Dec)	2020
Revenue	147.24	27.50	115.51	(89.86)	1,137.50
Cost of services	121.51	(45.46)	222.79	(78.80)	1,050.73
Gross profit/(loss)	25.73	-	(107.28)	-	86.78
Administrative expenses	65.46	20.46	54.34	(2.49)	55.73
Operating profit/(loss)	(39.73)	(75.41)	(161.62)	-	31.05
Other income	118.09	44.68	81.62	(36.74)	129.02
Financial charges	-		-	-	5.33
Profit/(loss) before taxation	78.36	-	(80.00)	-	160.07
Taxation	23.916	58.59	15.08	-	(36.82)
Profit/(loss) after tax	54.44	-	(64.92)	-	123.24

(Loss)/Earnings per share	5.44	-	(6.49)	-	12.32
---------------------------	------	---	--------	---	-------

(Source: Annual Audited Accounts)

The working results of the Organization were satisfactory during the year under review. Revenue of the company increased from Rs 115.51 million in 2020-21 to Rs 147.24 million in 2021-22 registering an increase of 27.50% over previous year. The cost of services decreased from Rs 222.79 million in 2020-21 to Rs 121.51 million in 2021-22 registering a decrease 45.46%. Efforts be made to maintain the profitability trend in the years to come.

8.6.2.2 Administrative expenses increased to Rs 65.46 million in 2022 from Rs 54.34 million in 2021 showing an increase of 20.46%. Increase was particularly significant in salaries and allowances, repair & maintenance of motor vehicles expenses and traveling expenses. Efforts need to be made to control the expenses.

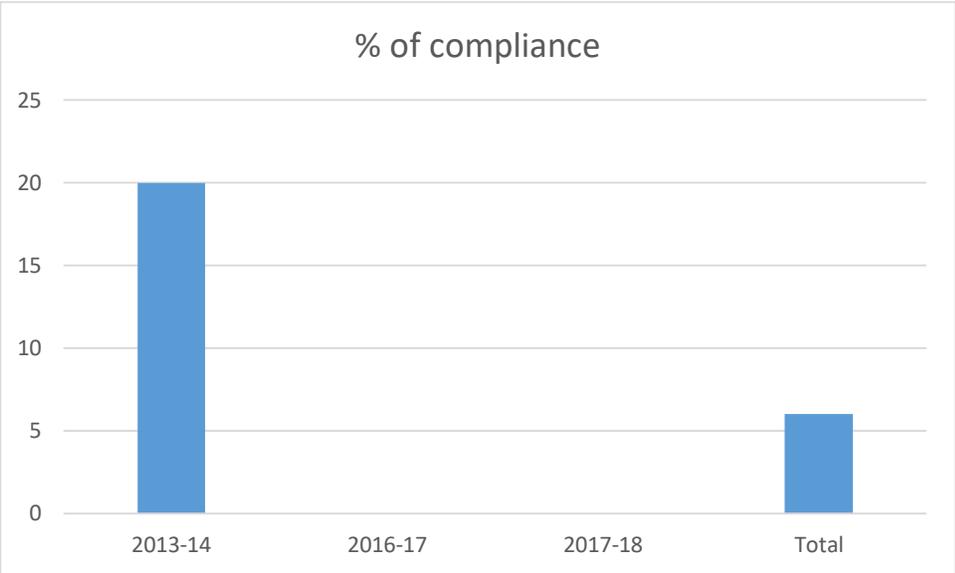
8.6.2.3 A sum of Rs 103.13 million is receivable from ZTBL since long. Steps may be taken to recover the amount.

8.6.2.4 A sum of Rs 3.18 million is recoverable from employees on account of EOBI contribution. Deduction may be affected from the salaries of employees for recovery of EOBI contribution.

8.6.2.5 Physical verification of assets valuing Rs 6.69 million as on December 31, 2022 was not conducted by an independent store verifier. Value of store assets, therefore, cannot be authenticated which needs to be explained.

8.6.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No	% of compliance
2013-14	05	01	04	6.7.4.2,6.7.4.3,6.7.4.4,6.7.4.1	20
2016-17	08	0	08	6.6.2.5, (6.6.1 & 6.6.2, 6.6.2.1, 6.6.2.2, 6.6.2.3,6.6.2.4, 6.6.2.6, 6.6.3)	-
2017-18	05	0	05	9.7.1, 9.7.2.1, 9.7.2.2, 9.7.2.3, 9.7.3	0
Total	18	01	17		6



Overall compliance of PAC directives was very poor which needs immediate attention of PAO.

8.7 Zarai Taraqiati Bank Limited

8.7.1 Introduction

In pursuance of Section-3 of Agricultural Development Bank of Pakistan (ADBP) (Re-organization and Conversion) Ordinance 2002, ZTBL was incorporated as a public limited company under the Companies Ordinance 1984 (now Companies Act 2017) on October 23, 2002. All assets, contract, liabilities, proceedings and undertakings of ADBP were transferred to and vested in ZTBL on December 14, 2002 at a total worth of Rs 870 million. Out of total issued shares of 1,252.24 million, 1,251.19 million are held by Federal Government, remaining shares are held by four Provincial Governments. The Bank's principal office is situated at 1-Faisal Avenue, Zero Point, Islamabad.

Main purpose of the Bank is to provide sustainable rural finance and services particularly to small farmers and low-income households to strengthen the rural and agricultural sector, mitigate poverty, capital market, and investment activities and other banking business. The Bank was disbursing loans of two categories i.e. production loans for short term and development loans for long-term purposes. The Bank was being operated through 31 Zones with a total number of 531 branches.

8.7.2 Comments on Audited Accounts

7.1.2.1 The operating results of the Bank for the year 2019 to 2022 are as follow:

(Rs in million)

	2022	% Inc / (Dec)	2021	% Inc / (Dec)	2020	% Inc / (Dec)	2019
Mark-up / return / interest earned	39,436.395	75.07	22,526.158	24.86	18,041.618	0.31	17,985.62
Mark-up/ return/ interest expensed	24,899.603	143.06	10,244.200	6.89	9,583.783	3.54	9,256.539
Net Mark-up / Interest income	14,536.792	18.36	12,281.958	45.21	8,457.835	(3.11)	8,729.076
Fee, commission & brokerage income	1,065.537	6.75	998.119	0.84	989.810	(36.05)	1,547.898
Dividend income	142.082	(26.16)	192.413	155.37	75.346	1.16	74.485
Gain / (Loss) on sale of securities - net	32.879	119.11	15.006	74.47	8.601	759.24	1.001
Other income	180.832	14.12	158.452	(26.55)	215.714	34.38	160.530
Total non-markup/ interest income	1,421.330	4.20	1,363.990	5.84	1,288.742	(27.76)	1,783.914
Total income	15,958.122	16.94	13,645.95	40.01	9,746.577	(7.29)	10,512.99
Operating expenses	12,153.249	9.60	11,088.899	(2.16)	11,333.137	(10.35)	12,641.50
Other charges	-		76.359	(48.27)	147.620	4,187.54	3.443
Total non-markup / interest expenses	12,153.249	8.85	11,165.258	(2.75)	11,480.75	(9.21)	12,644.94
Profit/Loss before provisions	3,804.873	53.38	2,480.690	(243.05)	-1,734.180	(181.34)	2,131.95
Provisions and write offs-net	(3,653.088)	(569.74)	777.676	(41.54)	1,330.316	(94.46)	24,026.09
Extra ordinary / un-usual items- charges in respect of pension liability due to change in pension factor	-	-	0.000		0.000		0.000
Profit/(Loss) before taxation	7,457.961	337.93	1,703.01	(155.57)	-3,064.49	(111.72)	-26,158.05
Taxation	2,335.114	(33.34)	3,503.174		-720.323		-8,691.78

Profit/(Loss) after taxation	5,122.847	(384.58)	-1,800.160		-2,344.173		-17,466.27
Investment – net	306,849.685	272.81	82,307.245	107.19	39,724.960	65.45	24,010.651
Advances – net	90,452.380	(1.49)	91,822.307	(10.55)	102,656.27	(6.41)	109687.69
Borrowing	354,898.713	168.14	132,357.04	63.08	81,163.23	11.95	72502.365
Deposit and other accounts	47,332.694	11.38	42,495.389	(11.84)	48,200.89	6.32	45,337.511

(Source: Annual Audited accounts)

7.1.2.2 The head mark-up / return / interest earned was increased by 2% the performance of the bank regarding Loans and advances was Rs 15,828.212 million as compared to Rs 15,561.244 million in 2021 rather focusing being its core function for advancing loans under different schemes to farmers whereas the bank focused on Investments by Rs 19,017.858 million as compared to Rs 4,597.748 million. On the other hand, balances with banks was also raised to Rs 2,135.540 million to Rs 1,093.722 million registering increase by 95%. Reasons for such a huge variations need to be investigated and explained besides to make serious efforts for its core functions.

7.1.2.3 According to Note 11.2 under the category of classification ‘Other assets especially mentioned’ Non-performing loan (NPL) portfolio an amount of Rs 13,616.010 million as compared to 2021 Rs 10,716.466 million registering an increase by 24%. This abnormal increase in NPL may be investigated under intimation to audit. Further, strong steps be taken to minimize the NPL.

7.1.2.4 According to Note 12.1.1 under the head capital work in progress ‘Others’ includes an amount of Rs 5.601 million on account of soil testing and other charges incurred at sites. The details of sites under the head may be provided to audit.

7.1.2.5 According to Note 15.2 includes amount recoverable from Federal Government on account of crop loan insurance premium amounting to Rs 2,411.656 million (2021: Rs 2,087.305 million), small livestock farmers premium amounting to Rs 383.57 million (2021: Rs 599.20 million) and animal tagging charges amounting to Rs 4.86 million (2021: Rs 4.75 million). However, as per the directives of the State Bank of Pakistan tagging charges earlier allowed for reimbursement have now been disallowed vide their letter dated April 27, 2016. Audit recommends Board to look into this amount and incorporate the adjusting entry for an appropriate adjustment.

7.1.2.6 According to Note 16.1 a contingency of an amount of Rs 297.149 million and Rs 54.828 million to the unconsolidated condensed interim financial statements for the year 2022 on account of minimum income tax levied by the Income Tax authorities and various tax refunds pertaining to assessment years 1991-92 to 2013-14 and assessment year 1999-2000 respectively.

Due to uncertainty of recoverability these have been disclosed as contingent asset. The Board is suggested to look in to the matter for appropriate solution/recovery.

7.1.2.7 According to Note 20.1.1 Loans & Advances Rs 1,852.758 million, Premises Rs 942,622.21 million, excluding Furniture & Fixture, and interest on assets was not realized since long. The management is stressed upon to take up the matter with higher forum for appropriate solution and realization of Assets and Liabilities related to Bangladesh. The Bank is accruing interest at the rate of 8% per annum on its loan and advances made in Bangladesh with contra increase in its liabilities relating to activities in Bangladesh as per Finance Division letter dated May 06, 1979. There was no evidence as to the existence, accuracy and completeness of aforesaid assets and liabilities, as the Bank has no control over these assets. Moreover, the current share capital of the Bank also includes shares subscribed and paid up by Former East Pakistan (currently Bangladesh) amounting to Rs 5.275 million (0.5275 million shares). Board should engage legal counsel to resolve this matter.

7.1.2.8 According to Note 25 regarding mark-up interest expensed has raised to Rs 24,899.603 million as compared to Rs 10,325.697 million in 2021 registering increase of expensed by 141%. The Board is suggested to look in to the matter for abnormal increase in expenses.

7.1.2.9 According to Note 28.1 Other Income 'Others' includes sale of scrap, sale of tender forms, recoveries against penalties imposed by SBP and private use of vehicles etc. However, in year 2022 the bank received an amount of Rs 34.508 million as compared to Rs 38.956 million in 2021. Bank from the fact that SBP's penalty reduced from Rs 75.00 million as of 30.06.2020 to Rs 37.00 million as of 30.06.2022. In addition to this audit observed that during the period SBP imposed penalties worth Rs 38.333 million on the Bank. Audit recommends that compliance with all the laws and regulations should be ensured to avoid further penalties.

7.1.2.10 According to Note 29 Other operating expenses raised to Rs 12,153.249 million from Rs 10,909.948 million as compared to year 2021 registering increase by 11.40%. Reasons for such a huge increase need to be investigated and explained.

7.1.2.11 According to Note 29.1.1 Post-retirement medical benefits and employees compensated absences are being operated as unfunded employee benefits under the head Medical includes post-retirement medical benefit amounting to Rs 1,207.603 million (2021: Rs 891.534 million) registering an increase by 27% respectively. However, the Bank has not maintained any funded plan to meet these liabilities. Audit recommends that the Bank should maintain a funded plan to meet the liabilities without facing liquidity problems.

7.1.2.12 According to Note 29.3 regarding Donation details of donations exceeding Rupees 0.5 million was Prime Minister Flood Relief Fund, Government of Pakistan 50.00 million, M/s Akhuwat Islamic Micro Finance, Lahore Rs 15.00 million, Narcotics Control / Canteen Store

Department,

Rs 20.000 million and NED University, Karachi Rs 0.600 million with total of Rs 85.600 million. The reasons besides approval with full justifications to the BoD may be provided to audit.

7.1.2.13 Outsourced services costs (refer Note35.1) an amount of Rs 1,379.414 million was spend on hiring of services from its subsidiary company Kissan Support Services (Private) Limited (KSSL) out of total number of 4,203 staff strength of Bank employees number of 3,296 (2021: 3,504) employees of KSSL, fully owned subsidiary of the Bank, were assigned to the Bank as at the end of the year to perform other than guarding and janitorial services. Audit recommends provision of Service Level Agreement (SLA) for engagement of staff for the banker's services.

7.1.2.14 Audit noticed a deficiency in IT system in respect of the reports generated from CDMs and CBAs in respect of bills payable are not reconciled at period end. As per management, the Bank is in the process of data migration and data cleansing in CDMs and CBAs. The efforts should be made to complete the task in stipulated time.

7.1.2.15 It was observed that during the period SBP imposed penalties worth Rs 38.333 million on the Bank. Audit recommend recovery and that compliance with all the laws and regulations should be ensured to avoid further penalties. Although it is appreciable that Bank from the fact SBP's penalty reduced from Rs 75 million as of 30.06.2020 focus of the BoD for ongoing effort and with the support/guidance may further reduce the penalties in years to come.

7.1.2.16 Agriculture Development Bank of Pakistan (ADBP) had been vested in Zarai Taraqati Bank Limited (ZTBL) through ADBP (Reorganization and Conversion) Ordinance, 2002. However, audit noted that the title of the freehold land in Badin and Lahore amounting to Rs 1.860 million has still not been transferred in the name of ZTBL. Audit recommends that the title documents of the land should be transferred in the name of ZTBL to avoid litigation.

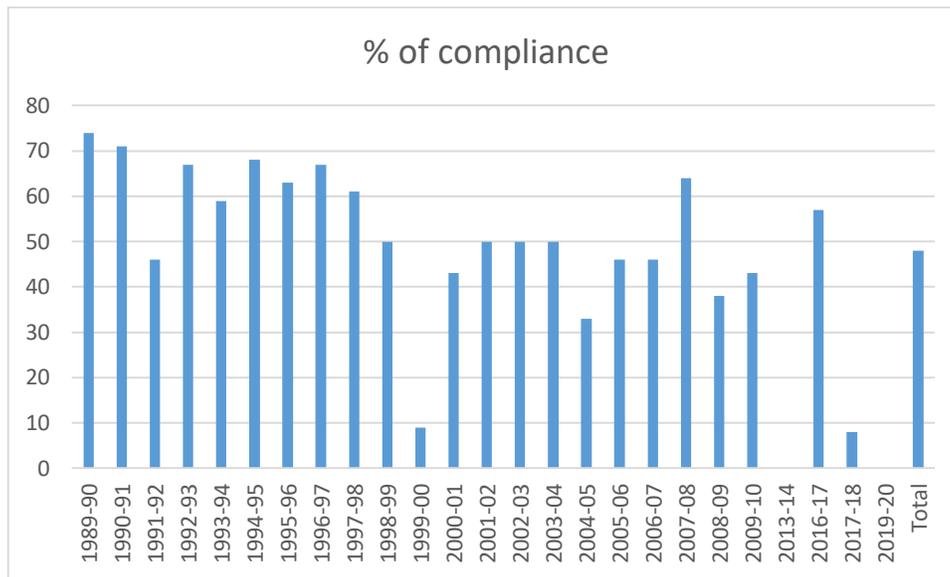
7.1.2.17 The yearly detail of loan cases which were written off during 2022 (Rs 1,830.031 million includes Principal written off Rs 914.573 million and Interest/ markup written-off / waived by Rs 915.458 million. Reasons for such huge loan written offs needs to be justified. Further, complete detail of loans written off under package may be intimated to audit along with cost benefit analysis of the loan /scheme.

8.7.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
1989-90	19	14	05	226, 230, 233, 234, 235	74
1990-91	14	10	04	174, 175, 176, 178	71

1991-92	13	06	07	154, 155, 148, 150, 152, 151, 153	46
1992-93	18	12	06	8, 16, 17, 18, 19, 21	67
1993-94	17	10	07	9, 11, 12, 13, 15, 16, 22	59
1994-95	19	13	06	7, 12, 15, 20, 14, 22	68
1995-96	24	15	09	8, 13, 14, 16, 17, 18, 19, 23, 28	63
1996-97	06	04	02	7, 11	67
1997-98	18	11	07	46, 49, 53, 56, 58, 59, 62	61
1998-99	10	05	05	68, 70, 73-S, 74-S, 75-S	50
1999-00	11	01	10	1.2, 1.3, 1.4, 2.1, 2.2, 3.1, 3.2, 4.1,4.2,5 (SAR-141)	9
2000-01	14	06	08	68, 72, 73, 74, 76, 79, 75, 80	43
2001-02	10	05	05	133, 134, 135, 138, 139	50
2002-03	02	01	01	69	50
2003-04	10	05	05	62.6, 62.2, 62.4, 64, 65	50
2004-05	03	01	02	45, 46	33
2005-06	13	06	07	80.5, 80.6, 81, 82, 84, 85, 86	46
2006-07	13	06	07	62.6, 63, 64, 65, 66, 67, 68	46
2007-08	11	07	04	59, 60, 61, 62	64
2008-09	13	05	08	71.3, 72, 73, 74, 75, 76, 77, 78	38
2009-10	07	03	04	74, 75, 77, 79	43
2013-14	14	0	14	6.6.1, 6.6.2.1, 6.6.2.2, 6.6.2.3, 6.6.2.4, 6.6.2.5, 6.6.2.6, 6.6.2.7, 6.6.2.8, 6.6.3, 6.6.4.1, 6.6.4.2, 6.6.4.3, 6.6.4.4,	0
2016-17	21	12	09	6.5.2.2, 6.5.2.3, 6.5.2.4, 6.5.3, 6.5.4.1, 6.5.4.3, 6.5.4.5, 6.5.4.6, 6.5.4.8	57
2017-18	24	02	22	9.6.1, 9.6.2.1, 9.6.2.2, 9.6.2.3, 9.6.2.4, 9.6.2.5, 9.6.2.6, 9.6.2.7, 9.6.2.8, 9.6.2.9, 9.6.2.10, 9.6.2.11, 9.6.2.12, 9.6.3, 9.6.4.1, 9.6.4.3, 9.6.4.4, 9.6.4.5, 9.6.4.7, 9.6.4.8, 9.6.4.9 & 9.6.4.10	8
2019-20	11	0	11	6.7.2.1, 6.7.2.2, 6.7.3, 6.7.4.1, 6.7.4.2, 6.7.4.3, 6.7.4.4, 6.7.4.5, 6.7.4.6, 6.7.4.7, 6.7.4.8	0

Total	335	160	175		48
--------------	------------	------------	------------	--	-----------



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

8.7.4 Audit Paras

8.7.4.1 Non achievement of Targets - Rs 9,719.012 million

According to rule-4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance.

During audit of ZTBL for the year 2022, it was observed that Five Islamic Banking branches consistently failed to achieve targets totaling Rs 2,270.94 million for the last three years. Additionally, a model branch in Quetta fell short of its Rs 7,335.49 million target, and it only attracted 497 new customers instead of the set target of 35,360 over the last three years.

Furthermore, disbursement targets of Rs 56.353 million under different schemes pertaining to Karachi and Quetta zones were set and subsequently revised to Rs 43.122 million and targets of only Rs 1.148 million i.e. 2.67% were achieved.

The irregularity occurred due to weak internal control.

Audit is of the view that management should make effective efforts to achieve targets.

The management in its reply dated 12.01.2024 stated that surplus revenue of Rs 940.00 million was achieved against target in the year 2022. The reply is not tenable as it is top the revenue data is based by bank is based on country level data of branches not specific to concerned branches.

DAC meeting could not be convened till finalization of the report.

Audit recommends that reasons may be inquired for non-achieving the targets besides fixing responsibility.

Para-1, 16 & 18, 48 (ZTBL 2022)

8.7.4.2 Non-achievement of new customer targets of agri branches – Rs 9,548.44 million

According to rule-4(3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance.

During audit of ZTBL for the year 2022, it was observed that the five zonal offices (Quetta, Karachi, Lahore, Peshawar and Gilgat) achieved new customer targets up to 2,496 out of a total of 45,070, indicating a low achievement of only 5.5% of the set targets.

Due to weak internal control, the targets for acquiring new customers could not be achieved.

Audit is of the view that management should do business or achieve targets as planned to boost up business.

The management in its reply dated 12.01.2024 stated that zonal offices were directed to accelerate efforts to achieve the planned targets. Reply is not tenable, as the set targets were not achieved accordingly.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends that reasons for non-achieving of new customers' targets may be explained.

Para-8 (ZTBL 2022)

8.7.4.3 Loss due to increase in SAM defaulters and less recovery - Rs 9,179.00 million

According to Para-5.26 of ZTBL Credit Manual Vol-1 "Recovery of Loans", the loan should be recovered in installments as per terms and conditions mentioned in the sanction letter and relevant agreements. In case of default, action for recovery be taken procedurally.

During audit of ZTBL for the year 2022, it was observed that an increase in Special Asset Management (SAM) defaulter cases from 196,930 to 221,736 in 2021 and 2022 respectively, along with a rise in default amount from Rs 44,463.57 million in 2021 to Rs 53,642.51 million in 2022, attributed to less recovery of Rs 9,179 million than the set targets. Furthermore, 1,601 SAM defaulters did not repay even a single penny as well as three zones i.e. Quetta, Karachi and Lahore recovered only 16% outstanding amount.

Due to weak internal control, the targets for Special Asset Management (SAM) recovery could not be achieved.

Audit is of the view that due to constant increase in number of defaulters, the bank sustained a loss of Rs 9,179.00 million.

The management in its reply dated 12.01.2024 stated SAM defaulters increased due to flood as well as wide spread of COVID-19 which affected especially 119 ZTBL branches. The reply is not tenable, as recovery targets regarding SAM defaulter could not be achieved.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends that reasons for constant increase in the number of defaulters may be explained besides effecting recovery.

Note: The issue of less recover from SAM defaulters was also reported earlier in the Audit Report for the year 2021-22 vide Para No. 4.2.4.1 having financial impact of Rs 6,755.086 million. Recurrence of same irregularity is a matter of serious concern.

Para-14, 13 & 10 (ZTBL 2022)

8.7.4.4 Loss due to Poor performance of various zones- Rs 2,248.29 million

According to rule-4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance.

During audit of ZTBL for the year 2022, it was observed that 9 zones along with their 144 branches sustained a loss of Rs 2,248.29 million in 2022. The main cause of loss was the absence of assigned targets and inadequate monitoring by Business Divisions.

Due to weak internal control, branches sustained operational losses.

Audit is of the view that management should assign targets to these branches to earn profit to retain its viability.

The management in its reply dated 12.01.2024 stated that overall loss had been reduced to Rs 1,197.14 million leaving a balance of 9 zones i.e. Rs 1,051.15 million. The reply is not tenable, as balance recovery was required to be made in time.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends justifying non-assigning of targets.

Para-4 (ZTBL 2022)

8.7.4.5 Less recovery from non-performing loans - Rs 1,435.73 million

According to Para-5.26 of ZTBL Credit Manual Vol-1 "Recovery of Loans" the loan should be recovered in installments as per terms and conditions mentioned in the sanction letter and relevant agreements. In case of default, action for recovery be taken procedurally, as explained in Chapter-14.

During audit of ZTBL for the year 2022, it was observed that various branches could only achieve 22% of recovery targets i.e. Rs 407.935 million against Rs 1,843.662 million pertaining to Non-Performing

Loans (NPL) as detailed below:

(Rs in million)

	2022		
Zone/Branch Name	Target	Actual	%
Quetta (Annex-E1)	96.299	15.678	16%
Karachi (Annex-E2)			
Peshawar (Annex-E4)	1441.23	289.88	20%
Sub-Total	1843.662	407.935	22.13%
Total targets Missed		1,435.73	

The significant shortfall in achieving NPL recovery targets was cause of weak internal control.

The management in its reply dated 12.01.2024 stated that NPL recovery faced challenges due to COVID-19 pandemic and natural disasters, resulting in varying percentages of recovery across the zones. The reply is not tenable as the recovery position only improved in Peshawar Zone.

Audit is of the view that the loan should have been recovered as per its terms and conditions.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter besides fixing the responsibility and effecting recovery.

Para-11 (ZTBL 2022)

8.7.4.6 Loss due to non-recovery from employees involved in fraud and forgery Rs 1,250.212 million

According to CGR (vi) of 2017 that the Board shall also develop and implement a policy on “anti-corruption” to minimize actual or perceived corruption in the Company.

During audit of ZTBL for the year 2022, it was observed that cases of fraud and forgery valuing of Rs 1,250.212 million were reported to SBP. Further, revealed that employees were involved in such cases due to fake land documents and management could not recover the such amount from concerned.

The irregularity involving fraud and forgery cases was the cause of weak internal control.

Audit is of the view that the bank should improve its internal control system to prevent fraud and

forgery incidents.

The management in its reply dated 12.01.2024 stated that employees had been dismissed from services under the rules and their terminal benefits had also been forfeited. The reply is not tenable as no recovery has so far been made.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter besides fixing responsibility and effecting recovery.

Para- 4,6 & 8 (2006), Para- 2 (2012), Para- 18 & 32 (2020), Para-51 & 52 (2021), Para-39 (ZTBL 2022)

8.7.4.7 Irregular payment of bonus - Rs 548.975 million

According to Finance Division's (Regulation Wing) Government of Pakistan, O.M. dated November 30, 2001, autonomous/ semi-autonomous bodies/ corporations under the administrative control of ministries, require approval of Administrative Ministry and concurrence of Finance Division for payments of bonus to the employees. The disregard to Government policy will tantamount to financial irregularity.

During audit of ZTBL for the year 2022, it was noted that bonus of Rs 548.975 million was disbursed to the employees without approval from the Finance Division as well as evaluating performance of employees. Moreover, SBP imposed penalties Rs 38.333 million which was adjusted against different employees who were deemed negligence without actual recover the penalty amount from them. Thus, the payment of bonus and its adjustments is held irregular in audit.

Weak internal control led to the payment of bonuses without evaluating employees' performance and obtaining approval from the Finance Division.

Audit is of the view that approval of the Finance Division was required before payment of bonuses.

The management in its reply dated 12.01.2024 stated that bonus was disbursed with the approval of BoD on basis of Branch performance i.e. profit/loss. Reply is not tenable, as the instructions of Finance Division should have been followed in letter and spirit.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter besides fixing responsibility thereof.

Para-37 (ZTBL 2022)

8.7.4.8 Irregular purchase of vehicles during ban period - Rs 116.889 million

According to Austerity Measures for the financial year 2022-23 vide Finance Division letter dated July 7, 2022. "there shall be a complete ban on the purchase of all types of vehicles from both current and development budget."

During audit of ZTBL for the year 2022, it was observed that the management purchased 45 vehicles of Rs 116.889 million in violation of directives of the Finance Division

Due to non-observance of austerity measures, irregularly was cause of weak internal control.

Audit is of view that management should observe austerity measures and get approval from finance Division.

The management in its reply dated 12.01.2024 stated that the said vehicles were booked with full payment before issuance of said circular. The reply is not tenable as the process was initiated during ban period.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter besides fixing responsibility.

(Para-02 (ZTBL 2022))

8.7.4.9 Irregular recruitment process and unjustified pay & allowances - Rs 86.016 million

According to Para 1(b) of letter dated March 03 2015 of Establishment Division, the DSC would adjudge the application on the following criteria for selection. Score in the test may have % weightage where is the weightage of interview will be upto 30%. However, it will be upto the concern Ministry / Division / etc. to assign more weightage to the written test by rescuing the weightage assign to interview. The weightage for interview would be allocated by the member of DSC as under.

1. Chairman= 40%
2. Members (2) = 30% each

Further the DSC Would assess the applicant as under.

Relevant qualification / experience 30%

Knowledge / skill relevancy 40% and

Personality / interpersonal skill 30%

During audit of ZTBL for the year 2022, it was observed that appointments of Senior Executives and OG-III officers (250+ 6 employees) were recruited through third party i.e. M/s Open Testing System (OTS), in violation of said criteria, the management deviated from the standard 100-point scale for candidate assessment by allocating 50 points based on pre-interview qualifications and leaving the remaining 50 points to the discretion of the interview panel. Thus, the appointments and payment to officers of Rs 86.00 million was irregular.

Non observance of recruitment criteria was cause of the weak internal control.

Audit is of the view that the management should observe the criteria for the recruitment process in letter and spirit.

The management in its reply dated 12.01.2024 stated that the recruitment mechanism issued by establishment division was not applicable on Autonomous bodies/Semi-Autonomous Bodies/ Corporation /Authorities which have been created by a statute and respective boards. The reply is not tenable as bank was required to follow government instructions.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter besides fixing responsibility.

Para-49 (ZTBL 2022)

8.7.4.10 Loss due to imposition of penalties by State Bank of Pakistan - Rs 37.263 million

According to rule-4(3) of the Public Sector Companies (Corporate Governance) Rules, 2013, the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance.

During audit of ZTBL for the year 2022, it was observed that the State Bank of Pakistan imposed penalties of Rs 37.263 million in violation of various rules, regulations and anti-money laundering rule.

Non observance of rules & regulations was the cause of irregularity.

Audit is of the view that management should follow rules and regulations in true letter and spirit to avoid imposition of penalty.

The matter was reported to the management on December 07, 2023,

The management in its reply dated 12.01.2024 stated that Board Risk Management Committee (BRMC) advised to take remedial measures to avoid imposition of SBP penalties. The reply is not tenable as the SBP imposed penalties against violations of various instructions.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends inquiring the matter, fixing responsibility besides effecting recovery.

Para-05 (ZTBL 2022)

8.7.4.11 Irregular appointment of officers - Rs 23.715 million

According to clause (ix) of Chapter 01 recruitment and selection, specific consideration may be given to the relevant post-qualification experience, which can be relaxed only in cases of exceptional qualification President may relax and determine the experience for a cadre or position as deemed appropriate.

According to clause 1.2 (b) vi of HR Manual 2017 of ZTBL that 'No person shall be appointed in service of bank having CGPA less than 2.5 or marks below 60% in Graduation degree/ post-graduation degree in profession discipline on the basis of which he is applying for position so advertised.

During the audit of ZTBL for the year 2022, it was observed that Mr. Hassan Raza was appointed as Vice President (law) on 16.10.2015 @ of Rs 80,000 per month through advertisement, Further, it was observed that experience for the said post was required 10 years whereas, he has possessed only six year experience. Thus, the payment of Rs 13.523 million up to 2023 was consequently considered irregular.

Similarly, Mr. Usman Ahmad Ranjha was appointed as Vice President (law) vide latter dated 09.09.2015 @ of Rs 80,000 per month along with 150 ltr POL despite. Additionally, it was observed that

he obtained 58% marks in LLM, falling short of the specified criteria of 60%. Furthermore, his salary was enhanced to Rs 100,000 during the probation period without terms. Thus, appointment, along with the payment of Rs 8.625 million on account of pay & allowances from 09.09.2015 to 06.05.2020, was deemed irregular.

The weak internal control was caused by deviating from established rules and criteria in the appointment of officers.

The management in its reply dated 12.01.2024 stated that experience certificates has been verified from ex-employer. Reply is not tenable as the experience was before the required degree and not relevant.

Audit is of the view that the management should ensure transparency in the recruitment process as per rules.

The matter was reported to the management on December 07, 2023.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter besides fixing responsibility.

Para-31, 55 (ZTBL 2022)

8.7.4.12 Non recovery of ante-dated benefits on withdrawal of promotion –Rs 3.062 million

As per State Bank of Pakistan letter No.BSD-1/Bank/ZTBL/373194/2022 dated 12.12.2022 “it was observed that a few of recruitees (SR-2005) were promoted with retrospective effect by terming the same as compliance of the court orders, though these retrospective promotions were also a violation of bank’s own promotion policy.”

As per HR Department Letter dated 04.10.2022, the promotion was being granted only for the purpose of alignment of seniority and no financial benefit would be admissible.

During audit of ZTBL for the year 2022, it was noted that the retrospective promotion from VP to SVP was granted to two officers namely Mr. Wahidullah Khan and Mr. Mehboob Ur Rehman, on 13.05.2020 with backdated effect from 29.04.2016. The bank paid Rs3.062 million additional in salary and benefits.SBP took notice through a letter dated 12.12.2022. The retroactive promotion was later withdrawn on the directives of the Board of Directors vide letter dated 12.12.2023 and they have been instructed to refund/deposit all the excess financial benefits they had availed but no recovery so far has been made.

Audit is of the view that management should strictly adhere to rules and regulations before making promotions, ensuring compliance and preventing irregularities.

The management in its reply dated 12.01.2024 stated that the concerned officers have been directed to refund/deposit all the excess financial benefits, which is under process. Reply is not tenable as no recovery has so far been made.

The matter was reported to the management on December 07, 2023,

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends initiating the recovery process besides fixing responsibility.

8.7.4.13 Irregular promotion of Senior Vice President - Rs 1.136 million

According to clause (e) of Chapter 16 Promotions “Promotion of AVP and above shall be merit based. The officers will be interviewed and due weightage will also be given to PARs and qualification for determining the overall merit on fulfilling minimum eligibility criteria of length of service. Promotion will be made in the order of merit list”.

During audit of ZTBL for the year 2022, it was observed that a Departmental Promotion Committee meeting was convened to evaluate promotions from Vice President (VP) to Senior Vice President (SVP) for employees initially recruited under SR-2005. Mr. Hassan Raza (PP No. 125356) and Mr. Sayed Janane e Subhani (PP No.125561) were promoted from VP to SVP based on the DPC recommendations, out of a pool of 31 candidates. They were granted the highest marks in the interview despite several candidates having greater seniority and higher qualifications but they were not considered for promotion. The non-promotion of more experienced and qualified candidates was considered irregular, and similarly, the payment of Rs 1.136 million to promoted officers on account of pay and allowances was unjustified.

Non observance of promotion rules was the cause of weak internal control.

Audit is of the view that promotion was to be made in compliance of rules.

The management in its reply dated 12.01.2024 stated that M/s Hassan Raza and Syed Janne Subhani obtained the higher marks during interview and were promoted on the recommendations of the DPC. The reply is not acceptable as the marks obtained by these officers were not supported with the individual evaluation/marks sheet of interview committee penal.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter besides fixing responsibility.

8.7.4.14 Missing Loan case files across Pakistan

According to SOP (E), issued by Credit Administration Department Enterprises Risk Management Division Manual Version 1.0 dated 13.01.2022 that CAD hub will not receive loan files where any of the following documents are missing.

- i. Loan application form
- ii. Loan agreement
- iii. Security documents/charge creation certificate/pass book
- iv. CNIC copy
- v. Loan file is not scanned in SDMS or not legible in SDMS

During audit of ZTBL for the year 2022, it was found that various branches failed to submit their total portfolio to the CAD hub after completing projects.

Audit is of the view that 22,134 loan case files were either untraceable within the local branches or had not been transferred to the CAD hub. Management was required to provide the auditable record for

scrutiny, which was not done (Annex-56).

The management in its reply dated 12.01.2024 stated that the information through CA units from stakeholders for disbursement, loan case numbers, amount recovered and outstanding amount would be obtained. The reply is not acceptable as the total portfolio was not received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends inquiring the matter besides fixing responsibility.

Note: The issue was also reported earlier in the Audit Report for the year 2021-22 and 2022-23 vide Para No. 5.6.4.3 and No. 6.8.4.13 having financial impact of Rs 15.131 million and Rs 4.316 million respectively. Recurrence of same irregularity is a matter of serious concern.

Para-52 (ZTBL 2022)

Chapter-9

Ministry of Industries and Production

Overview

Ministry of Industries & Production (MOI&P)'s role is that of a facilitator in creating an enabling environment for industrial growth in the country.

Aims & Objectives

The objectives of MOI&P are to achieve efficient, sustainable and inclusive Industrial Development and to play the role of facilitator in industrial development and entrepreneurship through policy intervention, setting up Industrial Parks and Export Processing Zones for investors, skill development of human resource for industrial sector and socio-economic development of country with particular focus on SME development and promotion of traditional crafts of Pakistan.

Governing Laws and Policies

- Rule of Business 1973
- SME Policy, 2007
- Auto Development Policy 2016-21
- Fertilizer Policy, 2001
- Auto Industry Development Programme

Audit Profile of Ministry of Industries & Production

(Rs in million)

S. No.	Description	Total	Audited	Expenditure audited FY 2022-23	Revenue /Receipts audited FY 2022-23
1	Formations	13	11	115,600.665	262,603.675
2	Assignment Accounts (excluding FAP)				-
3	Authorities /Autonomous Bodies etc. under the PAO	-	-	-	-
4	Foreign Aided Projects (FAP)	-	-	-	-

Classified Summary of Audit Observations

Audit observations amounting to Rs 602,317.209 million were raised as a result of this audit. This amount also includes recoverable of Rs 11,924.89 million as pointed out by the audit. Summary of the audit observation classified by nature is as under:

Overview of the Audit Observations

Sr. No.	Classification	Amount (Rs in million)
1	Non-Production of record	802.16
2	Reported cases of fraud, embezzlement and misappropriation	283.617
3	Irregularities:	
A	HR/Employees related irregularities	174.791
B	Procurement related irregularities	10,788.425
C	Management of accounts with Commercial Banks	111.195
4	Value for money and services delivery issues	11,2617.974
5	Others	477,539.047

9.1 Export Processing Zones Authority

9.1.1 Introduction

The Export Processing Zones Authority (hereinafter referred to as “EPZA / the Authority”) was established by the Government of Pakistan on Feb 06, 1980 through Export Processing Zones Authority Ordinance, 1980. The main objective of the Authority is to plan, develop, manage and operate Export Processing Zones (EPZs) in Pakistan in order to invite / help foreign investors.

9.1.2 Comments on Audited Accounts

9.1.2.1 The annual audited accounts are required to be provided to audit for review each year. Contrary to this, the management failed to provide audited accounts of the organization for the years 2010-11 to 2022-23 despite a number of reminders.

Audit requires that the annual audited accounts of the years 2010-11 to 2022-23 be provided immediately and timely finalization be ensured in future, besides, fixing responsibility for non-finalization of annual audited accounts (*Annex-2*).

9.1.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	% of compliance
2000-01	1		1	194	-
2009-10	8	7	1	96	88%
2010-11	8	4	4	11.1.4.1, 11.1.4.2, 11.1.4.3, 11.1.4.5	50%
2013-14	1	1			100%
2014-15	22	1	21	9.1.4.2, 9.1.4.8, 9.1.4.11, 9.1.2.1, 9.1.2.2, 9.1.2.3, 9.1.3, 9.1.4.3, 9.1.4.4, 9.1.4.5, 9.1.4.6, 9.1.4.7, 9.1.4.9, 9.1.4.10, 9.1.4.12, 9.1.4.13, 9.1.4.14	5%
2015-16	3	1	2	8.1.2.1, 8.1.3	33%
2019-20	6	1	5	7.1.4.1, 7.1.4.2, 7.1.4.3, 7.1.4.4, 7.1.4.5	17%
2017-18				10.1.4.2	

2021-22	22		20	8.1.4.3, 8.1.4.10, 8.1.4.15, 8.1.4.20 (remaining to be discussed in PAC)	8.1.4.8, 8.1.4.6, 8.1.4.17,	
Total	71	15	54			21%

The overall compliance of PAC directives needs improvement.

9.1.4 Audit Paras

9.1.4.1 *Loss of foreign exchange earnings due to non-achievement of committed exports and zero export – Rs 103,946.150 million (Equivalent to USD 358.435 million)*

As per part H of Export Projections for five years of Application form of investors for setting up an industrial / trading unit an investor is required to mention committed annual export which must be maintained. The investors are bound to follow their commitments in case they retain the allocated land.

During audit of Export Processing Zone Authority (EPZA), Karachi for the year 2022-23, it was observed that management failed to get committed export targets achieved by various investors during the year. Out of 293 units at KEPZ, 220 units could not achieve committed export targets. The details of loss is as under:

Amount in USD million			
No. of investors	Committed export targets	Actual exports	Non-achievement of export target
220	461.00	102.565	358.435

Further, 106 units in KEPZ failed to export even a single product since their allotments i.e. year 2011-12.

Audit is of the view that non-achievement of committed exports and zero export by investors depicted the slackness on part of management, which eventually resulted in loss of foreign exchange earnings amounting to Rs 103,946.15 million (USD 358.435 million @ Rs 290).

The matter was reported to the management in November, 2023. The irregularity was discussed in the DAC meeting held on January 01, 2024. Management informed the DAC that action against 106 units had been taken, out of which 12 were under litigation, 22 units had requested for sale of their units and remaining 72 units were under observation. DAC directed the management to submit revised reply.

Audit recommends the management to justify the matter.

(DP No. 644, 647 & 649)

9.1.4.2 *Non-approval of budget from the Federal Government –*

Rs 3,088.470 million

According to clause 22 of the EPZA Ordinance, in the month of January each year, the Authority shall submit to the Federal Government for approval a statement of the estimated receipts and expenditure in respect of the next financial year in such manner and form as may be prescribed.

During audit of Export Processing Zone Authority (EPZA), Karachi for the year 2022-23, it was observed that the management did not obtain approval of the Federal Government for the Statements of the estimated receipts and expenditure. The detail is as under:

(Rs. in million)		
S #	Description	Actual 2022-23
1	Total Revenue	4,012.410
	Total	4,012.410
2	Operating Expenditure	2,874.330
3	Capital Expenditure	51.140
4	Development Expenditure	163.000
	Total	3,088.470

Audit is of the view that the management violated the provision which reflects negligence and slackness. Thus, expenditure of Rs 3,088.470 million was held irregular.

The matter was reported to the management in November, 2023. The irregularity was discussed in the DAC meeting held on January 01, 2024. The management informed the DAC that public Sector enterprises has to submit their annual budget to their respective Board for approval before sending it to Federal Government. The Board was in active from September 2019 till its formation in February 2023 and as per EPZA Ordinance the Chairman EPZA is empowered to approve the routine affairs of the Authority or budgets subject to ex-post facto approval of EPZA Board of Directors. Therefore, no power has the right to contest the power of the Chairman given by the ordinance as irregular. The DAC directed the management to get its budget approved as per EPZA ordinance and copy of approved budget be furnished to Audit.

Audit recommends implementation of the DAC directives.

9.1.4.3 Irregular export in tariff area in excess of allowed limit – Rs 1,956.05 million (Equivalent to USD 6.745 million)

According to rule 228(5) of Custom rules 2001, the units established in the Export Processing Zone shall export only up to twenty percent of their total production to tariff area in Pakistan while eighty percent shall be exported to other countries.

During audit of Export Processing Zone Authority (EPZA), Karachi for the year 2022-23, it was observed that various investors were exporting in tariff area beyond the allocated limit of 20%. It was

observed that 21 investors exported products amounted to USD 9.749 million in tariff area, being in excess by Rs 1,956.050 million (Equivalent to USD 6.745 million @ Rs.290) beyond allowed limit and in violation of above-mentioned custom rule, which subsequently pointed towards the failure of management to monitor the trading activities or exports of the investors in accordance with rules and subsequent inaction against delinquents (Annex-57).

Audit is of the view that failure of management to monitor the exports of investors in accordance with rules has resulted in irregular exporting of products in tariff area beyond allocated limit.

The matter was reported to the management in November, 2023. The irregularity was discussed in the DAC meeting held on January 01, 2024. Management informed the DAC that cases of export in tariff area were allowed as per various circulars except one case, which was erroneously allowed and same would be adjusted in export of FY2023-24. DAC directed the management to take action against erroneously allowed case along with verification of record/facts from Audit.

Audit recommends implementation of the DAC directives.

9.1.4.4 Irregular export to tariff area beyond permissible limit – Rs 1,774.220 million (USD 6.118 million)

Section 228 (5) of Customs Rules, 2001 states that units established in Export Processing Zones shall export only up to 20% of their total production to tariff areas in Pakistan while 80% shall be exported to other countries.

During audit of Export Processing Zone Authority (EPZA), Karachi for the year 2022-23, it was observed that management did not take any action against four (04) investors involved in export of 100% of its production to tariff area in Pakistan against the allotted 20% of total exports as detailed below:

S#	Unit name	Amount in USD			
		2021-22		2022-23	
		Export to tariff	Export to abroad	Export to tariff	Export to abroad
1	Home Furnishing Ltd	2,282,317.72	0.00	1,357,519.54	0.00
2	Afuso Packaging & Printing Industry. (PH-II)	107,479.87	0.00	98,437.20	0.00
3	Eram Fashions (Pvt) Ltd.	80,570.00	0.00	329,800.00	0.00
4	Steel Vision (Pvt.) Ltd.,	1,278,832.65	0.00	582,560.30	0.00
	Sub Total	3,749,200.24	0.00	2,368,317.04	0.00
	Total	6,117,517.28			

Audit is of the view that exporting all its products to tariff areas in Pakistan depicts internal control weakness and slackness of management. Hence, exports amounting to Rs 1,774.220 million (USD 6.118 million @ Rs.290) stands irregular.

The matter was reported to the management in November, 2023. The irregularity was discussed in the DAC meeting held on January 01, 2024. Management informed the DAC that exports under mentioned cases did not fall under 80:20 ratio and were exempted, hence they were allowed by the Authority. DAC directed the management to verify the record from Audit.

Audit recommends implementation of the DAC directives.

9.1.4.5 Sale / Purchase of unit without obtaining NOC – Rs 1,440.000 million

Clause 235A of the Customs EPZ Rules, 1981 (S.R.O.450(I)/2001, Dated 18.6.2001) states that no transfer of ownership by an investor or industrial undertaking of its unit or cancellation of license shall be finalized by the Authority without prior issuance of NOC from the Collector of Customs.

During audit of Export Processing Zone Authority (EPZA), Karachi for the year 2022-23, it was observed that the management approved sale / purchase of M/s Casual Sportswear located on plot No. 1,2,3,4,14,15,16 & 17 measuring 8,000 square meter along with structure / building to M/s Ghanchi Recycling Limited as an industrial unit for manufacturing of denim garments, sports/fashion wear garments with committed export of Rs 1,440.000 million (US \$ 8.00 million per annum @ Rs.180) on July 13, 2021 without getting NOC from the Collector of Customs.

Audit is of the view that the management violated the rules in the sale / purchase of property which reflects gross negligence.

The matter was reported to the management in November, 2023. The irregularity was discussed in the DAC meeting held on January 01, 2024. The management informed the DAC that the amendment was made by the Customs Authorities without intimation to EPZA and same was also not officially communicated to the EPZA. The then management was unaware about it. Therefore, the case was processed and approved as per EPZA Rules. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.1.4.6 Unjustified approval of investment proposal and clandestine removal of duty-free goods – Rs 1,113.600 million (US \$ 4.80 million per annum)

According to clause 2 of approval of sale/purchase letter dated May 10, 2017 issued by M/s EPZA for setting up an industrial unit for manufacturing of cigarettes and allied tobacco products in REPZ with a committed export of US \$ 4.80 million per annum.

According to Custom EPZ Rules, if any importer fails to give proper account of the imported goods, the importer shall pay on demand an amount equal to the duties and taxes leviable thereon and shall also be liable to pay penalties imposed for such violation.

During audit of Export Processing Zone Authority (EPZA), Karachi for the year 2022-23, it was observed that M/s China Pakistan Tobacco Pvt. Ltd submitted an investment proposal at EPZ, Risalpur on 19-07-2017 for the category of warehouse/trading for tobacco products imports from China and export to potential market abroad. Whereas, case was approved as an industrial unit for manufacturing of cigarettes and allied tobacco products against the proposal submitted on May 10, 2017 with the export commitment of US \$ 4.80 million per annum. However, the said company was incorporated with the Securities and Exchange Commission of Pakistan (SECP) on May 26, 2017 and the investor did not submit any feasibility report showing manufacturing capacity / ability of Tobacco, plant/machinery, financial statements, factory layout, etc. Furthermore, the investor did not have license of brand name “CPT Cigarette”.

Later on June 20, 2019, Customs Mardan visited the site for inspection of imported goods and found that foreign origin goods lying in the premises and seals of the certain cans containing cigarette flavors were not intact (160 gallons out of 214 gallons of cigarette flavors were de-sealed containing water in it). Then, samples were referred to PCSIR Lab. Peshawar which confirmed that clandestine removal of original contents of cigarette flavors material from 160 cans. The broken seal containers were seized under section 168 of the Customs Act, 1969 and handed over to EPZA authorities. Thereafter, notice was served to the investor for punishable acts and for recovery of duty/taxes leviable on short goods.

Audit is of the view that approval was given of industrial / manufacturing instead of warehouse / trading for manufacturing of cigarettes and allied tobacco products and clandestine removal of duty-free goods poses a revenue loss for the government as duties and taxes have been evaded.

The matter was reported to the management in November, 2023. The irregularity was discussed in the DAC meeting held on January 01, 2024. The management informed the DAC that investor initially submitted an investment proposal with the company name M/s. China Pakistan Tobacco Company to set up an industrial unit. Later, on 19-7-2017, the investor submitted another investment proposal for trading activity on the same plot. Audit team only examined the matter of trading activity and didn't check earlier investment proposal for manufacturing. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

(DP No. 675 & 676)

9.1.4.7 Sale of unit without codal formalities – Rs 464.000 million (US\$ 2.000 million)

According to clause 2 of the EPZA guidelines for industrial units that the applicant shall attach the documents with the industrial sector proposal: 1. Description of manufacturing process, marketing arrangements etc. 2. List of plant, machinery, equipment 3. List of furniture and fixture 4. Articles/memorandum of association & 5. Partnership deed.

According to clause 2 of approval of sale/purchase letter dated September 27, 2016 issued by M/s EPZA for setting up a warehouse/trading and industrial unit cigarettes in KEPZ with a committed export of US\$ 2.00 million per annum.

During audit of Export Processing Zone Authority (EPZA) Karachi for the year 2022-23, it was observed that M/s Golden Cigarette Company Limited was approved as industrial unit for manufacturing of cigarettes at plot No 9 & 10, Sector C-V measuring 2,000 square meters vide letter dated 09-02-1999. Following irregularities were observed at the time of sale to M/s Ali Industries Pvt. Ltd:

- The unit was sold to M/s Ali Industries Pvt. Ltd in September, 2016 without obtaining NoC
- M/s Ali Industries Pvt. Ltd was not registered with the SECP at the time of sale.
- The company was incorporated on May 11, 2018 with the name of M/s S.M Ali Industries Pvt. Ltd instead of M/s Ali Industries Pvt. Ltd.
- Investor's import / export performance in last five year was Nil against the committed export of US\$ 2.00 million per annum.

Audit is of the view that the management extended undue favor to the investor which reflected negligence and slackness.

The matter was reported to the management in November, 2023. The irregularity was discussed in the DAC meeting held on January 01, 2024. The management informed the DAC that it was an inadvertent omission that SECP registration was not called for before executing License Agreement. However, investor was repeatedly asked to provide SECP registration vide letters dated 07.09.2017, 17.04.2018. The said name i.e. M/s Ali Industries was already registered in SECP, so they reserved the name M/s S.M. Ali Industries Private Limited. Then the investor submitted a request for change of name and was considered. Action against the unit regarding nil business activity was taken but investor has submitted undertaking for revival of business activity; therefore, time was granted. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.1.4.8 Non-recovery of outstanding dues from various investors – Rs 173.962 million

According to license agreement with various investors for rented out property, Annual Ground Rent of the allotted plots at the specified rates was required to be recovered in advance on every 10th of January and 10th of July each year. Similarly, the utilities bills were also to be recovered on due dates and in case of non-payment of two or three consecutive bills the utility services would have to be suspended in order to recover the outstanding balances and to avoid their heavy accumulation.

According to clause 31 of license agreement, the investor shall bound to pay (in addition to the rents hereby reserved) to the authority as it may direct all taxes, rates, assessments, duties, charges and impositions whatsoever now are, or during the said term shall be charges or imposed upon or be payable in respect of the demised land or any building, erection or structure or the plant, machinery, engines or other matters and things in relation to the investor’s factory or business, to be determined by any lawful authority.

During the audit of Export Processing Zones Authority (EPZA), Karachi for the year 2022-23, it was observed that an amount of Rs 173.962 million (USD 518,927) was outstanding against investors on account of Annual Ground Rent (AGR), Water & Electricity charges, change of name dues and workers’ pay (Annex-58). The brief summary is as under:

(Rs in million)

S#	Description	Outstanding (USD)	Outstanding (Rs)	Remarks
1	AGR	498,728.5	144,631,259	Outstanding Utility and Annual Ground Rent (AGR) from various Investors
2	Water Charges	379.4	110,029	
3	Electricity Charges	10,819.2	3,137,571	

4	Change of name	10,000.0	1,600,000	M/s EPZA on dt: May 25, 2018 requested M/s Ali Industries Pvt. Ltd. for submission of Articles/Memorandum of Association, (after 02 years of approval). Registration certificate of dt: May 11, 2018 with the name of M/s S.M Ali Industries Pvt. Ltd instead of M/s Ali Industries Pvt. Ltd was submitted. Then, EPZA demanded US \$ 10,000 vide letter dt: March 10, 2020 for change of name.
5	Workers' pays	-	24,483,000	Sale/purchase of M/s Casual Sportwear to M/s Ghanchi Recycling Limited vide letter dt: July 13, 2021 and Rs. 24.483 million on account of workers' pay was outstanding towards M/s Casual Sportwear (previous owner).
Total		519,927.1	173,961,859	

Audit is of the view that the management's failure to recover outstanding dues from various investors tantamount to internal control weakness and loss of revenue of Rs.173.962 million (USD 519,927.1).

The matter was reported to the management in November, 2023. The irregularity was discussed in the DAC meeting held on January 01, 2024.

- a) The management informed the DAC that various cases of outstanding dues were under litigation and Take Over cases. Moreover, management recovered USD 3,920. DAC directed the management to make rigorous efforts for recovery of dues and follow up of litigation cases.
- b) The management informed the DAC that various cases of outstanding dues were under Sick/Closed and Litigation cases. Moreover, management recovered USD 24.14. DAC directed the management to make vigorous efforts for recovery and follow up of litigation cases and share the progress with Audit.
- c) The management informed the DAC that an invoice was raised on dt: 10th March, 2020 and investor had paid amount US\$ 10,000/- on dt: 01-09-2020. DAC directed the management provide the relevant record to Audit for verification.
- d) The management informed the DAC that investor has paid the said amount to employees. DAC directed the management provide the relevant record to Audit for verification.

Audit recommends implementation of the DAC directives.

(DP No.643, 648, 671 &672)

9.1.4.9 Tax evasion due to non-verification of credentials at the time of export to tariff area – Rs 138.559 million

Section 32(1) (a) of Customs Act, 1969 stipulates that, if any person, in connection with any matter of customs, makes or signs or causes to be made or signed, or delivers or causes to be delivered to an officer

of customs any declaration, notice, certificate or other document whatsoever, [knowing or having reason to believe that such document or statement is false] in any material particular, he shall be guilty of an offence under this section.

During audit of Export Processing Zone Authority (EPZA), Karachi for the year 2022-23, it was observed that investors of KEPZ namely, M/s. Steel Vision Pvt. Ltd and M/s. Royal Impex Pvt. Ltd having business of import and export of steel sheets were involved in tax evasions on various occasions. However, at the time of their export to tariff area, they mis-declared the wrong Pakistan Customs Tariff Code (PCT) in various export Good Declaration (GDs), thereby fraudulently declaring goods as of “Prime quality” as opposed to actual “Secondary quality” in order to evade and attract lower tax rates and custom duties. Detail of tax evasion by both investors is as follows:

Rs.in million				
Description (Rs in million)	M/s. Steel Vision		M/s. Royal Impex	
	Case-1	Case-2	Case-1	Case-2
C&F Value declared	103.771	44.494	49.434	179.516
Actual C&F value	128.821	45.848	56.773	198.043
Declared PCT number	7210.3090	7209.1610	7209.1690	7210.3090
Actual PCT number	7210.3010	7209.9090	7209.1610	7210.3010
Tax/duties actually payable	79.281	27.383	34.940	121.884
Tax/duties paid	49.613	12.442	11.353	51.521
Tax/duties evaded	29.668	14.941	23.587	70.363
Total tax evasion	138.559			

Audit is of the view that improper monitor mechanism to verify the credentials of GDs at the time of export to tariff area resulted in tax evasion by investor and subsequent loss to Government’s revenue.

The matter was reported to the management in November, 2023. The irregularity was discussed in the DAC meeting held on January 01, 2024. Management informed the DAC that it was responsibility of Customs to examine and evaluate the consignment and issue the assessment report as per GD file by the investor. EPZA had no access to examination. Moreover, said cases were allowed after court order. DAC directed the management to verify the record from Audit.

Audit recommends implementation of the DAC directives.

9.1.4.10 Revenue loss on account of electricity line losses – Rs 111.191 million

Rule 15(1) of EPZA Rules, 1981 states that the Authority shall undertake to provide infrastructure facilities such as electricity, water, gas, telephone and telex which are considered necessary for efficient industrial operations in a Zone, provided that the cost of providing such facilities shall be borne by industries set up in a Zone.

During audit of Export Processing Zone Authority (EPZA), Karachi for the year 2022-23, it was observed that there were huge line losses of electricity units accumulating to 3.460 million units amounting to Rs.111.191 million in various months of the year as detailed below:

Amount in Rs							
S. #	Billing Month	Total units charged by K-E	Amount paid by EPZA to KE	Total Units charged by EPZA	Total Amount received by EPZA	Loss (Units)	Loss (Amount)
1	Jun-22	5,844,226	197,156,476	5,391,218	150,468,426	453,008	46,688,049
2	Jul-22	5,225,760	163,891,238	4,426,330	143,648,450	799,430	20,242,788
3	Aug-22	5,008,901	209,426,985	4,653,462	198,099,139	355,438	11,327,846
4	Sep-22	5,218,945	194,226,085	4,700,905	177,596,115	518,040	16,629,971
5	Oct-22	4,882,872	118,830,849	4,589,719	113,696,772	293,153	5,134,077
6	Nov-22	4,580,604	105,508,936	4,142,946	102,716,109	437,658	2,792,828
7	Dec-22	3,961,003	104,021,764	3,773,586	104,412,012	187,417	-390,248
8	Apr-23	4,516,083	167,355,549	4,099,766	158,589,988	416,317	8,765,561
Total		39,238,393.62	39,238,394	1,260,417,882	35,777,932	1,149,227,012	3,460,462

Audit is of the view management's failure to control line losses had resulted in loss of Rs. 111.190 million. These distribution losses may have caused due to meter tampering and bypassing, false meter readings, faulty meters, and un-metered supply.

The matter was reported to the management in November, 2023. The irregularity was discussed in the DAC meeting held on January 09, 2024. Management informed the DAC that EPZA had one main distribution MDS station and eight DSs in KEPZ Phase-I, whereas six DSs in KEPZ phase-II as EPZA was working as a distributor / distributing the electricity to the investor through DSs. Moreover, in order to recover the loss of Rs. 111 million, EPZA issued the supplementary bills to the investors and the investors had taken the stay from the Court but the instance of the EPZA was not accepted by the Court. DAC directed the management to submit revised reply.

Audit recommends implementation of the DAC directives.

9.1.4.11 Unjustified imposition of water charges on fixed rate – Rs.110.403 million

Rule 4(3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Act and these rules.

During audit of Export Processing Zone Authority (EPZA), Karachi for the year 2022-23, it was observed that Karachi Water and Sewerage Board (KWSB) was charging fixed number of gallons of water unjustifiably. It was noted that the transmitter of electromagnetic water meter was stolen on 16-11-2021. Afterwards, it was observed that management had not procured the said transmitter till date. Due to absence of transmitter and faulty electromagnetic water meter, actual number of gallons of water could not be determined. Subsequently, KWSB charged EPZA with fixed number of gallons on a higher side. Detail of water charges imposed by M/s. KWSB is as follows:

S#	Billing month	Invoice month	Number of gallons	Amount (in Rs.)
1	Jun-22	Jul-22	22,871,860	8,508,340
2	Jul-22	Aug-22	22,871,860	9,263,111
3	Aug-22	Sep-22	22,871,860	9,263,111
4	Sep-22	Oct-22	22,871,860	9,263,111
5	Oct-22	Nov-22	22,871,860	9,263,103
6	Nov-22	Dec-22	22,871,860	9,263,111
7	Dec-22	Jan-23	22,871,860	9,263,111
8	Jan-23	Feb-23	22,871,860	9,263,111
9	Feb-23	Mar-23	22,871,860	9,263,111
10	Mar-23	Apr-23	22,871,860	9,263,111
11	Apr-23	May-23	22,871,860	9,263,111
12	May-23	Jun-23	22,871,860	9,263,111
Total			274,462,320	110,402,554

Audit is of the view that management's failure to secure its assets initially and subsequently non-procurement of said transmitter resulted in fixed and higher water charges by KWSB instead of actual consumption. Hence, audit considers payment on account of water charges by EPZA as unjustified.

The matter was reported to the management in November, 2023. The irregularity was discussed in the DAC meeting held on January 09, 2024. Management informed the DAC that it had invited bids for procurement of transmitter of electromagnetic water meter three times and same were cancelled due to various reasons. However, same was procured and installed in June, 2023. Moreover, management would adjust extra water bills with KWSB in future after monitoring the trend of utilization of water. DAC directed the management to get the water bills adjusted with KWSB within two months and verify the progress from Audit.

Audit recommends implementation of the DAC directives.

9.1.4.12 Delay in payment of contribution and imposition of penalty – Rs.108.842 million

Section 13(1) of chapter 3 of EOBI Act, 1976 states that if any employer fails to pay, on the due date, the contribution payable by him, the amount so payable by him shall be increased by such percentage or amount as may be prescribed, provided that in no case shall such increase exceed fifty per cent of the amount due. (2) Without prejudice to any other remedy, the amount of contribution due, together with the increase provided for under sub-section (1), may be recovered as arrears of land revenue.

During audit of Export Processing Zone Authority (EPZA), Karachi for the year 2022-23, it was observed that management voluntarily registered with Employees Old-Age Benefit Institution (EOBI) for

post-retirement benefits of employees in March, 2020 after getting approval from Board of Directors. A No Objection Certificate (NOC) was required as per EOBI Act. However, management applied for NOC from Ministry of Industries and Production (MoIP) after lapse of two years in March, 2022, which was duly issued by the MoIP in August, 2022. Subsequently, EOBI issued show-cause notice for payment of contribution amounting to Rs.74.024 million along with penalty of Rs.34.818 million for delayed payment. Management requested for waiver of penalty, which was not granted by EOBI due to want of any provision in their law. Resultantly, instead of paying the amount, management proposed to BOD for cancellation of EOBI registration in order to cover the delay.

Audit is of the view that delay on part of management for getting required NOC from ministry has resulted in imposition of penalty by EOBI amounting to Rs.108.842 million.

The matter was reported to the management in November, 2023. The irregularity was discussed in the DAC meeting held on January 09, 2024. Management informed the DAC that due to non-availability of Chairman, EPZA could not send the case to MOIP for issuance of NOC as demanded by EOBI. Moreover, management voluntarily opted for EOBI registration and employees were not ready to pay the penalty amount. Hence, management decided to withdraw from EOBI scheme. DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.1.4.13 Illegal removal of foreign origin fabric on fraudulent sub-contracting - Rs.79.072 million

Section 32A (1) related to fiscal fraud of Customs Act, 1969 states that if any person, in connection with any matter related to customs- (a) causes to submit documents including those filed electronically, which are concocted, altered, mutilated, false, forged, tempered or counterfeit to a functionary of customs; (b) declares in the [goods declaration] electronically filed customs declaration, the name and address of any exporter or importer which is physically non-existent at the given address; (c) declares in the [goods declaration] electronically filed customs declaration, an untrue information regarding payment of duties and taxes through self-assessment,] description, quantity, quality, origin and value of goods, he shall be guilty of an offence under this section.

During audit of Export Processing Zone Authority (EPZA), Karachi for the year 2022-23, it was observed that the management could not prevent the illegal removal of foreign origin fabric from KEPZ to tariff area. The owner of unit, M/s. Laiba Industries Pvt. Ltd, illegally removed the foreign origin fabric from KEPZ to tariff area on 25-11-2020 in the garb of dyeing purpose. Gate pass was issued in favor of M/s. Ahmed Dying showing the delivery / transportation of textile fabric weighing 20,700 kgs. Furthermore, M/s. Ahmed Dying was a fake company which did not exist. The illegally removed fabric was offloaded at a private godown M/s. United Enterprises which was later searched by Custom Authorities where fabric weighing 47,155kg was found, which was illegally removed from KEPZ through various gate passes. Subsequently, Custom authorities confiscated the fabrics and imposed penalty of Rs.1.000 million on the investor and CIF value of illegally removed fabric was Rs.79.072 million.

Audit is of the view that illegal and fraudulent removal of foreign origin fabric from KEPZ to tariff area through a gate pass issued on a fake company depicted control weaknesses.

The matter was reported to the management in November, 2023. The irregularity was discussed in the DAC meeting held on January 09, 2024. Management informed the DAC that it was the responsibility of the Custom Authorities to examine and approve sub-contracting and verify the company in tariff area from whom the work would be carried out. EPZA was only issuing the sub-contracting gate pass as per approval of Custom Authorities. The matter was now in customs court and sub judice. DAC directed the management to share progress of court proceedings with Audit.

Audit recommends implementation of the DAC directives.

9.1.4.14 *Illegal transportation of goods into KEPZ through fiscal fraud– Rs.56.773 million*

Rule 11(4) of Export Processing Zones Authority Rules, 1981 states that all imports into the Zones shall be paid for out of the importers own foreign exchange resources abroad without involving, either directly or indirectly, Pakistan resources. Moreover, Rule 9-A of EPZA Rules, 1981 states that if in the opinion of the Authority an investor has failed to carry out the purpose for which, or has not fulfilled the conditions of, the sanction accorded to him under sub-section (1) of section 11 of the Ordinance, it may, after giving him notice to show cause, cancel, revoke or withdraw the sanction.

During audit of Export Processing Zone Authority (EPZA), Karachi for the year 2022-23, it was observed that an investor M/s. Royal Impex Pvt. Ltd, was involved in tampering and submission of fabricated import documents for transportation of goods to KEPZA illegally. M/s. Muhammad Rizwan and Brothers imported iron and steel sheet in coils (CRC) from South Korea and paid the amount from Pakistan resources for import of consignment into Pakistan not in KEPZ (foreign territory). However, M/s. Royal Impex Pvt. Ltd, through mutual conspiracy with lawful importer / owner arranged manifestation of the cargo for KEPZ in their name while tampering the commercial invoice (under-invoicing) and packing list. Moreover, in order to conceal the legal importer, they also concealed LC details. Subsequently, Custom Authorities filed FIR against the investor. However, the management neither identified illegal transportation of imported goods into the KEPZ nor took any action against the investor. Detail of imported goods is as follows:

Description	USD	Rs. in million
C&F value (as per actual commercial voice)	420,193	56.773
C&F value of imported goods (as per tempered commercial voice)	390,179	49.434
Tempering/fiscal fraud	30,014	7.339

Audit is of the view that management’s failure to identify illegal transportation of imported goods into the KEPZ initially and subsequent detection of mis-declaration or tempering in import documents reflected serious internal control weaknesses.

The matter was reported to the management in November, 2023. The irregularity was discussed in the DAC meeting held on January 09, 2024. Management informed the DAC that it was responsibility of Customs to examine and evaluate the consignment and issue the assessment report as per GD file by the investor. EPZA had no access to examination and all Import documents were found correct without any tampering at the level of Authority. Moreover, said cases were allowed after court order. DAC directed the management to verify the record from Audit.

Audit recommends implementation of the DAC directives.

9.1.4.15 Loss of revenue due to tax and custom duty evasion – Rs.39.488 million

Section 32B of Customs Act, 1969 stipulates that, where any person has committed a duty or tax fraud, the Collector [or Director] may, with the prior approval of the Board, either before or after the institution of any proceedings for recovery of duty or tax, compound the offence if such person pays the amount of duty or tax due along with penalty as is determined under the provisions of this Act.

During audit of Export Processing Zone Authority (EPZA), Karachi for the year 2022-23, it was observed that the Government sustained losses of Rs.39.489 million due to tax and custom duty evasion by M/s. Laiba Industries on account of removal of foreign origin fabric amounting to Rs.79.072 million from KEPZ to tariff area as detailed below:

Tax/duties on goods	(Rs. in million)
Custom Duty@ 16%	12.651
Add. Customs duty @ 04%	3.163
Regulatory duty @2.5%	1.977
S. Tax @17%	16.467
Add. S. Tax @03%	2.906
Income tax @02%	2.325
Total	39.489

Audit is of the view that illegal removal of assorted foreign origin fabric by investor had resulted in loss of public exchequer on account of fraudulent evasion of taxes and duties.

The matter was reported to the management in November, 2023. The irregularity was discussed in the DAC meeting held on January 09, 2024. The management informed the DAC that the matter is in Court of Law. The Authority will take appropriate action after finalization of court case. The DAC directed the management to pursue court case vigorously and share progress with Audit.

Audit recommends implementation of the DAC directives.

9.1.4.16 Illegal storage of goods in neighbor's premises - Rs.26.078 million

Rule 9-A of EPZA Rules, 1981 states that if in the opinion of the Authority an investor has failed to carry out the purpose for which, or has not fulfilled the conditions of, the sanction accorded to him under

sub-section (1) of section 11 of the Ordinance, it may, after giving him notice to show cause, cancel, revoke or withdraw the sanction.

During audit of Export Processing Zone Authority (EPZA), Karachi for the year 2022-23, it was observed that M/s. General Tobacco Company illegally dumped goods in another investor's unit. Reviewing the custom report, it was noted that said investor imported 78 pallets of tipping papers weighing 49,260 kg amounting to Rs.26.078 million through Goods Declaration No. PQZI-EP-4622-28-08-2021 and PQZI-EP-6186-15-09-2021 during Aug and Sep 2021 and stored/dumped the goods illegally in premises of nearby inactive unit, namely M/s. Sitara Trading. After few days, said investor removed some of the quantity of dumped tipping papers from the Zone illegally. Later on, upon visit and investigation by Custom authorities, said investor denied importing the said items and filing of mentioned GDs by stating that his Custom user ID and password was misused and in the due course flew away out of the country during investigation by Custom authorities. Subsequently, custom authorities searched the premises of investor's neighbor, M/s. Sitara Trading and found and consequently seized 28 pallets of tipping paper weighing 14,535 kg valuing Rs.10.349 million. It was observed that EPZA did not cancel its license despite of illegal dumping of goods in other investor's premises and illegal removal of goods from the Zone.

Audit is of the view that management unduly favored the investor by not taking any severe action there against for his illegal actions of un-authorized dumping of goods in neighbor's premises without his consent and subsequent removal of goods from the Zone illegally.

The matter was reported to the management in November, 2023. The irregularity was discussed in the DAC meeting held on January 09, 2024. Management informed the DAC that examination, clearance, imposition of duties and taxes on the material rested with Custom Authorities and management was unaware of illegal movement of the consignment. Moreover, the case is under litigation. DAC directed the management to submit revised reply and enquire the matter while taking appropriate action against involved investor.

Audit recommends implementation of the DAC directives.

(DP No. 650 & 652)

9.1.4.17 Loss on account of water pilferage – Rs.19.164 million

Rule 2A (1) of Public Sector Companies (Corporate Governance) Rules, 2013 states that for the purposes of these rules, the following shall be the criteria for sound and prudent management of a Public Sector Company, which shall be bound to comply with it at all times namely (a) the business of the Public Sector Company is carried on with integrity, objectivity, due care and the professional skills appropriate to the nature and scale of its activities.

During audit of Export Processing Zone Authority (EPZA), Karachi for the year 2022-23, it was observed that the management could not prevent water losses amounting to Rs.19.164 million for 73.705 million gallons of water as detailed below:

Description	Number of gallons (in million)	Amount (Rs. In million)
Payment on account of water	274.462	110.403

Charge/collection of water	200.757	91.249
Water losses	73.705	19.164

Audit is of the view that management's failure to prevent and control water pilferage had resulted in loss of Rs.19.164 million due to leakages and theft at fire hydrants, faulty meter or absence of meters at various places, and pilferage in water lines.

The matter was reported to the management in November, 2023. The irregularity was discussed in the DAC meeting held on January 09, 2024. Management informed the DAC that due to non-functioning of electromagnetic water meter, KW&SB has raised /issued water billing to Karachi Export Processing Zone on the basis of pervious highest meter reading. Hence EPZA had issued the average bill to the KEPZ investors on the basis of enhanced billing of KWSB for which EPZA issued supplementary bill. Moreover, management would adjust extra water bills with KWSB in future after monitoring the trend of utilization of water. DAC directed the management to submit revised reply and get the water bills adjusted with KWSB within two months and verify the progress from Audit.

Audit recommends implementation of the DAC directives.

9.1.4.18 Enlistment of hospitals without competitive bidding – Rs.5.453 million

Rule 15 (1) of PPRA, 2004 states that a procuring agency, prior to the floating of tenders, invitation to proposals or offers in procurement proceedings, may engage in pre-qualification of bidders in case of services, civil works, turnkey projects.

Rule 20 states that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

During audit of Export Processing Zone Authority (EPZA), Karachi for the year 2022-23, it was observed that amount of Rs.5.453 million was paid to following 11 hospitals on account of medical facility provided to employees without following due process of competitive bidding / prequalification:

(Amount in Rs)					
S. #	Name of Hospital	Year of enlistment	2020-21	2021-22	2022-23
1	Akhtar Eye Hospital	2013	198,050	253,800	644,350
2	Ashfaq Memorial Hospital	2013	353,724	288,022	154,562
3	Atia General Hospital	2013	301,427	1,163,985	868,115
4	Darul Sehat Hospital	2013	544,174	-	1,535,846
5	Qamar Dental Hospital	2013	-	105,500	141,200
6	Shamsi Hospital	2017	554,982	847,594	1,441,044
7	M S Karachi Dental Clinic	2013	233,100	405,700	187,650

8	Infinity Eye Care Centre	2017	196,300	240,480	8,000
9	T.O Clinic	2013	192,766	66,658	353,704
10	Anmol Dental Clinic	2013	93,300	259,100	74,900
11	Ibn-E-Sina Hospital	2013	425,414	230,849	43,823
	TOTAL		3,093,237	3,861,688	5,453,194

Audit was of view that management deprived the organization of competitive bidding process in violation of PPRA Rules, 2004. Thus, payment of Rs.5.4531 million was held irregular.

The matter was reported to the management in November, 2023. The irregularity was discussed in the DAC meeting held on January 09, 2024. The management informed the DAC that PPRA rules does not applicable for the enlistment of hospitals and hospitals were enlisted to give maximum facilitation of health to its employees where the majority of staff resides. Now EPZA had started the medical facility through insurance company and the first contract awarded to M/s. jubilee which was strictly compliance with PPRA Rules. The DAC directed the management to submit revised reply and get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.1.4.19 Inefficient procurement planning leads to non-completion of work on time - Rs.3.025 million

Rule 08 of PPRA Rules, 2004 states that all procuring agencies shall devise a mechanism, for planning in detail for all proposed procurements with the object of realistically determining the requirements of the procuring agency, within its available resources, delivery time or completion date and benefits that are likely to accrue to the procuring agency in future.

During audit of Export Processing Zone Authority (EPZA), Karachi for the year 2022-23, it was observed that the management awarded the contract for Re-strengthening boundary wall at KEPZ Phase-I to M/s ANK Engineering on May 13, 2020 at the cost of Rs. 2,182,191 to be completed within 75 days from the date of commencement. However, the management vide letter dated March 31, 2022 cancelled the subject contract. Later on, the management re-tendered the same work to M/s Mehfooz Nabi Shaikh & Co. amounting to Rs.3,025,445 on August 29, 2022 with completion date 26.11.2022, but completed on 24.02.2023.

Audit is of the view that due to ill planning, work of 75 days took almost 03 years to complete despite issuance of tender twice which resulted in excess cost. Further, liquidated damages were also not imposed which reflects undue favor and poor planning. Thus, contract amounting to Rs.3.025 million stands irregular and unjustified.

The matter was reported to the management in November, 2023. The irregularity was discussed in the DAC meeting held on January 09, 2024. The management informed the DAC that work order issued to M/s ANK Engineering & Construction Company at Rs 2,182,191.70 on May 13, 2020. Contractor submitted letter that the site is not clear. Contractor was informed to start the work on April 12, 2021 but the contractor was not starting the work as he asked for escalation and change in rates due to fluctuation in market and

submitted rate analysis on 05.05.2021 which was on higher side. Then, contract was re-tendered and awarded to M/s Mahfooz Nabi Shaikh at Rs 3,025,445.00 on 29.08.2022. Work started from 31-8-2022 and completed on 24.02.2023 (90 days delay). The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.1.4.20 Non-appointment of Secretary

According to Finance Division O.M No. F.6 (49)-Imp. I/8 dated: 12th October, 1980, "it has been decided to include the Export Processing Zone Authority in the Management Grade for Senior Executives. Accordingly, the Chairman has been placed in Management Grade M-II and Members (Directors) in M-III".

During audit of Export Processing Zone Authority (EPZA), Karachi for the year 2022-23 it was observed that the management awarded additional charge of Secretary to Mr. Kazim A. Lashari (General Manager-Internal Audit) for three (03) months on November 27, 2019. His additional charge was further extended for three months or till the posting of regular Secretary, EPZA whichever is earlier on February 28, 2020. Thereafter, upon repatriation of Mr. Kazim A. Lashari to his parent department (PSM), additional charge was given to Mr. Nasir Hidayat Khan Lashari (General Manager-Engineering/Facilities) on June 30, 2020 and was further extended for three months or till the posting of regular Secretary whichever is earlier on February 19, 2021. He is still serving as Secretary, EPZA till date.

Audit is of the view that additional charge / posting of the Secretary to GM (Engineering/Facilities) without prior approval of Establishment Division and non-appointment since long was held unjustified and irregular.

The matter was reported to the management in November, 2023. The irregularity was discussed in the DAC meeting held on January 09, 2024. The management informed the DAC that EPZA had requested several times and sent different requisition of cadre officer for the posting as new. However, EPZA had recently forwarded the requisition of Mr. Ghulam Yaseen Sanghro and MOI&P had forwarded the same requisition to the Establishment Division vide letter dt. 02-01-2024 for the deputation of Mr. Ghulam Yaseen Sanghro at the disposal of EPZA. DAC directed the management provide the relevant record to Audit for verification.

Audit recommends implementation of the DAC directives.

9.1.4.21 Non-finalization of annual accounts

According to AGP letter dated August 02, 2007, the compliance of PAC directives be made by PAO in letter & spirit. The accounts should be prepared. The preparation of accounts is mandatory requirement and it could not be condoned by any authority forum.

During audit of Export Processing Zones Authority (EPZA), Karachi for the year 2022-23, it was observed that the annual accounts for the years 2010-11 to 2022-23 have not been prepared.

Audit is of the view that the management failed to finalize the accounts.

The matter was reported to the management in November, 2023. The irregularity was discussed in the DAC meeting held on January 09, 2024. The management informed the DAC that Authority has prepared and audited its annual accounts up to the financial year 2017-18 and the same have been approved by the EPZA BoD. And annual accounts of FY 2018-19 have been audited and waiting for final reports from CA Firm, the field audit of FY: 2019-20 is in progress. the Authority has prepared / drafted its annual accounts up to 2022-23 and the previous draft accounts up to FY: 2021-22 along with annual returns were submitted to Government Audit. After completion of audit and approval of annual accounts of the remaining period from BoD, the same will be furnished to Ministry of Industries & Production and Government Commercial Audit & Evaluation. The DAC directed the management for early finalization of all pending Authority's annual accounts and submit audited/finalized duly approved annual accounts within 03 months to Audit.

Audit recommends implementation of the DAC directives.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year(s) 2022-23 vide para(s) number 9.1.4.18 having financial impact. Recurrence of same irregularity is a matter of serious concern.

9.2 Pakistan Industrial Development Corporation

9.2.1 Introduction

Pakistan Industrial Development Corporation (Private) Limited (PIDC) was incorporated on January 01, 1985 under the Companies Ordinance 1984, now the Company's Act 2017. Pursuant to an order of Federal Government, the business, project properties and all the shares held by ex-Pakistan Industrial Development Corporation in the capital of the managed companies and subsidiaries were transferred from April 01, 1985. The primary aim of establishment of PIDC was to set up industries in such fields where the private sector was shy and where large amount of capital outlay with long gestation period was required. Secondly, the object was to set up industries in such areas, which were backward with a view to creating employment opportunities and removal of regional disparities.

9.2.2 Comments on Audited Accounts

9.2.2.1 The working results of the Corporation for the year ended June 30, 2022 as compared with those of the previous years are given as follows:

(Rs.in million)					
Particulars	2021-22	% Inc /(dec)	2020-21	% Inc/Dec	2019-20
Administrative expenses	356.23	63.7	217.63	9.8	198.19
Investment properties	128.40	(65.1)	367.39	3.8	354.01
Cash and bank balance	44.25	(35.0)	68.10	(80.9)	356.72
Unrealized gain on investment	1,893.49	(23.7)	2,480.43	(8.9)	2,722.24
Retention money payable	67.38	-	-	-	-
Trade and other payables	1,003.64	57.9	635.50	229.6	192.78
Advances from customers	4,321.74	-	-	-	-

(Source: Annual Audited Accounts)

9.2.2.2 Administrative expenses increased significantly by 63.7% from Rs 217.63 million in year 2021 to Rs 356.230 million in 2022 due to significant increase in salaries, wages, utilities, janitorial and security services.

9.2.2.3 Investment properties have drastically decreased by 65.1% from Rs 367.39 million in year 2021 to Rs.128.40 million in 2022 mainly due to transfer of land of Rs. 201.196 million during the year,

9.2.2.4 Cash and bank balance decreased by 35% from Rs. 68.10 million in 2021 to Rs 44.25 million in 2022 owing to significant decline in cash balance in saving accounts of banks.

9.2.2.5 Unrealized gain on investment decreased by 23.7% to Rs 1,893.49 million during the 2022 from Rs 2,480.430 million in 2021 due to decline in fair value of various investments.

9.2.2.6 Trade and other payables increased significantly by 57.9% during year under review to Rs 1,003.64 million from Rs.635.50 million in previous year due to increase in payables to provincial governments.

9.2.2.7 Current ratio of the company has deteriorated during the year due to charging of advances from customers.

9.2.2.8 Debt ratio of the company has declined during the year owing to significant increase in liabilities i.e. deferred government grant, trade payables and advances from customers.

9.2.2.9 Debt to Equity ratio of the company has degraded during the year on account of charging advances from customers and increase in trade payables.

9.2.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
1994-95	74	71	3	67, 69, 70	96%
1997-98	74	73	1	180	99%
1998-99	20	17	3	137,138,141	85%
2006-07	5	4	1	94	80%
2008-09	4	3	1	104	75%
2013-14	4	1	3	8.1.2.1, 8.1.2.2, 8.1.3	25%
2015-16	8	1	7	8.2.4.1, 8.2.2.1, 8.2.2.2, 8.2.2.3, 8.2.2.4, 8.2.3, 8.2.4.2	13%

2019-20	4	2	2	7.2.4.1, 7.2.4.2,	50%
Total	199	178	21		89%

The overall compliance of PAC directives needed improvement.

9.2.4 Audit Paras

9.2.4.1 Non-utilization of industrial plots / land – Rs 8,789.000 million

As per clause 5 (b) and (c) of the Terms & Conditions binding on the applicant applying for the plot at Industrial Parks, the construction shall be completed within 18 months from the date of execution of agreement to sell and the project shall be completed in 24 months from the date of execution of agreement to sell.

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that management allotted land since 2010-2021 for establishment of different industrial units. However, following 355 acres remained idle/unutilized since allotment as detailed below:

(Area in Acres)					
Name of Industrial Park	Total Area	No. of Allottees	Allotted Area	Operational plots	Idle plots
BQIP	930	42	408	199	209
KCIP	250	131	134	42	92
RIP	215	21	54	Nil	54
Total	1395	194	596	242	355

Audit is of the view that non-utilization of land reflects negligence and slackness on the part of the management.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 13 & 14, 2023. The management informed the DAC that the primary responsibility of the Developer is the provision of infrastructure in the industrial parks, which is being adequately discharged by PIDC. However, the investment by industrialists is dependent on many other factors as well, including government industrial policies, tax regime, and overall economic environment etc. which are generally beyond the Developer's control. The DAC directed the management to get the progress verified from Audit.

Audit recommends implementation of the DAC directives.

9.2.4.2 Non-execution of license agreement with allottees – Rs.5,775.095 million (268.280 Acres)

Clause 4.14 of the Terms & Conditions for plot of land at Bin Qasim Industrial Park (BQIP - Special Economic Zone states that after approval of the Building Plan, the Allottee shall thereafter be granted a License Agreement.

Clause 4.15 states that the License Agreement entered into will permit entry on the Plot and the commencement of construction of the Project. The Allottee and Pakistan Steel shall execute a License Agreement on a prescribe form.

During audit of Pakistan Industrial Development Corporation (PIDC) for the year 2021-22, it was observed that the management sold land to allottees of Bin Qasim Industrial Park (BQIP) and out of total sold land 268.280 Acres (Rs.5,775.095 million) consisting of 21 units/ projects are operational / under construction. According to terms and conditions plot of land, after approval of Building Plan, the allottees were required to be granted a License Agreement, this agreement permit to the allottee for entry on the Plot and commencement of construction of the Project. It was observed that 09 units are operational and 12 units are under construction. However, contrary to the above the PIDC/ PSM did not execute License Agreement with allottees despite the complete construction of plots (Annex-59).

Audit is of the view that management failed to execute the license agreement with allottees in violation of terms and conditions besides permitted the entry on the plots and also permitted for construction of Project without Agreement. This reflects weak internal controls and poor project management.

The matter was reported to the management in June 2023. The irregularity was discussed in the DAC meeting held on November 30, 2023. The management informed that now the project is being governed under the provisions of the Special Economic Act, 2012 which do not envisage a license agreement as such. The management further informed that the essential terms and conditions are contained in the allotment letters and approval letter of building plans. DAC directed the management to provide relevant record for verification.

Audit recommends implementation of the DAC directives.

9.2.4.3 Escalation of cost due to inordinate delay in completion of grid construction project - Rs.3,406.997 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that M/s NIP would enter into a separate O&M arrangement with KE as per practice to construct the Grid as a Sponsored Dedicated Distribution System (SDDS). M/s KE would be responsible to build and operate the project and charge NEPRA approved tariff from end-customers. The work would be performed by KE through an EPC contractor. Execution will commence in the financial year 2019-20 and will be completed in 2022-23. Original PC-I pertaining to “Construction of 132 KV Grid at BQIP” was approved in June, 2020 amounting to Rs 1,493.081 million including PKR 962.069 million.

However, due to recurring delays in the tendering process, the PC-I was revised two more times and finally the contract was awarded to M/s Barqtron for Rs 3,406.997 million instead of M/s K.E on June 23, 2022 with date of commencement July 07, 2022 and completion date October 06, 2023. The estimated completion period was 15 months, however as of June, 2023 less than 10% of the work was completed. The total cost now stands at Rs 5,087.661 million (USD @ Rs.286.510), the cost has increased by Rs 1,680.664 million in just over a year's time as on 30.06.2023 which reflected that the cost was increased up to 240% as compared to the original estimate.

Audit is of the view that the management took the matter upon itself to execute the project which led to delays and escalation of the cost of project despite having K-Electric who was an integral partner of NIP. Further, inordinate delay in completion of the project caused significant increase in cost of the project which reflected improper planning and weak financial management. Moreover, release of payment prior to signing of contract and services rendered was unjustified.

The matter was reported to the management in June, 2023. The matter was discussed in the DAC meeting held on December 13, 2023.

- A. The management informed the DAC that the preliminary process for the import of material and civil work is in progress. About 70% of the project cost pertains to imported plant & Machinery. However, procurement of foreign equipment was delayed due to government-imposed restrictions on the opening of foreign LCs by the contractor. In view of the above circumstances, the extension of time till June 30th 2024 has already been granted to the contractor by the Secretary Industries being the competent authority.
- B. The management informed the DAC that it is a PSDP project and, therefore, was deliberated in detail at the Ministry, and Planning Commission along with rationale justifications before approval. K-Electric put forth untenable demands which they were insisting on since the beginning and due to which the delay was caused in the first instance as well. It may be noted that the revised PC-I was prepared by the consultant and duly endorsed by the Ministry and then approved by the CDWP at a cost of Rs.3601.304m.
- C. The management informed the DAC that due process was followed at every stage and no irregularity has been done. M/s. Barqtron is the lead firm or bidder and M/s. Fast Cables is a joint venture (JV) partner of M/s. Barqtron. The advertisement clearly states that "The bidder/lead partner or main Contractor of Joint venture (JV) shall be an approved Contractor(s) of K-Electric for the past at least 03 years". The contract was awarded to M/s. Barqtron-Fast (Pvt) Ltd in June 2022 at a cost of Rs.3406m (not Rs.5000m). M/s. Barqtron was also registered in SECP in 2018. JVs are specific to a project and are normally registered after award, and at the time of bidding only a mutual JV agreement is submitted. The confusion regarding release of funds before signing of contract is apparently due to the dates on cheque which was 21.06.22 as the cheques were prepared in advance due to shortage of time, but handed over only after the verification of bank guarantee on 24.06.22. Partial network has already laid down to cater for the need of existing operation industries. The rest will be executed in accordance with colonization of the park. Power purchase

agreement and O&M agreement with KE, will be carried out in due course and is not mandatory at this stage.

The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

(DP No. 354, 359, 360 , 362 & 413)

9.2.4.4 Non-construction & operationalizing of Projects by allottees within specified period – Rs. 1,843.210 million

Clause 5.1 of the Terms & Conditions for plot of land at Bin Qasim Industrial Park/ Korangi Creek Industrial Park- Special Economic Zone states that the Project shall be completed in all respects and commissioned into operation within twenty-four (24) months from the date of execution of the License Agreement. The Project shall be deemed to be completed in terms of the above as and when PIDC approved of work done and issue a Certificate of Completion in respect of the Project to the Allottee/ Occupant of the allotted Plot of land.

Clause 5.2 states that should Project not be completed in twenty-four (24) months and a Certificate of Completion is not granted, the License Agreement may at the discretion of PIDC/ Pakistan Steel stand cancelled.

Clause 7.8 states that failure of the Applicant/ Allottee to meet the timelines provided for herein in respect of the payment schedule/ submission of building plan/ operation / construction may result in cancellation of the allotment /license/lease as the case may be and subsequent repossession of the plot of land by Pakistan Steel/ PIDC upon a refund of 90% of the amount paid to both Pakistan Steel and PIDC by the Applicant/ Allottee, without mark-up, after 90 days of such cancellation / repossession.

During audit of Pakistan Industrial Development Corporation (PIDC) for the year 2021-22, it was observed that management sold the land at Bin Qasim Industrial Park, Karachi to the allottees (Annex-60). According to above rules, the allottees were required to complete the Projects in all respects and commissioned into operation within twenty-four (24) months. In case of failure to complete the projects within 24 months License Agreement and allotment may be cancelled and subsequent repossess the plots from the allottees upon refund of 90% of the amount paid. However, the allottees did not complete and operationalize the projects within 24 months in violation of above terms & conditions. The management neither cancel the License Agreement/ allotment of plots nor imposed any penalty on account of delayed construction of projects:

Audit is of the view that management failed to take any action against the allottees who failed to construct/ operationalize the Projects within 24 months' period and also failed to impose penalty on account of delayed construction. This shows weak controls and undue favour to the allottees.

The matter was reported to the management in June 2023. The irregularity was discussed in the DAC meeting held on November 30, 2023. DAC directed the management to make all out efforts for early construction and operationalizing of industry and intimate the progress to Audit.

Audit recommends implementation of the DAC directives.

9.2.4.5 Irregular splitting and pooling of various items by the bidders – Rs 1,678.637 million

Rule 26(3) of PPRA 2004, states that the procuring agency shall ordinarily be under an obligation to process and evaluate the bid within the stipulated bid validity period. However, under exceptional circumstances and for reason to be recorded in writing, if an extension is considered necessary, all those who have submitted their bids shall be asked to extend their respective bid validity period. Such extension shall be for not more than the period equal to the period of the original bid validity.

Further, Rule 26 (4) (a) of PPRA 2004, states that bidders who agree to extension of their bid validity period shall also extend the validity of the bid bond or security for the extended period of the bid validity.

Point No. VI of Mandatory requirements given in Evaluation Report states Completion certificate of at least 01 project of infrastructure in any industrial zone of minimum 800 acres land, Certificate of performance for at least 02 in hand projects of infrastructure in any industrial zone of at least 450 M PKR Value and Annual Turnover should be at least 1,000 million.

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that the contracts for Package VII was awarded to M/s Kazi Nisar at a cost of Rs.799.903 million and for Package VIII work to M/s Haji Syed Ameer at a cost of Rs.878.734 million for construction of Roads, Drainage Network, Under Ground Water Tank, Sewerage System, Electrical Sleeves, Road Lightning, Rescue Building, Boundary Wall and Watch Towers in Phase-III of BQIP. However, following irregularities were observed:

- i. M/s Kazi Nisar failed to fulfil any of the three mentioned mandatory requirements as per Evaluation Report.
- ii. Bid Securities for extended period were not obtained from both bidders and Pre-Qualification of Contractors was also not done.
- iii. The Original Advertisement was for a single contract requiring services of a single construction firm, and didn't mention division of work in Packages VII & VIII.
- iv. A Corrigendum was published on December 17, 2021 just 04 days before original date of bid opening i.e. December 24, 2021 which states that Scope will remain same but work is divided in two packages.

Audit is of the view that the management extended undue favor as both contractors failed to meet mandatory requirements of the bidding documents and without extension of bid validity in violation of rules. Thus, contracts, amounting to Rs. 1,678.637 million stands irregular and unjustified.

The matter was reported to the management in June, 2023. The irregularity was discussed in DAC meeting held on December 13, 2023.

- A. The management informed the DAC that the bid evaluation was duly conducted by the Consultant in which it was verified that M/s. KNA fulfilled all mandatory requirements as per RFP.

- B. The management informed the DAC that contracts for both the packages (VII & VIII) were awarded within extended bid validity period after vacation of Sindh High Court stay order.
- C. The management informed the DAC that it was decided to divide the work in two packages which is a normal practice. Its comparison with Sargodha Park (SIP) is not valid as SIP is hardly 10% of the size the BQIP. Contractors met all the mandatory criteria and other requirements. No irregularity has been committed in the award.

The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

(DP NO. 347 & 350)

9.2.4.6 Award of contract against eligibility criteria – Rs.1,678.637 million

Rule 26(3) of PPRA 2004, states that the procuring agency shall ordinarily be under an obligation to process and evaluate the bid within the stipulated bid validity period. However, under exceptional circumstances and for reason to be recorded in writing, if an extension is considered necessary, all those who have submitted their bids shall be asked to extend their respective bid validity period. Such extension shall be for not more than the period equal to the period of the original bid validity.

Further, Rule 26 (4) (a) of PPRA 2004, states that bidders who agree to extension of their bid validity period shall also extend the validity of the bid bond or security for the extended period of the bid validity.

Point No. VI of Mandatory requirements given in Evaluation Report states Completion certificate of at least 01 project of infrastructure in any industrial zone of minimum 800 acres land, Certificate of performance for at least 02 in hand projects of infrastructure in any industrial zone of at least 450 M PKR Value and Annual Turnover should be at least 1,000 million.

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that the contracts for Package VII was awarded to M/s Kazi Nisar at a cost of Rs.799.903 million and for Package VIII work to M/s Haji Syed Ameer at a cost of Rs.878.734 million for construction of Roads, Drainage Network, Under Ground Water Tank, Sewerage System, Electrical Sleeves, Road Lightning, Rescue Building, Boundary Wall and Watch Towers in Phase-III of BQIP. However, following irregularities were observed:

- i. M/s Kazi Nisar failed to fulfil any of the three mentioned mandatory requirements as per Evaluation Report.
- ii. Bid Securities for extended period were not obtained from both bidders and Pre-Qualification of Contractors was also not done.
- iii. The Original Advertisement was for a single contract requiring services of a single construction firm, and didn't mention division of work in Packages VII & VIII.
- iv. A Corrigendum was published on December 17, 2021 just 04 days before original date of bid opening i.e. December 24, 2021 which states that Scope will remain same but work is divided in two packages.

Audit is of the view that the management extended undue favor as both contractors failed to meet mandatory requirements of the bidding documents and without extension of bid validity in violation of rules. Thus, contracts, amounting to Rs. 1,678.637 million stands irregular and unjustified.

The matter was reported to the management in June, 2023. The irregularity was discussed in DAC meeting held on December 13, 2023.

- A. The management informed the DAC that the bid evaluation was duly conducted by the Consultant in which it was verified that M/s. KNA fulfilled all mandatory requirements as per RFP.
- B. The management informed the DAC that contracts for both the packages (VII & VIII) were awarded within extended bid validity period after vacation of Sindh High Court stay order.
- C. The management informed the DAC that it was decided to divide the work in two packages which is a normal practice. Its comparison with Sargodha Park (SIP) is not valid as SIP is hardly 10% of the size the BQIP. Contractors met all the mandatory criteria and other requirements. No irregularity has been committed in the award.

The DAC directed the management to get the record verified from Audit.

Audit recommends investigation of the matter.

(DP No. 377, 406, 421)

9.2.4.7 Non-completion of infrastructure developments works – Rs 1,192.970 million

As per clause 2.1 of the agreement for Development and Management of Industrial Park on 13th July 2007 between Pakistan Steel Mills Corporation (Private) Limited and National Industrial Park Development and Management Company, NIP shall at its sole cost and expense and on the terms and conditions contained herein; (i) within a period of ten years from the date of this agreement develop, establish, cause to be constructed and completed an industrial park on the land and all related infrastructure and facilities (including permanent structures) for the purpose of the operation of an industrial park on the land.

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that an agreement was signed between PSM and NIP on dated 13th July, 2007 and 930 acres of land, located at Deh Pipri, Bin Qasim Town, Karachi, was handed over by the Pakistan Steel Mills to National Industrial Park Development & Management Company (NIP) for rapid industrialization by establishing/developing new industrial estates and/or industrial parks. Project was to be developed/completed by July 2017 as per agreement between PSM & NIP. However, it was observed that infrastructure development has not yet been completed even after lapse of 16 plus years and an expenditure of Rs 1,192.970 million. It was further observed that out of 717 acres of saleable area, 408 acres were allotted to 42 allottees and since 2013, only 09 allottees (199 acres) had started operations after completing construction, rest of the plots on 208.984 acres' area remain unutilized till date.

Audit is of the view that non-development of infrastructure and committed facilities, despite incurring huge cost of Rs 1,192.970 million indicates poor planning and mis-management.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 13 & 14, 2023. The management informed the DAC that the project had to be developed in 03 (three) phases and the last phase infrastructure development in underway, to be completed by June 2024. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.2.4.8 Non-submission of building plans by investors for construction of plots – Rs.602.528 million (132.764 Acres)

Clause 4.12/5.12 of Terms & Conditions for plot of land at Bin Qasim Industrial Park (BQIP)/ Korangi Creek Industrial Park- Special Economic Zone states that the allottees shall submit Building Plans / Drawings of the Project to PIDC for approval within 03 months from the issuance of the Site Plan.

Clause 7.8 / 8.17 states that failure of the Applicant/ Allottee to meet the timelines provided for herein in respect of the payment schedule/ submission of building plan/ operation / construction may result in cancellation of the allotment /license/lease as the case may be and subsequent repossession of the plot of land by Pakistan Steel/ PIDC upon a refund of 90% of the amount paid to both Pakistan Steel and PIDC by the Applicant/ Allottee, without mark-up, after 90 days of such cancellation / repossession.

Clause 4.16 states that in case payment of dues/ submission of Building Plans/ Drawings is not made as specified or such extended period at PIDC's discretion, the Provisional Allotment Letter shall stand cancelled.

During audit of Pakistan Industrial Development Corporation (PIDC) for the year 2021-22, it was observed that the allottees of the plots at Bin Qasim Industrial Park (BQIP) and Korangi Creek Industrial Park (KCIP) failed to submit building plans for construction of industrial units within 03 months from issuance Site Plans. In case of failure to meet the timelines, management was required to cancel the allotment and subsequent repossession of the plots besides deduction of 10% of total amount paid as penalty (Annex-61).

Audit is of the view that management did not pursue the matter as per terms and condition for allotment of plots which resulted into non cancellation of plots and non-recovery of 10% penalty amounting to Rs 602.528 million (Rs 6,025.283 million*10% = Rs.602.528 million). This reflects weak internal control and poor performance on the part of management.

The matter was reported to the management in June 2023. The irregularity was discussed in the DAC meeting held on November 30, 2023. DAC directed the management to vigorously pursue the allottees for early submission of building plans and construction of projects.

Audit recommends implementation of the DAC directives.

9.2.4.9 Award and execution of various consultancy works with irregularities - Rs.558.037 million

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

Rule 20 of PPRA, 2004 states that save as otherwise provide hereinafter, the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that the management awarded various contracts with multiple irregularities in award and execution (Annex-62).

Audit is of the view that irregular award and execution of various works compromised level-playing field to the competitors and value for money to the company.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 13 & 14, 2023. The management informed the DAC that the consultants were hired as per the relevant PPRA rules. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.2.4.10 Unjustified variation in subsequent bid Rs. 446.70 million

Rule 04 of PPRA Rules 2004 states that the procuring agencies while engaging in procurement, shall ensure that the procurement are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

Rule 26 (1) and (2) of PPRA, 2004 states that a procuring agency, keeping in view the nature of the procurement, shall subject the bid to a bid validity period and bids shall be valid for the period of time specified in the bidding document. Furthermore, Article 14.1 of the Bidding Documents states that the validity of bid is 90 days.

During audit on the accounts of the Pakistan Industrial Development Corporation (PIDC) Head Office Karachi, for the year 2021-22, it was observed that Contract for “Construction of 132 KV Grid at BQIP” was awarded to M/s Barqtron for an amount of PKR 3,406.997 (million). Moreover, the consultancy contract was awarded to M/s Barqaab on 23.07.2021 at a cost of 22.600 million with the agreement signed on 20.08.2021. M/s Barqaab then prepared following two estimates, first was prepared before 1st tender and 2nd was prepared after the opening of 2nd tender, as under:

S#	Project Estimate Date	Project Estimates (million)	Remarks
1	11.11.2021	3,030.549	Estimate prepared before opening of 1 st Tender
2	02.03.2022	3,601.304	Estimate prepared after opening of 2nd Tender

The consultant prepared 1st engineering estimate of 3,030.549 million for the Construction of 132 KV Grid at BQIP on 11.11.2021 based on which bids from the contractors were invited and the lowest bid received from M/s Barqtron-Fast JV was PKR. 2,960.30 (million) on 31.12.2021 which was in line with the engineering estimate and had bid validity period of 120 days. However, instead of accepting the said bid, revised tender was issued almost immediately without any fresh estimate. In the 2nd tender, the same firm M/s Barqtron-Fast JV submitted a bid of PKR 3,406.997 (million), 446 million higher than their first bid of PKR. 2,960.30 (million) submitted just 45 days earlier in the 1st tender, this resulted into a loss of 446.7 million for the corporation. Detail of bids submitted by M/s Barqtron-Fast JV:

S.#	Item	Date of Bid	Bidder	Total (million)
1	1 st Bid	31-12-2021	M/s Barqtron	2,960.30
2	2 nd Bid	05-02-2022	M/s Barqtron	3,407.00
3			Difference	446.70

Audit is of the view that enhancement of estimates in second bid was unjustified and irregular.

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

The irregularity was discussed in DAC meeting held on December 14, 2023. The management informed the DAC that it is a PSDP project and, therefore, was deliberated in detail at the Ministry, and Planning Commission along with rationale justifications before approval. The cost was verified by the Ministry directly with KE who vide letter dated 01.03.2022 addressed to the Additional Secretary -I, quoted a Rs.4228 m which was significantly higher than the lowest bid of Rs.3406m. It may be noted that the revised PC-I was prepared by the consultant and duly endorsed by the Ministry and then approved by the CDWP at a cost of Rs.3601.304m. The DAC directed to conduct fact finding inquiry at Ministry level to ascertain: i. whether tendering was as per PPRA ii. Whether results were appraised to the MoI&P iii. Whether final tendering results were also disclosed and made part of the revised PC-I which was approved by the CDWP.

Audit recommends implementation of DAC directives.

9.2.4.11 Irregular Hiring of Consultant for Feasibility Study of Karachi Industrial Park– Rs.430.702 million

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

Rule 42-C of PPRA states that, a procuring agency shall only engage in direct contracting if the following conditions exist, namely: - (i) the procurement concerns the acquisition of spare parts or supplementary services from original manufacturer or supplier (ii) only one manufacturer or supplier exists for the required procurement: (iii) where a change of supplier would oblige the procuring agency to acquire

material having different technical specifications or characteristics and would result in incompatibility or disproportionate technical difficulties in operation and maintenance: (iv) repeat orders not exceeding fifteen per cent of the original procurement; (v) in case of an emergency: (vi) when the price of goods, services or works is fixed by the government or any other authority, agency or body duly authorized by the Government, on its behalf; and (vii) for purchase of ***motor vehicle from local original manufacturers or their authorized agents at manufacturer's price.

During audit on the accounts of the Pakistan Industrial Development Corporation (PIDC) Head Office Karachi, for the year 2021-22, it was noted that M/s Surbana Jurong JV was awarded the contract for revised scope of work of "Preparation of Feasibility Study, PC-I, Detailed Designing & Construction Supervision of Karachi Industrial Park on 1500 acres of Pakistan Steel Mills Land" on June 07, 2022 at a cost of 430.702 million. Following irregularities were pointed out in the tendering process:

- i. Consultancy contract was awarded for various items of scope of work without approval of PC-1 whereas CDWP in its meeting held on June 04, 2021 had approved only Feasibility Study Component of the project.
- ii. Management cancelled the 1st bidding process and instead of fresh tender, revised RFPs having amended Scope of Work & Eligibility/Selection Criteria were shared with M/s Surbana Jurong & M/s Nespak.
- iii. Revised eligibility criteria were formed to suit the experience of M/s Surbana wherein more focus was put on intentional projects. This was to the disadvantage of other firms.
- iv. M/s Surbana failed to submit Completion Certificates in couple of Projects but was still declared technically qualified.
- v. The first financial bid of M/s Nespak was lower than that of M/s Surbana JV, the latter was technically unqualified due to non-meeting of multiple mandatory requirements.
- vi. Response time of 30 days for international tender was not given in both the bids.
- vii. The weightage given to Quality of 80% was higher than the usual limit of 70%, the weightage for cost should have been 30%.

S.#	Description	1st Bid Dec 2021	
		M/s Nespak	M/s Surbana Jurong
1	Bid Amount	531,434,385	589,607,783
2	Technical Marks	90.33	96.833

Audit is of the view that the management extended undue favour to M/s Surbana Jurong by setting tailor-made eligibility criteria which discouraged other competition and awarded it the contract despite of the firm not even meeting the mandatory technical criteria. The eligibility criteria were changed to restrict competition, and the scope of work was reduced to bring the bid of M/s Surbana in line or close to the figure of 400 million. The scope of work was, however, still too big and too complex to be included in just one tender.

The matter was reported to the management in June, 2023. The irregularity was discussed in DAC meeting held on December 13, 2023. The management informed the DAC that the overall lowest cost of the tender determines the successful bidder and not the individual cost elements. After pre-qualification, RFP was issued to prequalified parties in Dec 2022 and the bidders were invited to submit sealed technical and financial proposals. However, due to the higher bid significantly exceeding the project approved amount, some elements of the initial RFP were removed and fresh bidding was held again in February 2022 under revised scope. The DAC directed the management to conduct a fact-finding inquiry at Ministry level.

Audit recommends implementation of the DAC directives.

9.2.4.12 Irregular award of consultancy work - Rs.430.702 million

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

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that the management awarded the contract for revised scope of work of "Preparation of Feasibility Study, PC-I, Detailed Designing & Construction Supervision of Karachi Industrial Park on 1500 acres of Pakistan Steel Mills Land" on June 07, 2022 at a cost of Rs.430.702 million to the Joint Venture of M/s Surbana Jurong (Lead Firm), M/s EA Consulting (JV Partner), M/s OMS (JV Partner) and M/s International Consulting Associates (JV Partner).

Following irregularities were observed:

- i. Despite a Grid already under construction in BQIP, the management unnecessarily included "Construction Supervision of Grid" in the scope of work.
- ii. The award of contract at Rs.430.702 million instead of CDWP approved cost of Rs.400 million.
- iii. Most of the employees shown in bidding documents submitted by M/s Surbana as theirs were actually employees of M/s SMEC or M/s Engineering General Consultants.
- iv. There is variation in data of employees submitted by M/s Surbana in 1st and 2nd proposal, the CVs submitted in the first proposal with undertaking are completely different in the second.
- v. M/s Surbana Jurong Private Ltd was formed in June 2015, however most of the projects given in the technical bid of the firm date back to the period before 2015.
- vi. It has been stated in the documents that M/s Surbana has worked as External Associate Consultant with M/s ESCP on the Quaid-e-Azam Apparel Park (QAAP) Project from 2017-18 (later renamed as QABP), however no such evidence was available.
- vii. As per the technical bidding documents, M/s Surbana did not have any experience of working in Pakistan on any industrial park of 1,000 acre or above independently.
- viii. No PEC, NTN, SRB and FBR registration and NOC from Ministry of Interior was available.
- ix. Signing of contract was done before verification of performance guarantee. Payment Cheques issued before submission of invoices and approval for payments was given after 2, 3 days. Advance Payment Guarantee and Performance Security Bonds were verified after the cheques had been issued.

Audit is of the view that the management extended an undue favor to the bidder which reflected poor internal controls.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 13, 2023.

- A. The management informed the DAC that the design and construction supervision of Grid is an integral part of the project as utilities have to be provided at the time of allotment of developed industrial plots. BQIP is a separate project and its Grid would cater to its own long-term electricity needs, and a separate Grid for KIP is essentially required to be constructed within time.
- B. The management informed the DAC that CDWP approved the amount of Rs. 400 million for the consulting work. However, in the second round of bidding on 14.02.2022 the successful bid received was Rs.430.702m which is well within 15% variation.

C. The management informed the DAC that M/s Surbana Jurong (SJ) submitted PEC certificate of pre-registration at the time of pre-qualification and subsequently, SJ also submitted PEC certificate of registration after the award of the contract. SJ has submitted the evidence of registration with FBR, whereas SRB registration was also done accordingly after the signing of the contract. The firm is registered with SECP. Although the cheques have been issued, however, SJ got registered with SRB before clearance of the cheques. PEC issues certificates to foreign firms on project basis. In order to avoid the amount having lapsed, the guarantee was verified after handing over the cheques.

The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.2.4.13 Irregular award of contract to a foreign company without NOC – Rs.430.702 million

According to para 6(2) of PEC Consulting Byelaws Relevant to Registration of a Foreign Consulting Engineer; Foreign firms of consulting engineers shall get themselves registered as consulting engineers for specified projects which need expertise and specialized knowledge not available with Pakistani consulting engineers, shall join an association or joint venture with a Pakistani consulting engineer and in such an association or joint venture, the services to be rendered by the foreign firm of consulting engineer shall be limited to the expertise and knowledge not available with any Pakistani consulting engineer:

According to SECP's Rule 5 (1), 6(1), & 6(3) of Foreign Companies Regulations, 2018, every foreign company shall deliver the information and documents as mentioned in section 435 of the Act to the registrar as per Fnc. Form-II along with payment of fee. On registration of documents of a foreign company as filed under regulation 5, the registrar shall issue a certificate of registration of documents as per Fnc. Annexure-III. Subsequent to registration of documents, a foreign company shall be bound to obtain all necessary approvals from relevant authorities as per applicable laws.

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that the management awarded the contract for Preparation of Feasibility Study, PC-I, Detailed Designing & Construction Supervision of Karachi Industrial Park (KIP) on 1,500 acres of Pakistan Steel Mills Land on June 07, 2022 at a cost of Rs.430.702 million to M/s Surbana Jurong-JV. The firm was provisionally registered with SECP in 2018 as it was a Singapore based company which required to get clearance from Ministry of Interior before the start of business in Pakistan. The firm did not obtain a regular PEC certificate but had obtained a special PEC certificate for the KIP project only. Whereas, there was already sufficient knowledge and expertise available in Pakistan.

Audit is of the view that M/s Surbana Jurong did not have a requisite clearance from Ministry of interior and had obtained a project only PEC Certificate despite existence of such expertise already in Pakistan which was unjustified.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 13, 2023.

- A. The management informed the DAC that Surbana Jurong is properly registered with SECP since 2018 to operate in Pakistan after fulfilling all due legal formalities under Section 435 of Companies Act 2017, and working on numerous projects.
- B. The management informed the DAC that the ‘1000-acre project in Pakistan’ was not the required criteria for the selection of a Project Consultant for Karachi Industrial Park (KIP). On the other hand, Surbana Jurong is a Singapore government-owned internationally renowned organization and has designed several large and successful parks in the regional countries including, China, India, Vietnam, Singapore, Indonesia etc. Secondly, the procurement of Project Consultancy services for KIP was processed as per PPRA rules through an open competitive bidding process. The bid award results were published on the PPRA website as per rules and no objection was raised by any party.

The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

(DP No. 378 & 383)

9.2.4.14 Irregular award of Contract at higher than BOQ rates – Rs.372.780 million

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

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that the contract for Package VIII-BQIP Phase-III (Phase-III) was awarded to M/s Haji Syed Ameer at a cost of Rs.878.734 million for construction of Roads, Drainage Network, Water Supply Distribution Network, Sewerage Systems, Electrical Sleeves, and Road Lightning without taking into account the BOQ estimates. The detail is hereunder:

S#	Description	BOQ (Rs)	Bid Amount (Rs)	Excess	%	Remarks
1	Road Works	522,263,222	652,157,486	129,894,264	24.87	*No mention of Box Culvert in BOQ Phase VIII
2	Drainage Network	3,655,617	4,884,285	1,228,668	33.61	
3	Water Supply Network	34,121,008	49,137,805	15,016,797	44.01	*Price for Box Culvert has been added by M/s HSAB in the Bid
4	Electrical Sleeves	19,282,505	23,987,355	4,704,850	24.39	
5	Road Lighting	53,975,091	75,568,335	21,593,244	40.00	
	Total	633,297,443	805,735,266	172,437,823	27.22	

It was further observed that M/s Kazi Nisar was awarded contract of Package VII in BQIP development works at a cost of Rs.799.903 million for construction of Roads, Drainage Network, Under

Ground Water Tank, Sewerage System, Electrical Sleeves, Road Lightning, Rescue Building, Boundary Wall and Watch Towers without taking into account the BOQ estimates. The detail is hereunder;

Amount in Rs.						
S#	Item Description	BOQ	Bid Amount	Excess	%	Remarks
1	Road Works	122,219,694	157,877,948	35,658,254	29.17	*BOQ quantities are less 15% premium given on schedule items
2	Drainage Network	345,476	700,708	355,232	102.82	
3	Under Ground Water Tank	214,171,413	261,696,441	47,525,028	22.19	
4	Sewerage System	58,145,495	108,811,050	50,665,555	87.13	
5	Electrical Sleeves	3,136,782	6,158,400	3,021,618	96.32	
6	Road Lighting	12,457,148	16,807,913	4,350,765	34.92	*15% premium on similar schedule items was not given in Package VIII opened on the same day
7	Rescue Building	56,442,472	73,929,773	17,487,301	30.98	
8	Boundary Wall	64,698,019	85,054,546	20,356,527	31.46	
9	Watch Tower	4,289,099	7,756,586	3,467,487	80.84	
Total		535,905,598	718,793,365	182,887,767	34.12	

Audit is of the view that award of work at significant higher cost compared to the BOQ cost estimates was unjustified. The BoQs were not prepared on the basis of Government issued Composite Schedule of Rates (CSR). Thus, contracts amounting to Rs.372.780 million stands irregular and unjustified.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 13 & 14, 2023.

- A. The management informed the DAC that Audit has taken Engineering estimate as BOQ rate. Bid amount is only 9% higher than the Engineering estimate which is within normal variances. Box culvert was omitted in the engineering estimate but was added later at the time of tendering by the consultant.
- B. The management informed the DAC that the contract was awarded to M/s Kazi Nisar Ahmed & Co (KNA) as per the bid amount of Rs.799.9 million which is only 14% above the engineering estimate. It is also informed that the tender for Package VII & VIII are based on MES-2021 for scheduled items and the non-scheduled items. Additionally, for non-scheduled items, market rates apply, and a premium/ruling is only applied to the MES Schedule rate at 15% on both packages VII & VIII.

The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

(DP NO. 366 & 435)

9.2.4.15 Non-payment of Sales Tax by Contractors/Consultants - Rs.323.835 million

As per Rule 3(3) of the Sindh Sales Tax Special Procedure (Withholding) Rules, 2014, “A withholding agent, other than a person or a recipient of 3[the taxable] services covered by clause (f) of sub-rule (2) of rule 1, shall deduct an amount equal to one-fifth of the total amount of sales tax shown in the sales tax invoice issued by a registered person and shall make payment of the balance amount to service provider...”

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that an amount of Rs 2,405.000 million was paid to contractors in different projects from 2019-2022, however sales tax amounting to Rs.323.835 million was not deposited in government treasury. Details are as follows:

S#	Project	Contractor/Consultant	Amount Paid	PST 16%	SRB 13%
1	Package 1-BQIP	KNA & Shangrilla JV	509,764,941	-	66,269,442
2	Package 2-BQIP	Haji Syed Ameer and Bros	531,867,499	-	69,142,774
3	Package 3-BQIP	KNA & Shangrilla JV	143,817,510	-	18,696,276
4	Package 5-BQIP	Gul Construction	37,953,055	-	4,933,897
5	Package 6-BQIP	Gul Construction	25,927,929	-	3,370,630
6	Package 7-BQIP	KNA	79,990,301	-	10,398,739
7	Package 8-BQIP	Haji Syed Ameer and Bros	296,311,464	-	38,520,490
8	KIP Consultant	Surbana JV	101,092,285	-	13,141,997
9	132 KV Grid BQIP	Barqtron Fast JV	310,170,100	-	40,322,113
10	RIP Dev. Work	Ghousia Engineering	368,992,430	59,038,789	
	Sub-Total			59,038,789	264,796,361
	Grand Total		2,405,887,514	323,835,150	

Audit is of the view that non-deposit of tax amount is a loss to the exchequer.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 13 & 14, 2023. The management informed the DAC that SRB vide SRO Number 3-4/7/2013 dt. June 18, 2013 specifically exempts Sales Tax on the construction and development of SEZ under sub-clause iv of tariff 9824.0000 and the same is still in effect and applicable to all SEZ projects of PIDC. The DAC directed the management to get the exemption verified from SRB and share the same with Audit.

Audit recommends implementation of the DAC directives.

(DP No 401 & 412)

9.2.4.16 Irregular award of contract to the highest bidder – Rs.300.995 million

Rule 04 of PPRA Rules,2004 states that the procuring agencies while engaging in procurement, shall ensure that the procurement are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical. Rule 27 states that due to any reason, the procuring agency finds it necessary to extend such deadline, it shall do so only after recording its reasons in writing and in an equal opportunity manner. Further, Rule 38 states that the bidder with the lowest evaluated bid shall be awarded the procurement contract within the original or extended period of bid validity.

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that tenders/bids were called on 18-07-2012 for pre-qualification of contractors/firms for development of infrastructure works at Sargodha Industrial Park with bids submission

date 13-08-2012. In response, 47 firms submitted technical bids out of which 19 firms were prequalified. The responsive bidders submitted the financial bids as detailed below:

S.#	Name of Firm	Bid Amount (Rs)	Ranking
1	M/S R M Gulistan Engineers	315,971,027	5 th
2	M/S Shalimar Construction Co.	344,164,368	6 th
3	M/S Ch. A. Latif & Sons	278,975,898	3 rd
4	M/S Progressive Int.	297,072,240	4 th
5	M/S Tayyab Manzoor	269,847,910	1 st
6	M/S Kiazen-Staco	272,787,941	2 nd

Later on the management awarded the contract to M/s Ch. Abdul Latif & Sons (3rd lowest bidder) by ignoring the first lowest bidder i.e. M/s Tayyab Manzoor.

Audit is of the view that the management extended an undue favor to the bidder which reflects weak internal controls. Thus, contracts valuing Rs.300.995 million stands irregular and unjustified.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 13, 2023.

- A. The management informed the DAC that extension of the date of bid submission has been done according to PPRA rules. On request from prequalified contractors, the financial bid submission date has been extended from 7th March 2013 to 22nd March, 2013. Later on, based on the pre-bid meeting (held on 18th March 2013), the financial bid submission date has been extended again from 22nd March 2013 to 12th April 2013. Secondly, please note that the tender has been issued as a whole for all works i.e., Construction of Rigid Pavement, Sewerage Network and Water Supply Distribution. Therefore, procuring agency is bound to award the contract as a whole to the lowest evaluated bidder as per the Least Cost Basis Method as specified in the advertisement.
- B. The management informed the DAC that as per the submitted financial bids M/s Tayyab Manzoor quoted the lowest bid. After arithmetic corrections and evaluation done by Project Consultant, the bid amount of Rs 278,975,898 has been found lowest which was submitted by M/s Ch. A. Latif & Son.

The DAC directed the management to conduct a fact-finding inquiry and share the report with Audit.

Audit recommends implementation of DAC directives.

(DP NO. 397 & 394)

9.2.4.17 Irregular renting out of properties without rent assessment and formation of SOPs - Rs.292.052 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Industrial Development Corporation (PIDC) for the year 2021-22, it was observed that management rented out its following properties having 339,296 Sq. Ft. along with 04 antenna space without rent assessment from property valuers / surveyors. The spaces are rented out to the tenants on mutual understanding, without any market survey Furthermore, management also did not have any SOPs / Policy for Estate Department so that properties owned by PIDC be rented out as per laid down policy.

(Rs. in million)				
S#	Name of Property	Are (Sq Ft)	Yearly	Rental
			Income	
1.	PIDC House	207,262		206.485
2.	Finance & Trade Center	32,283		41.946
3.	KPT Godowns	87,426		32.951
4.	Dalmia Space	6,000		10.670
5.	Progressive Plaza	6,325		
Total		339,296		292.052
Source: Financial Statements for the year ended 30 June 2022				

Audit is of the view that renting out of properties without rent assessment / lower than market rates and without SOPs shows undue favour to the tenants and in-efficient utilization of resources which resulted into loss of rental income.

The matter was reported to the management in June 2023. The irregularity was discussed in the DAC meeting held on November 30, 2023. The management explained that market rates cannot be charged to existing tenants and their rent is increased annually as per agreed terms and conditions. DAC directed the management to take up with the Board the possibility of adjusting property rents as per market rates and share the decision of with Audit.

Audit recommends implementation of the DAC directives.

9.2.4.18 Unjustified enhancement in length of roads - Rs.218.643 million

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

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that the contract for Package VII-BQIP (Phase-III) was awarded to M/s Kazi Nisar at a cost of Rs 799.903 million and the contract for Package VIII-BQIP (Phase-III) was awarded to M/s Haji Syed Ameer at a cost of Rs 878.734 million. BOQs of both the packages reflected that a total of 7.34 Km of roads were to be constructed by the two contractors at an aggregate cost of Rs 938,142, 430 (with average cost per Km of Rs. 127,797,343). However, as per PM BQIP, the total length of roads to be constructed in Phase-III was 5.63 Km as detailed below:

Length Requirement (As per data by PM BQIP)	Length Added in BOQ	Difference	Excess (Based on Avg Cost/Km of Rs. 127,797,343)	%

5.63	7.34	1.7108602	218,643,390	23.30
------	------	-----------	-------------	-------

Audit is of the view that there was unjustified excess length of work amounting to Rs 218.643 million, which reflects weak monitoring and slackness.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 13 & 14, 2023. The management informed the DAC that the assumptions in the PDP are not correct, no excess length is added. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.2.4.19 Payments without construction of road - Rs.173.437 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that Package I, in Phase-II of Bin Qasim Industrial Park (BQIP) development work in 2019, was awarded to M/s Kazi Nisar-Shangrilla JV at a total amount of Rs. 529.99 million for construction of Main Carriageway Road. As per BOQ, length of Road to be constructed was 4.3766 Km amounting to Rs. 529.99 million while only 2.77735 KM ($63.5\% = 2.77735/4.3766*100$) of the road could be constructed, and the contractor was paid a sum of Rs.509.764 million which was around 96% of the total contract amount. An excess amount of Rs. 173.437 million was paid to the contractor, as detailed below:

Length of Main Carriageway Road to be constructed as per BOQ Quantity of Asphalt Wearing Course	4.3766 Km
Total Cost of Contract for Construction of Main Carriageway Road	Rs.529,990,747
Cost per Km (529,990,747/4.3766)	Rs. 121,096,455
Length of Main Carriageway Road Actually Constructed as per PM BQIP	2.77735 Km
Cost of 2.77735 Km	Rs. 336,327,241
Total Payments to Contractor	Rs. 509,764,941
Excess Payments to Contractor	Rs.173,437,700

Audit is of the view that excess payment to the contractor was held unjustified and irregular.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 13 & 14, 2023. The management informed the DAC that the road constructed in Package - I as per the site is 4.286 km and paid accordingly. Package - I actually saved funds, hence no excess payment is made to the contractor. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.2.4.20 Irregular / excess payment to the contractor – Rs.128.427 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that the management awarded the contract for revised scope of work of 'Preparation of Feasibility Study, PC-I, Detailed Designing & Construction Supervision of Karachi Industrial Park on 1,500 acres of Pakistan Steel Mills Land' on June 07, 2022 at a cost of Rs.430.702 million to the Joint Venture of M/s Surbana Jurong (Lead Firm), M/s EA Consulting (JV Partner), M/s OMS (JV Partner) and M/s International Consulting Associates (JV Partner). However, the management made extra / irregular payments amounting to Rs.128.247 million as detailed below:

S#	Description	(Rs.in million)	Remarks
1.	Mobilization Advance	54.404	Excess Payments
2.	Civil Works	24.583	Wrongly booked in Civil Works instead of Consultancy Services
3.	Future Deliverables	49.260	Excess Payment

Total	128.247	
--------------	----------------	--

Audit is of the view that the excess payment of Rs.128.247 million reflects undue favor and weak financial management.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 14, 2023.

- a) The management informed the DAC that Rs. 27.248m advance was paid as per the contract for design stage / pre-construction activities. Subsequently, the Consultant was further paid secure advance of Rs 49.260 million in view to avoid lapse of funds. However, out of the total additional advance of Rs 49.260 million we have already recovered/adjusted Rs 48.256 million against deliverables and only Rs.1.0 million is to be adjusted. The DAC directed to conduct fact finding inquiry at Ministry level to verify: i. Whether PEC guidelines prohibit advances to consultants. ii. Whether advance was duly secured. iii. Whether due adjustment of advance was duly made after receiving contractual deliverables.
- b) The management informed the DAC that the said payment has been paid against pre-construction activities i.e., Draft PC-I and Feasibility and NOT against civil work.

The DAC directed the management to get verified the record with audit.

Audit recommends implementation of the DAC directives.

(DP No. 352, 353 & 416)

9.2.4.21 Non-utilization of building - Rs.115.234 million

Rule 5 (1) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that the building of CFTMC Nausheroferoz which completed in the year 2021 for Rs 115,234,957 was required to impart skill training to unemployed youth in furniture and woodwork. However, the building was being used as Site Office for NFIP till date. No equipment till date was purchased nor anyone employed for training related activities. Further, the site is located right in the middle of agricultural lands and there is hardly any tree or wood available in the vicinity.

Audit is of the view that non-utilization of building despite expenditure reflected negligence and wastage of public money.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 13 & 14, 2023. The management informed the DAC that the required land for setting up CFTMC NF was allocated by PIDC in the Noushero Feroze Industrial Park (NFIP) project along the Main National Highway. Subsequent to the initiation of construction, which concluded in 2021, FP was closed down and its assets/resources were handed over/merged into PIDC under the directives of

the Federal Cabinet. Consequently, FP's facilities were transferred to PIDC in November 2021. PIDC is now actively engaged in revitalizing FP projects in a phased manner, starting from Peshawar and Sargodha centers. The DAC directed the management to get the progress verified from Audit.

Audit recommends implementation of the DAC directives.

9.2.4.22 Abnormal increase in boundary wall cost - Rs.85.054 million

Rule 4 (3) of the Public Sector Companies Corporate Governance Rules, 2013 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Act and these rules.

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that M/s Kazi Nisar was awarded contract of Package VII in BQIP Phase-III development works at a cost of Rs.799.903 million for construction of Infrastructure works, Office Building, Rescue Building, Boundary Wall and Watch Towers. However, cost per meter for construction of Boundary Wall given to the same contractor was Rs 19,828 where out of 7,705 meters, only 6,255 meters were constructed. In this tender, the contract for construction of Boundary Wall is again awarded to the same contractor at a per Meter Cost of Rs 51,032.730 which is 157.4 % higher than the previous per meter cost given by same contractor. The difference in per meter cost is detailed below:

Amount in Rs	
Total Cost of Boundary Wall in Package VII Excluding Taxes	73,997,455
Boundary wall to be constructed (Meter)	1,450
Cost per m Package VII	51,032.73
Cost per m in Package III by the same contractor	19,828
Difference in per meter cost	31,204.7
Increase (%)	157.4

Audit is of the view that the management awarded the contract for construction of Boundary Wall at a per meter cost of Rs 51,032.73 which was 157.4 % higher than the previous per meter cost of Rs 19,828 which reflected negligence and weak internal controls.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 13 & 14, 2023. The management informed the DAC that the Packages-I & Package-VII tender dates are October 2018 and December 2021 respectively. Over a period of 3 years the price variation has been very significant, therefore, the prices quoted cannot be compared. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.2.4.23 Loss due to procurement of land for industrial park at higher rates- Rs.73.600 million

Rule 04 of PPRA Rules 2004, the procuring agencies while engaging in procurement, shall ensure that the procurement are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

Rule-38 states that the bidder with the lowest evaluated bid shall be awarded the procurement contract within the original or extended period of bid validity.

Rule 40 of PPRA Rules 2004 states that there shall be no negotiations with the bidder having submitted the lowest evaluated bid or with any other bidder: Provided that the extent of negotiation permissible shall be subject to the regulations issued by the Authority.

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that press advertisement for purchase of 100 acres of land was floated for establishment of Sargodha Industrial Park in newspapers dated April 10, 2012. Terms and conditions were as under:

- The land should be within 20 KM of Sargodha city.
- The land should be situated on main road with an appropriate approach.
- All the utilities like electricity, sweet water, telephone and other facilities should preferably be available.
- The bidder should be in possession of land and ownership documents.
- Receiving and opening of bids was 27th April, 2012.

In response of advisement following bidders submitted their per acre rates:

S.#	Name	Area (Acres)	Location	Bid Amount Per Acre	Distance from City	Sweet Water	Electricity
1	Zubair Bhatti	100	Kandewal Road	1,600,000	15 Km	No	Yes
2	Qamar ul Islam	100	Khoshab Road	1,550,000	25 Km	Yes	Yes
3	Al-Hamd Estate	76	Chak 52, 53	775,000	12 Km	Yes	Yes
4	Al-Hamd Estate	60	Chowkira Road	1,100,000	15 Km	No	4 Km Away
5	Ghulam Rasool	100	Faisalabad Bypass Road	6,500,000	12 Km	No	Yes

It was observed that Mr. Zubair Bhatti had offered Rs. 1,600,000/ per acre, thereafter, he offered discounted rates after opening of bids @ Rs. 1,325,000/ per acre due to non-availability of sweet water and unsuitable underground water for human consumption and industrial use on his land. Later, the management issued letter of intent to Mr. Zubair Bhatti for purchase of land @ Rs. 1,325,000/ per acre, instead of M/s Al-Hamd estate which offered lowest rates @ Rs. 775,000/ per acre, resulting in a loss of Rs. 73.600 million. $*(1,325,000*100=132,500,000) -(775,000*76=58,900,000) =73,600,000/-$.

Audit is of the view that the management purchased industrial land in violation of PPRA Rules. As per terms and conditions, all the utilities like electricity, sweet water, telephone and other facilities should preferably have been available on or nearby the proposed land. However, the land that was bought had no access to sweet water and its underground water was unfit for both industrial and human usage. Additionally, M/s Al-Hamd estate, which was located 12 km from the city and gave the lowest prices at Rs. 775,000/per acre, was also close to power and sweet water. And, Mr. Zubair Bhatti, who offered Rs. 1,600,000/ per acre that was 15 Km's from the city and had no access to sweet water. Therefore, land was purchased in violation of PPRA rules.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 13 & 14, 2023. The management informed the DAC that the land offered by M/s Al-Hamd Estate did not meet the criteria such as minimum area, road access etc. Therefore, it could not be considered as responsive offer. Furthermore, the selected land of M. Zubair Bhatti has proper connectivity in the shape of a metaled road and was better suited for provision of electricity and water etc. The DAC directed to conduct a fact-finding inquiry at the Ministry level.

Audit recommends implementation of DAC directives.

9.2.4.24 Unauthorized payment of bonus / eid grant - Rs.64.402 million

Finance Division (Regulations Wing) office letter No.F.3(5) R.12/80(R.14). Vol.H2201-54 dated 30th November 2001, reads as “... it has been observed that certain corporations are not following the Government instructions in letter and spirit and making payment of bonus to their employees without approval of Finance Division (Regulation wing).”

Para (iii) of Finance Division (Regulation Wing) OM. No. F.3 (5) R12/BOCR.14/2002-154 dated 18-03-2002 states that Managing Directors and members of Board of Directors will not be entitled to receive bonus.

During audit of Pakistan Industrial Development Corporation (Pvt.) Limited (PIDC) for the year 2021-22, it was observed that a sum of Rs.64.402 million was paid as bonus to officers / officials during the period as detailed below:

			Amount in Rs
Designation	Eid Grant Bonus	Performance Bonus	Total
CEO	600,000.00	435,000.00	1,035,000.00
CFO	282,855.00	219,213.00	502,068.00
General Manager	270,032.00	209,275.00	479,307.00
Deputy General Manager	173,768.00	139,014.00	312,782.00
CIA	224,640.00	179,712.00	404,352.00
Company Secretary	139,382.00	114,990.00	254,372.00
Deputy Managers (6)	272,904.00	201,528.00	474,432.00

Assistant Managers (8)	447,294.00	362,624.00	809,918.00
Officers'/officials'/staff	27,592,676.00	32,537,987.00	60,130,663.00
TOTAL	30,003,551.00	34,399,343.00	64,402,894.00

Audit is of the view that concurrence of Ministry of Finance and approval of administrative Ministry/Division was not sought. Hence, payment of Rs 4.145 million as Bonus and Eid Grant to the employees was held irregular and unjustified.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 13 & 14, 2023. The management informed the DAC that Finance Division vide its letter dated 20-March-07 has confirmed that the Boards of Directors of Public Sector Companies have full financial powers over their own budgets as long as their decisions do not impact the Federal/Provincial budgets. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.2.4.25 Excess payment on account of excess quantity of asphalt - Rs.55.313 million

Rule 04 of PPRA 2004 states that the procuring agencies while engaging in procurement, shall ensure that the procurement are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that the contract for construction of Roads in Package 2, Phase-II of Bin Qasim Industrial Park (BQIP) development work was awarded to M/s Haji Syed Ameer & Brothers at a cost of Rs 452.199 million in 2019. Details of excess quantity and amount is as under:

S#	Road	Length (Meters)	Width (Meters)	Design Thickness of Asphalt Wearing Course (Meters)	Volume of Asphalt Wearing Course Used (Cubic Meters)
1	AR 1	918.71	18.6	0.05	854.4
2	AR 2	1513.08	18.6	0.05	1407.16
3	AR 3	2420	18.6	0.05	2250.6
4	AR 4	689.33	9.3	0.05	320.53845
5	AR 5	1007.5	18.6	0.05	936.975
				Total	5769.67815

Description	Rs.
Total Volume of Asphalt Wearing Course Used (Cubic Meters)	5769.67815
BOQ Volume of Asphalt Wearing Course Used (Cubic Meters)	3512
Excess Volume of Asphalt Wearing Course Used (Cubic Meters)	2257.67815
Unit Rate of Asphalt Wearing Course per Cubic Meters	24,500
Cost of Excess 2257.67815 Cubic Meters	55,313,115

Audit is of the view that excess payment due to excess quantity was unjustified and held irregular.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 13 & 14, 2023. The management informed the DAC that Audit has mistakenly included AR-02 and AR-04 to the calculation whereas these roads were not included in Package-II. Further there is no actual excess payment made. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.2.4.26 Irregular award of road contract at higher cost - Rs.47.497 million

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

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that M/s Kazi Nisar was awarded contract of Package VII in BQIP (Phase-III) development works at a cost of Rs.799.903 million for construction of Infrastructure works, Office Building, Rescue Building, Boundary Wall and Watch Towers. A total of 1.07742 Km of Road was to be constructed at a per Km cost of Rs. 168,499,822, whereas the same contractor was given the contract for constructing 4.38 Km of Roads in Package I at a per Km cost of Rs 121,002,454 which was 39% lower. The detail is hereunder;

Amount in Rs			
Cost per Km in Package I	Cost per Km in Package VII	Increase in Cost per Km	% Increase
121,002,454	168,499,822	47,497,368	39

Audit is of the view that award of work at higher cost was unjustified and staggering increase of 39% of per Km cost was also held irregular.

The matter was reported to the management in June, 2023. The matter was discussed in DAC meeting held on December 13, 2023. The management informed the DAC that the tender dates of Packages I & VII were October 2018 and December 2021 respectively. Over a period of 03 years the price variation has been very significant, therefore, the prices quoted cannot be compared. Secondly, the bids were not on per km basis. It may be noted that the BoQ items of roads for the two projects were also not identical. The tenders were awarded through bidding under PPRA and no irregularity has been pointed out. The DAC directed the management to get the documents verified by Audit.

Audit recommends implementation of the DAC directives.

9.2.4.27 Non-imposition of liquidity damages due to delay in completion of feasibility study - Rs.43.000 million

As per para C-2(iii) of PEC Bidding Instructions Single Stage – Two Envelopes (SSTE) Bidding Procedure, the amount of the Liquidated Damages for each day of delay in completion of the whole of the Works, or if applicable for any Section thereof, shall be a sum equal to 10 % of the likely cost of the Works divided by one-fourth of the number of days specified as completion time.

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that the management awarded the contract for preparation of Feasibility Study, PC-I, Detailed Designing & Construction Supervision of Karachi Industrial Park (KIP) on 1,500 acres of Pakistan Steel Mills Land on June 07, 2022 at a cost of Rs.430.702 million to M/s Surbana Jurong-JV. The agreement was signed on June 07, 2022 for completion of work by February 08, 2023. However, as of June 30, 2023, the report was not completed by the consultant.

Audit is of the view that management failed to impose liquidity damages of Rs.43.000 million on account of delay which reflected undue favor.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 13 & 14, 2023. The management informed the DAC that the land belongs to PSM which required extensive jungle cutting for detailed survey and design. The contract for site clearing was awarded but the work was stopped due to interference from certain local encroachers. Currently, land clearance has resumed and M/s Surbana Jurong has re-initiated their work. Since the delay is not on part of the consultant, therefore no penalty is justified and no such provision is in the contract either. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.2.4.28 Variation of figures of contractor & consultant's report - Rs.39.797 million

Rule 4(3) of the Public Sector Companies (Corporate Governance) Rules, 2017 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance.

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that Package VI, in Phase-II of Bin Qasim Industrial Park (BQIP) development work in 2019, was awarded to M/s Gul Construction for a total amount of Rs.114.906 million for construction of Water Distribution and Sewerage Networks adjacent to Internal Roads. It was observed that there was variation in Work Done Figures in IPCs vs M/s Asian's Report in Package VI, as detailed below:

S. #	Description	Package VI (Rs)	Work Completion in terms of
-------------	--------------------	------------------------	------------------------------------

			contract value (%)
1	Work done as per IPCs I & II Paid excluding Mobilization Advance	14,856,546	-
2	Work done as per Pending IPC-03 Package VI submitted by M/s Gul	49,807,020	-
3	Total Work done as per IPCs submitted (1+2)	64,663,566	56.27
4	Work done as per Asian Report on work completed by M/s Gul in Packages VI	24,866,312	21.64
	Variation	39,797,254	35%

Audit is of the view that variation of figures up to 35% reflected negligence and slackness.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 13 & 14, 2023. The management informed the DAC that the IPC # 1 & 2 were received by PIDC from the Consultant after their verification and accordingly Rs 14,856,546 against IPC # 1 & 2 were paid to the contractor as per the procedure. As per PIDC record, IPC-3 was neither received nor paid. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.2.4.29 Excess payment to contractors beyond BOQ/ unexecuted works - Rs.36.314 million

Rule 04 of PPRA 2004 states that the procuring agencies while engaging in procurement, shall ensure that the procurement are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that that the management awarded various contracts in excess of BoQ quantities as detailed below:

- Contract for Package III, in Phase-II of Bin Qasim Industrial Park (BQIP) development work in 2019, was awarded to M/s Kazi Nisar-Shangrilla JV at a cost of Rs.181.742 million. However, excess quantities in 08 items amounting to Rs.1.553 million were supplied by the contractors.

Excess payment to contractors beyond BOQ/ unexecuted works - Rs.36.314 million								
S.#	BOQ Items-Civil Works	BOQ			Total Work Done		Excess	
		Unit	Rate	Qty	Qty	Amount (Rs)	Qty	Amount (Rs)
1	Jungle Cutting	Sq.m	58	70,000	70818	4107444	818	47444
2	Excavation	Cu.m	550	5141	6024.442	3313443	883	485893.1
3	Cement Plaster 20 mm thick	Sq.m	510	42173	42192.49	21518170	19	9939.9
4	Moisture Protection of RCC surfaces using Industrial Bitumen Paint	Sq.m	178	8310	12716.97	2263621	4,407	784440.66
5	MS Gate	Sq.m	4670	108	114.58	535,070	7	30728.6
6	Removal of existing GI sheets	Sq.m	381	225	264.04	100599.2	39	14874.24
7	Fiber Glass Sheet Corrugated type 2 layer, one layer 450 GSM and second layer 300 GSM, thickness 2.4 mm to 2.7 mm approx.	Sq.m	4252	225	264.04	1122698	39	165998.08
8	Remove and provide/fabrication	R.m	2300	17	23	52900	6	13800

	and erection of office roof drain						
		Total					1,553,119

- Contract for Package III, in Phase-II of Bin Qasim Industrial Park (BQIP) development work in 2019, was awarded to M/s Kazi Nisar-Shangrilla JV at a cost of Rs 181.742 million. The contract consisted of three components Boundary Wall, Watch Towers and Rehabilitation Work. No watch tower could be constructed while a net total of Rs 133,053,915, Thus, an amount of Rs 7,538,333 was paid in excess to the contractor.
- Contract of Package V, in Phase-II of Bin Qasim Industrial Park (BQIP) development work in 2019, was awarded to M/s Gul Construction at a total amount of Rs.148.918 million for construction of Water Distribution and Sewerage Network adjacent to Main Road. However, management made an extra amount of Rs. 20.049 million to the contractor.
- Contract of Package VI, in Phase-II of Bin Qasim Industrial Park (BQIP) development work in 2019, was awarded to M/s Gul Construction for a total amount of Rs.114.906 million for construction of Water Distribution and Sewerage Networks adjacent to Internal Roads. However, a total of Rs.7.174 million was paid extra to the contractor for 933 meters of excess Water Supply pipping.

Audit is of the view that the management made excess payments amounting to Rs.36.314 million beyond BoQ and unexecuted work which reflected undue favor.

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

- A. The management informed the DAC that the payment has been made on the basis of actual work done in compliance with the contractual provision as quoted above and well within 15%.
- B. The management informed the DAC that the total amount of boundary wall civil work as per contract / BOQ is 177,035,354/-, which includes 8 Nos of watch towers cost also. Due to inclusion of the watch tower cost, calculating boundary wall per meter cost in this way is not correct. Total amount paid to the contractor as per actual work done at site after verification from consultant and no excess payment was made.
- C. The management informed the DAC that the work has been done as per the drawing prepared by the Consultant. The actual work done at the site is also verified by the Consultant and is in accordance with the standard PEC contract condition. It is however submitted that such significant variance in estimation reflects on the poor work of the consultant i.e. M/s ZCL whose contract was not extended.

DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

(DP No. 387, 388, 419 & 433)

9.2.4.30 Purchase of land above PC-I provision – Rs.32.500 million

Rule 04 of PPRA, 2004 states that the procuring agencies while engaging in procurement, shall ensure that the procurement are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

As per PC-I pertaining to “Sargodha Industrial Park (SIP)”, the proposed Industrial Park was to be located at Chak#53 Shumali (North) close to canal about 07 Kms from Sargodha City center and set up over an area of 100 acres out of which 50 acres were to be developed in the first phase. A total of Rs.434 million was allocated under various heads including purchase of Land amounting to Rs.100 million.

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that the management purchased area of 100 acres land for Sargodha Industrial Park (SIP) at Sargodha City from Mr. Muhammad Zubair Bhatti on July 06, 2012 amounting to Rs.132.5 million against PC-I provision of Rs.100 million.

Audit is of the view that purchase of land beyond PC-I provision shows poor financial management. Hence, purchase of land in excess of PC-I stand irregular.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 13 & 14, 2023. The management informed the DAC that the amount incorporated in PC-I was tentative and based on available data at that time. The land was procured by NIP through open competitive bidding. The DAC directed to conduct a fact-finding inquiry at the Ministry level.

Audit recommends implementation of DAC directives.

9.2.4.31 Irregular addition of drainage line in scope of work – Rs.27.000 million

Rule 42 © of PPRA states that a procuring agency shall only engage in direct contracting if the following conditions exist, namely: -

- i. The procurement concerns the acquisition of spare parts or supplementary services from original manufacturer or supplier:
- ii. Only one manufacturer or supplier exists for the required procurement:
- iii. Where a change of supplier would oblige the procuring agency to acquire material having different technical specifications or characteristics and would result in incompatibility or disproportionate technical difficulties in operation and maintenance:
- iv. Repeat orders not exceeding fifteen per cent of the original procurement;
- v. In case of an emergency:

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that M/s Kazi Nisar & Shangrilla JV were awarded two Packages (I & III) in BQIP Development Work Phase II. However, addition of drainage line in Scope of Package 1 was done by the Board without due process.

Audit is of the view that addition in scope of work without due process and approval is tantamount to direct contracting and therefore held irregular and unjustified.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 13 & 14, 2023. The management informed the DAC that M/s KIA Motors Corporation is an important Operational Unit at BQIP on 100-acre land but was not yet connected with the sewerage network. As the process of hiring a new contractor as per PPRA had to take substantial time, therefore the board of directors after due deliberation unanimously approved an estimated cost of Rs. 27 million in Package-I contract M/s. KNA & Shangrila (JV) for the sewerage line for M/s. Lucky Motors Corporation”.

The DAC directed the management to conduct a fact-finding inquiry and share the report with Audit.

Audit recommends implementation of DAC directives.

9.2.4.32 Irregular award of security services contract – Rs.24.298 million

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

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that tender for provision of security services for PIDC Head Office Karachi and Regional Offices at Lahore, Faisalabad & Sheikhpura was advertised on 06 June, 2022. Bids submission date was 20th June, 2022. The management awarded the contract to M/s Safety & Security Services @ Rs 1,012,446 per month for a period of one year extendable to two years on 26 July, 2022, whereas, M/s National Police Foundation was declared non-responding bidder on 26 July, 2022 despite the fact that before this tender security services were being provided by this company w.e.f 01-07-2021 and their further services were terminated on July 26,2022. Audit observed following irregularities:

1. Single stage-two envelope method of bidding was used. Financial proposals that were deemed technically non-responsive should have been returned to the respective bidders, unopened. However, M/s National Police Foundation's financial bids were opened.
2. According to the contract, a performance guarantee equal to two months of compensation had to be deposited within one week; however, that guarantee was deposited on January 31, 2023, six months later.
3. Registration of Security Guards was not with EOBI/SESSI.

Audit is of the view that tender process was not conducted in a transparent manner as mandatory requirements of the bidding documents were not met by the successful bidder.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 13 & 14, 2023. The management informed the DAC that Audit overlooked the method used for bid evaluation was Quality cum Cost, with weightages of 70:30 mentioned in the RFP. Therefore, the award was as per PPRA. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.2.4.33 Non-recovery from Ex-CEO – Rs 17.734 million

Rule 5 of Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Industrial Development Corporation (PIDC) for the year 2021-22, it was observed that Mr. Gul Muhammad Rind, an officer of Secretariat Group BS-22 was posted as CEO of PIDC in November 2009 for the period of three years. During his posting, he committed following multiple irregularities and received an amount of Rs.17.734 million which was irregular. The matter was highlighted in February 2014, however, despite lapse of around 09 years, the management did not take any action for recovery of irregular payment from Ex-CEO and officers/ officials of PIDC.

S #	Subject	Amount (Rs. in million)
1.	Irregular and unjustified fixation of pay	5.396
2.	Irregular payment of leave encashment	6.640
3.	Irregular sale of car to on book value	1.294
4.	Irregular payment of Bonus	2.684
5.	Irregular Establishment of NGO	1.720
Total		17.734

Finally, in August 2022, the management lodges a suite for recovery in the Court of XIIth Senior Civil Judge at Karachi, South. The case was lodge after around 8.5 years without attachment of any property of the Defendant (Mr. Rind).

Audit is of the view that the management failed to take any action for recovery of irregular payment against Ex-CEO / officers of PIDC. Further, the management extended undue favour to the Ex-CEO by not taking any action or putting the matter in the court of law without attachment of any property and after lapse of considerable time.

The matter was reported to the management in June 2023. The irregularity was discussed in the DAC meeting held on November 30, 2023. DAC directed the management to take opinion from reputed Law Firm regarding Civil and Criminal facts and submit to Ministry for onward submission to Law Division.

Audit recommends implementation of the DAC directives.

9.2.4.34 Irregular secured advance payment to contractors - Rs.15.923 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that excess advances in addition of mobilization advance were given to contractors as Secured Advance during Phase II- Development Works in BQIP as detailed below:

S#	Description	Contractor	Secured Advance Amount (Rs.in million)
1	Package 3	M/s Kazi Nisar & Shangrilla JV	7.4
2	Package 5	M/s Gul Construction	4.992
3	Package 6	M/s Gul Construction	3.531

Total	15.923
--------------	---------------

Audit is of the view that secured advance payments to the contractors reflected negligence and poor financial management.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 13 & 14, 2023. The management informed the DAC that the secured advance was given in accordance with the clause 60.11 of the standard contract, and the recovery of Secured Advance paid to the Contractor has already been made from the subsequent bills. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.2.4.35 Overstay of Board Members beyond three years – Rs.13.250 million

Rule 3 A (1) of Public Sector Companies (Corporate Governance) Rules, 2013 states that a director, once appointed or elected under Section 180 or Section 178 of the Ordinance, shall hold office for a period of three years, unless he resigns or is removed in accordance with the provisions of the Ordinance.

Rule 5 of Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Industrial Development Corporation (PIDC) for the year 2021-22, it was observed that following Chairman / Directors of PIDC Board overstayed beyond three (03) years in violation of Rules:

S#	Name	Position	Date of appointment	Status
1.	Mr. Ghulam Sarwar Khan	Chairman	26-06-2014	To date
2.	Mr. Muhammad Ishaq Butt	Independent Director	26-06-2014	-
3.	Prince Muhammad Isa Jan	-	26-06-2014	-
4.	Mr. Muhammad Ali	-	26-06-2014	-
5.	Mr. Rizwan Ahmed Bhatti	CEO, PIDC	09-08-2016	-
6.	Dr. Imran Ullah Khan	Non-ED	16-03-2018	02-03-2022
7.	Mr. Hashim Raza	-	15-01-2020	To date
8.	Brig. ® Shujah Hassan	-	19-08-2020	-
9.	Ms. Bushra Naz Malik	-	31-05-2016	-

Audit is of the view that non-transfer /removal of Chairman and Directors since 2014 shows undue favour and negligence on part of management.

The matter was reported to the management in June 2023. The irregularity was discussed in the DAC meeting held on November 30, 2023. The management accepted the audit point of view. DAC directed that the steps may be taken for reconstitution of Board through Ministry.

Audit recommends implementation of the DAC directives.

9.2.4.36 Loss of revenue due to non-renting out of vacant spaces – Rs.8.886 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Industrial Development Corporation (PIDC) for the year 2021-22, it observed that an area of 10,525 sq.ft was lying vacant at PIDC Buildings in Karachi, resultantly, Corporation was deprived of rental income of Rs 8.886 million as detailed below:

S#	Location	Floor	Date of Vacancy	No. of Months	Area (Sq. Ft.)	Rate per Sq.Ft.	Total Amount (Rs)
1.	Finance & Trade Center	2 nd	Dec-2022	06	2,200	195.56	2,581,392
2.	Progressive Plaza	1 st	Nov-2022	07	6,325	107.17	4,744,951
3.	SCCP Dalmia Office	Ground	Nov-2021	19	2,000	41.06	1,560,280
Total				32	10,525	343.79	8,886,623

Audit is of the view that the management failed to take concrete efforts to rent out the vacated buildings / spaces, which deprived the Corporation from the due monetary benefits of Rs.8.886 million on account of rental income.

The matter was reported to the management in June 2023. The irregularity was discussed in the DAC meeting held on November 30, 2023. DAC directed the management to make vigorous efforts to rent out the vacant spaces and intimate the progress to Audit.

Audit recommends implementation of the DAC directives.

9.2.4.37 Irregular procurement of various items on splitting basis - Rs.8.821 million

Rule 9 of Public Procurement Rules, 2004 states that a procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly without any splitting or regrouping of the procurement so planned. The annual requirement so determined would be advertised in advance on the Authority's website as well as on the website of the procuring agency.

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that various procurements amounting to Rs 8,821,243 including vehicles, office equipment, computers and chairs etc. were made by the management using quotations by splitting instead of bulk purchases using tender.

Audit is of the view that the management splitted the items to avoid tendering which reflected gross violation of rules.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 13, 2023. The management informed the DAC that all the procurements made by PIDC/NIP during the year 2021-22 were procured on the basis of requirements received from various departments. Additionally, all the items mentioned in the below list are of miscellaneous nature, therefore, it is impossible to procure items of different nature from a single company/vendor through bidding. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.2.4.38 Irregular Award of Janitorial Services Contract – Rs. 5.749 million

Rule 27 of PPRA Rules states that the procuring agency finds it necessary to extend such deadline; it shall do so only after recording its reasons in writing and in an equal opportunity manner. Advertisement of such extension in time shall be done in a manner similar to the original advertisement.

Rule 31 (1) of PPRA Rules states that No bidder shall be allowed to alter or modify his bid after the bids have been opened. However, the procuring agency may seek and accept clarifications to the bid that do not change the substance of the bid.

During the audit of Pakistan Industrial Development Corporation (Pvt.) Limited (PIDC) for the fiscal year 2021–2022, it was observed that first bids were called for Janitorial Services on February 21, 2021. Last date of submission and opening was 9th March, 2021. All the 09 bids were subsequently revoked after opening without providing reasons/justifications in writing. Then, on March 14, 2021, re-tender notice was published wherein single stage-two envelope bidding procedure was adopted. Financial bids were opened on March 31, 2021 in which 04 bidders participated and M/s The House Keepers was awarded the contract for three years at a rate of Rs. 159,705 per month.

Audit observed following irregularities in procurement process:

- i. First tender bids were revoked without providing any justification. Prior to inviting rebids, the procuring agency is required to evaluate the grounds for rejection which wasn't done in this case.
- ii. The bid of M/s The Housekeeper was changed after it had been opened in violation of rules. The Bidder asked and agreed to accept 5.5% less than the rates it had stated in the financial bid. The bids were opened on March 31, 2021, but interestingly, the bidder had already received the service contract agreement on March 21, 2021.
- iii. Since the date was not stated on the technical evaluation summary, the audit was unable to determine when the technical evaluation was completed or whether it was new or the previous one.

Audit is of the view that tender process was not conducted in a transparent manner flagrantly violating PPRA rules.

The matter was reported to the management in June, 2023. The irregularity was discussed in DAC meeting held on December 14, 2023. The management informed the DAC that the procuring agency can reject some or all bid/offers as per PPRA rules. New tendering process was carried out, in which M/s House Keepers quoted 5.5% below rates. It is pertinent to mention here that technical evaluation was carried on 9-4-2021. Furthermore, the effective date of the Service Contract is 1-4-2021 rather than 21-3-2021. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.2.4.39 Irregular appointment of Manager (IT) - Rs.4.500 million

According to the advertisement dated 24-3-2020 for the post of Manager Information Technology (IT) the required qualification was BS in IT / related field with Microsoft server/ Specialist Certificate and 5-10 years' experience in Managing MIS/ IT Department of reputable organization.

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that the management appointed Mr. Faisal Ahmed Malik as Manager (IT)

on 26-06-2020 at a salary of Rs.125,000 per month along with other perquisites. However, the management rejected suitable candidates having relevant qualification / experience and appointed Mr. Faisal despite that he did not even possess the required qualification and experience. He was awarded 21 out of 25 marks in the qualification criteria.

Audit is of the view that management extended undue favor to the incumbent by appointing him as Manager IT without relevant qualification and by rejecting the other more suitable candidates. Thus, appointment of incumbent and payment of salary of Rs 4.500 million (Rs 125,000*36 months) stands irregular/ un-justified.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 13, 2023. The management informed the DAC that Mr. Faisal Malik had substantial experience working both nationally and internationally in the field of IT with a degree in BS (Electronics Engineering) from Sir Syed University of Engineering and Technology and specialized IT certifications (MS CP, MS Server Specialist). Since the profile of Mr. Faisal was in compliance with the prescribed criteria and he also got the highest marks in the interview, hence, he appeared to be the most suitable candidate for the position. It may be noted that engineering degrees are considered a more in-depth study of their respective fields. IT Infrastructure and IT electric devices/circuits are covered under electronics engineering also. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.2.4.40 Unjustified award of contract at exorbitant rates - Rs.4.134 million

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

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that M/s Kazi Nisar was awarded contract of Package VII in BQIP Phase-III development works at a cost of Rs.799,903 million for construction of Infrastructure works, Office Building, Rescue Building, Boundary Wall and Watch Towers, disregarding the fact that the same contractor had not completed even a single out of 8 watch towers in Package III- Phase-II of BQIP. Further, in this tender the contract for construction of 8 watch towers is again awarded to the same contractor at a cost Rs 7,756,586 which is 114.12 % higher than the previous cost given by same contractor for same items. The difference in cost is hereunder;

Total Cost of 8 Watch Towers Package VII-Phase III	7,756,586
Total Cost of 8 Watch Towers Package III-Phase II	3,622,630
Difference	4,133,956
Increase in Cost %	114.12

Audit is of the view that the award of work was irregular as the contractor had not successfully completed execution of the work in another similar work and award of work in instant case was at exorbitant cost.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 13 & 14, 2023. The management informed the DAC that Phase-II Package-III tender date is October 2018; and Phase-III Package-VII tender date is December 2021. Over a period of 3 years (2018 – 2021) there have been significant changes in the costs and comparing the two periods would not be logical. The watch towers were not completed in pervious package III because some area of Package-III boundary wall work could not be completed due to claim of land by Pakistan Railway inside BQIP area. As the issue took around 2 years to settle the remaining part was included in Package-VII. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.2.4.41 Irregular appointment of Assistant Manager (Estate) - Rs.3.440 million

According to the advertisement dated 02-08-2019 for the post of Assistant Manager Estate, the required qualification and experience was MBA / BE with minimum relevant experience of 10 years.

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that the management appointed Mr. Hamza Baloch as Assistant Manager (Estate) on 07-11-2019 at a monthly salary of Rs.80,000. Following irregularities were observed:

- He possessed less than two (02) years relevant experience against the required minimum of 10 years.
- He provided an MBA degree from Greenwich University but it does not offer “MBA in Finance” instead it offers MBA Business and Finance (B&F), this was highlighted by HEC.
- The year of passing of degree was 2013 while in declaration, the year of passing is 2007.
- Further, he has submitted an experience certificate w.e.f October 05, 2005 to November 10, 2007 as Finance Executive from Paragon City which is located in Karachi but during the said period, he was studying MBA in Finance from Greenwich University in Quetta as per his declaration. Also, Greenwich University Pakistan does not have any campus in Quetta.

Audit is of the view that management extended undue favor to the incumbent by without him having the required relevant experience. Thus, appointment of incumbent and payment of salary Rs.3.440 million (Rs.80,000*43 months) stands irregular / un-justified.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 13 & 14, 2023. The management informed the DAC that the position of Assistant Manager Estate was advertised on 02nd August, 2019 in compliance with the Government stipulated recruitment procedure and as per the requirements of the Company. The interview committee found Mr. Hamza Baloch to be the most suitable candidate for employment. It is important to mention here that the field of Industrial Estate Management is an exclusive niche and therefore there is a great dearth of candidates with the specific required experience of Industrial Estate Management. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.2.4.42 Irregular payment during stay orders of court – Rs. 3.319 million

Rule 4(3) of the Public Sector Companies (Corporate Governance) Rules, 2017 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance.

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that the contract for Packages I, in Phase-II of Bin Qasim Industrial Park (BQIP) development work in 2019, was awarded to M/s Kazi Nisar-Shangrilla JV for a total sum of Rs. 529.990 million. It was noticed that said Package was substantially completed and taken over on 28.12.2021. Moreover, there was court's stay order on hiring of fresh contractor in BQIP in place from 22.12.2021 till 31.08.2022. However, upon inspection of record it came to light that IPC-7 amounting to Rs. 3,319,749 against work done was paid during the period of court's stay order in June 2022.

Audit is of the view that despite substantial completion and take over of the project by 28.12.2021, the contractor was paid Rs.3.319 million for work done as per IPC 7 during the period of court stay order, hence payment of Rs.3.319 million stands irregular and unjustified.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 13 & 14, 2023. The management informed the DAC that the court stay order affected only two specific new packages VII & VIII of Phase III within the BQIP project, and as a result, those packages (VII and VIII) were not awarded to any contractors. The rest of the BQIP project Phase-II continued as per the contract agreements against which there was no Court stay. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.2.4.43 Un-justified and irregular appointment of Research Associates-Rs.2.095 million

Rule 5 of Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

Cabinet Secretariat (Establishment Division) letter dated 6th May, 2000, (iii) (b) vacancies should be advertised in the leading national and regional newspapers (c) selection should be made through regularly constituted Selection Committees / Board.

During audit of Pakistan Industrial Development Corporation (PIDC) for the year 2021-22, it was observed that Board Human Resource Committee (BHRC) in its meeting held on 27-06-2022 approved the setting up of a three-member Industrial Research & Analysis (IR&A) team / cell as proposed at an approximate monthly lumpsum remuneration of Rs 80,000-100,000/- each. Given the urgency, the CEO PIDC is authorized to immediately hire suitable candidates from the available HR database for a period of 3 months. PIDC shall simultaneously start the process of hiring for the positions through due process within 6-8 weeks at appropriate terms and conditions. The management hired the Research Associates with the justification for setting up PIDC IR&A Cell at Islamabad: that PIDC is undergoing a transformation and

one of its emerging roles after merger of NIP is to develop Industrial Zones on behalf of the Federal Government it was agreed that PIDC should also undertake Industrial Research Projects to provide support to the Ministry in policy making.

Later on, management appointed the following incumbents as Research Associates for a period of 3 months and subsequently rehired for period of one year extendable with mutual consent:

S#	Name	Salary	Period	Amount (Rs.)
1.	Mr. Ahmad Hafeez	90,000+ 32,377 (120-liter petrol cost)	08 months	979,016
2.	Ms. Maham Naeem	90,000+32,377 (120-liter petrol cost)	2 months	244,754
3.	Mr. Bilal Aftab	90,000+32,377 (120-liter petrol cost)	-	240,000
4.	Ms. Jawaria Anjum	62623+32,377 (120-liter petrol cost)	08 months	760,000
Total				2,223,770

Further, it was also observed that PIDC had a full fledged Research & Evaluation Department and during the period management conducted different/ above research/ feasibility on behalf of the MoIP through different consultants and paid huge amount to them ranging from Rs.2.5 million to Rs.0.45 million.

Furthermore, management appointed Ms. Jawaria Anjum as Research Associate vide letter dated 23 November 2022 without advertisement / Selection Committee / codal formalities / competitive process in violation of above rules.

Audit is of the view that management took an irrational decision for hiring of Research Associates and one of them without full filling codal formalities to accommodate the above incumbents at the cost of the Corporation despite having own Research Department. Thus, the Corporation sustained a loss of Rs 2.223 million on account of salary & allied benefits.

The matter was reported to the management in June 2023. The irregularity was discussed in the DAC meeting held on November 30, 2023. The management informed that on the request of the Ministry, three Research Associates from leading universities were hired and attached with Ministry on urgent basis for 03 months after Board approval. Subsequently, 1-year contracts were given through transparent advertisement process, but only one is currently working. The Chair showed displeasure and raise query that it was not in his knowledge that such resource is working under him. As far as Ms. Jawaria was also shortlisted and ranked No. 4 in the merit list. Subsequently, one of the RA resigned and she was offered the vacant position as the waiting candidate. DAC directed that research assignments may be shared with audit and Ministry.

Audit recommends implementation of the DAC directives.

9.2.4.44 Irregular appointment of external auditor - Rs.1.615 million

According to guidelines/letter dated January 02, 2002 issued by the Auditor General of Pakistan in accordance with the provisions of Section 15(1) of the Auditor General's (Functions, powers and terms and

conditions of Service) Ordinance, 2001, the auditors should be appointed in consultation with Auditor General of Pakistan and rotated after every 5 years. Instructions were issued in compliance of Finance Division's letter dated March 25, 1981.

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that it was observed that management appointed audit firms namely M/s. BDO Ebrahim and M/s Baker Tilly without obtaining concurrence of the Auditor General of Pakistan. The details of payments are as under:

Description	Amount(Rs)
Audit of the financial statement for the year ended June 30 2020 (M/s BDO)	356,400
Paid against Audit of FY2021, Assurance Report, Review of COCG 2016, SUKUK payment and Audit of FY 2012 & 2013(M/s BDO)	540,500
Audit fee of NIP PF for year 2014, 2015 & 2016 (M/s BDO)	53,460
Audit of Financial Statements of "Aik Hunar Aik Nagar" for the year ended June-30, 2021 (M/s BDO)	207,900
Daily Allowance to Baker Tilly auditors for the half yearly review of PIDC for the period ending Dec31-2021. (M/s Baker Tilly)	24,800
Recording payment of professional fee for review of financial statements of PIDC for the period ended 31st Dec-2021. (M/s Baker Tilly)	432,000
Total	1,615,060

Audit is of the view that the appointment of external auditors without the concurrence of the Auditor General of Pakistan was held irregular and unjustified.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 13 & 14, 2023. The management informed the DAC that PIDC is a Public Sector Private Limited Company, governed under the provisions of the Companies Act, 2017 and Public Sector Companies (Corporate Governance) Rules, 2013 PSC (CGR). In accordance with rule 21 of the PSC (CGR), the Audit Committee of the Board recommends the appointment of an external auditor to the Board of Directors and subsequently, the Board approves and recommends it to shareholders for final approval in the General Meeting. PIDC appointed external auditors in accordance with rule 23 of the PSC (CGR) which complies with the International Federation of Accountants (IFAC) Guidelines on Code of Ethics, as applicable in Pakistan. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.2.4.45 Irregular promotion of Ex-Assistant (NE-VII) as Assistant Manager

Rule 5 c (ii) of Public Sector Companies Corporate Governance Rules 2013 states that ensuring equality of opportunity by establishing open and fair procedures for making appointments and for determining terms and conditions of service. The Board may nominate a committee consisting of one of its

members or senior Executives for investigating, where necessary on a confidential basis, any deviation from the company's code of conduct.

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that Mr. Saleem was promoted and later appointed as Assistant Manager Transport in 2015. Before the said promotion he was appointed in Grade VIII-NE on 01.04.2012 and had not yet completed 5 years in the existing grade required for promotion. The record reflected that the process of his promotion was hurriedly carried out by Ex-GM Admin Mr. Ashfaq Ahmed, the said Ex-GM Admin is currently in suspension in compliance of PAC directive on account of misconduct in affairs of PIDC during his tenure. A memorandum was issued on January 01, 2015 (Thursday) by GM (A&P) wherein 06 employees from Non-Executive Cadre including Mr. Saleem were offered promotion and were required to convey their acceptance within two days (On Friday). Subsequently only Mr. Saleem who was at no. 5 in that list gave his approval on the same day while the others didn't have enough time to respond.

Audit is of the view that promotion and appointment of Assistant Manager, at the age of 44 years having only passed Intermediate (E Grade) without any advertisement/due process and required service of 05 years in his previous Grade, was not in order.

The matter was reported to the management in June, 2023. The irregularity was discussed in DAC meeting held on December 14, 2023. The management informed the DAC that Mr. Muhammad Saleem was appointed as Naib Qasid on 19.10.1989 against the sanctioned vacant position. Hence, to fill up the vacant position of Assistant Manager (Transport), the most suitable person i.e., Mr. Muhammad Saleem was already available. Hence, he was promoted to Assistant Manager (Transport) with effect from 01.02.2015 since then he has been performing the duties of AM (Transport) satisfactorily. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.2.4.46 Irregular appointment and benefits allowed to Chief Financial Officer

Rule 14(2) of Public Sector Companies (Corporate Governance) Rules, 2013 states that no person shall be appointed as the chief financial officer of a Public Sector Company unless he is,

- a) A member of a recognized body of professional accountants with at least five years relevant experience, in case of Public Sector Companies having total assets of five billion rupees or more; or
- b) A person holding a master degree in finance from a university recognized by the Higher Education Commission with at least ten years relevant experience, in case of other Public Sector Companies.

Eligibility Criteria in the Advertisement:

1. FCA/ACA/FCMA/ACMA or equivalent
2. 15 years of relevant experience at large local or multinational companies
3. Some exposure of Public Sector Companies will be an advantage
4. Max Age 50 years

During audit of Pakistan Industrial Development Corporation (PIDC) for the year 2021-22, it was observed that the advertisement for the post of CFO PIDC was published in DAWN on 15.12.2019 and Mr. Saleem was selected as CFO by a special 133rd meeting of the Board of Directors who joined PIDC on 01.03.2019. The Advertisement was published without requisite details and the eligibility criteria did not match with required criteria of PSC Rules. Mr. Saleem at the time was over 50 years of age. Matter of his irregular appointment was later placed before BoD. Board in its 138th Meeting held on June 30, 2021 directed to advertise the position of CFO with an age limit of 55 years. Thus, he was re-appointed by extending the upper age limit to 55 years through advertisement published on 31.07.2021. The Interviews were conducted by 31st HR committee on October 4, 2021 instead of the Board. Three members were made part of the HR Committee on Special invitation who favoured re-appointment of the incumbent CFO. Record of his re-appointment was not provided to Audit. The excerpts of data were found in the file of recently hired Manager Finance.

Besides, following irregularities were also observed;

1. He availed irregular additional charge allowance by not assuming regular charge of CFO PIDC despite resignation of Ex-CFO on 12.01.2020 and issuance of his appointment letter on 15.01.2020. He resigned as CFO NIP on 30.01.2020 and assumed regular charge in PIDC on 01.03.2019.
2. He worked with Deloitte Yousuf Adil from 1990-1997. Since his appointment as CFO, the same firm has been appointed as Tax Consultant, Internal Audit Consultant and R&E consultant. One of the references in the declaration given by him is also a partner at Deloitte Yousuf Adil.
3. Since his appointment as CFO first in NIP in and later in PIDC, the management has started accepting performance securities issued by non-reputable insurance companies such as UIC and EWI. The contractor M/s Gul Construction, whose bank guarantee was later found to be forged, had sought performance securities from UIC for his two other projects which were also terminated by PIDC.
4. Mr. Saleem was given a 1.6 Altis Corolla beyond his entitlement category in NIP which he retained after leaving where he only served for 9 months. After joining PIDC he got a new Toyota Yaris-1300 cc car. The Corolla Altis was given to him on buy back against the rules that the car had to be in custody of the user for at least 5 years. The car still appears in the books of the company as an un-depreciated asset.

Audit is of the view that the management has extended undue favour to the incumbent first in his appointment and then by giving him irregular benefits such as higher than market salary, extra fuel and allowing retention of NIP vehicle.

The matter was reported to the management in June, 2023. The irregularity was discussed in DAC meeting held on December 14, 2023. The management informed the DAC that publishing advertisements anonymously is an allowed practice to avoid references and pressures. Furthermore, the transparency of the hiring process of the CFO was ensured by complying with the relevant recruitment policy and the rules which included the publishing of the advertisement, the submission of applications, shortlisting and conducting interviews. Public Sector Companies (Corporate Governance) Rules, 2013 only mentioned the basic criteria for the appointment of CFO and It is the prerogative of the PSC to set any additional criteria.

It's important to note that all recommendations from the committee meetings received subsequent approval from the Board. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.2.4.47 Irregular appointment, promotion and regularization of company secretary

According to Section 14 (4) of Public Sector Companies (Corporate Governance) Rules, 2013 states that, no person shall be appointed as the company secretary of a Public Sector Company unless he is a (c) Person holding a master degree in business administration or commerce or being a law graduate from a university recognized by the Higher Education Commission with at least five years relevant experience.”

The advertisement dated April 24, 2002 for Internship stated that the selected internees shall be offered internship for a period of six months to one year on fixed monthly stipend with no commitment for subsequent absorption in permanent cadre.

Clause No. 10 of the letter No. Per./Rectt. /Internees/05 dated Aug 30, 2002, stated that there is no assurance of your employment/appointment in regular cadre upon completion of your internship.

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that following irregularities were found in the appointment, promotion and regularization of Ms. Humaira Adil:

- i. She was initially appointed as an Intern for 6 Months in Chairman Sectt w.e.f. 02.09.2002.
- ii. She (an MBA) was appointed against an engineering vacancy in Executive Grade II.
- iii. Her contract was renewed for further four (04) years in addition to 02 already served with pay increases without seeking approval of the competent authority (01.07.2007 to 30.06.2009 for 02 years & again w.e.f 01.07.2009 to 30.06.2011 for further 02 years).
- iv. She was appointed as Deputy Manager PPME in E-III on contract basis on July 12, 2010 against the five years' experience required for promotion.
- v. Her services were regularized by BoD without mentioning of specific date for such regularization.
- vi. She was confirmed in Grade E-III as Dy. Manager PPME on July 12, 2011 and later promoted to Executive Grade E-IV as Manager PPME Division on the next day w.e.f. July 13, 2011. The post of Deputy Manager (PPME Grade III) held by her was upgraded to Grade IV w.e.f her promotion.
- vii. In compliance of DAC directives on Special Audit Report of PIDC for the year 2010-11 to 2012-13, she was reverted to Grade III and posted as Deputy Manager HR on March 31, 2021. However, recovery of excess payments made to her during the said irregular period is still pending. Further, the management in supersession of DAC directives restored her as Manager on same salary with back date promotion w.e.f 13.07.2015.
- viii. On June 03, 2019, she was re-designated as Manager (Corporate Affairs) besides working in CEO's Secretariat. On June 30, 2020, the charge of HR Department was given to her temporarily till the appointment of permanent Head of HR by the orders of CEO, Mr. Rizwan Bhatti. On the same day, she was notified to be Company Secretary w.e.f. 01.07.2020. She holds charge of three separate posts simultaneously.
- ix. The data provided by her in the declaration and data observed by Audit from her files is in contradiction to each other. In the declaration she has stated that she worked as Assistant Manager (Contract) PPME Dept PIDC w.e.f 02.09.2002 to 11.07.2010, however from her

- record it was observed that she was working as an internee from 02.09.2002 to 30.06.2005. After that she was hired as AM (Projects) w.e.f 01.07.2005 until her promotion on 12.07.2010.
- x. Further, as per her domicile, issued on 03-11-2010, the date of arrival in place of her domicile district Chakwal, Punjab was “Since Birth”. However, as per her declaration, she was born, educated and living in Karachi since birth (02.03.1977).
 - xi. The unnumbered resolution notifying her appointment as Company Secretary was not made part of the Minutes of the subsequent Board meeting. It was signed by only 5 out of the 11 board members. The Chairman BoD has also not signed the resolution.
 - xii. She also did not possess five years of relevant experience required for the post of Company Secretary. She did not possess a Master’s Degree from a HEC registered institution; instead she was an MBA (Finance) from Bahria Institute of Management and Computer Sciences. However, the said institute is not recognized by HEC.

Audit is of the view that internee extensions, conversion of internship slot into contractual appointment and subsequent appointment, regularization and promotion without meeting eligibility criteria and due process and variation of facts was not justified and are irregular. Further, the appointment of the Company Secretary was in violation of rules.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 14, 2023.

- A. The management informed the DAC that initially their internship was for six months which was extended upon recommendation of the department head, their internship was extended every 6 months as per the internship agreement till 2005 with the approval of the then CEO and Hon’ble Minister, IP&SI being Chairman, PIDC. In 2004, in the best interests of the organization CEO proposed the two internees (out of nine) working in the organization be inducted against the approved strength of two Assistant Managers in the PPME department. They were appointed as AM (PPME) on 1.7.2005 on contract basis. After serving for a period of more than 5 years in the capacity of AM (PPME) position, the services of Ms. Homaira Adil were regularized as DM (PPME) on a permanent basis in line with the Government policy to regularize the employees working on contract basis since 2007-08 after the endorsement/approval of the Board.
- B. The management informed the DAC that there was no false declaration submitted by Ms. Homaira Adil as she did not include the position-wise breakdown that she held at PIDC when she submitted the personal record form; rather, she just mentioned her present title at PIDC i.e. Assistant Manager (PPME) and the entire duration she had worked to date at that time. The domicile was issued on the basis of her permanent address mentioned on CNIC which was district Chakwal. Marital status and other particulars mentioned in the domicile were inadvertently filled on assumptions by the relevant office.
- C. The management informed the DAC that keeping in view the statutory nature, the Company Secretary’s position cannot be left vacant, before the retirement of Mr. Zahid-ur-Rehman Mughal, Ex Company Secretary on June 30, 2020, the management executed a succession plan and recommended Ms. Homaira Adil to the Board as the most suitable internal candidate and to avoid additional cost by employing new Company Secretary. She also meets the eligibility criteria and has 7 years of experience as Manager, Corporate Affairs. Resolution by Circulation for the appointment of Company Secretary was placed before the PIDC Board for approval and was

approved in its 135th meeting held on September 3, 2020 which was accordingly reflected in the minutes. Please note that the Resolution by Circulation was signed by directors including the Chairman which was subsequently, approved as stated above.

DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

(DP NO. 369, 370, 430 & 436)

9.2.4.48 Irregular appointment of Chief Internal Auditor

Rule 22 (2) of Public Sector Companies (Corporate Governance) Rules 2013, states that no person shall be appointed to the position of the chief internal auditor unless he is considered and approved as “fit and proper” for the position by the Audit Committee and unless he has five years of relevant audit experience and is a, -

- a) Member of a recognized body of professional accountants; or
- b) Certified internal auditor; or
- c) Certified fraud examiner; or
- d) Certified internal control auditor; or
- e) Person holding a master degree in finance from a university recognized by the Higher Education Commission.”

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that Mr. Naveed Rasheed was appointed as Chief Internal Auditor (CIA) in Grade E-V equivalent to DGM). Following irregularities were observed in his appointment:

- i. His total experience at Manager/Equivalent Grade was 2 years and 5 months which was less against the requisite criteria i.e. minimum 05 years of relevant experience in large local or multinational organization(s).
- ii. Instead of Board HR Committee, a two-member Committee comprising GM/HR & GM/Admin scrutinized/shortlisted the credentials and final selection Minutes were only signed by Chairman, BoD on 14.01.2020. He was extended undue favor by giving subjective and biased marking.
- iii. At the time of the interview, Mr. Naveed Rasheed was already serving as CIA, NIP which was in the process of merger with PIDC and he was also holding the charge of CIA, PIDC at the same time.

Audit is of the view that the management extended undue favour to the incumbent in the appointment which reflects negligence and slackness.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 13 & 14, 2023. The management informed the DAC that although PIDC’s name was not mentioned in the advertisement, however, it was clearly advertised that the position is vacant in a large public sector organization. At the time of advertisement on 15 Dec 2019, the CIA had a total experience of more than 14 years in audit out of which, he had experience of 8 years in managing the internal audit department. In any case, he met the requirement of PSC (CG) Rules, 2013 i.e. minimum 5 years of relevant experience in internal audit. PSC CG Rules, 2013 only mentioned the basic criteria for the appointment of CIA and it is the prerogative of the PSC to set any additional criteria. Shortlisting is an administrative task, which was delegated by the Board HR committee to GMs according to rules and

practices at PIDC. Board meeting minutes are only to be signed by the Chairman according to Rule No. 6(3) of public sector Corporate Governance Rules, which states that “The chairman of the Board shall ensure that minutes of meetings of the Board are appropriately recorded by approving them under his signature.” The Board awarded the interview marks by considering his profile and responses during the interview. His most relevant experience in Real estate and Development projects was a plus point. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.2.4.49 Irregular appointments on various key positions

Rule 5 c (ii) of Public Sector Companies (Corporate Governance) Rules, 2013, states that, ensuring equality of opportunity by establishing open and fair procedures for making appointments and for determining terms and conditions of service. The Board may nominate a committee consisting of one of its members or senior Executives for investigating, where necessary on a confidential basis, any deviation from the company’s code of conduct;

During audit of Pakistan Industrial Development Corporation (PIDC), Head Office Karachi for the year 2021-22, it was observed that the process of hiring of employees was marred with irregularities as follows:

S.#	Name & Designation	Remarks
1	Mr. Aftab Shaikh Manager Technical	<ul style="list-style-type: none"> • Irregular appointment without Advertisement. Six people had appeared for the interview of Manager Technical, he was not one of them. He had applied for the post of CTO advertised on 17.02.2019. • Appointed as Manager Technical at a Salary of 180,000, his current salary as of 1.1.2023 is 273,312, an increase of 52% in 3.5 years. Also given a 1300 CC new car over and above the entitlement of his category. • The whole process of interview till joining took less than 10 days, the interview was conducted on 21.06.2019, appointment letter issued on 26.6.2019, accepted on 27.6.2019 and joined on 1.7.2019. • Experience certificate of PAF in his file is without proper letter head and stamped by Pak PWD Executive Engineer. • In his CV he has mentioned he was working as Deputy Director from 2006 to 2009 in PAF. But his last tenure at PAF, as per the CV, is AD (Works) from March 2014 to June 2016. • HR Head favoured him by giving following remarks in interview, " His profile is most suitable for the Manager Technical Position and his disposition is also good. As he has a military background, presentation and discipline are also up to mark. He is strongly recommended for the vacant position."
2	Mr. Faizan Khan AM Projects Supervision	<ul style="list-style-type: none"> • As per PEC record working simultaneously for contractor Haji M Ramzan as well as his job at PIDC. • The contractor is based in Punjab, interestingly Mr. Faizan has been looking after the Project Rachna Industrial Park which is also based in Punjab.
3	Mr. Zeeshan Manager R&E	<ul style="list-style-type: none"> • Non- Recovery of excess payment in light of DAC directives w.e.f 01.06.2012 to 24.07.2014. • PEC expired since 2002.

4	Mr. Abdul Khalique Estate Officer	<ul style="list-style-type: none"> • Date of advertisement is 02.08.2019. • Irregular appointment, undue favour given by committee members. • Mr. Khalique was unanimously recommended by all three members of the interview panel with following remarks: <ul style="list-style-type: none"> ○ Aftab Shaikh remarked, "He can be utilized for other jobs at KCIP"; ○ Javed Shaikh remarked," Can be utilized as Mechanical Engineer Also"; ○ Asghar Mustafa remarked," Khalique for lack of a better candidate is suitable for Estate Officer KCIP. He is an Engineer by education and has knowledge of estate office position but no relevant work experience. Technical Evaluation by Project Manager (KCIP) is that he can catch up quickly and get polished." • Irrelevant Degree and Experience. He is an engineer while the required degree was B.Com and 7 years of relevant experience which he didn't possess.
6	Vijay Kumar DM Accounts	<ul style="list-style-type: none"> • Date of advertisement is 03.03.2019. • An interview was held on May 18, 2019 attended by Rizwan Bhatti CEO, Saleem Ahmed CFO, Muhammad Afzal Chairman BoD. • The Committee unanimously approved the appointment of Vijay Kumar as Deputy Manager Accounts despite the fact that the said post was neither part of the advertisement, nor he had applied for it. • Further, Mr. Vijay didn't even possess the required degree of MBA Finance. He has MBA in Management and Administration. • Moreover, his experience too was short by 2 years as his service from June 2016 till date of application could not be verified as no experience certificate was available in his file pertaining to the period.
6	Asghar Mustafa HR and Admin Head	<ul style="list-style-type: none"> • Date of advertisement is 31.03.2019. An interview was held on May 18, 2019 attended by Rizwan Bhatti CEO, Saleem Ahmed CFO, Muhammad Afzal Chairman BoD. • The said Interview was for the posts of CTO, HR Head & Manager Accounts on the same day despite date of Advertisement being different in each case. • Mr. Asghar applied before the Ad was published on 31.03.2019. He seems to already know about the vacancy and applied on 27.03.2019. . • Undue favour in appointment given by interview panel. • Mr. Asghar has subsequently been involved in irregular hiring of people. • Involved in irregular disposal of assets.
7	Ms. Beenish AM Internal Audit	<ul style="list-style-type: none"> • Date of advertisement is 05.03.2017. • Irrelevant Degree and Experience. Not ACCA as required and did not have experience of working in accounting firms. She worked as lecturer and her last job was in Pakistan Stock Exchange (PSX). • She has done CIMA which is relevant for managerial accounting. ACCA are qualified internal auditors. • Worked as AM R&E and now as AM Corporate Department instead of his parent department of Internal Audit. • Overage at the time of appointment by almost a year. She joined in July 2017 when she was 36 (DOB is 17.6.1981). • Her CIMA was not complete at the time of application.

8	Wajid Shaikh AM Site BQIP	<ul style="list-style-type: none"> • Date of advertisement is 02.08.2019. Ad for the post was issued on Aug-02-2019 however in the file Ad dated 03.03.2019 is placed in which the experience criteria apparently favoured Mr. Wajid. • In his CV which was used for assessment by the Interview Panel he wrote that he worked for ECIL Consultants as Site Engineer from Jan 2009 to March 2010 however as per Experience Certificate submitted by him that period is covered by his brief stint as Trainee Engineer with Indusmen Corporation from 31st Jan 2019 to 30th June 2009. • As per original Ad, minimum 10 years of Site supervision for Industrial Infrastructure Works including 2 Years of design work was required. However, only part of his 3-year period with Indusmen (Feb 2011 to Jan 2014) is on an Industrial Project, the rest of his 7 year experience is not related to Industrial Infrastructure. • Out of 2 years design experience required, he only worked some portion of his 9 months with Techno (April 2010 to Jan 2011) as Junior Engineer on Designing. • His experience from April 2010 to Aug 2019 (Closing Date), it comes out to be 9 years and 4 months which is less than the total required of 10 years. • He only has partial 3 years of the total 10 years relevant required and only 6 months of design out of 2 required. That too is disputed and would need further proof. • He hasn't bothered to get his PEC renewed which has expired since Dec 2020. • Despite of his obvious lack of required experience and expertise, he was given 19 out of 20 marks for his work history by the Interview panel. • The remarks of the members of the interview panel were as follows: <ul style="list-style-type: none"> ○ Aftab Shaikh remarked, " Sufficient experience with consultant and contractor. Recommended for the post of AM (Project) at Site." ○ Javed Shaikh remarked, "Relevant Experience and technically sound, will be useful for project." ○ Asghar Mustafa Remarkd, " Wajid has the right technical know-how and skillset for the requirements.... is currently drawing a salary of Rs. 115,000 PM and is looking for a salary of 135,000 PM." • During interview he was given following 52 marks out of 60 in the categories of Emotional Stability, Intellectual Capability and Energy Drive. These marks are totally discretionary. Also, the category of Energy and Drive, in which he is given 18 Marks, is so arbitrary and subjective.
9	Mr. Mujahid AM HR	<ul style="list-style-type: none"> • Date of advertisement is 03.03.2019. • Irrelevant Degree. Required MBA HRM, he has MBA (Commerce & Economics).
10	Mr. Awais AM Admin	<ul style="list-style-type: none"> • Date of advertisement is 03.03.2019. • Doubtful MBA (B&F) degree and experience certificates. Both maybe sent for verification. • HEC verification only on photocopies not originals. • As per declaration he was working during 2008-11 while also doing MBA from 2008-10. • Experience certificates may be verified, degree may be sent to the university for verification. • No mention of discipline on the degree.

- | | |
|--|--|
| | <ul style="list-style-type: none">• Secured 83 marks in the interview, totally subjective interview criteria such as energy and drive.• Joined on 1.8.2019 @ Rs. 55,000 Gross Salary. His salary w.e.f 1.1.2023 is 101,190. Salary 84% increased in three years.• No proof that he worked in KE from 2011-15.• Involved in irregular disposal of assets along with HR Head. |
|--|--|

Audit is of the view that the appointments without taking into account eligibility and non-following of due process were unjustified irregular.

The matter was reported to the management in June, 2023. The irregularity was discussed in the DAC meeting held on December 13 & 14, 2023. The management informed the DAC that all the recruitments were made in accordance with the rules. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.3 Karachi Tools, Dies and Moulds Centre

9.3.1 Introduction

Karachi Tools, Dies and Moulds Centre (KTDMC) was incorporated in 2006 as a company limited by guarantee having share capital under Section 42 of the Companies Ordinance, 1984. The primary objective of the Company is to establish and run an Information Technology (IT) - based common facility centre primarily for improving the skills of engineers and designers, enhancing the quality of designing, engineering and manufacturing of local tools, dies and moulds. The Company is a wholly-owned subsidiary of Pakistan Industrial Development Corporation (PIDC).

9.3.2 Comments on Audited Accounts

9.3.2.1 The working results of company for the years ended June 30, 2022 as compared to previous years are given below:

(Rs. in million)					
	2021-22	% Inc / Dec	2020-21	% Inc / Dec	2019-20
Income	246.13	18.49	207.72	27.17	163.34
Other Income	12.16	61.07	7.55	(53.07)	16.09
Total Income	258.29	19.99	215.27	19.98	179.43
Direct Cost	(192.51)	16.81	(164.81)	24.52	(132.35)
Admin Expense	(36.08)	15.12	(31.34)	3.34	(30.33)
Total Expenses	(228.59)	16.54	(196.15)	20.58	(162.68)
Surplus/Deficit	29.70	55.36	19.12	14.21	16.74

(Source: Annual Audited Accounts)

9.3.2.2 Admin expenses increased by 15.12% to Rs 36.08 million during FY 2021-22 from Rs 31.34 million in FY 2020-21 due to increase in salaries and other expenses.

9.3.2.3 Tax refunds due from FBR increased by 14.07% to Rs. 83.145 million during FY 2021-22 from Rs.72.889 million due to non-recovery / non-adjustments from tax authorities.

9.3.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
------------	-------------------------	---------------------	--------------------	-------------------------------	--------------------

2013-14	5	1	4	8.2.4.1, 8.2.2.2, 8.2.3	8.2.2.1, 20%
2015-16	7	3	4	8.4.2.2, 8.4.4.2, 8.4.4.3,	8.4.4.1, 43%
2018-19				9.4.4.1	
2019-20	1	1		7.4.4.1	100%
2021-22	4		4	8.2.4.2 (remaining to be discussed in PAC)	0%
Total	17	1	4		6%

The overall compliance of PAC directives needed improvement.

9.3.4 Audit Paras

9.3.4.1 *Disbursement of amount from a Lapsable Assignment Account in June – Rs 99.935 million*

General Financial Rule 96 states that it is contrary to the interest of the State that money-should be spent hastily or in an ill-considered manner merely because it is available or that the laps of a grant could be avoided. In the public interest, grants that cannot be profitably utilized should be surrendered. The existence of likely savings should not be seized as an opportunity for introducing fresh items expenditure which might wait till next year. A rush of expenditure particularly in the closing months of the financial year will ordinarily be regarded as a breach of financial regularity.

During audit of Karachi Tools, Dies & Moulds Centre (KTDMC) for the years 2020-22, it was noted that management received an amount of Rs. 100 million in December, 2021 for utilization on Establishment of High Tensile Sheet Metal Dies Manufacturing and Titanium Coating Setup at KTDMC. The project was approved by the Ministry on August 4, 2021 for completion in 24 months at cost of Rs.400 million. The amount was remitted for opening of Letter of Credit (LC) on 21-06-2022. The details of disbursement are as:

Detailed Object Code	Budget Rs.	Cheque No.	Date of Cheque	Payee's Name	Amount in Rs.
A09601 – Purchase of Plant & Machinery	95,000,000	A962602	21/06/2022	NBP LC Margin	95,000,000
A05270 – Others	5,000,000	A962603	21/06/2022	NBP LC Margin	4,935,744
TOTAL	100,000,000				99,935,744

It was observed from reconciliation statements, bank statement and cheques that total released budget was utilized / remitted on 21-06-2022.

Audit is of the view that funds were disproportionately expended in the month of June without proper planning at the end of financial year against the financial propriety.

The matter was reported to the management on March, 2023. The irregularity was discussed in the DAC meeting held on November 11, 2023. The management informed the DAC that Sanction was issued on December 02, 2021. Finance division released FE amounting 518,200 vide letter dated March 10, 2022. Approval for Import L/Cs was received from NBP vide letter March 30, 2022. The case was approved by SBP on June 14, 2022. Accordingly, the LC was issued June 23, 2022. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.3.4.2 Non-settlement of Advance Tax - Rs.83.145 million

Rule 4(3) of Public Sector Companies (Corporate Governance) Rules, 2017 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Karachi Tools, Dies & Moulds Centre (KTDMC) for the years 2020-22, it was observed that amount of Rs.83.145 million as Income Tax and Sales Tax was lying refundable / receivable from the tax authorities in respect of tax years 2017 to 2021. M/s KTDMC management also engaged services of tax consultant @ 2% of the refundable amount for recovery of tax refunds from tax authorities. However, no amount has been settled till date.

Audit is of the view that non settlement of tax receivables on time depicts incompetency on part of KTDMC management.

The matter was reported to the management on March, 2023. The irregularity was discussed in the DAC meeting held on November 11, 2023. The management informed the DAC that refund of tax year 2018 amounting to Rs.7.520 million out of Rs.8.609 million and tax year 2020 amounting to Rs.8.498 million out of Rs.9.555 million received respectively. The matter was also taken before the Federal Tax

Ombudsman and FTO ordered FBR to issue the refunds. In compliance, FBR released the tax refunds in respect of tax year 2019 and 2021, amounting Rs. 986,981 and 9,357,388 respectively. The DAC directed the management to pursue the matter of refund of advance tax with tax authorities.

Audit recommends implementation of the DAC directives.

9.3.4.3 *Non-deposit of funds in Gratuity Fund Account– Rs.50.787 million*

According to clause 218 (2) of Companies Act, 2017, where a Provident Fund, Contributory Pension Fund, Gratuity Fund or any other contributor retirement fund has been constituted by a company for its employees or any class of its employees, all money contributed to such fund, whether by the company or by the employees or by both or received or accruing by way of interest, profit or otherwise from the date of contribution, receipt or accrual as the case may be shall either be deposited i) In a National Saving Scheme, ii) in a special account to be opened by the company for the purpose in a scheduled bank.

During the audit Karachi Tools, Dies & Moulds Centre (KTDMC), Karachi for the year 2020-21- & 2021-22, it was observed that management did not deposit the Gratuity amount of Rs.50.878 million in Gratuity Fund Account as at 30-06-2022 (based on the actuarial valuation).

Audit is of the view that non-deposit of funds in Gratuity Fund Account reflected non-compliance of Corporate Governance Rules.

The matter was reported to the management on March, 2023. The irregularity was discussed in the DAC meeting held on November 11, 2023. The management informed the DAC that certain employees filed the Constitutional Petitions in the Honorable High Court of Sindh and claimed that they should be regularized and are deprived of retirement benefits. The estimated exposure would be Rs. 64.914 million as at June 30, 2023. However, after seeking opinion of the legal advisor, management is of the view that the said employees are not entitled for regularization and are only entitled for the benefits which have specifically been agreed upon through service agreements or appointment letter and not otherwise. Karachi. The matter is subjudice in court of law.

Audit recommends implementation of the DAC directives.

9.3.4.4 *Exchange loss due to delay in Letter of Credit (LC) - Rs.16.582 million*

Rule 4(3) of Public Sector Companies (Corporate Governance) Rules, 2017 states that, the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Karachi Tools, Dies & Moulds Centre (KTDMC) for the years 2020-22, it was observed that bids for supply, commissioning & installation of 3D Scanner Machine, CNC Machines & ZNC/CNC EDM 3 Meter were called through press advertisement dated 15-10-2021 from the national bidders. M/s Ultimate CAD Solutions Islamabad and M/s Dynamic Tooling Services Karachi were awarded

the contracts on January 18, 2022 and LCs were opened in June 2022 after lapse of five months of the award of contract which caused exchanges losses as tabulated.

Product	Offered Cost US\$	Dollar Rate in Rs. when Contract was Awarded (January 2022)	Total value in Rs. during month of January 2022	Dollar Rate in Rs. when LCs were opened (June 2022)	Total value in Rs. during month of June 2022	Exchange Loss in Rs.
	1	2	3(1*2)	4	5(1*4)	(3-5)
GoM 3D Scanner	104,400	177	18,478,800	209	21,819,600	(3,340,800)
CNC Machine (1 set)	85,720	177	15,172,440	209	17,915,480	(2,743,040)
CNC Machine (2 set)	163,280	177	28,900,560	209	34,125,520	(5,224,960)
ZNC/CNC EDM 3 Meter	164,800	177	29,169,600	209	34,443,200	(5,273,600)
Total	518,200	177	91,721,400	209	108,303,800	(16,582,400)

It was further observed that overall value of contracts awarded was US\$ 518,200, whereas LCs opened amount was US\$ 432,480. Hence, there was difference of US\$ 85,720/. It was noted that CNC Machine-1 set receiving record was not available. (Annex-63)

Audit is of the view that, due to negligence of the management the company suffered exchange losses of Rs.16.582 million on account of delayed procurements.

The matter was reported to the management on March, 2023. The irregularity was discussed in the DAC meeting held on November 11, 2023. The management informed the DAC that the case was approved by SBP on June 14, 2022. Accordingly, the LCs was issued on June 23, 2022. Further, LC of US\$ 85,720 (CNC Machine-I set) was not opened in 2021-22 due to the funds required for LC opening exceeded the fund released for the year 2021-22. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.3.4.5 Non imposition of Late Delivery charges - Rs 6.239 million

As per contract agreement between KTDMC & Suppliers, buyer shall have the right to claim from the supplier payment of percentage equal to one tenth of one percent of the price of each item of the supplies not timely delivered for each calendar day, of delay, provided, however, that the total claim of payment shall not exceed ten (10) percent of the price of such incomplete items, or without prejudice to the provisions.

During audit of Karachi Tools, Dies & Moulds Centre (KTDMC) for the years 2020-22, it was observed that Purchase Orders for supply/installation of machinery items were issued to following vendors as per details given below:

Name of Bidder	Item	Contract Value. Rs.	PO Date	Required to be Delivered On	Delivered On
M/s Dynamic Tooling Service	CNC Turning Centre	8,182,980	30-Apr-21	2-Aug-21	No delivery record found
	Cylindrical Grinder	3,852,810	30-Apr-21	2-Aug-21	25-Oct-21
	CNC ZNC EDM Machine	5,436,990	30-Apr-21	2-Aug-21	4-Sep-21
M/s Subhan Engineering	Shaper Machine	1,667,250	30-Apr-21	2-Jul-21	24-Sep-21
	Lathe Machine	1,521,000	30-Apr-21	2-Jul-21	5-Oct-21
M/s KTD Pvt Limited	Drill Machine Pedestal	620,100	30-Apr-21	2-Jul-21	3-Nov-21
M/S Jaffer Brothers	Granty Crane	10,794,000	03-Jun-19	31-Oct-19	22-Jan-20
M/s KTD Pvt Limited	SJ 20 CNC Turning Centre	9,435,000	10-Dec-21	28-Feb-22	25-Apr-22
M/s Ultimate CAD	GoM 3D Scanner	20,880,000	18-Jan-22	24-Apr-22	15-Oct-22
	Total	62,390,130			

However, above data revealed that machineries were not delivered within the agreed time period. Late delivery charges amounting to Rs.6.239 million was required to be imposed on the vendors but the same was not claimed / recovered.

The matter was reported to the management on March, 2023. The irregularity was discussed in the DAC meeting held on November 11, 2023. The management informed the DAC that for CNC Turning Centre, manufacturer did not receive export approval from his Govt. And for Cylindrical Grinder, CNC ZNC EDM Machine etc, manufacturer faced difficulties in finding the material due to COVID 19 and machines were delayed. Granty Crane, due to shifting of existing CNC machines delivery period of crane was extended. SJ 20 CNC Turning Centre, due to the congestion of the sea port, the delivery of the machine was delayed. GoM 3D Scanner, the case was approved by SBP on June 14, 2022; LC was opened on June 23, 2022. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.3.4.6 *Non-adjustment of advances from suppliers – Rs. 5.416 million*

Section 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2017, states that the Chief Executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Karachi Tools, Dies & Moulds Centre (KTDMC) for the years 2020-22, it was observed that the management had created a provision for the recovery of its advances as doubtful from the current revenue pertaining to various suppliers amounting to Rs.5.416 million which reflects that the amounts of doubtful advances were on a very high side. The details are as under:

Description	Amount in Rs.
Impairment loss (Training)	2,754,332.00
Impairment loss (Manufacturing)	2,661,917.00
Total Advances	5,416,249.00

Year wise break up of doubtful advances were as under:

Year	Debt Rs.	Year	Debt Rs.
2010	182,479	2016	189,364
2012	46,978	2017	353,604
2013	257,697	2018	229,267
2014	273,638	2019	623,659
2015	275,397	2020	1,200,191
		2021	1,921,775

Audit is of the view that the due to in-effective financial management, KTDMC failed to adjustment / recover the outstanding amount, which resulted in creation of doubtful debts/credit losses and directly affected cash flow and working capital requirements of the KTDMC.

The matter was reported to the management on March, 2023. The irregularity was discussed in the DAC meeting held on November 11, 2023. The management informed the DAC that amount of Rs. 5.416 million stated does not pertain to advance from supplier rather the amount represents the Allowance for expected credit loss and does not represent actual unrecovered amount rather it is a provision for doubtful debt. The DAC directed the management to get the adjusted/recovered amount verified from Audit.

Audit recommends implementation of the DAC directives.

9.3.4.7 *Irregular payment of bonus-Rs.4.145 million*

According to Finance Division (Regulations Wing) office letter No.F.3(5) R.12/80(R.14). Vol.H2201-54 dated 30th November 2001, certain autonomous bodies /semi-autonomous bodies/corporations are not following the Government instructions in letter and spirit and making payment of bonus to their employees without approval of Finance Division (Regulation wing).

According to Finance Division (Regulation Wing),O.M.No.F.3(5) R.12/80(R-14) 2002-154 dated Mar 18, 2002, the Managing Director and Members of the Board of Directors of autonomous/semi-autonomous bodies/public corporations/ organizations are not entitled to receive bonuses.

During audit of Karachi Tools, Dies & Moulds Centre (KTDMC) for the years 2020-22, it was observed that during the year 2021-22 management paid an amount of Rs.4.145 million on account of performance award to the officers (including payment of Rs. 0.333 million to the CEO) and officials without concurrence of Finance Division.

Audit is of the view that management paid bonus in violation of above rules. Thus, payment of Rs 4.145 million was irregular.

The matter was reported to the management on March, 2023. The irregularity was discussed in the DAC meeting held on November 11, 2023. . The management informed the DAC that the performance award was approved by the Board and KTDMC is a public sector company. The DAC directed the management for verification of profit and Cash flow position of the company from audit and clarification from the Finance Division.

Audit recommends implementation of the DAC directives.

9.3.4.8 Non-disposal of vehicles - Rs.2.859 million

Rule 5(1) of the Public Sector (Corporate Governance) Rules, 2017 states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Karachi Tools, Dies & Moulds Centre (KTDMC) for the years 2020-22, it was observed that Board of Directors in its 54th meeting held on dated September 01, 2021 approved the disposal of vehicles amounting to Rs. 2.859 million. However, management failed to auction the vehicles till close of audit.

S#	Vehicle No.	Make	Purchase Date	Cost (Rs)
1	CT-9376	Suzuki Bolan	Aug-07	660,000
2	GP-5562	Suzuki Cultus	Aug-07	844,060
3	AVC-336	Suzuki Alto	2011	710,000
4	GA-1415	Suzuki Cultus	2011	645,841
Total				2,859,901

Audit is of the view that the management failed to dispose-off the vehicles in violation of BoD directives.

The matter was reported to the management on March, 2023. The irregularity was discussed in the DAC meeting held on November 11, 2023. The management informed the DAC that the vehicles mentioned at the serial # 3 & 4, i.e., AVC-336 & GA-1415 was disposed in September 2019. However, the advertisement for disposal remaining two vehicles has been published on dated October 8, 2023. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.3.4.9 Non-disposal of obsolete assets - Rs. 1.768 million

Rule 5(1) of the Public Sector (Corporate Governance) Rules, 2017 states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Karachi Tools, Dies & Moulds Centre (KTDMC) for the years 2020-22, it was observed that assets valuing Rs 1,768,308 were lying non-functional / obsolete since long and the same were not disposed off. The detail was as under:

S. No.	Asset Description	Cost Rs.
1	Furniture & Fixture	165,614
2	Computer Equipment	291,181
3	Electrical Equipment	667,824
4	Office Equipment	314,524
5	Plant & Machinery	329,165
	Total	1,768,308

Audit is of the view that non-disposal of these fixed assets caused a loss to the company.

The matter was reported to the management on March, 2023. The irregularity was discussed in the DAC meeting held on November 11, 2023. The management informed the DAC that all the items have been disposed Vide Tender dt: October 2021 and Tender dt: January 2023. The DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.4 Pakistan Institute of Management

9.4.1 Introduction

Pakistan Institute of the Management (PIM) was established in 1954 by Pakistan Industrial Development Corporation (PIDC) under the Ministry of Industries, Government of Pakistan. In Dec 1975, it was transferred to the Ministry of Industries and Production, Government of Pakistan and subsequently through SRO dated Nov. 15th, 1976 an autonomous Board of Governors was constituted to promote management development in the country. Its primary mission is to serve the growing and complex need of organizational managers to achieve managerial excellence. Toward this end, PIM seeks to contribute to the enhancement of the managerial skills through training consultancy and research.

9.4.2 Comments on Audited Accounts

9.4.2.1 The annual audited accounts are required to be provided to audit for review each year. Contrary to this, the management failed to provide audited accounts of the organization for the years 2012-13 to 2022-23 despite a number of reminders.

Audit requires that the annual audited accounts of the years 2012-13 to 2022-23 be provided immediately and timely finalization be ensured in future, besides, fixing responsibility for non-finalization of annual audited accounts (*Annex-2*).

9.4.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	% of compliance
2009-10	8	-	8	Annex-I Item-09, 94, 94.1, 94.2, 94.3, 94.4, 95, 96	-
2013-14	7	4	3	8.6.2.1, 8.6.3, 8.6.4.1	57%
2015-16	3	2	1	8.8.2.1	67%
Total	19	7	12		37%

The overall compliance of PAC directives was satisfactory.

9.4.4 Audit Paras

9.4.4.1 Loss due to discontinuation of EMBA program – Rs 84.000 million

Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013 states that, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved

by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Institute of Management (PIM) Karachi for the year 2021-22, it was observed that the management started Executive Master of Business Administration (EMBA) program in 1998 in affiliation with Institute of Business Administration (IBA) in May 24, 1997. This was discontinued after a period of 6 years due to cancellation of affiliation by IBA in May 20, 2004. Later on in November 26, 2009 EMBA program was affiliated with Karachi University that lasted for only two semesters and again discontinued. On February 08, 2011 Sindh Assembly granted degree awarding status to PIM. However, classes could last only for ten months and had been suspended till date. During the period 1998 to 2011, management enrolled 783 students and earned revenue of Rs.195.75 million (Rs 250,000 per students * 783 students).

Audit is of the view that had minimum of 20 students been enrolled in a year, management could have earned revenue of Rs 84.000 million (Rs 350,000 x 20 = per year 7.00 million * 12 years).

The matter was reported to the management on April, 2023. The irregularity was discussed in the DAC meeting held on November 30, 2023. DAC directed that matter may be taken to board for decision whether case may be pleaded to HEC considering following factors, Positive cash flow (income & exp), Diversification & Managing Human Resource. Revised reply along-with relevant documents may be sent to Ministry in the light of board decision.

Audit recommends implementation of the DAC directives.

9.4.4.2 Irregular award of consultancy work for excellence award program – Rs 28.000 million

Rule 20 of PPRA Rules 2004 stipulates that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

Rule 23 of GFR states that every Government officer should realize fully that he will be held responsible for any loss sustained by the Government through fraud or negligence on his part.

During audit of Pakistan Institute of Management (PIM) Karachi for the year 2021-22 it was observed that management of PIM entered into an agreement amounting to Rs.28.000 million with Syed Zillay A. Nawab Rizvi, sole proprietor of Hashtag Consulting Solutions on December ,2018 for development and management of the Pakistan Management Excellence Award Program (PMEA). The agreement was signed by Mr. Muhammad Abid Hussain Sabri, Ex- Executive Director, PIM for a period of five years and payment of Rs.23.650 million was made till October 2020.

According to agreement, all the expense shall be initially borne by the PIM and will be paid back to PIM in one year. Mr. Syed Zillay A. Nawab failed to make the project self -sustained after lapse of one year whereas PIM continued financing till October 2020 on the directions of Ex-Executive Director of PIM. More over faculty members pointed out the un-satisfactory progress of the PMEA project in terms of high expenditure borne by PIM.

The record reflected that no tender was issued for the aforementioned project /work. Selection of M/s Hashtag Consulting Solutions was sole decision of Ex- Executive Director, PIM. The project was started without approval of the Competent Authority. The agreement was signed on simple paper instead of stamp paper through a color printer.

Audit is of the view that due to connivance, loose internal controls and negligence management sustained a loss of Rs 23,650,552. Furthermore, no serious efforts have been taken to recover the amount from the person involved till date which resulted in huge loss to the public exchequer.

The matter was reported to the management on April, 2023. The irregularity was discussed in the DAC meeting held on November 30, 2023. Management admitted that no tender was issued for this project and Hashtag Consulting Solution was selected without fair competition. Further explained that BoG was not properly brief about the PMEAs. DAC directed the management to conduct a fact-finding inquiry at Ministry level to identify the reasons for arranging the excellence award program and release of gratuity to Ex- director of PIM. Board minutes may be examined to identify the role of present ED regarding explanation of the case.

Audit recommends implementation of the DAC directives.

9.4.4.3 Loss of revenue due to non-conducting of Advance Management Program – Rs 27.00 million

Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013 states that, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Institute of Management (PIM) Karachi, for the year 2021-2022, it was observed that the Institute offered Advance Management Program (AMP) for senior executives to increase their knowledge and improve analytical ability since 1962. The course was designed with the help of the Harvard Business School. PIM had trained over 1000 key Pakistani executives under this program since its inception. However, program remained discontinued from time to time. As it started in August, 1995 and remained continued till September, 1998. And after gap of twelve (12) years, through the AMP course in October, 2010, 26 participants were trained. Despite Board of Governors (BOG) directives in 39th meeting held on March 28, 2011, the AMP was conducted after a delay of five years in August, 2016. The program has not been conducted since last five years.

Audit is of the view that had minimum of 15 students been enrolled in a year, management could have earned revenue of Rs 27.00 million during last the five years from 2018 to 2022 (Rs 360,000 per participants * 15 participants = 5,400,000 per year * 05 years = Rs. 27,000,000).

The matter was reported to the management on April, 2023. The irregularity was discussed in the DAC meeting held on November 30, 2023. DAC directed the management to place the matter in next BoG

meeting and submit the revised reply to audit and MoIP in the light of Board decision regarding steps taken by the management to revamp the program.

Audit recommends implementation of the DAC directives.

9.4.4.4 Loss of revenue due to non-achievement of target of public training programs - Rs. 25.920 million

Rule 38(1) General Finance Rules states that it is the primarily responsibility of the department authorities to see all revenues or other debts due to Government which have to be brought to account are correctly and promptly assessed, realized credited to public account.

During the audit on the accounts of Pakistan Institute of Management (PIM) Karachi for the financial year 2021-22, it had been observed that during the year 2021-22 that the management conducted 297 public training/ courses out of 405 courses scheduled and remaining 108 courses were cancelled due to unknown reasons. Management also targeted to retain the 4,863 trainees but only 3,777 trainees got trained in the scheduled courses. Detail is as under:

Period	Training			Trainees		
	Trainings Targeted	Trainings Actual	Target Achieved	Trainees Targeted	Trainees Actual	Target Achieved
From Jul To Dec-21	226	163	72%	2,712	2,125	78%
From Jan To Jun-22	179	134	75 %	2,148	1,652	77%
Total	405	297	73%	4,860	3,777	77%

Audit observed that management achieved only 73% of the schedule targeted courses as well as they got the trainees only 77% against the expected target trainees. Due to dismissal performance to conduct the public courses and participation in such courses was lower side i.e. 77% against the target. it has been further observed that courses wise training cost record has not been maintained by the concerned management. Thus, the feasibility and the breakeven analysis of training courses could not be determined which is negligence on the part of management.

Audit is of the view that had minimum of 12 students for 108 courses been enrolled in a year, management could have earned revenue of Rs.25.920 million (108 * 12 participants =1,296 participants * Rs 20,000 = Rs.25,920,000)

The matter was reported to the management on April, 2023. The irregularity was discussed in the DAC meeting held on November 30, 2023. DAC directed the management to take corrective measures for achievement of targets.

Audit recommends implementation of the DAC directives.

9.4.4.5 Un-justified payment on account of house hiring-Rs.13.571 million

According to Federal Government Policy, vide OM No. F-2(3) 2003-policy dated July 31, 2004, Ministry of Housing & Works, Govt of Pakistan have issued a comprehensive policy along with scale wise rental ceiling of Government employees at the six specified stations subject to submission of necessary documents.

1. Willingness of the owner.
2. Copy of N.I.C. of the owner.
3. Copy of the drawing of the building.
4. Copy of the registration/allotment order.
5. An affidavit from the owner that his house has not been hired by any other person nor will be hired till such time it remains with the employee
6. Inventory list
7. Sub lease documents
8. Physical Inspection
9. Scrutiny of the case
10. Lease Agreement

During audit of Pakistan Institute of Management (PIM) Karachi for the year 2021-22, it was observed that management paid an amount of Rs.13.571 million on account of house hiring to their officers without submission of above documents, required for private or self-house hiring.

Audit is of the view that undue financial favor was extended by paying the house rent/ hiring to their officers amounting to Rs.13.571 million without following the prescribed rules & regulations.

The matter was reported to the management on April, 2023. The irregularity was discussed in the DAC meeting held on November 30, 2023. Management informed in DAC meeting that procedural lapses were highlighted by the Audit had been fulfilled. DAC directed that record may be provided to audit for verification in the light of contents of reply provided in the DAC working papers.

Audit recommends implementation of the DAC directives.

9.4.4.6 Non-recovery from various sundry debtors - Rs.13.300 million

According to Para-26 of the GFR, subject to any special arrangement that may be authorized by competent authority with respect to any particular clause of receipt, it is the duty of the departmental controlling officers to see that all sums due to Government are regularly and promptly assessed, realized and dully credited in the accounts.

During audit of Pakistan Institute of Management (PIM), Karachi for the year 2021-22, it observed that an amount of Rs.13.300 million under the head of sundry debtors was recoverable against the various debtors at 30th, June 2022. Some instances are as under.

S.#	Name of Party	Outstanding Amount (Rs)
01	Asian Continental (Pvt) Limited	27,000
02	Asia Poultry Feeds (Pvt) Limited	54,000

03	Al-Khidmat Welfare Society	81,000
04	Artistic Milliners (Pvt) Limited	682,400
05	Adamjee Dua Built (Pvt) Limited	21,000
06	Enar Petroleum Refining Facility	108,000
07	Fauji Fertilizer Company Ltd	179,200
08	Hi- tech Lubricants Limited	351,000
09	International Steels Limited	438,000
10	Institute of Chartered Accountants	216,982

Non recovery reflected negligence of the management and poor revenue management.

The matter was reported to the management on April, 2023. The irregularity was discussed in the DAC meeting held on November 30, 2023. PIM management informed that all outstanding payments have been fully recovered. DAC directed the management that complete relevant record (in all respect) may be provided to Audit for verification in the light of contents of reply provided in the DAC working papers

Audit recommends implementation of the DAC directives.

9.4.4.7 Appointment without advertisement on un-approved post - Rs.11.046 million

Cabinet Secretariat (Establishment Division) letter dated 6th May, 2000, (iii) (b) vacancies should be advertised in the leading national and regional newspapers (c) selection should be made through regularly constituted Selection Committees / Board.

According PIM's service rules para # 06 regarding appointment/ promotion (a) All initial appointments and promotions against sanctioned posts shall be made in consultation with Selection Committee constituted by the competent authority for the purpose in relation to each post or grade as the case may be.

During audit of Pakistan Institute of Management (PIM) Karachi for the year 2021-22, it was observed that management appointed Mr. Muhammad Ovais, as Head of Special Projects on contract basis for a period of one year, on March 09, 2017 without advertisement with monthly salary of Rs 120,000 per month on un-approved post. Detail of Salary paid to employee is as under:

S.No	Period	Per Month Salary	Total Months	Annually inc 10% (Approx)	Total Paid (Rs)
01	Mar,17 To Dec,17	120,000	10	-	1,200,000
02	Jan ,18 To Dec,18	120,000	12	134,400	1,612,800
03	Jan ,19 To Dec, 19	134,400	12	147,840	1,774,080
04	Jan ,20 To Dec, 20	147,840	12	162,624	1,951,488
05	Jan ,21 To Dec,21	162624	12	178,886	2,146,636
06	Jan ,22 To Dec,22	178,886	12	196,774	2,361,295
Total					11,046,299

It is worth mention here that there was no post of Head of Special Projects in PIM. As he was appointed on contract for a period one year. All the appointment rules and policies were neglected. The post of Head of Special Projects was not advertised. Besides, merit and qualification of the employee for the service grade was not competitive based as other candidates were not invited to show interest. This irregular appointment caused the loss of Rs. 11.046 million to the institute.

Audit is of the view that undue favour was extended to the employees at Corporation cost, which indicates weak internal controls in the institution.

The matter was reported to the management on April, 2023. The irregularity was discussed in the DAC meeting held on November 30, 2023. Management explained that previous management of PIM missed legitimate procedure of advertising the post that time. DAC directed the management to conduct a fact-finding inquiry at Ministry level regarding illegal appointment. Reference to be made to Law Division to take Input of Law Division through concerned Ministry on Continuation of service on un-approved post.

Audit recommends implementation of the DAC directives.

9.4.4.8 Hiring of services without competition -Rs 5.615 million

Rule 20 of PPRA Rules, 2004 states that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

During audit of Pakistan Institute of Management (PIM) Karachi for the year 2021-22, it was observed that management hired the services of M/s Bahria Travels Agency without entering in competition and paid an amount of Rs 5.615 million to the agency.

Audit is of the view that hiring of travelling services without tender stands irregular and unjustified. Hence, payment of Rs.5.615 million was also held irregular.

The matter was reported to the management on April, 2023. The irregularity was discussed in the DAC meeting held on November 30, 2023. Management explained that the selection procedure was conducted in a fully transparent manner, and there was no violation made during the selection of M/s Bahria Travels. DAC directed the management to provide the relevant record for verification in the light of Audit objection and contents of reply provided in the DAC working papers.

Audit recommends implementation of the DAC directives.

9.4.4.9 Payment on account of travelling allowance without requisite documents - Rs.5.609 million

According to Rule 10 of GFR, every officer authorized to incur expenditure from the public fund should observe high standards of financial propriety which include, the expenditure should not be prima facie more than the occasion demands and no authority should pass any orders which will be directly or indirectly to his own benefits.

During audit of Pakistan Institute of Management (PIM), Karachi for the year 2021-22, it was observed that the management incurred an expenditure of Rs 5,609,372 on account of official travelling of its officers' tours in contravention of rules and regulations. The following discrepancies were observed in sanction of amounts on account of tour programs:

- i. Travelling & Daily allowance bill were not prepared for TA/DA claim.
- ii. Purpose of visit was not shown to justify the tour program.
- iii. Approved tour program was not issued by the competent authority.
- iv. Certificate of their attendance in meeting/court were not available.
- v. Counterfoil of the boarding card was not found in the record.
- vi. No any authentic schedule of meetings was issued by competent authority.
- vii. There was no any proper office order for nomination of officer/official issued by the competent authority.

Audit is of the view that the payment of T.A/D.A without supporting documents was irregular.

The matter was reported to the management on April, 2023. The irregularity was discussed in the DAC meeting held on November 30, 2023. Management explained that schedule for courses was planned and announced around six months in advance. Each faculty member was nominated for each course and

everything was carrying out as per plan. DAC directed the management to provide the relevant record for verification in the light of contents of Audit objection and reply provided in the DAC working papers.

Audit recommends implementation of the DAC directives.

9.4.4.10 Irregular / unjustified expenditure by imprest money – Rs.4.085 million

According to para 8 (viii) of Pakistan Institute of Management (PIM) Rules of business, the Director may authorize an officer of the institution to maintain a permanent advance of not more than Rs 2,000.

During audit of Pakistan Institute of Management (PIM), Karachi for the year 2021-22, it was observed that contrary to above, the management incurred expenditure of Rs 4,085,110 on account of petty expenditure fixing and allowing advance payment of Rs 100,000 to Rs 150,000 as imprest money to Admin section.

Audit is of the view that utilization of fund beyond the prescribed limit was held irregular and unjustified.

The matter was reported to the management on April, 2023. The irregularity was discussed in the DAC meeting held on November 30, 2023. The management informed the DAC that imprest accounts are used only for small transactions, such as re-imbursement of food items and lunch purchased for trainees and other incidental expenses. DAC directed the management that to get approval of the competent authority for increase in imprest amount with concurrence of Finance Division and further directed that purchasing may be made in future by following the prescribed rules.

Audit recommends implementation of the DAC directives.

9.4.4.11 Non-adjustment of advances against expenses - Rs.2.854 million

According to Para 26 of the GFR, subject to any special arrangement that may be authorized by competent authority with respect to any particular clause of receipt, it is the duty of the departmental controlling officers to see that all sums due to Government are regularly and promptly assessed, realized and dully credited in the accounts

During audit of Pakistan Institute of Management (PIM), Karachi for the financial year 2021-22, it was observed that an advance of Rs 2,854,824 was outstanding against the persons / parties for the various purposes as on June 30,2022. Some instances are as under:

S#	Description	(Amount in Rs)
01	Nazir Hussain Shah	101,490
02	Branch office Lahore	849,132
03	Kaleem u din	59,100
03	Hammad Rashid	69,000
04	N&S Enterprises	143,749

Audit was of view that non-adjustment in time reflected weak resource management.

The matter was reported to the management on April, 2023. The irregularity was discussed in the DAC meeting held on November 30, 2023. DAC management informed that entire amount had been adjusted. DAC directed that relevant record may be provided to Audit for verification in the light of contents of reply provided in the DAC working papers.

Audit recommends implementation of the DAC directives.

9.4.4.12 Un-justified expense of POL, repair and maintenance on vehicles – Rs 2.674 million

According to Rule-15(i) and (ii) of Staff Car Rules, 1980 updated up to 2008 required that movement register and vehicle log book shall be maintained for each staff car Govt. vehicle in charge.

During audit of Pakistan Institute of Management (PIM), Karachi for the year 2021-22, it was observed that the management had ten (10) vehicles and incurred expenditure of Rs 2.061 million on POL and Rs 0.613 million on repair & maintenance of vehicles (Total = Rs. 2.674 million). Log books of the said vehicles were called for vide requisition # 07 dated February 1st, 2023 but the same were not provided to audit because these were not maintained.

Audit is of the view that in absence / non maintenance of movement register and vehicle log book, the misused/unauthorized journeys and POL misappropriation could not be avoided therefore entire expenditure on transportation stands irregular / unauthorized.

The matter was reported to the management on April, 2023. The irregularity was discussed in the DAC meeting held on November 30, 2023. The management informed the DAC that log books and movement registers of all vehicles are properly maintained. DAC directed the management that record may be furnished to Audit for verification in the light of contents of reply provided in the DAC working papers.

Audit recommends implementation of the DAC directives.

9.5 Pakistan Steel Mills Corporation (Pvt.) Limited

9.5.1 Introduction

Pakistan Steel Mills Corporation (Pvt.) Limited (PSM) was incorporated on July 02, 1968 as a Private Limited Company and is wholly owned by the Government of Pakistan. The Corporation was engaged in the manufacturing and sale of iron and steel products. Pakistan Steel Mills is the Country's largest Steel Industrial undertaking, now its operations have closed for the last four years.

9.5.2 Comments on Audited Accounts

9.5.2.1 The working results of the Company for the year 2021-22 as compared with those of the previous years are given below:

	2021-22	%Inc / Dec	2020-21 Revised	%Inc / Dec	2019-20
Sales-Net	3,998.92	150.64	1,595.50	191.98	546.44
Cost of Sales	(10,056.61)	13.13	(8,889.42)	40.01	(6,349.15)
Gross Profit/(Loss)	(6,057.69)	(16.95)	(7,293.91)	(25.70)	(5,802.71)
Distribution costs	(45.69)	(40.98)	(77.41)	(41.49)	(132.31)
Administration expenses	(4,156.47)	31.26	(3,166.50)	8.50	(2,918.47)
Other Operating Expenses	(1,475.30)	288.23	(380.01)	(21.24)	(482.47)
Finance Cost	(14,680.77)	11.80	(13,130.88)	6.85	(12,288.96)
Total expenses	(20,358.23)	21.50	(16,754.82)	5.89	(15,822.21)
Other Income	31,491.32	468.89	5,535.61	251.65	1,659.44
Profit (loss) before Tax	5,083.71	127.46	(18,515.13)	(7.25)	(19,962.52)
Taxation	2,065.08	985.74	(233.15)	(57.03)	(542.55)
Net Profit/ (Loss) after Tax	7,148.73	138.13	(18,748.28)	(8.57)	(20,505.07)
Accumulated losses	(206,068.35)	(5.67)	(218,455.51)	6.55	(203,239.15)
<i>(Source: Annual Audited Accounts)</i>					

Administration expenses increased from Rs 3,166.51 million in the year 2020-21 to Rs 4,156.47 million in the year 2021-22, registering an increase of 31.26%. The increase in administration expense is resulted due to rise in utility charges along with salaries, wages, benefits and staff welfare.

9.5.2.2 Finance cost showed an increase to Rs 14,680.770 million in the year 2021-22 as compared to Rs 13,130.880 million in the year 2020-21 registering an increase of 11.80%. This increase is due to having substantial charges of mark up on short term and long term financing.

9.5.2.3 Current ratio deteriorated from 0.08:1 in the year 2020-21 to 0.07:1 in the year 2021-22. The decline in current ratio reflects weak liquidity condition mainly caused by relatively higher increase in current liability.

9.5.2.4 Quick ratio was 0.039 which reflected weak liquidity position, contributed by relatively higher increase in current liability.

9.5.2.5 Chartered Accountant has given qualified opinion on the following basis:

- **Stock in trade and Stores, spares and loose tools**

Stores include amount of Rs.170.266 million in respect of stores in transit since last many years. The management has explained us that since the said spares are not be approved by the quality control, therefore, the said spares nature not yet been transferred to the stores. Also, we have not observed physical count of such stores.

- **Revision of Income Tax return**

The Corporation has filed its income tax return on provisional basis for the tax years 2016 to 2022 as the financial statements were not finalized and audited till the due date for the submission of tax returns. Since the audited financial statements are available now, the management should revise income tax returns on the basis of audited financial statements.

- **Contingencies**

The Corporation is involved in various litigations which involves significant claims if materialized. In the absence of confirmation from legal advisors and their opinion on the outcome of the cases, we are unable to satisfy whether provision is required to be provided against these litigations.

9.5.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	% age of compliance
1990-91	6	5	1	700	83%
1992-93	25	19	6	136, 137, 138, 140, 143, 145	76%
1994-95	12	9	3	118, 120, 126	75%
1995-96	28	26	2	121, 122	93%
1996-97	36	11	25	100, 101, 111, 112, 113,114,117,118,123, 1.1, 1.3, 1.5, 1.8, 1.9, 1.10, 2.2, 2.3,	31%

				2.7, 2.8, 2.9, 2.10, 2.11, 2.13, 2.15, 3.1	
1997-98	10	7	3	209, 210, 215	70%
1999-00	10	9	1	219	90%
2000-01	10	6	4	216, 218, 220, 224	60%
2003-04	12	9	3	92.5, 92.6, 92.7	75%
2004-05	8	5	3	65, 66, 70	63%
2005-06	28	24	4	117.8, 118, 122, 124	86%
2008-09	16	13	3	107,108,110	81%
2009-10	19	12	7	98.1, 99, 100, 104, 105, 109, 110	63%
2010-11	10	9	1	11.3.4.6	90%
2013-14	15	2	13	8.7.1, 8.7.2.1, 8.7.2.2, 8.7.2.3, 8.7.2.4, 8.7.2.5, 8.7.2.7, 8.7.3, 8.7.4.2, 8.7.4.3, 8.7.4.4, 8.7.4.5, 8.7.4.6 (PAC referred for DAC level)	13%
2015-16	18	1	17	8.9.4.5, 8.9.4.8, 8.9.2.1, 8.9.2.2, 8.9.2.3, 8.9.2.4, 8.9.2.5, 8.9.2.6, 8.9.2.7, 8.9.3, 8.9.4.1, 8.9.4.2, 8.9.4.3, 8.9.4.4, 8.9.4.6, 8.9.4.7, 8.9.4.9	6%
2019-20	3	-	3	7.9.4.1, 7.9.4.2, 7.9.4.3	0%
2021-22	15		15	8.7.4.6, 8.7.4.7, 8.7.4.9, 8.7.4.5, 8.7.4.10, 8.7.4.11	
Total	281	167	114		59%

The overall compliance of PAC directives needs improvement.

9.5.4 Audit Paras

9.5.4.1 Non-payment of outstanding liabilities – Rs 337,340.581 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the Chief Executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that an amount of Rs 337,340.581 million was payable to various parties as on 30.06.2023 as detailed below:

	30.06.2023		(Rs. in million)
NBP LOANS			
Principal Amount	36,846,309		
Accrued Interest	56,814,114	93,660,423	93,660.423
SUBORDINATE LOANS		3,767,070	3,767.070
GOP LOANS		144,567,748	144,567.748
PAYABLE TO EMPLOYEES			
Gratuity	2,212,681		
Leave Encashment	661,397		
Provident Fund	9,266,091	12,140,169	12,140.169
DEFERRED TAX LIABILITY	37,625,708	37,625,708	
ACCRUED EXPENSES			
Natural Gas Bills	22,732,961		
Water Charges	2,438,100		
Payable to K-Electric	419,741		
Medical Expenses	312,671		
Salaries & Arrears	3,147,747		
Others	2,989,943	32,041,163	32,041.163
CREDITORS			
Import Creditors	4,602,302		
Local Creditors	98,156	4,700,458	4,700.458
Deposits and advances			

	Deposits	1,114,593		
	Advances	5,823,463	6,938,056	6,938.056
	OTHER LIABILITIES		1,899,786	1,899.786
	TOTAL		337,340,581	337,340.581

Audit is of the view that the management failed to pay liabilities on due dates which reflected negligence and poor financial management.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The DAC directed the management to dispose of the liabilities in due course. Further, directed to provide the revised reply to audit.

Audit recommends implementation of the DAC directives.

9.5.4.2 Non-payment of late payment surcharge – Rs 89,902.853 million

Rule 4 (3) of the Public-Sector Companies (Corporate Governance) Rules, 2013, states that, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules.

During audit of Pakistan Steel Mill (PSM) for the year 2022-23, it was observed that the management was unable to pay late payment surcharge amounting to Rs 89,902.853 million as detailed below:

(Amount in Rs)			
Sui Southern Gas Company Ltd			
S#	Actual Billing	Late payment surcharge (LPS)	Bill amount for the month June, 2023
1	91,313,890	48,624,327,890	48,715,641,780
2	44,300	40,689,573,020	40,689,617,320
Karachi Water & Sewerage Board			
3	-	497,594,811	497,594,811
Total			89,902,853,911

Audit is of the view that the management failed to make timely payment of late payment surcharges which reflects negligence and poor financial payment.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023.

- a) The management informed that the matter was decided as per Hadeed Welfare Trust deed. The De-Registration process has also been taken up with the Registrar of Trust, which is still pending. Audit contended that merger was irregular without due process of law i.e. de-registration. The DAC directed the management to inquire into matter and provide final audited accounts, registration of trust and the revised reply.
- b) DAC directed the management to make efforts to resolve the matter with KW&SB.

Audit recommends implementation of the DAC directives.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year 2022-23 vide para(s) number 9.4.4.8 having financial impact of Rs.408.713 million. Recurrence of same irregularity is a matter of serious concern.

(DP No. 486 & 487)

9.5.4.3 Non-recovery / adjustment of sales tax – Rs 3,377.660 million

Section 4(3) of Corporate Governance, 2013 Rules states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that an amount of Rs 3,377.660 million on account of Income Tax & Sales Tax Refund was not recovered / adjusted from the tax authorities for the year 2021-22.

Audit is of the view that non-recovery / adjustment of Income Tax & Sales Tax refund was poor financial management and slackness on the part of management which needed justification.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The management informed that it will be adjusted from time to time. At that time, an amount of Rs. 541.258 million has been adjusted. The DAC directed the management to expedite recovery / adjust and verify record to audit.

Audit recommends implementation of the DAC directives.

9.5.4.4 Non-recovery of outstanding dues of land – Rs 2,828.024 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that an agreement was signed between PSM and M/s. National Transmission & Dispatch Company (NTDC) for allocation of 75.5 acres of land to erect 500 KV D/C Transmission line to connect Lucky Power Plant with National Grid. M/s. NTDC was required to pay lease money, annual ground rent and Annual Right of Way Charges which was not paid as detailed below:

Description	Outstanding Amount (Rs)
Right of Way Occupancy Charges	763,960,306
Annual Right of Way Charges for the year 2021	15,279,206
Annual Right of Way Charges for the year 2022	16,807,127
Annual Right of Way Charges for the year 2023	18,487,840
Lease Money	1,980,824,000
Ground Rent for five years	32,665,718
TOTAL	2,828,024,197

Audit is of the view that M/s NTDC is operating its commercial business on the land of PSM but failed to pay legitimate dues since long which was against the agreement.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The Management informed that recovery of outstanding dues from M/s NTDC was being pursued. Hopefully, the dues will be recovered soon and agreement approved by BoD. The DAC directed the management that the efforts should be made for recovery of amount, lease agreement and inquiry report share with audit.

Audit recommends implementation of the DAC directives.

**9.5.4.5 Misstatement and material inaccuracy in financial statements –
Rs 1,513.817 million**

Rule 5 of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the directors of a Board shall be persons who, in opinion of the Government, shall assist the Public Sector Company to achieve its principal objective and the Board shall accordingly exercise its powers and carry out its fiduciary duties with a sense of objective judgment and in the best interest of the company.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that the Financial Statements of PSM for the year 2020 & 2021 were restated in the year June 30, 2022 due to misrepresentation which increased loss after taxation of Rs 1,513.817 million to the organization as pointed out the Chartered Accountants. The Corporation had wrongly classified:

- i. The investment property of Rs. 6,000 million.
- ii. Wrongly charged payment to creditor as exchange gain in other income of Rs.299 million and recorded an expense of Rs.107 million against the gas expense rather than adjusting with the liability.
- iii. The management revised electricity rates and hence restated the previous year balance of electricity expense amounting to Rs.1.3 billion.

Details of over-stated figures are as under:

S#	Description	As per audited financial statements	Effect of prior period	Restated amounts
		-----Rupees in 000-----		
01.	Effects of prior period error on financial statements for the year ended June 30, 2020			
	Property, plant and equipment	361,360,604	(6,000,000)	355,360,604
	Investment Property	35,453,275	6,000,000	41,453,275
	Revaluation Surplus	354,080,038	(6,000,000)	348,080,038
	Accumulated losses	(209,239,156)	6,000,000	(203,239,156)
02.	Effects of prior period on financial statement for the year ended June 30, 2021			
a.	Restatement in Balance Sheet of 2021			
	Interest / mark-up accrued on			
	Trade Creditor	(4,834,511)	(299,752)	(5,134,263)
	Gas Payable	(22,508,172)	107,720	(22,400,452)
	Payable to K-electric	(519,654)	(1,321,785)	(1,841,439)
	Accumulated losses	(222,941,696)	(1,513,817)	(224,455,513)

b.	Restatement in Profit and Loss			
	Other Income	5,835,365	(299,752)	5,535,613
	Cost of Sales	(7,918,174)	(971,252)	(8,889,426)
	Administrative expenses	(2,923,694)	(242,813)	(3,166,507)
	Loss after taxation	(17,234,465)	(1,513,817)	(18,748,282)

Audit is of the view that the management & External Auditor failed to perform their fiduciary duties which resulted in overstatement of profits during previous years with wrong conclusions for the stakeholders and subsequent losses to the organization.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The management informed that restatement/correction of prior year's error was provision in IAS-8

- restating the comparative amounts for the prior period(s) presented in which the error occurred; or
- if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

The DAC directed the management to inquire in the matters, provide revised reply and detail of variation of different heads to audit for verification.

Audit recommends implementation of the DAC directives.

9.5.4.6 Blockage of funds due to non-utilization of Government Grant – Rs 1,416.572 million

Rule 4(3) of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that the government started the retrenchment scheme for the PSM employees during the year 2020. In order to retrench all employees of PSM an amount of Rs 18,743.113 million was released as full and final payment. However, it was noticed that an amount of Rs 1,416.572 million was neither utilized nor surrendered by the management. The detail was as under:

(Rs. in million)			
Bank Name	Branch	Account No.	Closing balance of NBP
NBP	Pakistan Steel Mills	3101516733	1,416.572

	Bin Qasim Branch, Karachi		
Total			1,416.572

Audit is of the view that non utilization / non-surrendering of huge of Rs 1,416.572 million was gross lapse on the part of management.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The management informed that some employees have approached the labour court against the scheme. After the decision of court, the retrenched fund will be utilized. Audit contended that funds placement was irregular and should be surrendered and take the matter with ministry. The DAC directed to pursue the case vigorously.

Audit recommends implementation of the DAC directives.

9.5.4.7 Non-recovery of various dues – Rs 1,161.628 million

Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013 states that, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that the management failed to recover / adjust an outstanding amount of Rs 1,161.628 million as detailed below(Annex-64).

(Rs. in million)					
S. #	Description	Amount	S. #	Description	Amount
1.	Water	285.504	5.	Commercial rent of units	29.587
2.	Insurance claims	8.200	6.	NIP	478.05
3.	Tenants	18.825	7.	Debtors	120.963
4.	K-Electric	5.873	8.	K-Electric	214.626
		Total	1,161.628		

Audit is of the view that non-recovery / adjustment of amount under various categories indicated slackness and weak recovery mechanism.

- a) The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The DAC directed that the management to recover the outstanding amount and provide the relevant documents to audit for verification. Further, directed the management to install individual meters rather than bulk purchase on fact track basis and to provide revised reply and action of loss should be intimated.
- b) The DAC directed the management to provide the relevant record of recovery to audit for verification.
- c) The management informed that an amount of Rs.2.283 million has been recovered till 30-09-23 on account of fee & funds of students. Educational institutions are strictly advised to recover the outstanding dues as per SOP. The DAC directed that in future make recovery from monthly salaries of employees on account of fees and provide relevant record of recovery to audit for verification.
- d) The management informed that an amount of Rs.5.873 million has been recovered from M/s K-Electric. The DAC directed to to verify the recovered amount.
- e) The subject amount is not correct Rs. 29.587 million. The correct figure is Rs. 94.173 million. The DAC directed the management to provide the relevant documents for recovery of Rs.17.705 million to audit for verification and recover the remaining amount.
- f) The management informed that the entire amount has been recovered. The DAC directed the management to provide the relevant documents to audit for verification.
- g) The management informed that the case is subjudice about M/s. Slag Industries Limited, M/s Transmobile Limited and M/s Axle Products Limited. The DAC directed the management to provide relevant documents to audit on the recovery, and make efforts for recovery of remaining advances and pursue court cases.
- h) The management informed that an amount of Rs.20.652 million has been recovered. The DAC directed the management to provide the relevant documents to audit for verification and recover the remaining amount accordingly.

Audit recommends implementation of the DAC directives.

(DP No. 466, 461, 479, 459, 469, 470, 471 & 483)

9.5.4.8 Un-authorized use of jetty without agreement and non-recovery of dues – Rs 1,141.000 million

Rule 4 (3) of the Public-Sector Companies (Corporate Governance) Rules, 2013, states that, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules.

During audit of Pakistan Steel Mills for the year 2022-23, it was observed that PSM's Jetty was being used unauthorisedly by Port Qasim Authority (PQA) from June 01, 2016 to September 20, 2023. The PQA was liable to pay Rs 1,141.000 million on account of differential amount / Cost of Infrastructure / Annual Ground Rent of 158.37 Acres Land. The breakup is as under: -

S #	Description	Amount in Rs.
1.	Difference of Amount	894,660,550
2.	Cost of Infrastructure	151,247,000
3.	Annual Ground Rent since allocation	95,583,628
Total		1,141,491,178

Audit is of the view that use of Jetty without any agreement and non-recovery of dues shows weak internal controls and weak financial management.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The DAC directed the management to recover / adjust the amount from PQA.

Audit recommends implementation of the DAC directives.

9.5.4.9 Loss due to non-transferring of electric meters - Rs 1,006.347 million

Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that the management did not transfer the electricity connection from industrial & commercial category to residential purpose despite the entity being non-operational since 2015 till date. The management had been paying commercial & industrial rate to KE for electricity and charging domestic rates from tenants / employees which resulted in loss of Rs 1,006.347 million from July, 2022 to June, 2023 as detailed below:

S#	Months	Total Units	Commercial & Industrial Rate	Domestic Rate	Difference	Amount (Rs)
1.	July, 2022	4,336,000	46.09167	20.50	25.59167	110,965,481
2.	August, 2022	4,525,000	55.12556	20.50	34.62556	156,680,659
3.	September, 2022	4,581,000	50.70353	20.50	30.20353	138,362,371
4.	October, 2022	4,178,000	39.83608	20.50	19.33608	80,786,142
5.	November, 2022	3,304,000	35.7218	20.50	15.2218	50,292,827
6.	December, 2022	2,937,000	32.5137	20.50	12.0137	35,284,236
7.	January, 2023	2,799,000	32.89258	20.50	12.39258	34,686,831
8.	February, 2023	2,697,000	33.34911	20.50	12.84911	34,654,050
9.	March, 2023	3,336,000	44.16352	20.50	23.66352	78,941,503
10.	April, 2023	3,685,000	41.59339	20.50	21.09339	77,729,142
11.	May, 2023	5,035,000	41.46349	20.50	20.96349	105,551,172
12.	June, 2023	5,019,000	40.90512	20.50	20.40512	102,413,297
Total		46,432,000				1,006,347,713

Audit is of the view that the management failed to arrange separate meters for residential category which resulted in payment of extra amount of Rs 1,006.347 million which reflects negligence and slackness.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The management informed that the matter will be submitted before the BoD in the next meeting. The DAC directed the management to install individual meters rather than bulk purchase on fact track basis and to provide revised reply and action of loss should be intimated.

Audit recommends implementation of the DAC directives.

9.5.4.10 Exchange loss due to delay in settlement of dues - Rs.973.114 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that the management did not pay the import liabilities to various parties for the last 08 to 13 years in time. The conversion rate was substantially increased with the passage of time. The management has booked an exchange loss of Rs.973.114 million due to increase in conversion rate in the financial statements.

Audit is of the view that the management delayed the payment of outstanding dues resulting in exchange loss Rs.973.114 million which reflected negligence and poor financial management.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. PSM Management made hard efforts for discharging its obligation during the last three years and paid its liability amounting to Rs 8,282 million. The DAC directed the management to show the trail and verify the contents that on what accounts liability occurred.

Audit recommends implementation of the DAC directives.

9.5.4.11 Non-production of record regarding auction of scrap material – Rs.802.160 million

Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that the management auctioned various scrap material valuing Rs. Rs.802.160 million. However, Contract / tender file regarding scrap material dated 22-08-2023 and were not provided to Audit. Detail of items is as under:

-

S#	Contractors	Product Name	Amount (Rs)
1.	A.R. Minerals Processing Industry	SMLR / mixed waste material	38,500,000
2.	-	Used and discarded material	149,065,350
3.	-	Corroded Cobbled Plates	115,095,280
4.	Usman Trading	Converter slag with some metal	23,500,000
5.	Horizon Steel	Converter slag with some metal	401,000,000
6.	Faraz Enterprises	Converter slag with some metal	75,000,000
Total			802,160,630

Audit is of the view that the management failed to provide relevant record of scrap sales valuing Rs.802.160 million due to which Audit was unable to ascertain transparency in the relevant transactions.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The management informed that the relevant records was the custody of FIA. DAC directed to share the record with Audit.

Audit recommends implementation of the DAC directives.

9.5.4.12 Failure to protect the land - Rs.750.000 million

Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that 176 plots of Gulshan-e-Hadeed Colony, Karachi was encroached valuing Rs.750.000 million as detailed below:

S#	Category	No. of Plots	Sq. ft	No. of Plots x Area x Rate	Amount (Rs)
1	C Type	111	500	111x 500 x 10,000	555,000,000
2	B Type	65	300	65 x 300 x 10,000	195,000,000
Total		176			750,000,000

Audit is of the view that management failed to safeguard the land which reflects negligence and weak monitoring mechanism.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The management informed that the matter is subjudice. The DAC directed the management to provide the court case documents and pursue the case vigorously.

Audit recommends implementation of the DAC directives.

9.5.4.13 Non-reconciliation of financial statements - Rs.403.023 million

Rule 4(3) of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that, entries pertaining to loan and advances and trade and other payables in the financial statements for the year 2021-22 showed huge variations amounting to Rs.403.023 million which was highlighted by the External Auditors in its Letter to Management as a Qualified opinion. The detail is as under:

(Amount in Rs.)					
S#	Head Of account	Note	Amount in Financial Statements	Amounts in General Ledger	Difference
1	Loan and advances	12	206,798	325,913	119,115
2	Trade and other payable	23	3,320,000	114,457,000	111,137,000
3	Trade and other payable	23	4,388,626,000	4,096,859,000	291,767,000
	Total		4,392,152,798	4,211,641,913	403,023,115

Audit is of the view that the huge variation of Rs.403.023 million in the financial statements created doubts about the financial affairs of PSM which needed to be justified.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The management observed that there was no such variation between Financial Statement and ledger of the year 2021-22. The DAC directed the management to provide the reconciliation statement and annual accounts to audit for verification.

Audit recommends implementation of the DAC directives.

9.5.4.14 Encroachment of PSM land - Rs.351.000 million

Rule 4(3) of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that the 11.70 acres of PSM land was encroached during the year under review valuing at Rs.351.000 million. This was in addition to already encroached upon 295 acres of PSM land. The detail was as under:

Rs.in million				
S#	Description / Name	Area (Acres)	Land Per Acre	Total Rs.
1	Mian Khan Jokhio Goth	02.00	30.000	351.000
2	Photo Goth	01.07		
3	In between Usman Farm & Sui Gas Line Deh Kotirero	03.70		
4	Near Sui Gas Line DehSanhero	04.93		
	Total	11.70		351.000

Audit is of the view that the management failed to safeguard the precious land from encroachment in presence of large number of security guards.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The management apprised that letters were sent to Deputy Commissioner for removal of encroachment. DAC directed the management that the efforts should be taken for removal of encroachment. DAC expressed displeasure and directed the management to protect assets of PSM and halt any further encroachment on the land and take efforts for vacation of land.

Audit recommends implementation of the DAC directives.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year 2022-23 vide para(s) number 9.4.4.1 having financial impact of Rs 5,393.600 million. Recurrence of same irregularity is a matter of serious concern.

9.5.4.15 Non-recovery of Right of Way charges from KE - Rs.225.990 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that the management received an amount of Rs.177.755 million from K-Electric on account of Right of Way (RoW) from May 01, 1992 to December 31, 2022 of its High-Tension Electric Towers passing through PSM Main Plant land covering an area of approximately 320.63 acres. However, the management failed to recover claim of markup on delayed collections (Right of Way charges) amounting to Rs.225.990 million despite a lapse of considerable time.

Audit is of the view that non-recovery of claim of markup reflected poor financial management and weak recovery mechanism.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The management informed that an amount of Rs. 225.990 million would be adjusted from K-Electric within 03 to 04 months. The DAC directed the management expedite to recovery and provide relevant record after recovery to the audit for verification.

Audit recommends implementation of the DAC directives.

9.5.4.16 Non-vacation of land by K-Electric - Rs.219.000 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

As per meeting between CEO M/s K-Electric and PSM held on 04-02-2022, it was agreed that land measuring around 7.298 acres (approximately) against which consideration was not paid by KE will be released back to PSM by KE and rest of the land which is in the possession of KE and is paid for, its lease will be executed in favour of KE without any delay of PSM.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that a piece of PSM disputed land of 23.81 acres was held by K-Electric since 1982 at Gulshan-e-Hadeed, Karachi. It was decided in the meeting held on 04-02-2022 that 7.298 acres of land would be vacated by K-Electric, valuing at Rs.219.000 million (Rs.30 million per acre). However, despite a lapse of considerable time, land was not vacated by K-Electric.

Audit is of the view that not taking the possession of precious land from K-Electric was against the agreement.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The management informed that the land was taken back from K Electric. The DAC directed the management to provide relevant record to the audit for verification.

Audit recommends implementation of the DAC directives.

9.5.4.17 Non execution of lease agreement & non-recovery of dues from Country Club – Rs 165.882 million

Rule 4 (3) of the Public-Sector Companies (Corporate Governance) Rules, 2013, states that, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed from that M/s Arabian Sea Country Club is operating its business on the land of PSM and availing multiple support services, but the management remained unable to recover its dues of Rs. 165.882 million as detailed below:

Description	Outstanding amount (Rs)
-------------	-------------------------

Land Rent	74,066,091
Electricity	61,452,000
Waste Water Bill	16,367,646
Right of Way charges	07,043,911
Drinking Water Bill	06,952,988
Total	165,882,636

It was also observed that first half of lease Rent period (i.e 20 years) was already expired on 31-07-2022 where revised term for the second term of 20 years could not be finalized.

Audit is of the view that the Country Club is operating its commercial business on the Land of PSM but failing in paying legitimate dues is a serious legal and financial concern. It is pertinent to mention here that no valid rental agreement is provided on the part of management which could ascertain fair rental arrangement on commercial terms and conditions

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The DAC directed the management that the efforts should be made to recover the outstanding amount and share lease agreement with audit.

Audit recommends implementation of the DAC directives.

Note: The issue was also reported earlier in the Audit report(s) for Audit Year(s) 2021-22 vide para(s) number 8.7.4.6 having financial impact of Rs.125.332 million. Recurrence of same irregularity is a matter of serious concern.

9.5.4.18 Irregular merger of loss-making entity - Rs.160.101 million

Rule 5 (1) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the board shall exercise its power and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that the management dissolved and merged the Hadeed Welfare Trust (HWT) into PSM without any feasibility study. The production activities of PSM were halted since June, 2015 and had accumulated losses of Rs 206,068.347 million as on 30th June, 2022. The said merger was overburdened on the public exchequer by the way of transferring the services of 343 Nos. employees of Hadeed Welfare Trust on the payroll of PSM. Furthermore, the deficit of Hadeed Welfare Trust (HWT) was Rs.160.101 million.

Audit is of the view that merger of loss making entity was not a prudent decision on the part of management which further overburdened / increased the losses of PSM.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The management informed that the matter was decided as per Hadeed Welfare Trust deed. The De-Registration process has also been taken up with the Registrar of Trust, which is still pending. Audit contended that merger was irregular without due process of law i.e. de-

registration. The DAC directed the management to inquire into matter and provide final audited accounts, registration of trust and the revised reply.

Audit recommends implementation of the DAC directives.

9.5.4.19 Recurring loss due to non-renting of vacant spaces – Rs.100.596 million

Rule 4(3) of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that 355 Nos. of Houses / Flats / Commercial Units remained vacant at Steel Town, Karachi. The management sustained a recurring loss of Rs.100.596 million on vacant property as detailed below:

(Amount in Rs.)					
S#	Category	No. of Vacant Space A	Rate per month B	Amount Per month C (A*B)	Amount Per Annum D (C*12)
1.	A	37	11,000	407,000	4,884,000
2.	D	8	15,500	124,000	1,488,000
3.	E	36	17,500	630,000	7,560,000
4.	F	21	15,500	325,500	3,906,000
5.	GMB	8	75,000	600,000	7,200,000
6.	GR	20	50,000	1,000,000	12,000,000
7.	H	18	37,000	666,000	7,992,000
8.	LD	18	24,000	432,000	5,184,000
9.	LS	97	17,000	1,649,000	19,788,000
10.	G	25	38,000	950,000	11,400,000
11.	T	42	27,000	1,134,000	13,608,000
12.	M	8	17,500	140,000	1,680,000
13.	P	9	29,000	261,000	3,132,000
14.	S	7	8,500	59,500	714,000
15.	SQN	1	5,000	5,000	60,000
Total		355			100,596,000

Audit is of the view that the management failed to rent out the vacant property which resulted in a recurring loss of Rs.100.596 million which reflects negligence and slackness.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The management informed that said houses / flats were provided to the low paid employees. The DAC directed that the management to make efforts to rent out the vacant space and recovery be made from monthly salary future and provide relevant record to the audit for verification.

Audit recommends implementation of the DAC directives.

9.5.4.20 Non-auction of condemned vehicles - Rs.80.585 million

Section 4(3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that 109 vehicles of PSM valuing at Rs.80.585 million were lying non-functional / obsolete since long. (Annex-65). Resultantly, the market price of vehicles decreases due to

Audit is of the view that the management failed to auction timely resulting in depreciation and deterioration of the vehicles.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The management informed that the auction process has been commenced. Tender has been opened in December 2023. It will be decided within one month. The DAC directed to expedite auction process.

Audit recommends implementation of the DAC directives.

9.5.4.21 Loss of public money due to fraudulent activities - Rs.53.994 million

Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that a Departmental Enquiry Committee submitted an investigation report of lost assets and fraudulent activity at Nokundi and Dalbadin Stores in Balochistan amounting to Rs.53.994 million. Subsequently, a show cause notice and charge sheet was issued to Mr. Muhammad Naeem (ADCE-IC (DIOP)), but no action was taken against the culprits till date. Detail of loss was as under:

S#	Description	Amount (Rs)
----	-------------	-------------

1.	<u>Loss in terms of assets and machineries</u>	40,455,800
	Loss in terms of assets and machineries at all DIOP Sites including Liaison Office Quetta	
2.	<u>Loss in terms of Chowkidars and other employees' salaries</u>	180,000
a.	Loss in terms of salaries regarding security guards deployed at Kulli Koh site -03 personnel	
b.	Loss in terms of salary regarding security guards Mr. Abdul Hameed, from July, 2017 till date	1,200,000
c.	Loss in terms of salary regarding security guards Mr. Nabi Bux from July, 2017	1,200,000
3.	<u>Loss Regarding the Nokundi Store Inventory</u>	6,170,117
a.	As per the location code 02-550 (680 items)	
b.	As per the location code 1080	4,788,424
Grand Total		53,994,341

Audit is of the view that the management did not safeguard the precious assets of the company and no timely action was taken against the culprits. This indicates criminal negligence on the part of management.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The management informed that a civil suit was lodged instead of criminal proceeding. The DAC directed the management to lodge a FIR against the accused employees, share dismissed notification and inquiry report with Audit.

Audit recommends implementation of the DAC directives.

9.5.4.22 Irregular appointment of security guards – Rs.49.188 million

Rule 20 of PPRA Rules, 2004, states that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

According to Cabinet Secretariat (Establishment Division) letter No. 06/02/2000, the appointments on contract basis in Autonomous/Semi-Autonomous bodies, Corporation, Public Sector Companies etc can be through open advertisement in the leading and regional Newspapers indicating prescribed Academic and professional qualification, experience, age provincial/regional quotas etc.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that the management appointed 128 numbers of security guards (Annex-66) in various categories on a fix pay ranging from Rs 1,100 to Rs.1,167 per day without any advertisement, codal formalities and approval by the competent authority. An expenditure of Rs.49.188 million was incurred on their pay since their appointment from August, 2021 to May, 2023.

Audit is of the view that the management did not adopt the codal formalities in the appointment of Security Guards in violation of rules. Thus, expenditure of Rs.49.188 million stands irregular and unjustified.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The management informed that the relevant experience and police verification have been carried out to appoint the security guard. The DAC expressed displeasure and directed the management to follow the prescribed process and why not hiring was made through third party and on advertisement and to provide relevant record to the audit for verification.

Audit recommends implementation of the DAC directives.

9.5.4.23 Irregular / unjustified payment on account of Voluntary Separation Scheme - Rs.48.735 million

Rule 5(1) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the board shall exercise its power and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that on the directives of Honorable Supreme Court of Pakistan, the management implemented Retrenchment Scheme for the year 2019 to 2023. In addition to this, the management also introduced Voluntary Separation Scheme (VSS) for all employees and paid benefit amounting to Rs.48.735 million (Annex-67) on account of 01 month's notice pay, leave encashment and other benefits for the years 2021-23. This payment was made to those employees who were close to retirement or near to retirement.

Audit is of the view that payment under Voluntary Separation Scheme in presence of Retrenchment Scheme reflects undue favor to the employees. Thus, payment of Rs.48.735 million stands irregular and unjustified.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The management informed the DAC that VSS option was for all employees of Pakistan Steel Mills regardless of whether they were close to retirement or near retirement. The reason was to save the steel mills from further losses by reducing the man power and salary expenditures. The management informed that no extra payment was made to the employees. Audit contended that VSS was unjustified and excess payment were made to retired or near to retirement employees. The DAC directed the management to provide justification and relevant record to the Audit for verification.

Audit recommends implementation of the DAC directives.

9.5.4.24 Irregular re-hiring of services of officers / officials on contract basis under Retrenchment Scheme - Rs.33.014 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that the management hired 85 officers and officials from 06.07.2021 to 30.06.2023 (Annex-68) despite the fact that retrenchment scheme was finalized w.e.f 26-11-2020.

Audit is of the view that appointment after coming into effect of retrenchment scheme was unjustified. Hence, the appointment and expenditure of Rs.33.014 million on account of pay and allowances was held irregular / unjustified.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The management informed that the retrenched employees were terminated. The DAC directed the management to provide dismissal order and relevant record to the audit for verification.

Audit recommends implementation of the DAC directives.

9.5.4.25 Irregular procurement by splitting – Rs.29.478 million

Rule 9 of PPRA Rules, 2004 states that a procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly without any splitting or regrouping of the procurements so planned. The annual requirements thus determined would be advertised in advance on the Authority's website as well as on the website of the procuring agency in case the procuring agency has its own website.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that the management awarded contracts/purchased groceries items i.e., wheat, rice, chicken etc. valuing at Rs.29.478 million through different purchase orders on splitting basis in violation of PPRA Rules. Detail is as under:

(Amount in Rs)	
Catering - Guest House	Food Shop
12,344,813	17,133,900
Total	29,478,713

Audit is of the view that procurement of groceries items worth Rs.29.478 million on splitting basis was held irregular.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The management reply that Pakistan Steel Guest House is providing boarding and lodging facilities on semi commercial basis. Audit contended that procurements should be made as per PPRA rules. The DAC directed the management to improve the system and make compliance of the rule.

Audit recommends implementation of the DAC directives.

9.5.4.26 Loss due to non-renting out of vacant space - Rs.23.322 million

Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that an area at FTC Building, Karachi was lying vacant since 01.07.2022 due to which the management failed to earn rental income of Rs.23.322 million as detailed below:

S#	Description	Monthly Rent (Rs)	Annual Rent (Rs).
1	Area at FTC Building	1,151,681	13,820,172
2	Snap Bar I & II, Steel Town	791,829	8,661,948
Total		1,943,510	23,322,120

Audit is of the view that major portion of PSM premises was lying vacant for more than one year which reflected negligence and slackness.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The DAC directed the management to provide tender documents and efforts should be made to rent out the vacant space.

Audit recommends implementation of the DAC directives.

9.5.4.27 Undue favour to the tenant party - Rs.21.600 million

Rule 4(3) of Public Sector Companies (Corporate Governance) Rules, 2017, the Chief Executive is responsible for the management of a Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, with the Ordinance.

As per advertisement dated on 19-03-2023, License out KASHANA Building & 04 Lawns (A to D) etc.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, management published an advertisement in local newspapers for “License out KASHANA Building & 04 Lawn (A to D) at Gulshan-e-Hadeed. In response only 01 bidder participated i.e., M/s New VIP Decoration Catering Services and bid offer @ Rs. 600,000 per month. In addition, the management irregularly allotted an area/space about 941,933.41 sq. ft. for quarters and others to the same party, which was not mentioned in advertisement. The detailed allotted area is given below: -

S#	Premises	Area (sq.ft)	Approx. Capacity
1	Kashana Office Building	4,431 x 28,862 (two floor)	For office
2	Lawn-A	13,551	350 persons
3	Lawn-B	17,631	800 persons
4	Lawn-C	10,288	300 persons
5	Lawn-D	28,908	1200 persons
Extra Space			
	Open Area, Hotel and shops etc	941,933.41	Can be developed for additional Lawn/ Restaurant/ Parking

Audit is of the view that the management allotted extra space to the tenant, which was irregular and unjustified.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The DAC directed to investigate the matter. Further, directed to provide the revised reply to audit.

Audit recommends implementation of the DAC directives.

9.5.4.28 Wasteful expenditure on zonal offices – Rs.11.496 million

Finance Division’s O.M No. F.15 (13) R-14/82 dated September 05, 1982 states that the funds provided, acquired or generated by the autonomous / semi-autonomous bodies and corporations are public funds, which cannot be utilized at the sole discretion of the management. The funds should be utilized with due care and caution strictly in accordance with the prescribed rules or specific orders of the Government.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that the management incurred an expenditure of Rs.11.496 million on account of salaries and other expenditure pertaining to Zonal Offices (Lahore & Islamabad) without having any sales activity since December, 2015. The details are as under:

S#	Description	No. of Employees	Avg Salary / P.M	Annual Expenditure (Rs.)
1	Salaries & Allowances	21	30,000	7,560,000
2	Other Expenditure	-	-	3,936,000
Total				11,496,000

Audit is of the view that expenditure was wasteful and unjustified due to closure of operations since long reflects poor financial management

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The management reply that to facilitate Chief Executive Officer, high officials of PSM, Chairman/Members Board of Directors PSM, Ministry of Industries and Production officials. Arrange their boarding, lodging messing during Islamabad visit. This Office also used as Camp Office/CEO's Secretariat, at Islamabad. The management informed that the staff is essential from security point of view. The DAC directed to settle the paras for verification.

Audit recommends implementation of the DAC directives.

9.5.4.29 Unsatisfactory performance of vendor - Rs.6.770 million

Rule 19 of PPRA-2004, states that the procuring agencies shall specify a mechanism and manner to permanently or temporarily bar, from participating in their respective procurement proceedings, suppliers and contractors who either consistently fail to provide satisfactory performances or are found to be indulging in corrupt or fraudulent practices. Such barring action shall be duly publicized and communicated to the Authority.

As per terms and conditions of the agreement between PSM and M/s. Softronics (Pvt) Ltd dated: 05-07-2021, vendor is bound to complete the work within 30 days.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that the contract for up-gradation of Pakistan Steel's cloud-based ERP modules was awarded to M/s Softronics (Pvt) Ltd on 05-07-2021 amounting to Rs.5.170 million. The vendor was bound to complete the work within 30 days. However, after lapse of considerable time, its performance remained un-satisfactory with respect to updation of HR data, preparation of annual accounts and reconciliation of different heads of accounts on ERP system. This was also pointed out by the management of PSM to the MoIP dated March 03, 2023.

Audit is of the view that due to un-satisfactory performance of M/s. Softronics, PSM faced inaccuracy in data related to retrenchment of employees and non-reconciliation of its financial statements.

Thus, the total expenditure amounting to Rs.6.770 million (Rs. 5.170 million + 1.600 million maintenance cost) was irregular and unjustified.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The DAC directed that the Liquidity Damage (LD) charges be levied and performance of the Softronics should be share with audit.

Audit recommends implementation of the DAC directives.

9.5.4.30 Irregular appointment of Corporate Secretary - Rs.6.422 million

Rule14 of the Public Sector Companies (Corporate Governance) Rules, 2013 states that no person shall be appointed as Company Secretary of a Public Sector Company unless he is a,

- a. member of a recognized body of professional accountants; or
- b. member of a recognized body of corporate or chartered secretaries; or
- c. person holding master degree in Business Administration or Commerce or being a Law Graduate from a university recognized by Higher Education Commission and having at least five years relevant experience.

Govt. of Pakistan, Establishment Division vide its OM. No. 6/2/2000-R.3 dated May 06, 2000 issued policy guidelines for contract appointments for the posts in autonomous/semi-autonomous bodies, corporations, public sector companies etc. According to the Para-(iii) Vacancy should be advertised in the leading national and regional newspapers and selection should be made through regularly constituted Selection Committees / Boards.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that the management appointed of Mr. Muhammad Shafiq Anjum as Corporate Secretary on contract basis after superannuation and without advertisement in April 07, 2021 for 01 year, which was further extended up to December, 2023. Furthermore, his qualification was B.E which was in violation of required qualification.

Audit is of the view that the appointment on deficient qualification, without advertisement and after superannuation without approval of Prime Minister was in violation of rules. Thus, payment of salary amounting to Rs.6.422 million stands irregular and unjustified.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The DAC directed the management to provide the revised reply along with justification.

Audit recommends implementation of the DAC directives.

9.5.4.31 Irregular appointment of External Auditor – Rs.5.900 million

As per guidelines/letter dated January 02, 2002 issued by the Auditor General of Pakistan in accordance with the provisions of Section 15(1) of the Auditor General's (Functions, powers and terms and conditions of Service) Ordinance, 2001, the Auditors should be appointed in consultation with Auditor General of Pakistan and rotated after every 5 years. Instructions were issued in compliance of Finance Division's letter dated March 25, 1981.

Rule 39 of PPRA Rules, 2004, states that where needed and clearly expressed in the bidding documents, the procuring agency shall require the successful bidder to furnish a performance guarantee which shall not exceed ten per cent of the contract amount.

As per tender advertised on newspaper "Prospective firms/companies are required to submit tender fee of Rs 500 (non-refundable) in shape of pay order along with 'Technical proposal' and earnest money (refundable) equivalent of 2% of total bid value in shape of pay order along with 'Financial Proposal'.

During audit of Pakistan Steel Mill (PSM) for the year 2022-23, it was observed that the management hired the services of External Auditor, M/s Horwath Hussain Chaudhury & Co, Chartered Accountant on 20-12-2018 for the compilation of annual accounts for the year 2015-16 for Rs.0.800 million per annum.

It was further observed that Earnest money @ 2% and performance bank guarantee 10% were not obtained from the audit firm and the appointment was made without the concurrence of the Auditor General of Pakistan.

Audit is of the view that appointment of external auditors was against the rules and hence irregular.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The DAC directed the management that the compliance should be made in letter and spirit.

Audit recommends implementation of the DAC directives.

9.5.4.32 Loss due to theft of various items - Rs.4.710 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that a theft was committed of finished and unfinished Brass and Copper materials weighing 03 tons on June 04, 2021 valuing Rs.4.710 million. It was revealed that Mr. Abdul Rehman (AXEN, MERS-CMD) was the main culprit of this criminal activity. He was issued a Charge Sheet on 15-10-2021. Nor any FIR was lodged neither any legal action was taken against him despite a lapse of more than one (01) year.

Audit is of the view that the management failed to safeguard its assets and did not take any action against the accused employee, which reflects negligence and undue favor. Thus, sustained a loss of Rs.4.710 million.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The management informed that the FIR was lodged and case was pending in the Court. Further, all the recovery has been made. The DAC directed the management to provide FIR copy, dismissal order and recovery records to the audit for verification.

Audit recommends implementation of the DAC directives.

9.5.4.33 Excess payment to Consultant / Specialist Attorney – Rs.3.160 million

As per Pakistan Steel dated January 11, 2021, the Board in accordance with the relevant provisions of “Procurement of Consultancy Services Regulation, 2010” and “Public Procurement Rules 2004” declares the ongoing retrenchment, restructuring and revival process an emergency situation and approves the hiring of Specialist Attorney to oversee the whole retrenchment process against consultancy charges Rs.5.000 million.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that the management hired the services of Mr. Shahid Anwar Bajwa, as a Specialist Attorney / Consultant of PSM at a fee of Rs.5.000 million for retrenchment plan. However, the management paid an excess amount of Rs.3.160 million without approval of the competent authority. Detail is as under:

(Rs. in million)			
Description	Fees Agreed	Fees Paid	Excess Paid
Whole Retrenchment Process	5.000	8.160	3.160

Audit is of the view that excess payment of Rs.3.160 million without approval from competent authority was irregular / unjustified.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The management informed that the amount paid was approved from the BoD. Audit contended that excess amount paid was irregular. The DAC directed the management to provide relevant record to the audit for verification.

Audit recommends implementation of the DAC directives.

9.5.4.34 Un-due favour extended to the educational staff - Rs.2.100 million

As per section 2.33 of promotion Policy of Pakistan Steel Mills (PSM), Promotion shall be made subject to the availability of sanctioned vacant post in the next higher grade depending on the seniority and fitness of the officer.

A limited percentage of outstanding Technical Officer will also be considered for promotion to the next rank of Assistant Manager.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that the management promoted 14 employees of educational staff from Junior officer to Assistant Manager without having a qualified degree and relevant experience in violation of promotion policy. Further, their services were also regularized from contract to regular cadre by the management by implicating the orders of Honorable High Court of Sindh. Detail is as under: -

(Amount in Rs)					
S#	Name of Employees	Designation	Promoted	Monthly Impact	Total

1	Ms. Samina Arshad	Junior Officer	Assistant Manager	5,000	150,000
2	Ms. Naseema Khalid	Junior Officer	Assistant Manager	5,000	150,000
3	Ms. Suriya Rashid	Junior Officer	Assistant Manager	5,000	150,000
4	Mr. Javed Iqbal	Junior Officer	Assistant Manager	5,000	150,000
5	Ms. Quratulain	Junior Officer	Assistant Manager	5,000	150,000
6	Ms. Shabila Haider	Junior Officer	Assistant Manager	5,000	150,000
7	Ms. Zaibunnisa	Junior Officer	Assistant Manager	5,000	150,000
8	Ms. Mobeen Kiran	Junior Officer	Assistant Manager	5,000	150,000
9	Ms. Asma Yousuf	Junior Officer	Assistant Manager	5,000	150,000
10	Ms. Rabia Basree	Junior Officer	Assistant Manager	5,000	150,000
11	Ms. Najma Khalid	Junior Officer	Assistant Manager	5,000	150,000
12	Ms. Nayyar Qayyum	Junior Officer	Assistant Manager	5,000	150,000
13	Ms Tahira Sattar	Junior Officer	Assistant Manager	5,000	150,000
14	Mr. Rashid Amiri	Junior Officer	Assistant Manager	5,000	150,000
				Total	2,100,000

Audit is of the view that the management extended an un-due favor to the educational staff by promoting them against the promotion criteria. Resultantly, the management overburdened the exchequer by further increasing the monthly pay roll amounting to Rs.2.100 million.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The management informed that these employees were absorbed on the basis of Education staff/ Hadeed Welfare Trust deed. A Scrutiny Committee was formed to look after the matter. The favour was allowed on the recommendation of Scrutiny Committee. Audit contended that Hadeed Trust was in huge losses and absorbing its employees without due diligence was irregular. The DAC directed the management to share the all court orders, rules and relevant documents with audit for verification.

Audit recommends implementation of the DAC directives.

9.5.4.35 Loss of rental income by charging lesser rates - Rs.1.528 million

Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that the management entered into agreement with M/s. Sindh Health Care Commission, Karachi for rent of 2nd floor of FTC Building, Karachi on April, 2022 having area of 3,050 square feet on a monthly rent of

Rs.178.45 per square feet per month, for a period of 3 years. However, the rent per sq.ft was Rs.192.374 per sq.ft according to last agreement of same premises. The management sustained a loss amounting to Rs.1.528 million on charging lesser rates as detailed below:

Name of Tenant & Area	Date of agreement	Rate per sq. ft. (Rs)	Difference in rates per sq. ft. (Rs)	Area rented (sq. ft.)	Loss (Rs.)
		1	2	3	4 (2 x 3)
M/s Sindh Health Care Commission (3,050 sq. ft)	04.07.2022 to 30.06.2025	178.450	13.924 (192.374 -178.450)	3,050	42,468
M/s Sindh Health Care Commission (10,081 sq ft)	15.03.2018 to 14.03.2023	192.374	-	-	-
Loss of rental income for 03 years (42,468*36)					1,528,855

Audit is of the view that the management extended an undue favor to the tenant by charging lesser rates which reflected poor financial management. Thus, sustained a rental loss of Rs. 1.528 million.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The management stated that FTC Space 10,081 sq. ft was allotted to Sindh Health Care Commission in March, 2018 @ Rs.134 per sq. ft with increase of 7.5% yearly, which enhanced to Rs.192.37 per sq. ft in 2023 after yearly increase. The FTC Space 3050 sq. ft was also allotted to Sindh Health Care Commission in July 2022 @ Rs.178.45 per sq. ft with increase of 7.5% yearly, which has now come to Rs.191.83 per sq. ft in 2023. The DAC directed to settle the para subject to verification of tender documents and rates.

Audit recommends implementation of the DAC directives.

9.5.4.36 Loss due to theft incidents - Rs.1.198 million

Rule 4 (3) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that, the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that PSM sustained a loss of Rs.1.198 million due to theft incidents of various items as detailed below:

S#	Case No.	Description	Occurrence Date	Value (Rs.)
1.	2232-D	Cable, Copper Wire etc from store building-IV	03-10-2022	39,601
2.	2276-D	04 Batteries (180 amp) from two buses token no. 1988 & 2084	31-01-2023	120,000
3.	2315-D	Gear box of Hino Vehicle of pat	21-04-2023	650,000

4.	2323-D	CCTV Camera installed at CB Petrol Pump	17-06-2023	10,000
5.	2247-D	40-45 condemned batteries from Transport Workshop	21-11-2022	56,000
6.	2279-D	Investigation into theft attempt took place at SMC-Lahore	05-02-2023	186,000
7.	2304-D	Missing of 9 mm pistol of security in the night of 08-04-2023	05-07-2023	136,875
Total				1,198,476

Audit is of the view that the management failed to protect its assets which resulted in theft of items valuing Rs. 1.198 million. This showed weak internal controls and poor monitoring mechanism.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The DAC directed the management to provide the revised reply showing the latest status.

Audit recommends implementation of the DAC directives.

9.5.4.37 Re-appointment of retrenched employee on daily wages – Rs.1.068 million

According to the Honorable Supreme Court of Pakistan Order's dated Sep. 15, 2020, the PSM Management was adopted / exercised the procedure of Retrenchment of PSM Employees in November, 2020 under Section 11-A of the Industrial & Commercial Employment (Standing Order) Ordinance 1968 to curtail the manpower of Pakistan Steel Mills as per requirement of Privatization Commission of Pakistan and to minimize the financial burdens on the Public Exchequer.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that Mr. Muhammad Rizwan (Senior Assistant), a retrenched employee, filed a Petition in the Hon'ble Court of National Industrial Relation Commission (NIRC) against the management. The petition stated that the PSM had irregularly terminated his services by the way of retrenchment and committed gross violation of law as well as directions of the BoD dated October 23, 2020 which directed to retrench 49% of workers of each category. The petitioner also stated that as per Standing Order no.14 of Industrial & Commercial Employment Ordinance, 1968, where any number of workmen are retrenched and the employer proposes to take into his employ any person within a period of one year from the date of such retrenchment, he shall give an opportunity to the retrenched workmen belonging to the category. Furthermore, the incumbent also stated that after retrenchment, a number of incumbents have been appointed / re-hired on attaining the age of superannuation by the management instead of offering the post to the retrenched employees in accordance of the above referred rule. Resultantly, the management re-appointed / re-hired his services on daily wages.

Audit is of the view that the extended an undue favour to the incumbent by way of re-appointment / re-hiring his services on daily wages at Rs.1.068 million (Rs.3,000 per day *24 days * 15 months) per annum. Thus, his re-appointment stands irregular and unjustified.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The management informed that now all retrenched employees have been terminated. The DAC expressed displeasure and directed the management to provide relevant record of rehired employees to the audit for verification.

Audit recommends implementation of the DAC directives.

9.5.4.38 Irregular promotion against Court decision

According to the judgment of Honorable Supreme Court of Pakistan (appellant Jurisdiction) in the Civil Petitions No. 326/K & 513/K of 2018, the Steel Mill is lying closed since June, 2015, but its employees are still employed in the Steel Mill and or claiming all sorts of benefits including increments, promotion and other perks and privileges. The impugned judgment challenged in the present Civil Petition for Leave to Appeal (CPLA) is also one of the examples where promotions have been allowed to the respondents who are 76 in numbers. It seems that period to the said order, the learned High Court has passed other orders in CP No. D-5326 of 2013 & CP No. D-842 of 2014, where similar promotions have been granted. We are unable to understand how when the Steel Mills itself is not operating and producing anything why the employees are employed there and from where the payments are being paid to them by way of their emoluments and other benefits as noted above. All these officers have to be attended in immediately by the Federal Government, particularly, the Secretary, MoI&P Islamabad. The learned Attorney General states that he will obtain instruction and place the same before this Court. In the meantime, we grant leave to appeal in this case and at the same time suspend the operations of the impugned judgment.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that the management did not implement the judgment of Honourable Supreme Court of Pakistan and instead of demotion of promoted officers in the Assistant Manager Cadre, designated the post of General Manager (Incharge Administration & Personal) to Mr.Zardad Abbasi as the officer was to be posted as OSD till the final decision of the Court.

Challenged the promotion order in Honorable Supreme Court as appeal No. 513 & 326. The Court suspended the orders of Sindh High court Karachi on March 12, 2020 and dismissed the decision of promotion case of Mr. Zardad Abbasi along with 76 others as mentioned above.

Audit is of the view that the management has failed to faithfully implement the judgment of the Hon'ble Supreme Court of Pakistan and has shown disloyalty on behalf of its favored employees.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. Management explained that matter is subjudice in Supreme Court of Pakistan. DAC pended the Para till final decision of Supreme Court. Further, to verify that Para already printed in the audit report for the year 2022-23.

Audit recommends implementation of the DAC directives.

9.5.4.39 Non-preparation / finalization of annual accounts

Section 10(1) of Public Sector Enterprises (Corporate Governance) Rules, 2013, stated that every Public Sector Company shall, within one month of the close of first, second and third quarter of its year of

account, prepare a profit and loss account for, and balance-sheet as at the end of, that quarter, whether audited or otherwise, for the Board's approval. Annual report including annual financial statements shall be placed on the Public Sector Company's website.

Section 233 of Companies Act, 2017 states that the balance sheet and the profit and loss accounts and income and expenditure account are audited by the statutory auditor of the company and auditor's report is to be attached with the annual accounts.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that the management of did not finalize the annual accounts for the year 2022-23 in violation of rules.

Audit is of the view that the management failed to finalize the accounts.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The management informed that Annual accounts 2022-23 have been prepared and it will be approved in the next BoD meeting. The DAC expressed displeasure and directed the management to provide the Annual Accounts to audit.

Audit recommends implementation of the DAC directives.

9.5.4.40 Non-verification of degrees / certificates

According to Establishment Division D.O No.6 (28) 2011-DG-II Mar 08, 2011, the Prime Minister directed that measures should be taken to authenticate degrees/ certificates of all Federal Government employees of the respective Ministries/ Divisions, their attached departments, subordinate offices and autonomous bodies under their administrative control.

During audit of Pakistan Steel Mills (PSM) for the year 2022-23, it was observed that the management did not verify the degrees from concerned institutes / universities till date. The detailed are as under.

S#	Name of Employees	Designation	P.No.	Degree	Date of Joining
1	Muhammad Akram	Superintendent Engineer	821349	Electronic Engg.	04.05.1994
2	Muhammad Asghar Shaheen	A.Manager (Law)	822922	L.L.B	May, 2004
3	Quratul Ain	Assistant Manager	828041	B.Sc	01.11.2021
4	Mukhtiar Ahmed	A.Deputy Chief Engineer	817139	B.E	09.07.1989
5	Muhammad Yaseen Bhutto	Superintendent Engineer	819085	B.E	21.02.1990
6	Jawed Akhter	Superintendent Engineer	819581	B.E	22.11.1990

Audit is of the view that the management failed to verify the degrees / certificates which reflects weak internal controls and violation of rules.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The DAC expressed displeasure and directed the management to expedite the matter for degrees / certificates verification within one month.2.100

Audit recommends implementation of the DAC directives.

9.6 Pakistan Steel Fabricating Company (Pvt.) Limited

9.6.1 Introduction

Pakistan Steel Fabricating Company (Pvt.) Limited (PSFCL), a wholly owned subsidiary of the Pakistan Steel Mills Corporation (Pvt.) Limited, was incorporated on Jun 28, 1975 under the Companies Act, 1913 (now the Companies Act, 2017). The principal activity of the Company is the fabrication of steel structure, production of paints and other related activities.

9.6.2 Comments on Audited Accounts

9.6.2.1 The annual audited accounts are required to be provided to audit for review each year. Contrary to this, the management failed to provide audited accounts of the organization for the years 2016-17 to 2022-23 despite a number of reminders.

Audit requires that the annual audited accounts of the years 2016-17 to 2022-23 be provided immediately and timely finalization be ensured in future, besides, fixing responsibility for non-finalization of annual audited accounts (*Annex-2*).

9.6.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
1990-91	8	7	1	708	88%
1995-96	12	10	2	151, 146	83%
1999-00	3	1	2	228, 230	33%
2003-04	6	5	1	96.4	83%
2006-07	2		2	102.2, 102.3	-
2009-10	6		6	Annex-i Item 10, 113, 113.1, 113.2, 113.3, 113.4	-
2010-11	4	3	1	11.4.4.1	75%
2013-14	5	2	3	8.8.2.1, 8.8.2.2, 8.8.3 (remainig to be discussed in PAC)	40%
2015-16	4	1	3	8.10.2.1, 8.10.3, 8.10.4.1	25%
2017-18				9.10.4.2	

2019-20	-	-			-
Total	50	29	21		58%

The overall compliance of PAC directives needed improvement.

9.6.4 Audit Paras

9.6.4.1 *Loss due to non-recovery of rent – Rs.972.943 million*

Section 5(1) of Public Sector Companies (Corporate Governance) Rules, 2017 states that the Board shall exercise its power and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Steel Fabricating Company Ltd (PSFCL) for the years 2018-19 to 2021-22, it was noted that the management approached M/s Pakistan Steel Mills on 23 December, 2020 for vacation of transport building (4,843 Sq feet) under use of PSM since 1985 and amount of rent since then. However, the amount of rent of Rs.972.943 million (Annex-69) was not realized despite lapse of 36 years.

Audit is of the view that non-recovery of the amount despite lapse of 36 years reflected negligence of the management.

The matter was reported to the management on March, 2023. The irregularity was discussed in the DAC meeting held on November 29, 2023. DAC directed the management to convene a meeting between PFCL and PSM having representative from MoIP, to discuss the complete dues against each other and outcome of the same may be shared with Audit.

Audit recommends implementation of the DAC directives.

9.6.4.2 *Irregular auction of usable material – Rs.115.621 million*

Rule 4(3) of Public Sector Companies (Corporate Governance) Rules, 2017 states that the Chief Executive is responsible for the management of a Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, with the Ordinance. Responsibilities of CEO include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Steel Fabricating Company Ltd (PSFCL) for the years 2018-19 to 2021-22, it was observed that the management auctioned quantity of 990 metric ton as scrap in October, 2021, despite the fact that Scrap Identification Committee had declared the material usable on 12 March, 2020. The detail is hereunder:

(Amount in Rs.)					
S#	Material / Scrap Category	Qty (MTN)	Rate of the Highest bid per Kg.	Bidder's Name	Total value

1	Heavy Girders, I-Beams, Angles and Rails etc	400	121.90	M/s Abdullah Engineering	48,760,000
2	Pipes	40	98.15	-do-	3,926,000
3	HR Sheet, Thick Plates, Billets, and Slab prices	200	135.65	Asian Salvage	27,130,000
4	Fabricated pieces (ducts, half round sheet, trusses etc)	350	102.30	-do-	35,805,000
Total		990			115,621,000

Audit is of the view that auction of the usable material neglecting committee recommendation on fitness of the items for future use was unjustified and irregular in audit.

The matter was reported to the management on March, 2023. The irregularity was discussed in the DAC meeting held on November 29, 2023. DAC directed the management to submit revised reply alongwith documentary evidence regarding disposal of material approval and utilization of the amount. DAC further directed that Joint Venture approval and status of the JV may also be shared with audit and MoIP.

Audit recommends implementation of the DAC directives.

9.6.4.3 Loss due to non-renting out of land - Rs.84.276 million

Rule 5(1) of the Public Sector Companies (Corporate Governance) Rules, 2017 states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Steel Fabricating Company Ltd (PSFCL) for the years 2018-19 to 2021-22, it was observed that 70.23 acres of land were not utilized by the management since operations of company. The detail is given as under:

(acres)		
Total land	Land Utilized	Land not utilized
89.23	19 (including tenants)	70.23
Approx loss of revenue	Rs.84.276 million (70.23x100,000 per acre in a month x 12)	

Had management rented out land, the company could have earned an amount of Rs. 84.276 million in a year.

Audit is of the view that non-renting out of the land reflected negligence of the management in utilization of the assets.

The matter was reported to the management on March, 2023. The irregularity was discussed in the DAC meeting held on November 29, 2023. DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.6.4.4 Non-recovery of outstanding amounts from various parties – Rs.83.874 million

As per rule 4(3) of Public Sector Companies (Corporate Governance) Rules, 2017, the Chief Executive is responsible for the management of a Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, with the Ordinance. Responsibilities of CEO include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Steel Fabricating Company Ltd (PSFCL) for the years 2018-19 to 2021-22, it was observed that an amount of Rs 83,874,711 was outstanding against various debtors since long. Details are as under:

(Amount in Rs.)		
S#	Description(s)	Amount
1	Advances to suppliers	57,487,387
2	Advances for Services	121,450
3	Retention Money	8,457,040
4	Marginal Against letter of Credits	1,727,834
5	Outstanding rent	13,300,000
6	Custom authorities	2,091,000
7	PSFCL's employees	690,000
Total		83,874,711

Audit is of the view that substantial amount of Rs 83,874,711 was outstanding against various parties which reflected weak financial management of the company.

The matter was reported to the management on 27-03-2023. The matter was reported to the management on March, 2023. The irregularity was discussed in the DAC meeting held on November 29, 2023.

- a) DAC directed to submit revised reply with respect to efforts made for recovery from custom authorities and employees, updated status of Ombudsman case may be intimated to the audit and MoIP.
- b) DAC directed the management to provide record regarding recovery already made to audit for verification. Para will remain at DAC level till final recovery of the amount.
- c) DAC directed the management to provide detail regarding sale of Jet Refuller to audit for verification i.e. Advertisement in newspaper, Bids Received, Award of contract and sale proceeds.

d) DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

(DP No. 104, 108, 109 & 119)

9.6.4.5 Loss due to shortage of materials – Rs 67.733 million

Rule 4(3) of Public Sector Companies (Corporate Governance) Rules, 2017 states that the Chief Executive is responsible for the management of a Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, with the Ordinance. Responsibilities of CEO include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Steel Fabricating Company Ltd (PSFCL) for the years 2018-19 to 2021-22, it was observed that management awarded works to contractors for lifting the scrap material on 21 October, 2021. However, the contractors could not lift the material as per letter of award due to shortage of material at sites (Annex-70). Detail is as under:

Amount in Rs. & Qty in KG					
S#	M/s	Qty to be lifted	Qty lifted	Short-lifted	Value (Short-lifted)
1	Faisal & Company	200,000	77,180	122,730	6,203,120
2	Abdullah Engineering	700,000	442,510	257,498	27,050,327
3	Asian Salvaging Company	550,000	247,660	302,340	34,479,775
Total					67,733,000

Audit is of the view that shortage of material at site was unjustified and reflected negligence on part of the management.

The matter was reported to the management on March, 2023. The irregularity was discussed in the DAC meeting held on November 29, 2023. DAC directed that management to reconcile the figures with Audit under intimation to the MoIP.

Audit recommends implementation of the DAC directives.

9.6.4.6 Irregular / unjustified procurement of steel racks – Rs 50.314 million

Rule 20 of PPRA Rules, 2004 states that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

During audit of Pakistan Steel Fabricating Company Ltd (PSFCL) for the years 2018-19 to 2021-22, it was observed that management entered into agreements with the contractors without competitive bidding. Detail of contracts is as under:

(Rs. in million)			
S#	Description(s)	Name	Amount
1	Supplied of 1502 steel racks @ Rs. 25,000/= each	M/s Asad Trader	37.550
2	Disposed of W-Beam Guard Rail & accessories	M/s Tabani Enterprises	12.764
Total			50.314

Audit is of the view that award of works without open competitive bidding was in violation of public procurement rules, hence, held irregular.

The matter was reported to the management on March, 2023. The irregularity was discussed in the DAC meeting held on November 29, 2023. DAC directed to conduct inquiry at ministry level and fix the responsibility.

Audit recommends implementation of the DAC directives.

9.6.4.7 Non-achievement of business target – Rs.29.750 million

As per rule 4(3) of Public Sector Companies (Corporate Governance) Rules, 2017, the Chief Executive is responsible for the management of a Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, with the Ordinance. Responsibilities of CEO include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and used economically, efficiently, and effectively and in accordance with all statutory obligations.

During audit of Pakistan Steel Fabricating Company Ltd (PSFCL) for the years 2018-19 to 2021-22, it was observed that Board approved revenue target of Rs. 29.750 million for the year 2019-20. However, the management did not realize the target.

Audit is of the view that non-achievement of the target reflected inaction of the management.

The matter was reported to the management on March, 2023. The irregularity was discussed in the DAC meeting held on November 29, 2023. DAC directed the management to submit revise / fresh reply to Audit.

Audit recommends implementation of the DAC directives.

9.6.4.8 Irregular lifting of material beyond letter of work award – Rs.19.007 million

Rule 4(3) of Public Sector Companies (Corporate Governance) Rules, 2017, the Chief Executive is responsible for the management of a Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, with the Ordinance. Responsibilities of CEO include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and used economically, efficiently, and effectively and in accordance with all statutory obligations.

During audit of Pakistan Steel Fabricating Company Ltd (PSFCL) for the years 2018-19 to 2021-22, it was observed that management awarded a contract of lifting of following items to M/s Tabani Enterprises on 13-06-2018. However, the contractor lifted the material in excess of the quantity specified in work award. Detail of excess items lifted is as under;

Amount in Rs. & Qty in pieces (Nos.)						
S#	Items Description(s)	Quantity as per Letter of Award	Actual quantity lifted	Excess Quantity Lifted	Rate per unit Avg	Amount of Excess Quantity
1	W-Section	2,014	4,338	2,324	5,719.00	13,290,956
2	End Pieces	577	886	309	1,603.00	495,327
3	Channel Post	589	2,386	1,797	763.25	1,371,560
4	Lifting of material without tender					3,850,000
Total						19,007,843

Audit is of the view that excess lifting of the material / without letter of award was in violation of the public procurement rules, hence, held irregular.

The matter was reported to the management on March, 2023. The irregularity was discussed in the DAC meeting held on November 29, 2023.

- a) DAC directed that management to reconcile the figures with Audit under intimation to the MoIP.
- b) DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.6.4.9 Violation of rules due to irregular / unjustified rented out premises without tendering – Rs.10.800 million

Rule 04 PPRA, 2004 of states that procuring agencies, while engaging in procurement, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value of money to the agency and the procurement process is efficient and economical. Further, clause 40 stipulates that without changing the cost and scope of work or services, the procuring agency may negotiate with the successful bidder.

During audit of Pakistan Steel Fabricating Company Ltd (PSFCL) for the years 2018-19 to 2021-22, it was observed that management entered into an agreement on 28.05.2020 for three years with M/s Pakistan Vehicle Engineering (Pvt) Ltd for renting out the Shed Spaces (Wood Craft Shop) along with office (Dispensary). The management constituted Negotiation Committee to finalize the matter and offered rent of Rs.500,000 per month, but the tenants agreed the rent of Rs.300,000 per month along with fabrication of Rs.5,000 per bowser. However, Audit observed the following irregularities;

1. The premises was rented out without open competitive bidding process

2. Rent was fixed on negotiation basis.
3. The increase of rent was 7.5% per annum instead of 10%.

Audit is of the view that renting out of space without competitive bidding and change of cost through negotiation was in violation of PPRA rules, hence, held irregular.

The matter was reported to the management on March, 2023. The irregularity was discussed in the DAC meeting held on November 29, 2023. DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.6.4.10 Un-justified issued of open cheques and cash deposits into bank accounts – Rs.10.205 million

According to Finance Division letter No.F-15(13) R-14/82 dated Sep 05, 1982, the funds provided, acquired or generated by Autonomous /Semi-Autonomous Bodies and Corporations are public funds, which cannot be utilized at the sole discretion of the management. The funds should be utilized with due care and caution. Further, rule 23 of GFR states that every Government officer should realize fully that he will be held responsible for any loss sustained by the Government through fraud and negligence on his part.

During audit of Pakistan Steel Fabricating Company Ltd (PSFCL) for the years 2018-19 to 2021-22, it was observed that management made following transactions through cash / open cheques instead of the cross-cheques.
(Annex-71)

(Rs. in million)			
Provident Fund	Cash Deposits	Payments to Vendors	Total
1.339	4.933	8.866	15.138

Audit is of the view that transactions through open cheques/cash reflected control weaknesses in the organization.

The matter was reported to the management on March, 2023. The irregularity was discussed in the DAC meeting held on November 29, 2023. DAC directed the management to get the record verified from Audit. DAC further directed that in future all such payment should be made through crossed cheque instead of open cheque.

Audit recommends implementation of the DAC directives.

9.6.4.11 Loss of interest income to non-invested of Provident Fund – Rs.8.267 million

According to Section 218 of Companies Act, 2017,“the Employees’ contributory funds, contributory retirement funds and securities, (1) All moneys or securities deposited with a company by its employees in pursuance of their contracts of service with the company shall be kept or deposited by the company within fifteen days from the date of deposit in a special account to be opened by the company for

the purpose in a scheduled bank or in the National Saving Schemes, and no portion thereof shall be utilized by the company except for the breach of the contract of service on the part of the employee as provided in the contract and after notice to the employee concerned”.

As per rules / regulations of the employees’ provident fund of clause 15 states that the moneys of the fund shall be invested as the trustees shall from time to time.

During audit of Pakistan Steel Fabricating Company Ltd (PSFCL) for the years 2018-19 to 2021-22, it was observed that management did not invest following provident funds since May, 2019.

S#	Description(s)	Date of Profit credit into account	Amount	Balance in Rs.	Loss of Income	Discount Rate
1	One year investment	30.05.2019	20,998.250	25,655,242	-	-
2	Semi Annual Gross Profit	20.07.2019	354945	24,060,863	2,592,510	12.25
3	-do-	11.01.2020	1,247,479	16,784,821	95307	8.00
4	-do-	11.07.2020	780,056	16,639,576	551110	8.00
5	-do-	11-01.2021	412,383	14,099,204	574,561	7.00
6	-do-	17-07-2021	381,167	14,356,656	623798	7.00
7	-do-	15-01-2022	422,001	14,664,308	1594341	13.75
8	Annual Profit	31-12-2022	-	16,258,649	2,235,564	13.75
Total					8,267,191	

Audit is of the view that non-investment of funds resulted into loss of the benefits.

The matter was reported to the management on March, 2023. The irregularity was discussed in the DAC meeting held on November 29, 2023. DAC directed the management to submit revised reply and make efforts for activation of dormant fund and share with audit. DAC further directed that Internal fact finding may be conducted and submit report to Audit.

Audit recommends implementation of the DAC directives.

9.6.4.12 Loss due to leakage / wastage of gas – Rs.2.932 million

Rule 4(3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for the management of a Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, with the Ordinance. Responsibilities of CEO include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Steel Fabricating Company Ltd (PSFCL) for the years 2018-19 to 2021-22, it was observed that there was liability of SSGC for December, 2019 to February, 2020 amounting to Rs. 2.932 million despite the fact that company operations were halted since 2017. Detail is hereunder;

S#	Period	Units Consumed	Gas Charges in Rs.
1	February, 2020	13193	612,297
2	January, 2020	24568	1,146,809
3	December, 2019	22904	1,096,863
Gross Payable			2,855,969
Later Payment Surcharge			76,741
Net Payable			2,932,710

Audit is of the view that consumption of gas after halting of the operation was unjustified.

The matter was reported to the management on March, 2023. The irregularity was discussed in the DAC meeting held on November 29, 2023. DAC directed the management to conduct internal fact-finding inquiry and share with audit and MoIP.

Audit recommends implementation of the DAC directives.

9.6.4.13 Loss due to penalties – Rs.2.281 million

Rule 4(3) of Public Sector Companies (Corporate Governance) Rules, 2017, states that the Chief Executive is responsible for the management of a Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, with the Ordinance. Responsibilities of CEO include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan Steel Fabricating Company Ltd (PSFCL) for the years 2018-19 to 2021-22, it was observed that PSFCL paid the penalties due to non-compliance of the rules & regulation of various authorities. Detail is as under:

S #	Name of Authorities(s)	Penalty (Rs. in million)
1	SESSI imposed penalty on account of non-paying of monthly contributions	1.451
2	The management did not submit the General Sales Return from January 2019 to November 2020, due to this management paid penalty charges to the FBR.	0.230

3	Management paid penalty charges to the Security Exchange Commission of Pakistan due to non-compliance of the regulator.	0.60
Total		2.281

Audit is of the view that payment of penalties reflected negligence of the management.

The matter was reported to the management on March, 2023. The irregularity was discussed in the DAC meeting held on November 29, 2023. DAC directed the management to get the record verified from Audit regarding interest rate increase by the SESSI and penalties imposed by the SECP and FBR.

Audit recommends implementation of the DAC directives.

9.6.4.14 Non-finalization of annual accounts

According to Section 233 of the Companies Act, 2017, the company should finalize its annual accounts within four months after closing date of accounts for the year.

During audit of Pakistan Steel Fabricating Company Ltd (PSFCL) for the years 2018-19 to 2021-22, it was observed that contrary to above, the Annual Accounts of the company for the years 2016-17 to 2021-22 were not prepared / audited by the chartered accountant for the year under review.

Audit is of the view that non-finalization of audited annual accounts reflected weak internal controls in the company.

The matter was reported to the management on March, 2023. The irregularity was discussed in the DAC meeting held on November 29, 2023. DAC directed the management to complete the audit accounts at the earliest and share with audit under intimation to MoIP.

Audit recommends implementation of the DAC directives.

9.7 Pakistan Gems and Jewellery Development Company

9.7.1 Introduction

Pakistan Gems & Jewellery Development Company (PG&JDC) was incorporated in 2006 as a company limited by guarantee having share capital under Section 42 of the Companies Ordinance, 1984 (now Company's Act 2017). The registered office of the company is situated at PIDC House, Karachi. PG&JDC became operational in April 2007. The primary objective of the company is to promote and develop value added gems and jewellery products and to enhance its competitiveness internationally by facilitation, technology up-gradation, skill development, marketing and branding and to support growth of Gems and Jewellery Industry by way of supporting and facilitating business development services for the enterprises across the Gems and Jewellery value chain.

9.7.2 Comments on Audited Accounts

9.7.2.1 The annual audited accounts are required to be provided to audit for review each year. Contrary to this, the management failed to provide audited accounts of the organization for the years 2020-21 to 2022-23 despite a number of reminders.

Audit requires that the annual audited accounts of the years 2020-21 to 2022-23 be provided immediately and timely finalization be ensured in future, besides, fixing responsibility for non-finalization of annual audited accounts (*Annex-2*).

9.7.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
2013-14	3	1	2	8.5.2.1, 8.5.3	33
2015-16	8	2	6	8.7.4.1, 8.7.2.1, 8.7.2.2, 8.7.2.3, 8.7.2.4, 8.7.2.5	25
2018-19	8	1	7	9.7.4.3 (Remaining to be discussed in PAC)	12.5
2019-20	-	-	-	-	-
2021-22	4	-	4	8.6.4.3 (Remaining to be discussed in PAC)	-
Total	23	4	19		17.39%

The overall compliance of PAC directives needs improvement.

9.7.4 Audit Paras

9.7.4.1 Increasing accumulated losses – Rs 1,648.160 million

Rule 5 of Public Sector companies (Corporate Governance) Rules, 2017 states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Gems and Jewellery Development Company (PG&JDC) for the year 2020-21 & 2021-22, it was observed that the company has complete failure in generating positive operational results/operational income since many years. The position of operational failure is tabulated below:

(Rs.in million)		
Description	2021	2022
Accumulated Deficit-opening	(1,683,285,140)	Rs (1,701,639,305)
Deficit/Surplus for the year	(18,354,165)	53,479,280
Accumulated Deficit-Ending	(1,701,639,305)	(1,648,160,025)

Thus, PGJDC is not able to generate revenue for its survival and had to rely on Government Grant completely which renders its sustainability questionable.

Audit is of the view that the above scenario reflects that poor planning; monitoring and control resulted in poor performance and led to failure and sustainability issue.

The matter was reported to the management on February 24, 2023. The irregularity was discussed in the DAC meeting held on November 29, 2023. The management informed that the main objectives of the company, envisaged under PC-I, were to facilitate the sector through quality assurance, technology up-gradation and skill development. Therefore, instead of viewing the financial loss having been incurred due to peculiar business model of the company, the economic impact of the intervention may be seen. DAC directed the management to submit revised reply with justification of sustaining losses.

Audit recommends implementation of the DAC directives.

9.7.4.2 Non-utilization of assets of training & manufacturing centers – Rs.77.030 million

According to Article of Association of company, the objectives of the Development Projects of PGJDC are as under:

1. Productivity growth: To ensure productivity growth through skill development, technology up-gradation, R&D and innovation
 - Establishment of Gems and Jewellery Training Manufacturing Centers
 - Establishment of Gems Testing Laboratories
 - Establishment of Assaying and Hallmarking Centers

During audit of Pakistan Gems and Jewellery Development Company (PG&JDC) for the years 2020-21 & 2021-22, it was observed that management has taken initiative of building and developing Gems and Jewellery Training and manufacturing Centers, Testing Laboratories and Gem exchanges in selected locations of the country. But due to bad governance, ill planning, poor financial management and weak financial controls, these units have become non-operational since June 30, 2019 and assets under the title of each establishment has cumulative worth of Rs.77.030 million which are subject to gradual deterioration and cumulate further losses. The detail of unexpired cost as on June 30, 2022 is as follows:

S. No.	Gems & Jewellery Establishment	No. of Units	Locations	Assets (Rs in million)
01	Training Manufacturing Centers	07	Karachi, Lahore, Peshawar, Quetta, Gilgit, Muzafarabad and Sargodha.	60.47
02	Gems Exchanges	02	Queeta & Peshawar	1.60
03	Assaying and Hallmarking Centers	02	Karachi and Lahore	14.96
Total				77.03

Audit is of the view that management failure is evident in keeping above centers operational to support export and economy. Further, non-utilization of precious economic assets reflects poor asset management and may lead to further loss to government exchequer.

The matter was reported to the management on February 24, 2023. The irregularity was discussed in the DAC meeting held on November 29, 2023. The management informed that in order to attain the approved aims and objectives of the company, the assets were optimally utilized during the project period i.e 2007-2017 and as a result of interventions by PGJDC, the quality of gems and jewellery products improved and the exports were increased from USD 47.00 million (2006-07) to USD 1.18 billion in 2012-13. DAC directed the management that the matter of winding up proceeding is to be taken up with SECP and progress will be shared with Audit.

Audit recommends implementation of the DAC directives.

9.7.4.3 Non-recovery of advances / dues from various parties – Rs.18.691 million

Rule 38 of GFR provides that it is primary responsibility of the departmental authorities to see that all revenues or other debts due to government, which have to be brought to account are correctly and promptly assessed, realized and credited to the public account.

During audit of Pakistan Gems and Jewellery Development Company (PG&JDC) for the years 2020-21 & 2021-22, it was observed that various parties have long outstanding balances which were not recovered as detailed below:

S#	Description	Aging (Outstanding Period)	Amount(Rs)
1	Income Tax Refundable	Over 03 years	7,231,600
2	Advance Income Tax	Over 03 years	9,910,833
3	Advances	Over 03 years	1,391,036
4	Other receivables	Over 03 years	712,78
5	Prepayment	Up to 01 year	158,182
Total			18,691,651

Audit is of the view that due to poor pursuance and weak internal controls, an amount of Rs.18.691 million is lying outstanding and the chances of recovery are becoming remote with the passage of time, causing losses to the organization.

The matter was reported to the management on February 24, 2023. The irregularity was discussed in the DAC meeting held on November 29, 2023. The management informed that the Company is dysfunctional since March 2019 and all employees to whom these advances or receivables were issued or who were responsible to settle these advances have been laid off. Further, majorly advances pertain to 45% advance paid to the Grant Thornton Consulting (Pvt) Ltd. for preparing business plan which would be settled upon completion of works. DAC directed to conduct fact-finding enquiry to asses advances released and adjusted with compliance of due standard, procedure and approval and submit report within 30 days and also share report with Audit.

Audit recommends implementation of the DAC directives.

9.7.4.4 Unjustified booking of amounts on account of deferred liability under gratuity fund scheme – Rs.12.164 million

IAS-19-Defined benefit plans (Measurement) states that the present value of an entity's defined benefit obligations and related service costs is determined using the 'projected unit credit method', which sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately in building up the final obligation.

During audit of Pakistan Gems and Jewellery Development Company (PG&JDC) for the years 2020-21 & 2021-22, it was observed that the management operated an unfunded Gratuity scheme without observing IFRS requirement.

Qualification remarks of Chartered Accountant in Annual Report for the year 2021 noted that the company has accounted for deferred liability under Gratuity Scheme based on completed period of service using current salary level which works out to be Rs.12.164 million in the year 2022. The aforesaid policy

of PGJDC is not in line with the requirement of IFRS (IAS-19) which requires usage of projected unit credit method to determine staff Gratuity obligation. Actuarial valuation could not be carried out by the management which raises concern about correct valuation of Gratuity obligation paid and standing as on June 30, 2022.

The matter was reported to the management on February 24, 2023. The irregularity was discussed in the DAC meeting held on November 29, 2023. The management informed that the Company is making efforts for establishment of Gratuity funds account which is under process. However, the payment of Gratuity to the retired/contract expired employees is subject to release of funds from Govt. of Pakistan. DAC directed to conduct fact-finding enquiry to assess and report on recording and payment of gratuity liability in compliance of approved contractual terms.

Audit recommends implementation of the DAC directives.

9.7.4.5 Unjustified expenditure after closure of development projects - Rs.7.780 million

According to Para 10 (i) of GFR, every Public Officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

During audit of Pakistan Gems and Jewellery Development Company (PG&JDC) for the years 2020-21 & 2021-22, it was observed that the project of Gems and Jewellery Development Company at AJK was completed on October 31, 2017 and remained non-operation since June 2019. However, the management incurred an expenditure of Rs.7.780 million on account of salary, Rent, Utilities and other charges. The details of expenditure is as follows:

Head of Account	Period	GJTMC, AJK (Rs)
Salaries & wages payable	May & June 2019	645,204
Medical claim	July 2018 - June 2019	29,866
Earned leave	July 2018 - June 2019	267,594
Rent payable	March 2019 - June 2022	5,858,719
Petty cash payable	Oct 2018 - Sept 2019	61,332
Utility bills payable (estimated)	Feb 2019 to Dec 2023	700,000
Insurance bill payable (estimated)	July 2022-June 2023	200,000
Accrued liabilities	Feb 2019 to Jun 2020	14,631
	Total	7,777,346

Audit is of the view that expenditures after the completion of the project are wasteful and unjustified.

The matter was reported to the management on February 24, 2023. The irregularity was discussed in the DAC meeting held on November 29, 2023. The management informed that implementation period

of GJTTC AJK finished on 31st October 2017. Subsequently, PGJDC requested funds from PIDC to continue operations of PGJDC's Projects, including GJTTC AJK. PIDC provided funds amounting to Rs.44.360 million. Through these funds PGJDC managed to run operations of this project till February 2019. Subsequently, PGJDC became unable to continue operations of the project and closed it down. The employees were also laid off in June 2019. DAC directed that the matter of winding up proceeding is to be taken up with SECP and progress will be shared with Audit.

Audit recommends implementation of the DAC directives.

9.7.4.6 Expenditures without completion of business plan – Rs.1.180 million

Rule 4(3) of Public Sector companies (Corporate Governance) Rules 2017 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules.

During audit of Pakistan Gems and Jewellery Development Company (PG&JDC) for the years 2020-21 & 2021-22, it was observed that the management hired the services of M/s Grant Thornton Consulting Private Ltd (M/s GT) on November 17, 2016 for the preparation of business / continuity plan. The contract was awarded for Rs.2.619 million having completion time of 02 months with deliverable of skill development program for next 20 years. However, despite lapse of 07 years, the management could not get the final version of Business Plan ready for onward submission to Ministry of Industries and Production (MoI&P) and Planning Commission for approval. The management paid expenditure of Rs.1.180 million in favour of consultant for incomplete task.

Audit is of the view that the management failure is evident in getting the Business Plan ready for approval which resulted in wasteful expenditure of Rs.1.180 million.

The matter was reported to the management on February 24, 2023. The irregularity was discussed in the DAC meeting held on November 29, 2023. The management informed that payment amounting to Rs 1,178,550 was made after submission of 1st draft by the contractor. No further payments were made as PGJDC BoD did not approve the draft plan with the justification that execution of the Plan requires fresh funding however the federal government was not willing to provide any more funds to PGJDC after completion of PSDP project through which the company was raised and operated for around ten years. DAC directed to conduct fact-finding enquiry to asses' approval from Ministry of finance for Business Plan along with report on completion status, payments released and justification for non-execution. Fact finding Report is to be completed and submitted within 30 days and shared with Audit.

Audit recommends implementation of the DAC directives.

9.7.4.7 Irregular disposal of generator – Rs.0.300 million

Rule 23 of GFR provides that every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part.

During audit of Pakistan Gems and Jewellery Development Company (PG&JDC) for the years 2020-21 & 2021-22, it was observed that the management sold the generator without observing standard procedure of fixing standard selling price through auction which was irregular. The record reflected that Diesel Generator 30 KVA (Perkins) was purchased on June 30, 2009. The generator was kept in a rental premises @ Rs 3,000 monthly charge from October, 2017 after the closure of Gems Exchange Quetta. In July 2019, the generator was sold to M/s Zaib and Brothers at Rs 300,000 without observing auction formalities. Further, the sale was made in favour of M/s Zaib who had standing obligation of rent against the company against which sale was settled which is also irregular and unjustified.

The matter was reported to the management on February 24, 2023. The irregularity was discussed in the DAC meeting held on November 29, 2023. Management informed that matter was placed before the Board on 31st May, 2019, the Board directed that matter has been already delayed and incurring continuously rental charges of Rs.3,000 and directed to sale Generator who has offered the highest price” but should not be less than present written down value of Generator. Keeping in view of above decision of Board, management sold the Generator to highest bidder i.e M/s Zaib Brothers Pvt Ltd who offered Rs.300,000. The vendor has deposited Rs.300,000 against Company Bank account. In view thereof, competitive process was followed. DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

9.7.4.8 Non appointment of regular CEO since 2017

According to SECP Guidelines, 2015 for appointment of Chief Executive:

2. Advertisement for the Position. - (1) The Board shall initiate the appointment process, at least three months before the term of the incumbent chief executive is going to expire, by issuing a public advertisement in the print media, inviting applications for appointment against the vacant position. The advertisement shall also be posted on the website of the public sector company or that of the line ministry. Direct applications shall also be acceptable, and the fact may be specified in the advertisement.

During audit of Pakistan Gems and Jewellery Development Company (PG&JDC) for the years 2020-21 & 2021-22, it was observed that the company had been running its operations without a Chief Executive Officer since 2017. Since 2017, the key post of CEO was filled through additional or Look After charges as detailed below:

S#	Name of Chief Executive	Date of Joining	Resigned/Contract Terminated	Status
1.	Mr. Muhammad Iqbal Tabish	17-11-2017	05-08-2019	Additional Charge
2.	Mr. Rizwan Ahmed Bhatti	27-08-2019	25-10-2019	Look After Charge
3.	Mr. Shahid Iqbal Qureshi	25-10-2019	15-12-2020	Look After Charge
4.	Mr. Muhammad Shoaib Akbar	16-12-2020	15-03-2021	Additional Charge
5.	Mr. Muhammad Riazuddin	08-06-2021	01-06-2022	Additional Charge
6.	Mr Sajjad Azhar	09-09-2022	14-02-2023	Look After Charge
7.	Mr Sajjad Azhar	14-02-2023	13-05-2023	Additional Charge

Audit is of the view that in the absence of CEO, the company is incurring expenditure at the cost of Government Exchequer without producing operational and other benefits which is unjustified.

The matter was reported to the management on February 24, 2023. The irregularity was discussed in the DAC meeting held on November 29, 2023. The management informed that process of appointment of regular CEO was initiated during 2019-20 but the matter could not progress further due to dysfunctionality of company, financial crunch and proposals of restructuring under consideration of Industries and Production including establishment of proposed Pakistan Gems and Jewelry Development Authority (PGJDA). DAC directed that the matter of winding up proceeding is to be taken up with SECP and progress will be shared with Audit.

Audit recommends implementation of the DAC directives.

9.7.4.9 Key Management positions lying vacant

Rule 5 of Public Sector companies (Corporate Governance) Rules, 2017 states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Pakistan Gems and Jewellery Development Company (PG&JDC) for the year 2020-21 & 2021-22, it was observed that various key management positions were lying vacant in the company since long. Detail is as under:

S#	Name of Post	Number of Post(s)	Date since of vacant post
1.	General Manager (Marketing & Quality Assurance)	01	07-04-2011
2.	General Manager, Training & Development	01	26-02-2018
3.	Chief Financial Officer	01	20-11-2017

4.	Manager Projects	01	01-05-2012
5.	Manager Accounts	01	29-09-2016
6.	Manager (Admin & HR)	01	02-07-2014
7.	Manager (Internal Audit) / CIA	01	02-10-2013
8.	Assistant Manager (Quality Assurance)	01	29-09-2016
9.	Assistant Manager (Projects)	01	29-09-2016

Audit is of the view that key management positions of the company were lying vacant for considerable period which reflects non-existence of professional working set up.

The matter was reported to the management on February 24, 2023. The irregularity was discussed in the DAC meeting held on November 29, 2023. The management informed that in the absence of full fledged CEO, lack of operational activity, acute financial crisis faced by company, completion of PSDP Projects in 2017 and full utilization of funds by 2019, only the skeleton staff was retained by PGJDC for disposing off routine matters and hence there was no need to fill management positions. DAC directed that the matter of winding up proceeding is to be taken up with SECP and progress will be shared with Audit.

Audit recommends implementation of the DAC directives.

9.8 Heavy Electrical Complex (Pvt.) Limited

9.8.1 Introduction

The Company was incorporated as a Private Limited Company on December 09, 1991, fully owned by State Engineering Corporation (Pvt.) Limited Ministry of Industries and Production, Government of Pakistan. The registered office of the company is situated at Third Floor, Software Technology Park, (STP-I), 5-A Constitution Avenue, F-5/1, Islamabad. The Company is engaged in the manufacturing and repair of power transformers.

9.8.2 Comments on Audited Accounts

9.8.2.1 The annual audited accounts are required to be provided to audit for review each year. Contrary to this the management failed to provide audited accounts of the organization for the year 2022-23 till December 31, 2023.

Audit recommends that the annual audited accounts for the year 2022-23 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*Annex-2*)

9.8.2.2 The working results of the Company for the year 2021-22 as compared to the preceding years are tabulated below:

(Rs in millions)

Particulars	2021-22	% Inc/ (Dec)	2020-21	% Inc/ (Dec)	2019-20
Sales	78.19	(79.03)	372.93	68.14	221.80
Cost of sales	144.26	(66.34)	428.55	235.17	127.86
Gross profit/(loss)	(66.06)	18.78	(55.62)	(159.21)	93.94
Operating expenses					
Administrative expenses	59.79	3.57	57.73	(6.62)	61.82
Selling & distribution expenses	8.93	(20.17)	11.18	(5.25)	11.80
Operating profit/(loss)	(134.78)	8.24	(124.52)	(713.10)	20.31

Other expenses	261.04	-	0.00	0.00	0.00
Other income	94.41	1979.41	4.54	(42.96)	7.96
Financial charges	69.76	61.04	43.32	(39.52)	71.63
Loss for the year before tax	(371.18)	127.30	(163.30)	276.61	43.36
Taxation	4.23	3423.33	0.12	(96.43)	3.36
Loss after taxation	(366.95)	124.54	(163.42)	249.79	46.72

(Source: Annual Audited Accounts 2021-22)

During the year the sales of the company was decreased by 79.03% to Rs 78.19 million in 2021-22 from Rs 372.93 million in 2020-21, whereas, the Cost of Sales was decreased by 66.34% to Rs 144.26 million in 2021-22 from Rs 428.55 million in 2020-21. The decrease in sales resulted in gross loss of Rs 66.06 million to the company in 2021-22 (2020-21 – Rs 55.62 million) and the accumulated loss increased by 37% to Rs 1,213.81 million as on June 30, 2022 (2020-21 – Rs 883.058 million). These conditions, along with other matters as set forth in accounts indicate that the material uncertainty exists that may cast significant doubt on the company's ability to continue as a going concern, which required explanation.

9.8.2.3 Administrative expenses increased by 3.57% to Rs 59.79 million in 2021-22 (2020-21- Rs 57.73 million). The increase in Administrative Expenses in circumstances when sales decrease by 79.03% showed inefficient utilization of available resources and lack of control over administrative expenditures which needs justification.

9.8.2.4 The company's net loss increased by 124.54% to Rs 366.95 million in 2021-22 (2020-21 – Rs 163.42 million). The reason(s) for such continuous losses was management's inefficient operational activities. Efforts are required be made to increase the sale and rationalize the operational activities to make the corporation a viable and self-sustaining unit in the years to come.

9.8.2.5 Trade Debts decreased by 64% to Rs 106.416 million in 2021-22 from Rs 296.906 million in 2020-21. The provision for doubtful debts amounting to Rs 32.609 million appearing in previous year was written off during the year under review. Position needs clarification with regard to party wise detail of write off amount, reasons for non-recovery, in-house inquiry, if any, prior to written off approval etc.

9.8.2.6 Other Expenses of Rs 261.041 million are appearing in profit & loss account for the year 2021-22 (2020-21 – Rs Nil). The expenses included bad debts of Rs 181.789 million and loss on bank guarantee Rs 79.252 million. Both the figures related to late delivery charges and encashment

of bank guarantees by the customers due to non-completion of orders. Position needs clarification with reference to the reasons under which the orders were not completed or delayed completed.

9.8.2.7 The External Auditors issued qualified opinion on the accounts of the Board during the year under review on the basis of following points:

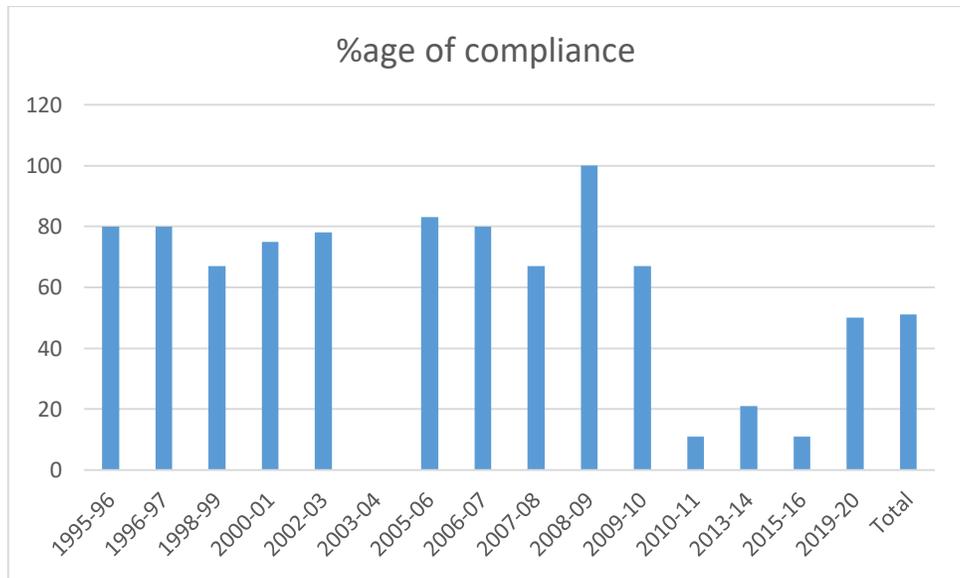
- i. According to IAS 36 ‘Impairment of Assets’ an entity should assess at each reporting period whether there is any indication that an asset may be impaired, and for an intangible asset not available for use impairment assessment should be done an impairment assessment for its plant and machinery and intangibles that are not yet available for use, despite the company incurring losses for several years. The impact of impairment of plant and machinery and intangibles is material to the Financial Statements and it cannot be quantified.
- ii. The company has recorded provision for gratuity as per management estimate instead of actuarial valuation as per requirements of IAS-19 ‘Employee Benefits’. The management estimate does not account for financial, demographic and other actuarial assumptions for the calculation of the present value of the provision against gratuity. The impact of the difference of provision form actuarial valuation cannot be quantified.
- iii. The External Auditors of the company noted that Company has trade debts amounting to Rs 106.416 million as at year ending 2022. The Company considered all its receivables as good and has not assessed any expected credit loss against these receivables which is in contravention of the requirements of International Financial Reporting Standards (IFRSs). The impact of expected credit loss or the receivable balance is material and cannot be quantified.

The management is stressed for early removal of said qualifications.

9.8.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	%age of compliance
1995-96	05	04	01	190	80
1996-97	05	04	01	169	80
1998-99	03	02	01	262	67
2000-01	04	03	01	299	75
2002-03	09	07	02	103.5,103.8	78
2003-04	05	0	05	104.2,107&107.1,107.2,104&104.1, 108.3	-
2005-06	06	05	01	132.3	83
2006-07	05	04	01	107.1	80

2007-08	03	02	01	80.2	67
2008-09	06	06	0	NIL	100
2009-10	03	02	01	132	67
2010-11	09	01	08	11.11.1, 11.11.2.1, 11.11.2.2, 11.11.2.3, 11.11.2.5, 11.11.2.6, 11.11.3, 11.11.4.1	11
2013-14	14	03	11	8.19.1, 8.19.2.1, 8.19.2.2, 8.19.2.3, 8.19.2.4, 8.19.2.5, 8.19.2.6, 8.19.2.7, 8.19.4.1, 8.19.4.3, 8.19.4.5	21
2015-16	09	01	08	8.20.1, 8.20.2.1, 8.20.2.2, 8.20.2.3, 8.20.2.4, 8.20.2.5, 8.20.2.6, 8.20.3	11
2019-20	04	02	02	7.14.2.2, 7.14.3	50
Total	90	46	44		51



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

9.9 National Fertilizer Marketing Limited

9.9.1 Introduction

National Fertilizer Marketing Limited (NFML) is a subsidiary of National Fertilizer Corporation of Pakistan (Pvt.) Limited (NFC). It was incorporated in 1976 under Companies Ordinance 1984 (now Companies Act 2017). The principal activity of the Company is marketing and sale of fertilizer purchased from local manufacturers and imported urea through Trading Corporation of Pakistan (Pvt.) Limited.

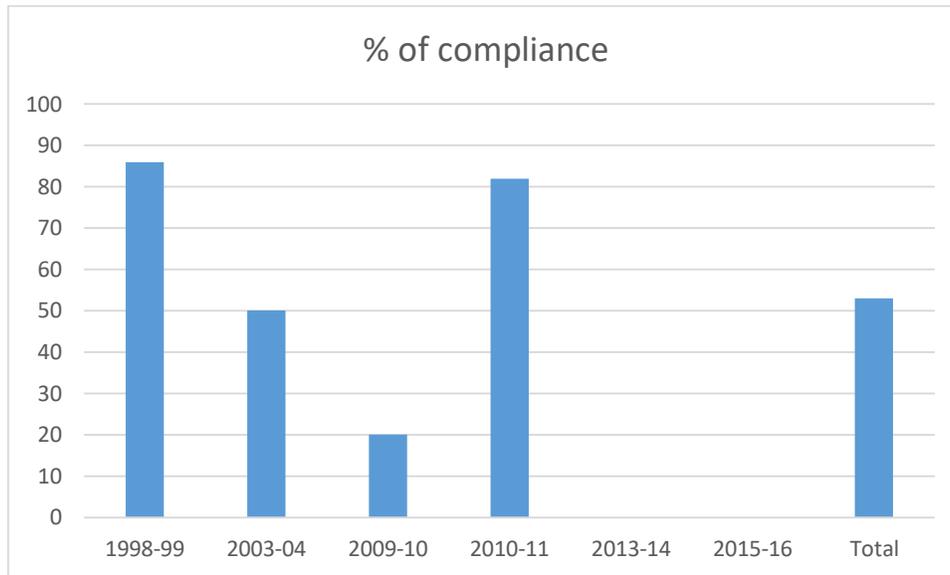
9.9.2 Comments on Audited Accounts

9.9.2.1 The annual audited accounts are required to be provided to audit for review each year. Contrary to this the management failed to provide audited accounts of the organization for the year 2018-19 to 2022-23 till December 31, 2023.

Audit recommends that the annual audited accounts for the years 2018-19 to 2022-23 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*Annex-2*).

9.9.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras #	% of compliance
1998-99	07	06	01	225	86
2003-04	04	02	02	117,119.5	50
2009-10	05	01	04	139,140,141,142	20
2010-11	11	09	02	11.14.4.1,11.14.4.2	82
2013-14	01	0	01	Annexure-2	0
2015-16	06	0	06	8.23.4.1,8.23.4.2,8.23.4.3,8.23.4.4,8.23.4.5,8.23.3	0
Total	34	18	16		53



The compliance of the PAC directives was very poor which need immediate attention of the PAO.

9.9.4 Audit Paras

9.9.4.1 Loss due to incurring excess incidental charges - Rs 173.845 million

According to Ministry of Industries and Production letter dated March 17, 2022, stock handling, warehousing and labor charges (incidental charges) approved by ECC were Rs 92 per bag.

During audit of NFML for the years 2019-23, it was observed that the management incurred Rs 357.845 million at the rate of Rs 178.57 per bag on account of incidental charges i.e. stock handling, warehousing and labor charges during 2021-22. Whereas, incidental charges approved by ECC was Rs 184.00 million at the rate of Rs 92 per bag. This resulted into excess cost of Rs 173.845 million (Rs 357.845 million - Rs 184 million). The management failed to complete the task of stock handling, warehousing and sale of urea within the approved cost which resulted into loss to the company.

Due to weak internal controls and financial management, the extra cost was incurred on account of incidental charges.

Audit is of the view that the management did not complete the said task within approved cost.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends the management to state the reason(s) of incurring excess incidental charges than the approved rate of incidental charges by ECC.

9.9.4.2 Irregular award of tally, labor and security contracts to various contactors - Rs 68.983 million

According to tender documents the prospective bidder who has been black listed, shall not be eligible to participate in contract process, either individually or as a member of other bidding company.

Moreover, according to clause I of tender documents for hiring of labor and security services, it is mandatory for bidder to have NTN registration not later than January 01, 2018 and minimum turnover of Rs 1.00 million as declared in FBR in last two financial years. Further, according to clause 38(2) (viii) of Public Procurement Rules 2021, the lowest evaluated bidder shall be awarded the contract.

During audit of National Fertilizer Marketing Limited (NFML) for the years 2019-23, it was observed that the management awarded tally, labor and security contracts for in-transit urea and bulk stores to various contractors. The contracts were awarded in violation of tender documents and PPRA rules. Hence, the award of such contract was irregular. The detail is as under:

(Rs in million)

Description of contract	Name of contractor	Violation of criteria	Deficiency	Contract award date	Amount
Labor and security contracts at bulk stores	M/s Abdul Qadeer	Tender Documents	Black listed	January 19, 2022	10.736
Labor and security contracts at bulk stores	M/s Zahir Shah & Brothers	Clause-I of Tender Documents	NTN and STN registration	January 2022	30.403
	M/s Muhammad Fahad			January 2022	24.859
Tally services contract	M/s M.A.M Company	Clause 38(2) (viii)	Award of contract to second lowest bidder	December 10, 2021	2.985
	Total				68.983

Due to non-observance of provisions of the tender documents and PPRA rules, the award of tally, labor and security contracts for in-transit urea and bulk stores was irregular.

Audit is of the view that the management was required to comply with the terms of the conditions of the tender documents and PPRA rules in letter and spirit.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends the management to explain the reason(s) of awarding contracts to various contractors in violation of tender documents and PPRA rules.

9.9.4.3 Irregular hiring of labor, tally and in transit security services - Rs 30.950 million

According to rule 42 (C) (IV) of Public Procurement Rules amended up-to June 2021, repeat orders should not exceed fifteen per cent of the original procurement.

During audit of NFML, Lahore for the years 2019-23, it was observed that the management opened tender for hiring of labor, tally and in transit security services on February 18, 2022 for Wazir Mansion, Karachi and Bin Qasim ports. The contract was awarded to M/s M.A.M & Co. single participating firm. The initial period of the contract was six months i.e. February 21, 2022 to August 20, 2022. On expiry of the period, the contract period was extended for further six months twice i.e. from August 21, 2022 to

February 20, 2023 and February 21, 2023 to August 20, 2023 in violation of public procurement rules. This resulted into repeat order of more than 15% which was irregular.

Due to weak internal controls, repeat order of above 15% was placed.

Audit is of the view that the management should have not place the repeat order beyond 15%. This resulted into violation of public procurement rules.

The matter was reported to the management but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to explain the reason(s) of placing repeat order of beyond limit of 15% and inquire the matter besides fixing the responsibility on person(s) at fault.

9.9.4.4 Non recovery of cost of urea from cartage contractor due to shortage of bags during transit - Rs 3.198 million

According to clause 18 of cartage agreement with NLC dated September 01, 2022, in case the consignment is not delivered to the designated consignee within 15 days of the dispatch of the fertilizer then on 16th day of the dispatch of fertilizer the cartage contractor will be liable to pay to the company the full value thereof at TCP import price of the fertilizer.

During audit of NFML for the years 2019-23, it was observed that the management awarded cartage contract to National Logistic Cell (NLC) for dispatch of imported urea from Karachi Port Trust, Bin Qasim and Gawadar Ports to various NFML bulk stores. During dispatch of urea in 2022-23, total 420 bags of imported urea having value of Rs 3.198 million were missing during transit to various bulk stores. The management recovered only freight charges of urea whereas the full value of missing urea bags at Trading Corporation of Pakistan (TCP) import price remained unrecovered. The detail is given at Annex-72.

Due to non-observance of provision of cartage contract, full value of missing urea bags at TCP import price was not recovered from M/s NLC.

Audit is of the view that the management was required to recover the full value of missing urea bags at TCP import price but the same was not done.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends the management to explain the reason(s) of non-recovery of full value of urea bags from NLC and enquire the matter besides fixing the responsibility on person(s) at fault.

9.9.4.5 Loss due to excess delivery of 400 urea bags to dealers - Rs 2.968 million

According to NFML letter dated February 02, 2015, the respective Regional Managers shall supervise and monitor the operations of all bulk and temporary stores within their jurisdiction. The quantity, security and safety of stocks shall be ensured.

During audit of NFML for the years 2019-23, it was observed that the management dispatched 1,300 urea bags to M/s Shaheen Shah Fertilizers from its temporary store named "Zulfiqar godown" against booked quantity of 1,200 bags. Furthermore, 2,900 urea bags were dispatched to Sind Fertilizer Agency

against booked quantity of 2,600 urea bags from the same temporary store. This resulted into excess delivery of 400 urea bags amounting to Rs 2.968 million (400 bags*Rs 7420.47 = Rs 6800 import price per bag + Rs 620.47 incidental charges per bag) which was not recovered from the dealers. The inquiry committee in its findings dated July 04, 2023 established that excess urea was dispatched and recommended to recover the cost of urea from the concerned. But the same could not be recovered and resulted into loss to the company.

Due to weak internal controls and mishandling of stock, the excess quantity of urea was dispatched to the dealers and amount remained unrecovered.

Audit is of the view that the management was required to ensure that the quantity of urea was being dispatched as per order booking slip and transfer note.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends the management to explain the reasons of dispatching excess urea and non-recovery of the urea cost from the concerned.

9.9.4.6 Irregular appointment of external auditors without concurrence of Auditor-General of Pakistan - Rs 2.864 million

According to Finance Division dated March 25, 1981 and Auditor-General of Pakistan's office letter dated October 21, 2021 and subsequent letter dated October 17, 2022, in case of appointment of Chartered Accountant Firms by autonomous bodies, the concurrence from office of AGP for the same was required to be obtained by the autonomous bodies.

During audit of NFML for the years 2019-23, it was observed that the management hired the services of M/s Kreston Haider Bhimji & Co. Chartered Accountants to conduct audit for the period 2019-20 to 2022-23 without concurrence of Auditor-General of Pakistan. Thus, the payment of audit fee amounting to Rs 2.864 million was held irregular.

Non-observance of instructions of F.D and AGP was the cause of irregularity.

Audit is of the view that external audit firm was required to be hired after obtaining concurrence from Auditor-General of Pakistan.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends the management to take appropriate action to get ex-post facto approval from AGP, Islamabad.

9.9.4.7 Non-recovery of shortage of urea Rs 28.212 million

According to clause 21.1.5 and 21.1.6 of NFML Management Manual, punishment for misconduct and breach of discipline includes dismissal from service and recovery will be made from salary if any loss or damage sustained by the corporation by reasons of negligence or misconduct.

During audit of NFML for the years 2019-2023, it was observed that Mr. Muhammad Faisal Chaudhary, Assistant Manager during his posting as store incharge at Nowshera Virkan involved in shortage of 14,813 bags of urea having value of Rs 28.212 million. On January 29, 2015 an inquiry committee mentioned in its findings that Mr. Faisal Chaudhary was responsible for shortage of 14,813 bags of urea. No recovery of shortage of urea was made till date.

Due to weak internal controls, recovery was not effected from the said employee.

Audit is of the view that the management was required to recover the amount from the concerned employee in light of findings of enquiry committee.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends the management to explain the reasons(s) for non-recovery of the shortage of urea amount.

9.9.4.8 Loss due to dispatch of urea through NLC instead of Pakistan Railway - Rs 2,259.172 million

According to Pakistan Railways Divisional Office, Karachi Letter No. 03-Rates/FBU/OC/2022 dated August 30, 2022, the freight rates for transportation of fertilizer to all bulk stores of NFML were offered as follow:

From	To	Special reduced rate per ton
Karachi Port Trust (KPT) Wazir Mansion (WM) Port Muhammad Bin Qasim (PMBQ)	Eminabad	Rs 4,415
	Jhang	Rs 3,735
	Lodhran	Rs 3,190
	Kissan	Rs 3,945
	Risalpur	Rs 5,670
	Shahdad Pur	Rs 1,745

During audit of NFML for the years 2019-23, it was observed that the management dispatched 331,228 metric ton urea through NLC to six permanent bulk stores. Freight cost charged by NLC was Rs 3,566.847 million. These six permanent bulk stores were situated on Pakistan Railways track. If 331,228 metric ton urea would have been dispatched through Pakistan Railways, it would have cost Rs 1,307.674 million. Thus, dispatch of urea through NLC resulted into loss of Rs 2,259.172 million (Rs 3,566.847 million - Rs 1,307.674 million) to government exchequer.

Due to weak internal controls and financial management, urea was dispatched through costly contractor instead of Pakistan Railways.

Audit is of the view that the management was required to dispatch urea through Pakistan Railways instead of NLC to avoid extra cost.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends the management to explain the reason(s) for non-dispatching the urea through Pakistan Railways besides fixing the responsibility on person(s) at fault.

9.9.4.9 Irregular excess award of urea beyond allocated quota - Rs 33.600 million

According to para 3 of NFML letter dated November 03, 2022 and December 29, 2022, it is strictly directed that the dealer booking should not exceed the maximum limit as mentioned in these letters. In case of deviation of the orders strict disciplinary action will be taken.

During audit of NFML for the years 2019-2023, it was observed that the management notified quota for 200,000 M. ton and 194,000 M. ton urea to districts and dealers on November 03, 2022 and December 29, 2022 respectively. Scrutiny of the record revealed that the management booked and awarded 717.95 M. Ton Urea having value of Rs 33.600 million, to certain districts and dealers beyond allocated quota. The detail is given at Annex-73.

Due to weak internal controls, excess urea was awarded beyond the approved quota.

Audit is of the view that the management was required to award urea as per approved quota but the same was not done.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter and fixing responsibility.

9.9.4.10 Non-recovery of differential price from trade dealers - Rs 19.287 million

According to NFML letter dated January 30, 2023 it was directed to collect the differential amount against the booking of imported urea.

During audit of NFML for the years 2019-2023, it was observed that the management issued 5,075.50 M. Ton urea out of 194,500 M. Ton in January 2023 at old price of Rs 2,150 per bag to dealers. During the process of urea issuance to dealers, the ECC notified new price of Rs 2,340 per bag but the management did not consider it and kept on dispatching the urea at old price. Later on, it was decided to collect the differential amount of Rs 190 per bag (Rs 2,340 – Rs 2,150) from the dealers. The total differential amount was Rs 19.287 million (5,075.50 M. Ton * 20 bags per M. ton * Rs 190) which remained unrecovered.

Due to weak internal controls, the stock was sold at old price and the differential amount remained unrecovered from the dealers.

Audit is of the view that the management was required to sell the new stock at new price or the differential amount was to be recovered.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends the management to recover the differential amount from the concerned dealers/agencies.

9.9.4.11 Irregular sale of urea on credit - Rs 27.641 million

According to clause-6(iv) of agreement between dealers and NFML, for supplies lifted by dealer from company's warehouse, the dealer will pay in advance the value of the supplies by demand draft or pay order in favor of the company on a scheduled bank approved for this purpose by the company and send such demand draft or pay order to the company.

During audit of NFML for the years 2019-23, it was observed that in different regions, urea amounting to Rs 27.641 million was sold on credit till June 30, 2023. Whereas, the amount of supplies was not paid in advance by the dealers in the form of demand draft or pay order in violation of agreement. Resultantly, the management extended undue favor to certain contractors.

Due to weak internal controls, urea was sold on credit and amount was not recovered.

Audit is of the view that the management was required to take the advance payment from the dealers before delivery of urea but the same was not done.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter and fixing responsibility on person(s) at fault.

9.9.4.12 Irregular award of dealership without eligibility criteria – Rs 102.950 million

According to dealership policy, criteria for award of new dealership was to required photocopy of valid registration/dealership certificate of at least one fertilizer company other than NFML, minimum of 02 years of experience in buying/selling of fertilizers of any one or more fertilizer company and license of registration for Dealer/Vendor of fertilizer issued by the Agriculture Department of his province.

During audit of NFML for the years 2019-23, it was observed that the management awarded dealership and sold huge quantity of urea bags valuing Rs 102.950 million to various agency holders who did not fulfill the dealership eligibility criteria. The agency holders neither provided the experience certificate in buying/ selling of fertilizers' company other than NFML nor furnished the license from Provincial Agriculture Department. In the absence of above said record, award of dealership and supply of urea bags amounting to Rs 102.950 million to the dealers was held irregular. The detail is given at Annex-74.

Due to non-fulfilling the eligibility criteria, award of dealership was irregular.

Audit is of the view that the management was required to award dealership in line with the approved dealership award criteria after fulfillment of all the requirements.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter and fixing responsibility on the person (s) at fault.

9.10 Pakistan Engineering Company Limited

9.10.1 Introduction

Pakistan Engineering Company Limited (PECO) was incorporated in Pakistan on February 15, 1950 under Companies Act 1913 (now Companies Ordinance 1984) as public limited company. The Company is principally engaged in the manufacturing and sale of engineering products. The major products of the company are electricity, transmission and communication towers, electric motors, pumps and steel rolled products etc. The Company had earlier closed down all its divisions, except structure divisions, and is principally engaged in the manufacturing and sale of electricity transmission and communication towers. At present, structure, pumps, electric motors, foundry and rolling mills divisions are in operation. State Engineering Corporation (Pvt.) Limited and Rotocast Engineering Company (Pvt.) Limited hold 25% shares each, while public holds 27% shares and remaining 23% shares are held by different financial institutions and others.

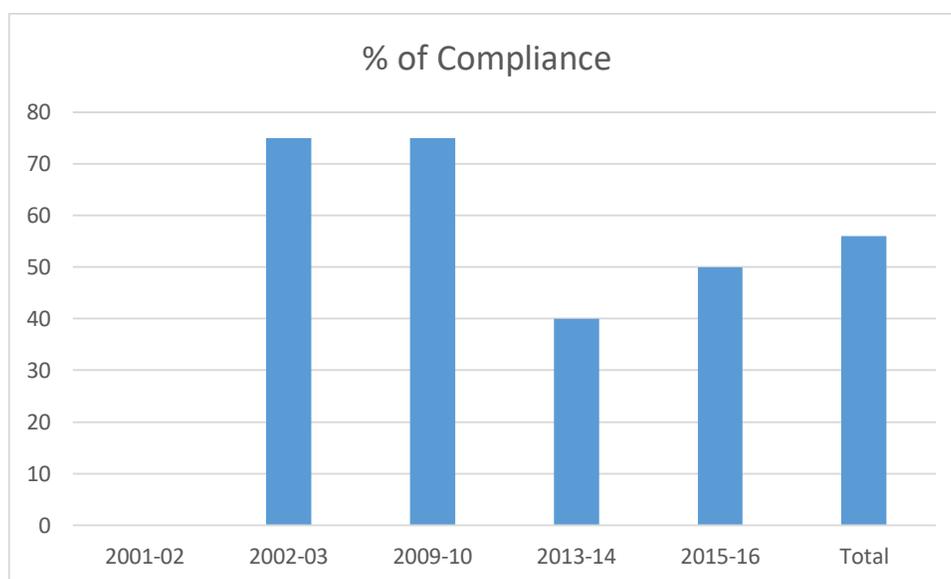
9.10.2 Comments on Audited Accounts

9.10.2.1 The annual audited accounts are required to be provided to audit for review each year. Contrary to this the management failed to provide audited accounts of the organization for the year 2017-18 to 2022-23 till December 31, 2023.

Audit recommends that the annual audited accounts of 2017-18 to 2022-23 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*refer Annex-2*).

9.10.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras #	% of Compliance
2001-02	1	-	1	301	-
2002-03	04	03	01	107.3	75
2009-10	08	06	02	135.6,135.7	75
2013-14	10	04	06	8.21.4.1,8.21.4.2,8.21.4.4, 8.21.4.5,8.21.4.6,8.21.4.7	40
2015-16	02	01	01	8.21.3	50
Total	25	14	11		56



The compliance of the PAC directives was very poor which need immediate attention of the PAO.

9.10.4 Audit Paras

9.10.4.1 Unjustified payment to M/s Sufi Steel Industries – Rs 499.501 million

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

During the audit of PECO for the year 2019-23, it was observed that a sum of Rs 499.501 million was paid to M/s Sufi Steel Industries (Pvt.) Ltd during the period August, 2019 to March, 2022 without documentary evidence i.e. contract & purchase order. Moreover, SECP conducted inquiry regarding affairs of PECO being an enlisted company and concluded that transactions between PECO and M/s Sufi Steel Industries (Pvt.) Ltd were unjustified as its owner who made a Joint venture agreement with PECO in the name of M/s Synectics Corporation was same. This indicated that PECO transferred amount of Rs 499.501 million into JV account.

Weak internal controls and non-observance rules resulted in unjustified payment.

Audit is of the view that the management was required not to make payments to M/s Sufi Steel Industries (Pvt.) Ltd without agreement.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to inquire the matter of unjustified payment and fix responsibility on the person(s) held responsible besides recovery of amount.

9.10.4.2 Default due to non-repayment of loan to National Bank of Pakistan (NBP) – Rs 111.195 million

According to clause 26th of Memorandum of Association of PECO, the objective of the company was to give any guarantee in relation to the payment of any loan, debentures, stocks, bonds, obligations or securities and to guarantee the payment of interest thereon or of dividends of any stocks or shares of any company.

During audit of PECO for the years 2019-23, it was observed that an agreement with National Bank of Pakistan was signed for availing running finance facility of Rs 108.351 million on March 31, 2015. This facility was available for five years. The management failed to repay the installment of running finance facility. Consequently, NBP filed a suit in Banking Court for recovery of loan along with interest. Banking Court decided to pay an amount of Rs 111.195 million. It was further revealed that due to nonpayment of loan PECO was declared as defaulter.

Poor financial management was the cause of non-payment of loan amount.

Audit is of the view that the management was required to pay loan timely in order to avoid default.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to inquire the matter and fix responsibility on the person(s) held responsible.

9.10.4.3 Irregular payments made in cash to different parties – Rs 53.414 million

According to clause 21(l) (Division II) of Income Tax Ordinance, 2001, no deduction shall be allowed in computing the income of a person under the head income from business for any expenditure for a transaction, paid or payable under a single account head which, in aggregate exceeds two hundred and fifty thousand rupees, made other than by a crossed cheque drawn on a bank or by crossed bank draft or crossed pay order or any other crossed banking instrument showing transfer of amount from the business bank account of the taxpayer.

During audit of PECO for the years 2019-23, it was observed that the management made payments of Rs 53.414 million under various heads in cash to different parties under various head in cash rather than through cross cheques in violation of Federal Board of Revenue Rules. Thus, the payments of Rs 53.414 million were considered irregular.

Due to weak financial controls, irregular payments were made.

Audit is of the view that the management was required to make payments through cross cheques instead of making cash payments.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to inquire the matter and fix responsibility on the person(s) held responsible besides regularization of amount.

9.10.4.4 Irregular composition of the BoD and receipt of loan – Rs 26.798 million

According to rule 5(5)(b)(i) of Corporate Governance Rules 2013, the directors and executives of a Public Sector Company do not allow a conflict of interest to undermine their objectivity in any of their activities, both professional and private and that they do not use their position in the Public Sector Company to further their private gains in a social or business relationship outside the Public Sector Company.

During audit of PECO for the years 2019-23, it was observed that a loan of Rs 26.798 million was obtained from M/s Arif Habib and M/s Rotocast Engineering during the period from March, 2019 to September, 2022. The approval of loan was granted by the Board of Directors that included the owners of the said companies. The loan amount was booked as legal and professional expenses, annual listing fee and salary of employees. Thus, due to conflict of interest of the members of BoD, loan amount was held irregular. The detail of loan is as under:

Description	Loan amount (Rs in million)
M/s Arif Habib Group	12.971
M/s Rotocast Engineering	13.827
Total:-	26.798

Due to weak administrative controls, company obtained loan from the members of BoD.

Audit is of the view that management was required to observe the CGRs in letter and spirit.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to inquire and refer the matter to SECP for appropriate decision.

9.10.4.5 Excess payment of salary to Ex-Managing Director – Rs 18.199 million

According to Agenda 2 Item No.02 of 185th Board of Directors meeting held on April 27, 2016, Board approved remuneration of Managing Director for Rs 385,000 per month. Further, according to clause i & ii of Finance Division Letter dated July 19, 2022 regarding grant of executive allowance to BS-17-22 Officers, this allowance will be admissible to all officers posted by the Establishment Division against sanctioned posts.

During the audit of Pakistan Engineering Company (PECO) for the years 2019-23, it was observed that Ex-Managing Director drawn salary more than that approved by the Board of Directors. He was paid Rs 601,720 instead of Rs 385,000 per month during the period of March, 2016 to August, 2022 and resultantly excess payment of Rs 16.904 million (Rs 216,720 x 78 months) was made. Further, an amount of Rs 0.535 million on account of executive allowance for the month of July & August 2022 and an amount Rs 0.760 million (Rs 9,750 x 78 months) as subscription fee to M/s Royal Palm was also made. Thus, the management paid excess salary and allowances of Rs 18.199 million (Rs 16.904 + Rs 0.535 + Rs 0.760 million).

Due to weak financial controls, excess payments was made.

Audit is of the view that the management was required to follow the Finance Division's instructions to avoid irregular payment.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to inquire the matter and fix responsibility on the person(s) held responsible beside recovery of irregular payment.

9.10.4.6 Irregular sale of scrap in violation of company's rules – Rs 75.968 million

According to PECO sales policy, disposal of scrap, the Board of Director will constitute a disposal committee to approve sale of machinery and scrap. After approval by the committee tender will be issued in two leading newspapers.

During the audit of PECO for the years 2019-23, it was observed that scrap valuing Rs 75.968 million was sold to various buyers during March 2021 to July 2021. It was noted that management neither constituted disposal committee to assess the condition of disposed items nor adopted competitive process in violation of company rules. Thus, sale of scrap of Rs 75.968 million was held irregular in audit.

Non observance of company's rules resulted into irregular sale of scrap.

Audit is of the view that the management was required to sell scrap after approval of disposal committee.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to enquire the matter and fix responsibility on the person(s) held responsible.

Note: The issue was also reported earlier in the Audit Report for Audit Year 2019-20 vide para number 7.20.4.10 having financial impact of Rs 8.976 million. Recurrence of same irregularity is a matter of serious concern.

9.10.4.7 Loss due to non-collection of advance Income Tax on auction – Rs 7.597 million

According to clause-236A of Income Tax Ordinance, 2001, any person making sale by public auction or auction by tender or any property of goods either belonging to or not belonging to the Government, local Government, any authority, a company shall collect advance tax computed on the basis

of sale price of such property and at the rate of 10% from the person to whom such property or goods are being sold.

During audit of PECO for the years 2019-23, it was observed that the management sold scrap of Rs 75.597 million to various buyers during March, 2021 to July, 2021. The advance tax from the buyers was not collected by the management. Thus, due to non-collection of advance tax, the Government suffered loss of Rs 7.597 million (Rs 75.597 million x 10%).

Due to weak managerial controls, public exchequer was deprived of tax amount.

Audit is of the view that the management was required to follow Government directions in order to collect advance tax.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to enquire the matter and fix responsibility on the person(s) held responsible.

9.10.4.8 Non-receipt of rent amount of office building – Rs 5.735 million

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

During audit of PECO for the years 2019-23, it was observed that the management rented out an office building to M/s United Bank Limited (UBL) situated in Uni-Tower Karachi @ Rs 127,862 per month. The tenant was not paying rent of Rs 5.735 million since November, 2020. Thus, due to non-efforts the rent valuing Rs 5.735 million (Rs 127,862 x 38 months = 4.858 million + Rs 0.877 million) remained unrecovered.

Audit is of the view that the management was required to made efforts for early recovery of rent.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to enquire the matter and fix responsibility on the person(s) at fault besides recovery of rent.

9.10.4.9 Irregular hiring of freight services in violation of PPRA Rules – Rs 3.128 million

According to clause-12(2) of PPRA Rules, 2004, all procurement opportunities over three million Pakistani Rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

During audit of PECO for the years 2019-23, it was observed that freight services contract was awarded to M/s Abbas Goods Transport Company, Lahore and made payments of Rs 3.128 million without

tender process. Thus, hiring of services and payments of Rs 3.128 million was held irregular. Detail is as under:

Sr. No.	Name of Freight Agency	Date of Payment	Payment (Rs)
1	Abbas Goods Transport Company, Lahore	31.05.2019	1.422
2	-do-	30.04.2019	0.948
3	-do-	31.07.2019	0.497
4	-do-	13.05.2019	0.261
Total:-			3.128

Dun to non-observance of PPRA rules, irregularity was occurred.

Audit is of the view that the management was required to hire the services as devised in PPRA Rules but the same was not adhered to.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to inquire the matter and fix responsibility on the person(s) at fault besides regularization.

9.10.4.10 Irregular appointment of CFO and CIA – Rs 2.55 million

According to clause-2(ii) of PECO Employment Policy and Procedure, position of Chief Financial Officer and Head of Internal Audit shall be filled with approval of Board of Directors.

During the audit of PECO for the year 2019-23, it was observed that Mr. Ali Ahmad Qureshi and Mr. Muhammad Ali were appointed as Chief Financial Officer and Chief Internal Auditor at monthly salary of Rs 150,000 & Rs 100,000 respectively on October 2018. It was noted that the appointment of these officers was made without approval of Board of Directors. Thus, the appointment and payment of salary of Rs 2.550 million to them was held irregular in Audit as detailed below:

Name	Designation	Date of appointment	Monthly Salary (Rs)	Total Payment (Rs)
Mr. Ali Ahmad Qureshi	Chief Financial Officer	October 24, 2018	150,000	1,650,000
Mr. Muhammad Ali	Chief Internal Auditor	October 26, 2018	100,000	900,000
Total:-				2,550,000

Non observance of employment policy resulted irregular appointment.

Audit is of the view that the management should recruit the officers with the approval of Board of Directors.

The matter was reported to the management but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommend to inquire the matter and fix responsibility on the person(s) at fault. Besides, the matter be got regularized from the BOD.

**9.10.4.11 Irregular appointment of Manager Accounts and Finance –
Rs 1.890 million**

According to clause-2(ii) of PECO Employment Policy and Procedure, in case of supervisors and workers, the appointment shall be made on the basis of merit and according to the company's requirement.

During audit of PECO for the years 2019-23, it was observed that the management appointed Mian Aamir Raza as Manager Accounts & Finance on October 01, 2021 at Rs 70,000 per month. Further, the appointment letter was signed by Brigadier (R) Abdul Majeed who was not employee of PECO. The said person was representative of joint venture firm i.e. M/s Synectics Corporation. The officer of joint venture firm was not authorized to appoint an employee on behalf of PECO. Thus, the appointment and payment of salary of Rs 1.890 million was held irregular. Detail is as under:

Name	Designation	Period of Stay	Monthly Salary	Total Payment
Mian Aamir Raza	Manager Accounts & Finance	Oct 21 to Dec 23	70,000	1,890,000

Weak internal controls resulted into irregular appointment and payment of salary.

Audit is of the view that the management was required to make appointment through authorized person on merit.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter and fixing responsibility on the person(s) at fault besides regularization from competent authority.

9.10.4.12 Stoppage of operational activities due to management failure

According to Rule-4(5) of the Public Sector Companies (Corporate Governance) Rules, 2013, The directors of a Board shall be persons who, in opinion of the Government, shall assist the Public Sector Company to achieve its principal objective and the Board shall accordingly exercise its powers and carry out its fiduciary duties with a sense of objective judgment and in the best interest of the company.

During audit of PECO for the years 2019-23, it was observed that the Company was established in February 15, 1950 for manufacturing and sale of engineering products. The company earned Rs 1,424.45 million from its operational activities as on June 30, 2018. Afterwards, due to management dispute between public sector and private sector Board of Directors, the operational activities remained slow and were subsequently stopped completely as on November 2020. The Managing Director terminated the key employees and made joint venture agreement with M/s Synectic Corporation to continue the operational activities but all in-vain.

Weak managerial controls caused stoppage of operational activities of the company.

Audit is of the view that the management was required to manage business activities to achieve its objectives at optimal level.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to inquire the matter and determine loss by fixing responsibility besides its recovery.

9.11 Pakistan Hunting and Sporting Arms Development Company

9.11.1 Introduction

Pakistan Hunting and Sporting Arms Development Company is a Company limited by guarantee having share capital duly incorporated under Section 42 of the Company Ordinance, 1984 on September 29, 2006. The Company obtained the requisite certificate of business under Section 146(2) of Companies Ordinance 1984 and was thus entitled to commence business with effect from April 25, 2007. The Company was formed with the primary objective to uplift, develop and build hunting and sporting sector of Pakistan for exports and commercial activities with a view to generate foreign exchange and to develop quality and capacity to eventually compete in the international market. The registered office of the Company is situated at Ground Floor, State Life Building, The Mall, Peshawar.

The Company is a subsidiary of PIDC and fully owned by the GoP and has paid-up capital of Rs 86.49 million. The Company is working under the administrative control of Ministry of Industries and Production.

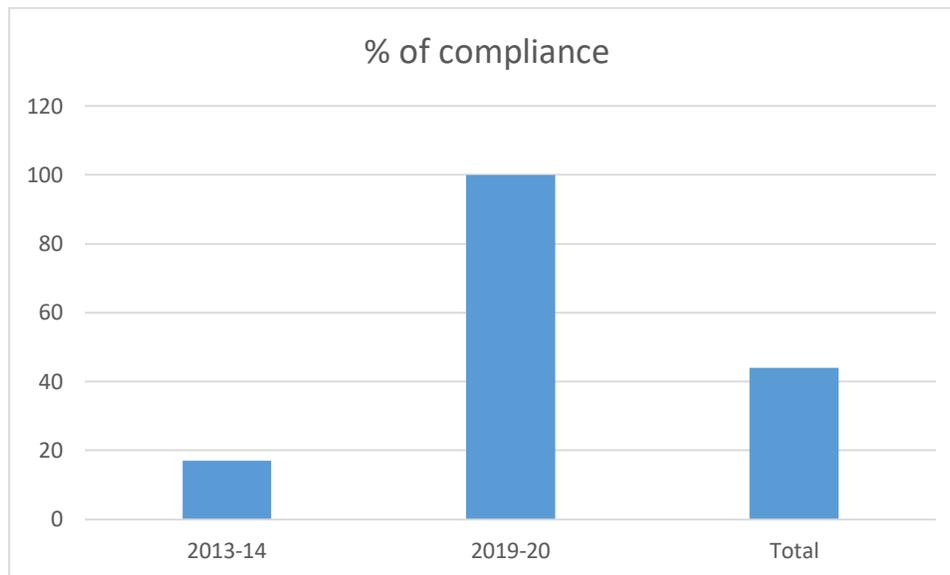
9.11.2 Comments on Audited Accounts

9.11.2.1 The annual audited accounts are required to be provided to Audit for review each year. Contrary to this, the management failed to provide audited annual accounts for the years 2019-20 to 2022-23 till December 31, 2023.

Audit recommends that the annual audited accounts of 2019-20 to 2022-23 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*refer Annex-2*).

9.11.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
2013-14	06	01	05	8.15.2.3, 8.15.2.2, 8.15.2.4, 8.15.2.5, 8.15.2.6	17
2019-20	03	03	0	-	100
Total	09	04	05		44



Compliance of the PAC directives was very poor which requires immediate attention of the PAO.

9.11.4 Audit Paras

9.11.4.1 Non-viability of PHSADC due to failure of business plan even after utilization of heaviest funds of - Rs 86.57 million

According to Board of Directors of Pakistan Industrial Development Corporation (PIDC, a parent Company) in its 118th meeting held on October 14, 2017 approved a Business Plan amounting to Rs 148.32 million for making the PHSDAC self-reliant & sustainable.

During audit of PHSADC Peshawar for the year 2019-22, it was observed that PIDC in its 118th BOD meeting held on October 14, 2017 approved a Business Plan of the Company valuing Rs 148.32 million to make it self-reliant and sustainable. Business Plan consists of five major sources of revenue i.e. Common Facility Training Center (CFTC), Small Industrial Estate (SIE) at Dara Adam Khel, Toss Show, Export Orders and Import Substitute. An amount of Rs 86.57 million was utilized out of which Rs 46.641 million were utilized for procurement of machinery & tools and remaining amount was utilized for operational & administrative expenditure. Failure status in revenue generation from five sources of Business Plan is as under:

1. CFTC could not be established but the management procured machinery & tools valuing Rs 46.641 million earlier and placed in CFTC Peshawar.
2. Management could not purchase land for establishment of SIE in Dara Adam Khel.
3. Management failed to arrange Toss Shows during the last three years.
4. Management failed to achieve a single export order during the last three years.
5. During verification of record, the management failed to provide any evidence of import substitute.

In view of above, it was clear that Business Plan of PHSDAC had been completely failed because nil revenue could be generated from its five sources.

The failure of PC-1 and Business Plan showed weak internal and financial control of the Company.

The management in its response stated that PIDC established an "Institutional Support Fund" to assist subsidiaries. From these funds PHSDAC received Rs 86.57 million. However, delays in projects like the Dara Adam Khel Industrial Estate and COVID-19 restrictions hampered revenue generation. Export orders worth Rs 132.741 million remained unfulfilled due to NOC issues from Ministry of Defence despite directives from PAC.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigation of failure of Business Plan at Ministry level beside fixing responsibility on the person (s) at fault.

Para-2 (PHSADC – 2019-22)

9.11.4.2 Release of huge funds by PIDC against defective business plan - Rs 86.57 million and purchase of machinery before establishment of CFTC in SIE at DARRA ADAM KHEL - Rs 46.641 million

According to GFR-10 (i) Every officer incurring or authorizing expenditure from public funds should be guided by high standards of financial propriety. Among the principles on which emphasis is generally laid are that every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

During audit of PHSADC Peshawar for the year 2019-22, it was observed that PIDC Board of Directors in its 118th meeting held on October 14, 2017 approved a Business Plan of PHSDAC valuing Rs 148.32 million to make the Company self-reliant & sustainable. Audit observed following irregularities in Business Plan:

1. Before the approval of the Business Plan in October 2017, a PC-1 of Rs 66.32 million for establishing a Common Facility Training Centre (CFTC) at Small Industrial Estate (SIE) Peshawar was approved in a meeting held on February 12, 2016. The PC-1 execution period was from 2016-17 to 2018-19, with 15 Machineries & Tools procured worth Rs 38.43 million; however, PC-II, PC-III, and PC-IV were not submitted despite seven years having elapsed.
2. The business plan of PHSADC lacked feasibility study, profit concept, and revenue earning plan, making it deficient for a self-reliant and sustainable operation under Section 42 of the Companies Ordinance, 1984.
3. PIDC and PHSDAC, in a joint meeting on February 11, 2020, advised PHSDAC to create a realistic business plan, indicating that the previously approved plan from October 2017 was flawed.
4. The business plan aimed for revenue from various sources, including a Common Facility Training Center (CFTC) and Small Industrial Estate (SIE) at Dara Adam Khel, but neither were established as planned. Instead, funds were used to purchase machinery for CFTC Peshawar, causing double expenditure. Difficulties in acquiring land for CFTC in Dara Adam Khel were cited, with procurement of machinery preceding establishment.

5. Business Plan consisted of five major sources of revenue including Common Facility Training Center (CFTC), Small Industrial Estate (SIE) at Dara Adam Khel. Management did not establish SIE and CFTC in Dara Adam Khel but purchased 15 more Machineries & Tools valuing Rs 46.641 million and installed them in CFTC Peshawar instead of CFTC Dara Adam Khel. PHSDAC in its joint meeting with PIDC held on February 11, 2020 briefed the committee that procurement of land to establish CFTC in Dara Adam Khel was very difficult due to unavailability of land. However, CEO of PHSDAC was confident that once the SIE/SEZ is materialized, PHSDAC would be able to get about 5 acres' land through JIRGA. This also showed that machineries were procured before establishment of CFTC in Dara Adam Khel.

In view of above, audit is of the view that PIDC approved the Business Plan of PHSDAC on defective grounds. Further utilization of machineries & tools of CFTC Dara Adam Khel was also held unjustified.

The irregularities were occurred in Business Plan due to weak financial control of the management and lack of interest in utilization of public funds by the PIDC.

The management responded on October 3, 2023, stating that PIDC had established an "Institutional Support Fund" to aid its subsidiaries financially. PHSDAC utilized these funds to initiate its Project CFTC and Business Plan, which had distinct objectives. However, the Business Plan's implementation was hindered by PIDC's incomplete fund allocation, preventing the hiring of necessary staff. The responsibility for acquiring land for the Small Industrial Estate in Dara Adam Khel shifted from FATA Development Authority to SIDB after FATA's dissolution, delaying the establishment of CFTC. The reply was deemed inadequate as it failed to mention the proposed 3-5% surcharge outlined in the Business Plan for PHSDAC's sustainability. Additionally, the Business Plan stated that PHSDAC, not FATA, was obligated to establish the Small Industrial Estate and CFTC in Dara Adam Khel. Further as per Business Plan, PHSDAC was liable to establish Small Industrial Estate and CFTC at Dara Adam Khel instead of FATA.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating matter at ministry level and fixing responsibility.

Para-3 (PHSADC – 2019-22)

9.11.4.3 Loss due to provision of production and repair services below actual cost - Rs 56.959 million

According to rule 23 of GFR states that every Government officer should realize fully that he will be held responsible for any loss sustained by the Government through fraud or negligence on his part. Rule 26 of GFR provides that it is the duty of the departmental controlling officer to see all sums due to the Government are regularly and properly realized, assessed and duly credited to the Government account. Further PIDC and PHSDAC in its joint meeting held on February 11, 2020 advice PHSDAC to ensure proper costing of its production and also ensure that the pricing set are the correct level to transition quickly towards profitability.

During the audit of PHSADC Peshawar for 2019-22, it was found that PIDC approved a Business Plan of Rs 148.32 million in 2017 to make PHSDAC self-reliant. However, management failed to implement proper costing procedures as advised by PIDC, leading to inaccurate pricing and significant losses. They neglected to prepare essential cost calculations for each job, resulting in selling products and repair services below actual cost, causing substantial financial losses over the past three years.

The loss occurred by the company on sale of services below actual cost shows weak financial control of the management w.r.t proper costing of each product.

Audit is of the view that the management did not prepare material & labour obstructs, cost cards, prime cost, marginal cost and full cost of each job which leads to non-existence of proper costing system in company resultantly the company sustained loss of Rs 19.368 million w.r.t CFTC cost only and Rs 56.959 million w.r.t PHSDAC & CFTC both cost.

The matter was reported to the management vide letter dated September 18, 2023. The management in its reply dated October 3, 2023 did not inform regarding adoption of proper costing system of each product to evaluate cost of each job. Further 3-5% extra charges on obtaining of each job by the management did not cover the direct cost of CFTC, resultantly PHSDAC sustained loss during last three years.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to investigate the reasons of sold of services below actual cost, fix responsibility on the person (s) at fault and immediately appoint regular Chief Financial Officer (CFO) or engage Chartered Firm (CA) for proper costing of each job.

Para-5 (PHSADC – 2019-22)

9.11.4.4 Loss due to non-deduction of GST of Rs 3.920 million upon un-authorized cash receipt of sales proceeds - Rs 26.134 million

According to serial No. 23 of Government of Khyber Pakhtunkhwa Revenue Authority (Working Tariff as of March-2016) taxable Services as per second Schedule to the Khyber Pakhtunkhwa Finance Act, 2013, “Services provided by workshops for industrial construction and earth- moving or other special purpose machinery levied 15% sale tax”. Furthermore, Section 25 of the Sales Tax Act, 1990, requires businesses to keep proper records of their sales and to issue sales tax invoices for all sales transactions. Sales tax invoices must be issued for any sale of goods or services, regardless of the mode of payment. Therefore, if a company receives cash for a sale it must issue a sales tax invoice and deposit the sales tax with the Federal Board of Revenue.

During audit of PHSADC Peshawar for the year 2019-22, it was observed that the management provided different types of services to arms companies i.e. manufacturing & repairing of dies, moulds and punch plates etc. used for manufacturing of hunting arms amounting to Rs 26.134 from 2016-17 to 2021-22 without charging sale tax amounting to Rs 3.920 million (Rs 26.134 million x 15% sale tax). The company also did not issue sales tax invoices as per section 25 of Sales Tax Act, 1990.

Audit is of the view that receiving of sale proceeds in cash increased the risk of mis-appropriation. Further, due to non-deduction of sale tax on provision of services to arms companies, Government exchequer sustained a loss of Rs 3.920 million.

The matter was reported to the management vide letter dated September 18, 2023. The management in its reply dated October 3, 2023 stated that the services provided to cottage industry of small arms was exempt from sale tax. Further CFTC stakeholders obtained services on semi-finished products by paying 3-5% extra service charges, thus sale tax was not applicable. Reply was not tenable because the management failed to produce any exemption certificate from FBR on provision of tax free services. Further PHSDAC was liable to deduct sale taxes on provision of services provided by it.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter of receipt of sale proceeds in cash and non-payment of sales tax into Government treasury beside fixing responsibility.

Para-7 (PHSADC – 2019-22)

9.11.4.5 Failure of PC-1 of CFTC Peshawar resulted into non-achievement of revenue targets - Rs 24.658 million

Pakistan Industrial Development Corporation (PIDC a parent Company) in its meeting held on February 12, 2016 approved revised PC-1 for “Establishment of Common Facility Training Centre at Peshawar” valuing Rs 66.32 million. As per PC-1, revenue targets of Rs 49.762 million w.r.t Barrel making, Powder coating, CNC machining and training fee was set out w.e.f. 2016-17 to 2025-26.

During audit of PHSADC Peshawar for the year 2019-22, it was observed that PC-1 valuing Rs 66.32 million (plant & machinery Rs 42.32 million and operational expenditure Rs 24.00 million) for establishment of CFTC was approved in PIDC Board meeting held on February 12, 2016. As per PC-1, revenue targets of Rs 49.762 million w.r.t Barrel making, Powder coating, CNC machining and training fee were set out for ten years w.e.f. 2016-17 to 2025-26. Record revealed that out of total Rs 66.32 million, the management procured machinery & tool valuing Rs 38.43 million and remaining amount was utilized for operational & administrative expenses. From the record of Job orders executed during the year 2016-17 to 2021-22, it was noticed that the company could only generate revenue of Rs 1.843 million against the targets of Rs 26.499 million which was only 6.95%, this showed that PC-1 of CFTC had been completely failed.

Non-achievement of targets show weak business promotion policy and in-efficiency of the management.

Audit is of the view that the management of PHSDAC could not achieve revenue targets of Rs 24.658 million (Rs 26.501 million – Rs 1.843 million) after lapse of six years which led to failure of PC-1.

The matter was reported to the management vide letter dated September 18, 2023. The management in its reply dated October 3, 2023 stated that due to non-release of remaining operational budget of Rs 13.33

million, the Company could not hire required technical staff for running of machinery even though Company generated revenue of Rs 12.57 million in the year ended 30.6.2021.

Reply was not tenable because the management had hired all staff except the Deputy Manager (Technical) against which Mr. Arshad Mehmood was appointed as Supervisor on May 30, 2017 by creating a new post (not available in PC-1). Further, the management generated revenue of Rs 12.57 million from the business activities other than mentioned in PC-1. Only Rs 1.843 million could be generated in six years against the business activities mentioned in PC-I.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigation of non-achievement of revenue targets or defective preparation of PC-1 of CFTC besides fixing of responsibility thereof.

Para-1 (PHSADC – 2019-22)

9.11.4.6 Procurement of raw material and services valuing - Rs 9.658 million from non-tax registered suppliers resulting into non-payment of sales tax to government exchequer - Rs 1.072 million

According to Chapter II (3) Scope of tax of the Sales Tax Act 1990 “Subject to the provisions of this Act, there shall be charged, levied and paid a tax known as sales tax at the rate of 17% of the value of taxable supplies made by a registered person in the course or furtherance of any taxable activity carried on by him”. Furthermore, according to chapter III (9) scope of tax an allied matters of Khyber Pakhtunkhwa Sales tax on Services Act, 2022 “subject to the provision of this act, there shall be charged, levied, collected and paid a tax on the value of a taxable service at the rate specified in the second schedule.”

During audit of PHSADC Peshawar for the year 2019-22, it was observed from payment vouchers that the management procurement material and services of trade payables, consumables, repair & maintenance, technical services, legal/professional services, advertisement expenses, promotional material and website charges valuing Rs 9.658 million from non-sales tax registered suppliers. The supplier’s vouchers were hand written and not on proper sale tax invoices. Record further revealed that the management did not pay sales tax on procurement of these services and material.

The irregularities were occurred due to weak financial controls of the Company w.r.t compliance of sale tax act.

Audit is of the view that procurement of material and services valuing Rs 9.658 million from non-sales tax registered firms held un-justified and non-payment of sale tax, the Government exchequer sustained a loss of Rs 1.072 million.

The matter was reported to the management vide latter dated September 18, 2023. The management in its reply dated October 3, 2023 stated that PHSDAC is a non-profit earning organization and being a withholding agent, deducted taxes from all the suppliers / traders and subsequently deposited into Govt. treasury.

Reply was not tenable as the management neither procured objected material and services from sales tax registered firms nor deducted sale taxes.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to investigate the reasons of procurement of material and services from non-sale tax registered suppliers at Ministry level beside fixing responsibilities on the person (s) held responsible and corrective measures be taken under intimation to Audit.

Para-6 (PHSADC – 2019-22)

9.11.4.7 Loss due to free of cost provision of trainings - Rs 7.887 million

Pakistan Hunting and Sporting Arms Development Company is a Company limited by guarantee having share capital duly incorporated under Section 42 of the Company Ordinance, 1984 on September 29, 2006. The Company was formed with the primary objective to uplift, develop and build hunting and sporting sector of Pakistan for exports and commercial activities with a view to generate foreign exchange and to develop quality and capacity to eventually compete in the international market. To achieve the primary objects of the company, PHSADC established Common Facility Training Centre (CFTC) at Peshawar in 2016. As per PC-1 of CFTC, the CFTC will provide developing services and trainings in the field of hunting & sporting arms at cost/fee.

During audit of PHSADC Peshawar for the year 2019-22, it was observed that PC-1 for establishment of Common Facility Training Centre (CFTC) was approved in PIDC (parent department) Board meeting held on February 12, 2016. One of the source of revenue of CFTC was provision of different types of trainings in the field of hunting & sporting arms at cost/fee. Record revealed that the management provided technical trainings on CNC & Conventional Machines in CFTC free of cost.

Audit is of the view that CFTC was established to provide different types of trainings in the field of hunting & sporting arms at cost/fee but the management provided trainings free of cost due to which the Company sustained loss of Rs 7.887 million.

The matter was reported to the management vide letter dated September 18, 2023. The management in its reply dated October 3, 2023 stated that trainings were provided to the students of technical institutes and engineering universities. Reply was not tenable because CFTC was established to provide different types of trainings in the field of hunting & sporting arms at cost/fee.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to investigate the reasons of free of cost provision of trainings in CFTC and fix responsibility on the person(s) at fault.

Para-12 (PHSADC – 2019-22)

9.11.4.8 Irregular appointment of legal advisor - Rs 2.486 million

According to Rule-14(1)(g) of rules of Business 1973, the Law, Justice and Human Rights Division shall be consulted before the appointment of a legal Advisor in any division, or any Office or Corporation under the control of Federal Govt. Further according to circular dated November 11, 2003 issued by Law, Justice & Human Rights Division prior approval of Division is required for the appointment of Legal Advisor, and violation will be constituted as an act of misconduct. According to rule 20 of PP RA Rules, 2004, "Save as otherwise provided hereinafter, the procuring agencies shall use open competitive bidding

as the principal method of procurement for the procurement of goods, services and works”. Procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

During audit of PHSADC Peshawar for the year 2019-22, it was observed that the management of the Company hired the services of Mr. Bilal Durrani advocate without any concurrence from the Ministry of Law, Justice and human Rights in respect of the appointments / engagements of advocates / counsels on its panel. It was also noticed that no competitive method such as advertisement, selection criteria, past experience and knowledge of company on specific issues etc. was considered before hiring the legal advisor. The selection was made on the basis of hand collected CV, thus held irregular. Record further revealed that the Company hired the services of legal advisor on monthly retainer ship fee but the Company had no any court case since last nine years, thus the payment of Rs 2.486 million made to legal advisor on account of retainer ship fee was held un-justified.

The irregularity was occurred due to weak internal and financial controls of the company.

Audit is of the view that undue favor was extended to the advocate as no selection process was adopted, no consultation was made with Ministry of Law, Justice and Human Rights and retainer ship fee was paid on monthly basis against nil court cases, hence the payment of Rs2.486 was held irregular and un-justified.

The matter was reported to the management vide latter dated September 18, 2023. The management in its reply dated October 3, 2023 stated that legal advisor was appointed as per company act.

Reply of the management was not tenable because PHSDAC has not any legal case since last nine years. Further legal advisor could not be changed even after lapse of nine years. Moreover, legal advisor was not appointed by adopting PPRA.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to explain reasons for engagement of the advocate without any competition and concurrence of the Ministry of Law, Justice and human Rights and fix responsibility thereof.

Para-14 (PHSADC – 2019-22)

9.11.4.9 Un-authorized payment to the employees of PHSDAC from trainings budget of NAVTTC - Rs 2.457 million

According to PC-1 for “Establishment of Common Facility Training Centre (CFTC) at Peshawar” approved by Pakistan Industrial Development Corporation (PIDC, a parent company) on 12.02.2016 fixed fee for each category of trainings.

During the audit of PHSDAC Peshawar for 2019-22, it was discovered that the management organized three six-month trainings with NAVTTC but did not receive training fees. NAVTTC paid training charges of Rs 4,598,795 to PHSDAC, which was used to cover overheads and employee remuneration. Since PHSDAC employees involved in the trainings were already on the company's payroll, receiving additional remuneration from NAVTTC was deemed unjustified.

The irregularity occurred due to weak administrative and financial controls of the company.

Audit is of the view that the objected employees were on the strength and payroll of PHSADC and obtain salary from PHSADC and appointed for core activities i.e. training and provision of services in the field of hunting and sporting arms. Thus, they should not be paid from NAVTTC budget and the amount paid of Rs 2.457 was held irregular and unjustified. Audit holds that the received amounts should be adjusted against training fee of the PHSADC.

Matter was reported to the management vide latter dated September 18, 2023. The management in its reply dated October 3, 2023 stated that trainings were provided to the students of NAVTTC at fee charges which were adjusted against the remuneration of CFTC employees with the consultation of NAVTTC.

Reply of the management was not tenable as the trainings were provided by the employees of CFTC which were appointed for the training purposes and they provided trainings during official timings of PHSADC by using the company machineries and equipment, thus were not entitled for extra remuneration.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to explain the reasons for payment of remuneration to PHSADC employees from NAVTTC budget and recover the amount from involved employees under intimation to Audit.

Para-13 (PHSADC – 2019-22)

9.11.4.10 Non-appointment of regular CIA, CFO, Company Secretary and CEO

According to SECP Corporate Governance Rules 2013, the Company Board was required to appoint a regular Chief Internal Auditor, Chief Finance Officer, Company Secretary and Chief Operating Officer for the smooth functioning of a company.

During audit of PHSADC Peshawar for the year 2019-22, it was observed that the board of Directors did not appoint a regular Chief Internal Auditor (CIA), Chief Financial Officer (CFO), Company Secretary and Chief Executive Officer (CEO) since January 2, 2014 for the company. The Company is running on acting charge of these positions since long. On the other hand, company was in loss/ deficit each year accumulated upto Rs 239.879 million.

Audit is of the view that due to non-appointing of full time CIA, CFO, Company Secretary and CEO in violation of Corporate Governance Rules, the activities of the Company were badly affected resulting weak performance and accumulated loss/deficit amounting to Rs 239.879 million.

The matter was reported to the management vide latter dated September 18, 2023. The management in its reply dated October 3, 2023 stated that due to weak financial position of the Company, these statutory positions could not be filled.

Reply of the management was not tenable because extra burden of these positions was required to be borne by parent company PIDC like other employees of PHSADC.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to investigate reasons for non-appointing of regular CIA, CFO, Company Secretary and CEO of the Company, fix responsibility on the person (s) at fault and immediate corrective measures be taken in accordance with SECP rules.

Para-9 (PHSADC – 2019-22)

9.12 Pakistan Stone Development Company

9.12.1 Introduction

Pakistan Stone Development Company (PASDEC) is a public company limited by guarantee incorporated under Companies Ordinance 1984 (now Companies Act 2017). The Company is a subsidiary of Pakistan Industrial Development Corporation (Pvt.) Limited (PIDC). The registered office of the Company is situated at Islamabad Chamber of Commerce building, 2nd floor, G-8/1 Mauve Area, Islamabad.

The objective of the Company is to upgrade the supply of marble and granite in Pakistan through improved quarrying practices and support infrastructure. This involves introduction of new technologies and techniques and establishment of model quarries, upgradation of existing quarries, establishment of industrial cities and establishment of Rock Mining Training Institutes to impart quarrying skills in Pakistan.

9.12.2 Comments on Audited Accounts

9.12.2.1 The working results of the Company for the year 2021-22 as compared to previous years are given below:

(Rs in million)

	2022-23	% Inc / (Dec)	2021-22	% Inc / (Dec)	2020-21
Description					
Revenue	96.323	12	85.888	15	74.834
Cost of Sales	(65.783)	(11)	(74.036)	11	(66.956)
Gross Income/(Loss)	30.540	157	11.885	51	7.878
Administrative expense	(85.911)	7	(80.064)	8	(74.466)
Provision for doubtful debts	0	(100)	(0.687)	92	(8.270)
Impairment on receivable from projects	16.835	175	6.124	113	(46.819)
Reversal on impairment on receivable from MCR	0	(100)	19.385	0	-
Financial charges on lease	(1.327)	(4)	(1.388)	0	(0.187)
Other income	11.595	(29)	16.245	0	16.210
Net profit/(Loss)	(36.270)	34	(27.146)	74	(105.654)

(Source Annual Audited Accounts)

9.12.2.2 The core functions of the company are establishment and support of model quarries, upgradation of existing quarries and establishment of industrial cities. However, the company failed to generate revenue from their core functions which needs justifications.

9.12.2.3 Administrative expenses of Rs 85.911 million are 89% of the gross revenue of the company. The management failed to effectively manage human resource of the company. The huge administrative cost led to continuous losses of the company. This needs justification.

9.12.2.4 Trade debts include doubtful debts of Rs 66.00 million. The doubtful debts are 79% of the total trade debts. The management failed to recover their trade debts in time which resulted in loss to the company. It needs justification.

9.12.2.5 Capital work in progress of Rs 26.759 million is appearing in the accounts since last three years. Detailed break up and reasons for non-completion of civil work may be provided to audit.

9.12.2.6 The management entered into Memorandum with Italian Stone and Technology for technology transfer. Under the arrangement the Italian partner will contribute Euro 400,000 for machinery technology and trainings. Complete detail of the same may be provided to audit.

9.12.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
2013-14	06	0	06	8.16.1, 8.16.2.1, 8.16.2.2, 8.16.2.3, 8.16.2.4, 8.16.2.5, 8.16.4.1	0
2015-16	03	0	03	8.17.1, 8.17.2, 8.17.4.1	0
Total	09	0	09		0

Compliance of the PAC directives was very poor which requires immediate attention of the PAO.

9.13 State Engineering Corporation (Pvt.) Ltd

9.13.1 Introduction

State Engineering Corporation (Pvt.) Ltd. (SEC) was incorporated in 1973 under the Companies Ordinance 1913 (now Companies Act 2017) with a paid up capital of Rs 836 million fully subscribed by the Federal Govt. The Corporation is working under the administrative control of Ministry of Industries and Production. As at June 30, 2019, the company has fully paid up Capital of Rs 889.96 million. Moreover, the company also has Govt. Equity Fund of Rs 2,249.76 million (Rs 2,249.76 million on June 30, 2018) representing the funds available for issue of shares to GoP.

The registered office of the company is situated at Third Floor, Software Technology Park, (STP-I), 5-A Constitution Avenue, F-5/1, Islamabad. The Corporation manages and controls important segments of Engineering Industry of Pakistan. The industrial units are dealing in designing, engineering, manufacturing and supply of light, medium and heavy engineering plants and machinery.

The core objectives of the Corporation are as follows:

- To promote Industrial Self-reliance and build a sound technical/Industrial base in the country.
- To upgrade facilities for maximum possible indigenization and maintenance of technological edge over other domestic competition.
- To induct local and foreign Private Sector Partners, whenever possible, to promote joint ventures with them for achieving higher operational efficiencies.

9.13.2 Comments on Audited Accounts

9.13.2.1 The working results of the Corporation for the year 2022-23 as compared to previous years are given below:

(Rs in million)

Description	2022-23	% Inc / (Dec)	2021-22	% Inc / (Dec)	2020-21	% Inc / (Dec)	2019-20
Income							
Service charges	30.000	0	30.000	(14.286)	35.000	(36.360)	55.000
Interest income	7.748	27	6.118	90.711	3.208	(29.650)	4.560
Total income	37.748	5	36.118	(5.470)	38.208	(35.850)	59.560
Expenditure							
Operating expenses	(49.555)	39	(35.593)	(8.033)	(38.702)	(21.370)	49.220
Operating Profit/(loss)	(11.807)	2349	0.525		(0.494)		10.340
Profit/(loss) before Taxation	(17.974)	3447	0.537		(0.501)		10.490
Taxation	(2.400)	0	(2.400)	(14.286)	(2.800)	(36.360)	4.400
Profit / (loss) after Taxation	(32.144)	1625	(1.863)	(43.563)	(3.301)	(154.090)	6.090
Accumulated profit/ (loss)	(1,260.100)	3	(1,227.953)		(1,226.090)		(1,222.790)

(Source: Annual Audited Accounts)

9.13.2.2 The management failed to increase the income of the Corporation during last four years. Accumulated loss of the Corporation has grossed up to Rs 1,260.100 million over the years, continuous trend in losses raised doubts about the corporation's ability to run as a "Going Concern". The management needs to justify their huge operating expenses against the nominal revenue of the corporation.

9.13.2.3 Pay & allowances and other benefits increased by 53% from Rs 27.641 million in the year 2021-22 to Rs 42.300 million in the year 2022-23. The management needs to justify the irrational increase in pay & allowances and other benefits during the year.

9.13.2.4 The Chartered Accountant has qualified the accounts of the Corporation on the basis of non-reversal of the revaluation surplus Rs 3.492 million recorded in accounts during 2020 on the

1650 kanal land in the possession of Pakistan Atomic Energy Commission and Heavy Mechanical Complex. The management need to provide updated status of the qualification.

9.13.2.5 The Chartered Accountant has also qualified due from Associated undertaking Rs 5.885 million receivable from Heavy Electrical Complex Limited being un reconciled against payable balances shown in the financial statement of HEC. The current status of the same may also be provided to audit.

9.13.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
1996-97	05	04	01	163	80
1998-99	04	03	01	257	75
1999-00	06	0	06	319, 320, 321, 322, 323, 324	-
2000-01	05	04	01	296	80
2002-03	03	01	02	89 & 90, 90.2	33
2003-04	05	02	03	102, 102.1, 102.4	40
2005-06	06	02	04	129.1, 129.2, 129.4, 130	33
2008-09	05	04	01	120.1	80
2009-10	04	03	01	129	75
2013-14	07	01	06	8.17.1, 8.17.2.1, 8.17.2.2, 8.17.2.3, 8.17.2.4, 8.17.2.5, 8.17.2.6	14
2015-16	09	0	09	8.18.1, 8.18.2.1, 8.18.2.2, 8.18.2.3, 8.18.2.4, 8.18.2.5, 8.18.2.6, 8.18.2.7, 8.18.3	0
Total	59	24	35		41



The compliance of the PAC directives was not satisfactory which need attention of the PAO.

9.14 Technology Upgradation and Skill Development Company (TUSDEC)

9.14.1 Introduction

Technology Up-gradation and Skill Development Company (TUSDEC) is a Company incorporated in January 2005 and licensed under Section 42 of Companies Act 2017. The principal activity of TUSDEC is to upgrade technology & skills of the key and strategic Industrial Clusters and connect Pakistan to the global value chain. TUSDEC is a subsidiary of Pakistan Industrial Development Corporation (Pvt.) Limited (PIDC). The principal office of TUSDEC is located at State Cement Corporation Building, Kot Lakhpat, Lahore.

9.14.2 Comments on Audited Accounts

9.14.2.1 The working results of the company for the year 2022-23 as compared to previous years are as under:

(Rs in million)

Particulars	2022-23	% Inc / (Dec)	2021-22	% Inc / (Dec)	2020-21
Income from services	135.23	(20.57)	170.24	113.68	79.67
Amortization of grant related to income	49.76	(44.45)	89.57	158.57	34.64
Total Income	184.99	(28.80)	259.81	127.29	114.31
Operating Cost	149.15	(1.06)	150.75	84.09	81.89
Project Expenses	13.35	(77.13)	58.38	79.63	32.50
Administrative and general expenses	117.58	1.15	116.24	24.23	93.57
Total Expenditure	280.08	(13.92)	325.37	55.58	209.14
Other Income	18.69	155.33	7.32	2.81	7.12
Profit/ (Deficit) before taxation	(76.41)	44.22	(52.98)	(39.60)	(87.72)
Taxation	-	-	-	-	-
Deficit for the year	(76.41)	44.22	(52.98)	(39.60)	(87.72)

(Source: Annual Audited Accounts)

9.14.2.2 The accumulated loss of the company increased from Rs 647.87 million in the year 2021-22 to Rs 655.36million in the year 2022-23. The increase in accumulated losses clearly shows weak financial management of the projects. Reasons for losses should be taken up at Ministry level and immediate remedial actions must be taken to make the loss good.

9.14.2.3 Income from services decreased from Rs 170.24 million in the year 2021-22 to Rs 135.23 million registering a decrease of 20.57%. Due to this deficit for the year increased from Rs 52.98 million to Rs 76.41 million registering an increase of 44.22%. Decrease in income from services and increase in deficit for the year indicates alarming situation for the top level management. Sincere efforts may be made for making the loss good.

9.14.2.4 An amount of Rs 504.87 million on account of merger reserves was shown as un-utilized since long. Complete detail of these reserves along with justification for non-fluctuation/ changes in these reserves may be provided.

9.14.2.5 An amount of Rs 4.38 million on account of trade receivables was considered as doubtful in the year 2022-23. This balance includes an amount of Rs 4.19 million in respect of expenses incurred by the company on behalf of Pakistan Industrial Development Corporation (PIDC) which holds 99.99% shares of the company. Strenuous efforts are required by the management for early recovery of the receivables instead of considering these as doubtful.

9.14.2.6 Stores and spares increased from Rs 10.39 million in the year 2021-22 to Rs 11.35 million in the year 2022-23 registering an increase of 9.24%. An amount of Rs 1.15 million was deducted on account of provision for slow moving items. This shows weak management and utilization of assets as new assets are being purchased despite having sufficient items in the stores. Constant increase in stores and spares without utilization of already purchased items and booking of provisions on account of slow moving items needs justification.

9.14.2.7 Short term investments invested in Faysal Bank Limited decreased from Rs 15.00 million in the year 2021-22 to Rs 10.00 million registering a decrease of 33.33%. The decrease in investment resulted into less earning of interest income. Complete detail of investments including approval of the investment from relevant forum for investing funds in Faysal Bank may be provided for ascertaining that decrease in the amount and return on investment was justified.

9.14.2.8 An amount of Rs 22.16 million was shown as tax refund due from Government in the year 2022-23. Whereas the company was allowed a tax credit equal to hundred percent of tax payable in accordance with Section 100C of the Income Tax Ordinance, 2001. Management is stressed to make recovery of tax refunds.

9.14.2.9 Cash and bank balances decreased from Rs 36.83 million in the year 2021-22 to Rs 16.92 million in the year 2022-23 registering a decrease of 54.06%. The drastic decrease in cash reserves needs immediate attention of the top tier of the management as cash reserves of only 16.00 million were left and this can create serious liquidity problems for the company in future.

9.14.2.10 An amount of Rs 801.08 million, Rs 1.53 million, Rs 0.306 million and Rs 4.46 million were returned/ transferred against the projects of Engineering Support Centers (ECS), Footwear Cluster Development (FCD), National Strategic Program for Acquisition of Industrial Technology

(NSPAIT) and Industrial Designing and Automation Centers (IDAC) respectively during the year 2021-22. Likewise, an amount of Rs 15.97 million, Rs 3.86 million, Rs 17.97 million, Rs 27.29 million, Rs 6.35 million and Rs 1.39 million against projects of ECS, FCD, NSPAIT, IDAC, SCDS and NCC were also returned/ transferred. Non-utilization of huge funds indicates the weak internal controls and least interest of the top tier of the management and requires immediate action for utilization of deferred grants. Reasons for non-utilization and return of funds may be justified.

9.14.2.11 Trade and other payables increased from Rs 38.06 million in the year 2021-22 to Rs 49.76 million in the year 2022-23 registering an increase of 30.74%. Major amounts include payables to creditors, accrued liabilities and contract liabilities. This shows that management could not pay off its liabilities during the year. Latest position of payments and outstanding liabilities may be provided.

9.14.2.12 An amount of Rs 9.11 million was shown as project liabilities in the year 2022-23. These were to be paid against projects of IDAC, NSPAIT, SCDS, GIZ, FCD and NAVTTC but liabilities were not paid off during the year. Latest position of the payments made and which are still outstanding may be provided.

9.14.2.13 Amortization of grant related to income decreased from Rs 58.38 million in the year 2021-22 to Rs 13.35 million in the year 2022-23 registering a decrease of 77.13%. The abnormal decrease in utilization of grant related to income depicted serious concerns regarding performance of the company. Management is stressed to make serious efforts to utilize the funds and to avoid such stances.

9.14.2.14 Income from services decreased from Rs 170.24 million in the year 2021-22 to Rs 135.23 million registering a decrease of 20.57% whereas operating cost decreased from Rs 150.75 million in the year 2021-22 to Rs 149.15 million in the year 2022-23 registering a decrease of 1.06% only. Disproportionate/negligible decrease in operating expenses in comparison with income from services needs immediate attention of the top level management.

9.14.2.15 Consumables expenses under the head administrative expenses increased from Rs 2.19 million in the year 2021-22 to Rs 4.41 million in the year 2022-23 registering an increase of 101.37%. Abnormal increase in these expenses needs to be clarified along with complete detail of these expenses.

9.14.2.16 Project expenses under the head administrative expenses increased from Rs 0.953 million in the year 2021-22 to Rs 3.17 million registering an increase of 232.63%. Huge increase in these expenses needs justification along with full facts and figures of the expenses.

9.14.2.17 Excess liabilities written back under the head other income increased from Rs 0.341 million in the year 2021-22 to Rs 16.13 million in the year 2022-23 registering an increase of 4,630.21%. The abnormal increase in excess liabilities written back needs to be explained along with full facts and figures of these liabilities.

9.14.2.18 Capital expenditure under the head Building/ civil work valuing Rs 42.22 million and Rs 18.46 million was incurred during the year 2021-22 against the projects IDAC and NASPAT respectively. Bill of Quantities, engineer estimates for scheduled items, interim payment certificates, final certificates along with documents indicating inclusion of these expenses in PC-I/ Project documents may be provided to the audit.

9.14.2.19 Capital expenditure under the head IT Infrastructure valuing Rs 5.00 million and Rs 2.92 million against the projects IDAC and NASPAT respectively was incurred during the year 2021-22. Detail regarding provision of these expenses in respective PC-I/ Project documents of the projects along with plan of utilization and actual utilization during the year may be shared with the audit.

9.14.2.20 Capital expenditure under the head Land was incurred during the year 2021-22 valuing Rs 127.89 million and Rs 137.03 million against the projects IDAC and Surgical respectively. Detail regarding provision of these expenses in respective PC-I/ Project documents along with detail of parties from whom these lands were procured, reasons for procurement of land and its utilization during the year may be shared with the audit.

9.14.2.21 Operational expenditure under the head Advertisement amounting to Rs 1.345 million was incurred during the year 2021-22 against the projects Footwear, IDAC, NASPAT and Surgical. Reasons for incurrence of these expenses along with provision in relevant project documents may be shared with the audit.

9.14.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
2010-11	01	01	0	-	100
2013-14	02	00	02	8.10.2.3, 8.10.2.4,	0
2019-20	02	02	0	-	100

Total	5	3	02		60
--------------	----------	----------	-----------	--	-----------

The compliance of the PAC directives was very poor which needs immediate attention of the PAO.

9.15 Utility Stores Corporation of Pakistan (Pvt.) Limited

9.15.1 Introduction

Utility Stores Corporation of Pakistan (Pvt.) Limited (the Company) was incorporated on September 03, 1971 as Private Limited Company under Presidential order issued vide President Secretariat U.O dated March 26, 1971. The Corporation is registered under Companies Ordinance 1984 (now Companies Act, 2017) with its registered office at Islamabad.

The Company has paid up capital of Rs 737.73 million fully owned by the Government of Pakistan. The Company is working under administrative control of Ministry of Industries and Production. The key objectives of the Company are to:

- i. Undertake the procurement of essential consumer goods from domestic and external sources.
- ii. Ensure the availability of quality goods in adequate and regular quantities and market them at prices lower than market price, through a chain of store operations.

9.15.2 Comments on Audited Accounts

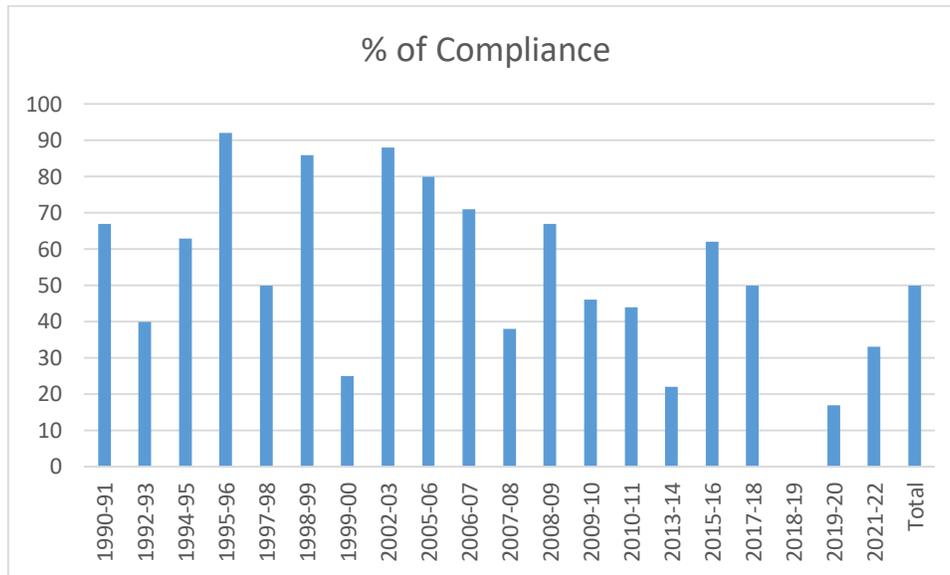
9.15.2.1 The annual audited accounts are required to be provided to Audit for review each year. Contrary to this, the management failed to provide audited annual accounts for the year 2020-21 to 2022-23 till December 31, 2023.

Audit recommends that the annual audited accounts for the years 2020-21 to 2022-23 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*Annex-2*).

9.15.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of Compliance
1990-91	03	02	01	250	67
1992-93	05	02	03	149, 150, 151	40
1994-95	08	05	03	156,157, 160	63
1995-96	13	12	01	131	92
1997-98	02	01	01	214	50
1998-99	07	06	01	172	86
1999-00	04	01	03	251, 252, 253	25
2002-03	08	07	01	142.4	88
2005-06	05	04	01	147.3	80
2006-07	07	05	02	87.2, 87.4	71
2007-08	08	03	05	89.2, 89.3, 90, 91, 93	38
2008-09	06	04	02	116,118	67
2009-10	13	06	07	117.2, 117.4, 118, 119, 120, 122, 123	46
2010-11	16	07	09	11.6.2, 11.6.3, 11.6.4.1, 11.6.4.2, 11.6.4.3, 11.6.4.4, 11.6.4.6, 11.6.4.7, 11.6.4.8	44

2013-14	09	02	07	8.25.1, 8.25.2.1, 8.25.2.3, 8.25.2.4, 8.25.2.5, 8.25.2.6, 8.25.2.7, 8.25.2.8	22
2015-16	08	05	03	8.27.4.1, 8.27.4.3, 8.27.4.4	62
2017-18	08	04	04	10.25.4.1, 10.25.4.2, 10.25.4.5, 10.25.4.6,	50
2018-19	09	0	09	9.25.4.1, 9.25.4.2, 9.25.4.3, 9.25.4.4, 9.25.4.8, 9.25.4.12, 9.25.4.13, 9.25.4.19, 9.25.4.21,	0
2019-20	23	04	19	7.24.2.1, 7.24.2.2, 7.24.2.3, 7.24.2.4, 7.24.2.6, 7.24.2.7, 7.24.2.8, 7.24.2.9, 7.24.3, 7.24.4.1, 7.24.4.2, 7.24.4.3, 7.24.4.4, 7.24.4.5, 7.24.4.6, 7.24.4.7, 7.24.4.8, 7.24.4.9, 7.24.4.11	17
2021-22	06	04	02	8.14.4.3, 8.14.4.8	33
Total	168	84	84		50



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

9.15.4 Audit Paras

9.15.4.1 Excess payment to PASSCO on account of Cost of wheat and transportation charges - Rs 485.925 million

According to Para-2 of letter dated November 08, 2019 regarding fixation of wheat incidentals of PASSCO, PASSCO sells wheat on the instructions of Federal Government and billed the cost of wheat. Cost of wheat has two parts i.e. Support price of wheat and Incidentals (actual expenses incurred on purchase and storage of wheat).

During audit of USC Zonal office, Lahore for the year 2021-22, it was observed that USC procured 150,000 M. Ton imported wheat from PASSCO and made payment as invoiced by them. PASSCO charged Rs 485.925 million higher rates of cost of wheat and transportation to USC as compared to the actual payments made to the said companies. PASSCO charged Rs 261.225 million on account of cost of wheat and Rs 224.700 million on account of transportation charges in excess of the actual payments made to the TCP and NLC respectively. Thus, USC paid excess amount of Rs 485.925 million to the PASSCO.

Description	Quantity M. Ton as per MOUs	Rate as per MOU including all costs (cost of wheat, incidental and transportation)	Cost of wheat charged to USC per M. Ton (Rs)	Cost of wheat to be charged as per invoice of TCP/ M.Ton (Rs)	Difference per M. Ton (Rs)	Excess charging
0	1	2	3	4	5 (3-4)	6 (5*1)
Cost of wheat	40,000	65,154.059	51,340.729	49,221.760	2,118.970	84,758,760
	80,000	69,039.23	55,323.000	53,833.237	1,489.760	119,181,040

	30,000	82,069.23	68,353.000	66,443.486	1,909.510	57,285,420
			175,019.729	169,502.483	5,518.24	
	Sub Total					261,225,220
Average Transportation Charges from Karachi Port to PASSCO Zones	150,000		6,893.000	5,454.000	1498	224,700,000
	Grand Total					485,925,220

(Source: MOUs, TCP Commercial Invoice and agreement provision of transportation services for shifting of Imported wheat)

Audit is of the view that management of USC had to ensure the cost of wheat and transportation cost charged by the PASSCO on actual basis.

DAC meeting was held on 01.02.2024. The management apprised the DAC that cost of Wheat was charged tentatively as per clause “C” of MOU executed between PASSCO authorities & USC. The excess payment of Rs 485.925 million would be refunded in due course and required processing time. DAC pended the para till refund of amount from PASSCO.

Audit recommends investigating the matter and fixing responsibility for making huge payment in excess of actual payment besides effecting recovery.

Para-42 (USC- 2021-23)

9.15.4.2 Mis-utilization of subsidy by the franchises - Rs 228.113 million

According to letter No. General/ZM/USC/01-A dated April 14, 2022 of Manager Franchise to all zonal managers that subsidized items sold by the franchisees will be supported by CNICs of the consumers for subsidy claim at their respective regional account offices.

During the audit of USC Zonal office Lahore for the year 2021-22, it was noted that the management sold subsidized goods to the franchises, which were supposed to be distributed to poor individuals after verifying their CNICs. However, the audit revealed a lack of compliance, as the franchises allegedly sold goods worth Rs 228.113 million without adhering to the necessary criteria. Detail is as under:

Due to weak operational management, a huge quantity of subsidized goods was sold at the sweet will of franchise’ owners.

In the absence of relevant record, an amount of subsidy valuing Rs 228.113 million was considered mis-utilized and shown undue favor extended to the franchisees.

DAC meeting was held on 01.02.2024. The management apprised the DAC that USC issued subsidized stock at normal rates, and franchisees had to sell stock at subsidized rates through USC's mobile app. The subsidy claims were to be made by franchisees based on mobile app data and by providing a copy of CNIC for each customer. However, no subsidy claims were made by any franchisee in Lahore Zone during the financial year 2021-2022. Audit contended that subsidized items were sold on normal rates and

the benefit of subsidy; given by the government, could not be reached to the general public. DAC directed for verification of record.

Audit recommends implementation of the directives of DAC.

Para-37 (USC- 2021-23)

9.15.4.3 Loss due to non-lodging insurance claims – Rs 213.444 million

According to Chapter-11 of the USC Stores Operations Manual deals with Insurance Policy. According to policy, it is necessary that all the warehouses and stores are adequately insured against the risk of fire, theft and burglary to safeguard the interest of the Corporation and avoid any financial loss. In case of any incident, the Regional Manager shall immediately lodge the FIR with the concerned Police Station and intimate to the concerned Regional Office of National Insurance Corporation (NIC) with the request to depute their surveyor. The claim to NIC was to be lodged by HO on the basis of provision of the documents by the Regional Manager within 15 days from the date of occurrence of the incident.

The audit of the USC, HO, Islamabad for the year 2021-22 revealed disparities in insurance coverage, ranging from Rs 0.5 million to Rs 20 million for different facilities. Despite a premium payment of Rs 49.42 million, 94 cases of burglary/theft from 2006 to 2022 worth Rs 213.952 million remained pending due to incomplete documentation or delayed reporting, with some FIRs not even filed within the required timeframe. Procedural lapses, including delayed reporting and FIR filing, were noted in several cases.

The position showed negligence on the part of the management i.e. delay in lodging the claim/FIR, non-completion of necessary documentation etc. due to which insurance firm was reluctant to entertain the claims.

Audit is of the view that after lapse of a considerable time, the chances are very much that the insurance company may not entertain the cases and Corporation may sustain loss of Rs 213.444 million.

DAC meeting was held on 01.02.2024. The management apprised the DAC that 34 cases of Rs 28.710 million were settled by NICTL against which an amount of Rs 22.435 million was recovered. The remaining cases were pending with NICTL and USC was actively pursuing NICTL for settlement of these pending claims.

DAC directed the management to conduct an internal inquiry on each case and share it with the Audit and Ministry. DAC further directed to pursue the cases in the court of law vigorously.

Audit recommends implementation of the directives of DAC.

Para-9 (USC- 2021-23)

9.15.4.4 Loss due to damage of goods – Rs 38.683 million

As per Clause-7.04, each case of damage must be thoroughly investigated by the Area Manager concerned and the responsibility of loss may be fixed by the Divisional Manager and submit action should be taken. The damage in the warehouse/store is the personal responsibility of the incharge.

During audit of the USC, HO, Islamabad for the year 2021-22 and 2022-23, it was observed that a large quantity of damaged goods valuing Rs 156.453 million were lying in various warehouses/stores. The Zone wise detail is as under:

S. No.	Name of Zone	Damaged/expired goods as on 30.06.2023 (Rs in million)
1	Abbottabad	9.630
2	Faisalabad	10.632
3	Islamabad	45.420
4	Karachi	3.297
5	Lahore	36.339
6	Multan	9.469
7	Peshawar	17.995
8	Quetta	14.487
9	Sukkur	9.184
	Total	156.453

The management made no efforts to replace the damaged goods from vendors.

Audit holds the view that the management was required to take timely action for the replacement of damaged stock but no action was taken which resulted into loss of Rs 156.453 million to the Corporation.

DAC meeting was held on 01.02.2024. The management apprised the DAC that vendors signed agreements for replacement of the damaged/expired stock. Damaged stock of Rs 117.77 million was returned to the suppliers leaving a balance of Rs 38.683 million. DAC settled the para upto the amount of Rs 117.7 million regarding replacement / liquidation of stock subject to verification of record by the Audit. Besides, remaining stock be replaced and verified from Audit.

Audit recommends implementation of the directives of DAC.

Para-8 (USC- 2021-23)

9.15.4.5 Irregular execution of agreements for grinding of wheat - Rs 147.450 million

According to USC head office letters dated December 29, 2020 and January 19, 2022, certain flour mills for grinding of PASSCO wheat had been prequalified for the calendar year 2021 and 2022. Zonal offices were directed to ensure transparency in the process of obtaining bids from prequalified flour mills prior to execute the final agreement for grinding of PASSCO wheat/ supply of Atta to respective zones in the best interest of the corporation.

During audit of USC Zonal office, Lahore for the year 2021-22, it was observed that management of Zonal and Regional Offices did not make compliance with the instructions of the head office and executed agreements with specific flour mills without obtaining bids of grinding charges on its own for Rs 147.450 million which was held irregular. Details of payment of grinding is given in Annex-75.

It was observed that management executed the agreements with favorite flour mills violating the instructions of the head office regarding transparency and granting undue benefit to the specific flour mills.

DAC meeting was held on 01.02.2024. DAC was apprised that regional management issued letters from time to time for depositing RTGS against PASSCO wheat allocated quota. Audit contended that security money of non-responsive flour mills was not forfeited. DAC directed for verification of record by the Audit.

Audit recommends implementation of the directives of DAC. Besides, security money of non-responsive flour mills be forfeited.

Para-56 (USC- 2021-23)

9.15.4.6 Loss due to less receipt of cost of jute bags - Rs 119.930 million

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

During audit of USC for the year 2021-22, it was observed that flour mills provided atta to USC as per the allocated wheat quota. According to their agreement, the mills were to adjust the cost of grinding and handling charges by keeping the empty jute bags @ Rs 100 per bag as well as 20 kg bag of atta. However, it was observed from PASSCO record that they were charging Rs 167 per empty jute bag from various mills.

Audit is of the view that USC is charging/adjusting Rs 67 per bag less amount on empty jute bag as compared to that of PASSCO resulting into loss of Rs 119.930 million (179,000 M.Ton x 10 bags per Ton x Rs 67 per bag) to the Corporation.

Due to weak operational control, management failed to get competitive rates of jute bags from the flour mills.

DAC meeting was held on 01.02.2024. The management apprised the DAC that as per MOU between PASSCO and USC, the PASSCO provided the wheat at the ratio of 40% jute bag and 60% PP bags to USC. According to retrieve formula in grinding cost of wheat, USC retrieved Rs 100 of used jute / PP Bags (100 kg), whereas the actual price of used Jute/PP Bags was Rs 96.8 with the ratio of 40% jute bag and 60% PP bags. Audit contended that PASSCO supplied wheat in PP bags only through MOU of 06.06.2022 (50,000 M.Ton). The remaining wheat was supplied in jute bags. DAC directed to internally investigate the matter and get the record verified from Audit.

Audit recommends implementation of the directives of DAC.

Para-38 (USC- 2021-23)

9.15.4.7 Mis-utilization of subsidy by the store incharges – Rs 112.193 million

According to Para-1 and 7 of USC head office order dated May 20, 2022 regarding mechanism on provision of subsidized items, the customers are allowed to buy subsidized items Atta, Sugar & Ghee after a through process involving online NADRA verification to avail subsidy in a reliable way. Further, the customers are entitled to avail authorized quantity of Atta (not more than 40kg), Ghee (not more than 5-kg) and Sugar (not more than 5-kg) on a monthly basis.

During audit of USC for the year 2021-22, it was observed that the management sold subsidized items like Atta, Ghee, Sugar and other items at rates exceeding the prescribed monthly entitlement per CNIC, with abnormal sales ranging from Rs 50,000 to Rs 1,787,246. This led to the mis-utilization of subsidy, as a substantial amount of subsidized stock worth Rs 112.193 million was sold against 582 CNICs, violating established procedures and SOPs.

Weak internal controls enabled store employees to violate the SOPs, raising question mark on the integrity of subsidized goods sales.

Audit is of the view that USC failed to prevent the repeated illegal sale of subsidized items by using same ID cards to gain financial benefits by the employees, resulting in a mis-utilization of subsidy funds of Rs 112.193 million.

DAC meeting was held on 01.02.2024. The management apprised the DAC that illegal financial benefit had been availed by the concerned stores Incharges of various Zones through black-marketing of subsidized stocks in open market instead of transparent provision of subsidy to the customers. All amount was recovered from concerned personnel. DAC directed the verification of record by Audit.

Audit recommends implementation of the directives of DAC. Besides, responsibility be fixed, disciplinary action initiated against the defaulters and necessary steps be taken to amend the software so as to avoid issuance of subsidized goods more than a specific limit against a CNIC.

Para-35 (USC- 2021-23)

9.15.4.8 Loss due to short receipt of sugar – Rs 81.022 million

According to clause-4 of contract agreement dated 19.07.2021 between USC and TCP, the cargo, in standard packing of 50 kgs bags, shall be discharged at the port and shifted directly to the transport provided by USC. The quantity shall be calculated on the basis of No. of bags. The report of tally contractor/stevedore for number of bags at discharge port point shall be final. However, KPT weighbridge will also be used to recheck the quantity. In case of any significant variation on lower/higher side, the number of bags of that particular vehicle shall be recounted. TCP shall not be responsible for any shortage/damage, once the cargo has been handed over to the USC.

During audit of USC for the year 2021-23, it was observed that USC purchased imported sugar from TCP vide Purchase Order No. 546377 dated 26.07.2021. The dispatch Report issued by Incharge Sugar showed dispatched quantity as 33,110.40 M.Ton. However, scrutiny of Goods Receipt Notes (GRNs) indicated that only 32,201.780 M. Ton of sugar was received in various regions, raising a discrepancy of

908.62 M. Ton in the received quantity. (Annex-76). This, resulted into loss of Rs 81.022 million (i.e. 908.62 M. Ton x Rs 89,170.289 per M. Ton = Rs 81,021,908).

DAC meeting was held on 01.02.2024. The management apprised the DAC that the regions reported the receipt of 32,766.52 M. Ton sugar. The difference of 147.268 M/Ton between reported quantity of 32,766.52 M/Ton and GRNs detail of 32,619.252 M/Ton was due to deduction of empty bag. DAC pended the para and directed the management to provide the record to Audit for verification.

Audit recommends implementation of the directives of DAC.

Para-30 (USC- 2021-23)

9.15.4.9 Revenue loss due to non-achievement of sales targets by stores in four quarters – Rs 2,309.378 million

According to Clause 3.07 of USC Store Operational Manual sales targets based on previous performance and on minimum sales turn over expected for each Division/Zone are fixed for each financial year. The sales targets for individual stores are also fixed by the Head Office. Furthermore, as per Clause 3.11 if a Divisional/Regional Manager/ Area Manager Incharge store fails continuously for a period of 3 months to achieve 75% of the Divisional/ Regional/ Area, store target respectively he will be asked to vacate his post.

During the audit of Utility Stores Corporation, Zonal Office, Lahore for the year 2021-22, it was observed that 54-stores of different regions failed to achieve sales target in all quarters due to which Corporation suffered revenue loss of Rs 2,309.378 million but no action had been taken against the responsible. Detail is as under:

Sr. No.	Name of Region	No. of stores	Sales target (Rs)	Actual sales (Rs)	Less sales (Rs)
1.	Lahore (South)	30	4,521,600,000	2,434,426,254	2,087,173,748
2.	Sialkot	17	765,350,000	595,316,058	170,033,942
3.	Okara	7	171,350,000	119,179,265	52,170,735
		54	5,458,300,000	3,148,921,577	2,309,378,425

(Source: Quarterly statements of profit and loss)

Audit is of the view that management of stores failed to achieve targets in all quarters which showed poor performance of Regional Offices management and caused revenue loss to the corporation.

DAC meeting was held on 01.02.2024. DAC was apprised by the management that set sales target was met, except for USC Sialkot Region due to stock unavailability and rural store locations. Overall the said Regions were in Profit. DAC directed to get the record verified from audit.

Audit recommends implementation of directives of the DAC.

9.15.4.10 Non-transparent distribution of free Atta under Prime Minister's Gift Atta for Islamabad (ICT) – Rs 909.751 million

According to Prime Minister's Office U.O No. 2(22)/OS(IA-IV) 23 dated 16.03.2023, the Prime Minister approved a scheme for the provision of free Atta (3x10 kg bags/household) during the month of Ramzan to the households residing in ICT and having poverty score upto PMT-60.

During the scrutiny of record of USC for the year 2021-22 & 2022-23, it was observed that the Prime Minister in a meeting held on 13.03.2023 approved a proposal for provision of free Atta to population upto poverty score of PMT-60 in ICT area under Ramzan Package. As per scheme, 3 bags of 10 Kg Atta were to be provided to each household residing in ICT and having poverty score upto PMT-60. Initially, free Atta bags were to be provided to the 185,984 families of Islamabad (ICT) registered with BISP under PMT-60. Accordingly, 557,952 bags of 10 kg Atta were required for distribution. Later on, MD, USC's letter dated 04.04.2023 revealed that in compliance with the PM's directions dated 25.03.2023, it was decided that if the beneficiary was not verified by BISP, then get it verified from NADRA and one bag of 10 Kg Atta will be provided initially to each family and the number of bags may be increased if required subsequently. The scheme was launched on 18.03.2023 till 16.04.2023.

As per record made available to Audit, 750,815 No. of bags costing Rs 909.751 million were distributed to 457,034 families. The detail of bags distributed is as under:

S. No.	No. of Families	No. of Bags issued to each family	Total Bags issued
1	285,725	1	285,725
2	51,230	2	102,460
3	117,910	3	353,730
4	2,028	4	8,112
5	96	5	480
6	35	6	210
7	2	7	14
8	1	8	8
9	3	9	27
10	2	10	20
11	1	12	12

12	1	17	17
Total	457,034		750,815

However, lists of families of Islamabad registered with BISP under PMT-60 and list of families verified by NADRA were not produced to Audit. In the absence of said lists, the authenticity of beneficiaries could not be verified.

DAC meeting was held on 01.02.2024. DAC was apprised that BISP and NADRA never share their data but only through an API call where USC Point of Sale System (POS) was sending CNIC of citizen through its POS for verification and in return BISP return verification status if the CNIC is found in the BISP database and fall under the required PMT score. DAC directed to verify records of 250 CNICs on test check basis from BISP.

Audit recommends implementation of directives of the DAC.

Para-25 (USC- 2021-23)

9.15.4.11 Irregular payment to the Security Services Company without agreement - Rs 58.459 million

According to Clause-4 of agreement dated July 21, 2020 with M/s Ghosia Guard & Management Services, the contract will be valid initially for one year from July 25, 2020 to July 24, 2021 starting from the effective date for this agreement and extendable at the discretion of the Managing Director USC for further two years on evaluation of the services rendered.

During the audit of Utility Stores Corporation, Zonal Office, Lahore for the year 2021-22, it was observed that a security services agreement for a period of one year was executed with M/s Ghosia Guard on July 21, 2020 which was extendable for further two years on evaluation of the services rendered. After the expiry of agreement, neither service evaluation nor a contract extension occurred, yet USC paid Rs 58.459 million (147 Guards x17 months @ Rs 23,393/month) to the security agency till December 2022.

Due to weak administrative control, management carried forward the contract without any agreement.

Thus, undue favour was extended to the security company by making the irregular payment of Rs 58.459 million without signing of any agreement.

DAC meeting was held on 01.02.2024. The management explained that after the expiry of agreement new tender was published but the same was rejected by USC Head Office and the services of existing security company were allowed till finalization of centralized tender at USC Head Office. Centralized tender was approved on 11.05.2023. Audit contended that the services of previous contractor remained continue till May 2023 (About two years) without evaluation of their services in violation of agreement. DAC directed the management to get ex-post facto approval from BOD.

Audit recommends implementation of directives of the DAC.

Para-39 (USC- 2021-23)

9.15.4.12 Non-initiating disciplinary proceedings against Store Incharges whose shortage exceeded the allowable limit - Rs 15.784 million

According to Para-2(a) of USC Head office letter No. Audit (48) HO/2013 dated 22.10.2013/3807 disciplinary proceedings were required to be initiated against those store Incharges whose shortages at the time of surprise audit or quarterly stock taking exceeded to 1% of the inventory of the stores.

During the audit of USC Regional Office, Islamabad for the year 2021-23, it was observed from the data made available to Audit that shortages of more than allowable limit of 1% of the inventory of the different stores of Rs 43.984 million were detected (Annex-77).

According to USC Head Office's above directives, the recovery of shortage of Rs 43.984 million was required besides initiation of disciplinary proceedings against the stores Incharges. However, the regional management failed to comply the directives which is indicative of weak internal controls.

DAC meeting was held on 01.02.2024. The management apprised the DAC that Rs 28.199 million had been recovered and verified by the audit. DAC pended the para with the direction to pursue the recovery of the remaining amount of Rs 15.784 million. DAC further directed to pursue the case in the court of law vigorously.

Audit recommends implementation of directives of the DAC.

Para-29 (USC- 2021-23)

9.15.4.13 Hiring of transport services from unauthorized supplier without competitive rates - Rs 40.950 million

According to Rule-4 of PPRA Rules-2004, the procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical. Further, according to USC Head Office Letter No. 431/SOS/2014 dated Aug 04, 2014, it was directed by Sr. General Manager (Operations) to all zonal managers that the period for which agreement with transporter is not finalized the arrangements may be made by them for that period but the transport must be hired from market on competitive rates not higher than the existing approved rates.

During the audit of Utility Stores Corporation, Zonal Office, Lahore for the year 2021-22, it was observed that agreement for transport arrangements from warehouse to utility stores was made with M/s Shahbaz Nasir upto March 22, 2022. Management of zonal office, Lahore initiated a tender process for a new transportation contractor on February 25, 2022, where M/s Phool Pur offered lower rates than the previous contractor but was disqualified for failing to provide earnest money as per tender requirement. The bid of 2nd lowest M/s Shahbaz Nasir was not approved by the USC head being their rates higher than market rates and other zones.

At that time, the management of zonal office was required to obtain market rates but instead, regional offices hired the services of transportation on the last approved rates in violation of instructions issued by the head. Another tender was floated on Nov 06, 2022 wherein M/s Super Shaheen offered lower

rates (i.e. Rs 2,099 to Rs 3,099) than the previous expired contract. Thus, management of regional offices paid excess transportation charges of Rs 40.950 million.

DAC meeting was held on 01.02.2024. DAC was apprised that the transport was arranged from market by the concerned I/C Warehouses on competitive rates and all the formalities were fulfilled. DAC directed to conduct an internal investigation of the matter and submit report to the Audit and Ministry.

Audit recommends implementation of directives of the DAC.

Para-52 (USC- 2021-23)

9.15.4.14 Non-recovery of shortages of goods from serving and ex-employees - Rs 28.532 million

According to Clause-3.10 (f) of Accounting Manual, the store incharge will be responsible for any shortage of stocks/cash that may be found to have occurred at the store after proper verification and checking of the store account and to be responsible to make good such losses/shortage to the Corporation.

During audit of USC Zonal office, Lahore for the year 2021-22, it was observed that various employees at different stores incurred shortages amounting to Rs 19.530 million. and subsequently left the Corporation. Sincere efforts were not made by the management resulting in the retrieval of only Rs 1.358 million, leaving a substantial outstanding shortage of Rs 18.172 million.

Similarly, shortages of goods amounting to Rs 10.360 million were made by serving employees at different stores of Lahore Zone.

Due to weak internal control management failed to recover the long outstanding recoveries from the serving and ex-employees.

Audit is of the view due to non-recovery of the shortages of goods detected against those employees at all regions, huge funds were blocked since long.

DAC meeting was held on 01.02.2024. The management apprised the DAC that recovery from serving employees has been fully made. DAC directed the management to provide evidence of recovery already made, to Audit for verification. DAC further directed to recover the amount from ex-employees from pending benefits and pursue court cases vigorously.

Audit recommends implementation of directives of the DAC.

Para-32 & 34 (USC- 2021-23)

9.15.4.15 Loss due to less receipt of jute bags from flour mills - Rs 22.537 million

According to Clause-5 (5)(a) of Public Sector Companies (Corporate Governance) Rules, 2017, the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance of the principle of probity and propriety entails that company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage especially with respect to (i) handling of public funds, assets, resources and confidential information by directors, executives and employees; and (ii) claiming of expenses.

During audit of Utility Stores Corporation (USC) for the year 2021-22, it was observed that management allocated wheat quota to the Flour Mills for grinding and provision of atta as per prescribed criteria. USC retrieved the cost of jute bags at Rs 100 each from flour mills, while PASSCO had purchased them at Rs 319 each. As per policy of PASSCO, jute bags were re-classified in Class-B which were retained in open stock for two or three years and price of jute bag was determined Rs 167/Jute bag. USC received Rs 100 per Jute bag for 100-Kg wheat from flour mills, but actually 93 Kg wheat was filled in each bag. Accordingly, more bags were used for filling of 179,000 M.Ton wheat. Resultantly, management received less cost of jute bags of Rs 22.537 million as detailed below:

Procurement of Wheat (M.Ton)	Cost of Bags should have been received @ 93-Kgs wheat in a bag supplied to Flour Mills	Cost of Bags received @ 100-Kg wheat in a bag from Flour Mills	Difference of bags	Loss on less received of cost of jute bags @ Rs 167/bag (Rs in million)
0	1	2	3 (1-2)	4 (3 * Rs 167)
179,000	1,924,731	1,790,000	134,731	22.537

(Source: Letters of PASSCO, MOUs signed with PASSCO)

Audit is of the view that management should receive the cost of actually delivered jute bags from the flour mills to avoid the loss.

DAC meeting was held on 01.02.2024. DAC was apprised that PASSCO gave FAQ wheat in 100 kg jute bag and 50 Kg in PP bag. USC retrieved Rs 100 of each used Jute / PP Bags (100 kg), whereas the actual price of used Jute/PP Bags was Rs 96.8 with the ratio of 40% jute bag and 60% PP bags (i.e. Jute bag @ Rs167 x 40%= Rs 66.8 and PP Bag @ Rs 50 x 60% = Rs 30). Audit contested that instead of 100 kg, PASSCO had filled 93 Kg wheat in each bag due to which 134,731 extra bags were consumed but their cost was not retrieved/ adjusted by USC. DAC directed for verification of record.

Audit recommends implementation of directives of the DAC.

Para-43 (USC- 2021-23)

9.15.4.16 Irregular/ excess payment to flour mills on account of cost of atta - Rs 21.394 million

According to USC Head office letter No. 4092/W&WF/2021/4081 dated June 03, 2021, the rate of ATTA per 20-Kgs bag was Rs 1,161 which remained effective till October 01, 2021.

During the audit of Utility Stores Corporation, Zonal Office, Lahore for the year 2021-22, it was observed that management of Regional office Lahore North and South made payment of Rs 1,488 and Rs

1,379 per bag respectively to the flour mills on account of the cost of atta instead of rate of Rs 1,161 per bag of 20 Kg, notified by the head office.

Audit is of the view that management paid excess amount of Rs 21.394 million against the rate notified by the Head Office of USC (Annex-78).

DAC meeting was held on 01.02.2024. DAC was apprised that PASSCO converted indigenous wheat into imported wheat during Sep.2021 and revised the rate from Rs 51,822.73 to Rs 65,154.059 of wheat. Cost of 20 Kg bag of atta was also revised from Rs 1,161 to Rs 1,488 accordingly. The payment was made on revised imported wheat rate. DAC directed for verification of record.

Audit recommends implementation of directives of the DAC.

Para-49 (USC- 2021-23)

9.15.4.17 Non-payment of markup on LC amount to TCP due to supply of imported sugar - Rs 1,041.897 million

According to Clause 5(B)(g) of contract agreement dated 19.07.2021 between TCP and USC for delivery of imported sugar, the payment against the allocated quantity as per landed cost worked out by Finance Division, TCP or approved rates issued by the Government, should be received by TCP before opening of LC. In case the amount is not paid by USC by then, LC will be opened by TCP and all markup accrued on the unpaid amount, till receipt of payment shall be the responsibility of USC as per actual.

During audit of the accounts of USC Head Office, Islamabad for the Year 2021-22 it was observed that the management of USC and TCP signed an agreement on 19.07.2021 for the supply of imported sugar for a quantity of 50,000 M. Ton which was increased to 100,000 M. Ton vide an addendum. The management of USC failed to pay the sugar cost to TCP before LC opening, leading to a claimed markup of Rs 1,041.897 million upto 31.03.2023. However, USC management was reluctant to pay the amount of markup due to non-receipt of Rs 4,560 million from Ministry of Finance on account of subsidy.

Audit is of the view that markup would further increase and USC might sustain huge loss in this regard.

DAC meeting was held on 01.02.2024. DAC was apprised by the management that Rs 4,560 million stood receivable from Ministry of Finance on account of subsidy. The matter of non-release of subsidy amount had been taken up many times in order to clear the outstanding payments to TCP. However, USC did not own this mark-up as it occurred due to delayed releases from Finance Division. However, USC has no objection if Finance Division directly releases the payments to TCP along-with markup at Government end. DAC pended the para and directed the management to provide complete record pertaining to pursuance the case with Finance Division to audit within 30 days.

Audit recommends implementation of directives of the DAC.

Para-7 (USC- 2021-23)

9.15.4.18 Loss due to theft of store items at USC Stores/warehouses – Rs 12.713 million

The management of USC vide its letter No. 431/SOS.2021/227 dated 24.02.2021 circulated the security measures to be adopted at Zonal/Regional Offices, warehouses and stores. According to said measures, the Zonal Managers were required to ensure deployment of security guards at Zonal/Regional Offices and warehouses. The guard deployed at the roof of the warehouses must be in possession of whistle, torch, gun and mobile phone and firm alarms. Emergency lights must be arranged in addition to lights installed at each point. The Regional Managers, Incharge Warehouses must check the security measures at different timing. Ensure that CCTV system is functional at all warehouses and connected with cell phones.

During audit of the USC, HO, Islamabad for the year 2021-22, it was observed that in 21 incidents of theft/decoity at different locations, the store items of Rs 12.713 million were stolen / looted by the robbers/decoits. Although, the management had lodged FIRs with police but without any fruitful results. The management also nominated inquiry officers to investigate the incidents but the reports were still awaited. The claims were also lodged with insurance company but without any fruitful results.

Audit is of the view that due to weak internal controls, the Corporation sustained loss of Rs 12.713 million.

DAC meeting was held on 01.02.2024. The management apprised the DAC that USC has taken a proactive approach by securing insurance coverage against burglary and fire risks and out of 21 cases, 17 claims of Rs 10.917 million were settled by NICTL for Rs 10.003 million. DAC directed to provide the record of recovery already made alongwith bank statements to Audit. DAC further directed to pursue remaining cases vigorously.

Audit recommends implementation of directives of the DAC.

Para-10 (USC- 2021-23)

9.15.4.19 Non-forfeiture of bid security due to non-execution of agreements by Pre-qualified flour mills - Rs 12.500 million

According to Clause-d of Terms and Condition of Bidding documents for pre-qualification of Flour Mills for grinding to wheat, the application for pre-qualification must be accompanied with security money of Rs 500,000. As per Clause-m, Rs 500,000 security money of success full Flour Mills will be returned after completion the period of contract. Further, Clause-dd describes that in case of any deviation from SOP/ TORs, the concerned flour mills shall be subject to due penalty which may extend to suspension of quota, forfeiture of security money and black listing (temporary/permanent) as well.

During the audit of Utility Stores Corporation, Zonal Office, Islamabad for the year 2021-22 & 2022-23, it was observed that 41 flour mills were pre-qualified for grinding of PASSCO wheat and supply of Atta vide Head Office letter No. 4092/W&WF/2023/4566 dated 02.01.2023. The management executed agreements with thirty-one mills but no agreement was executed by ten flour mills. Detail is given at Annex-79.

The bid security amounting to Rs 5.00 million was to be forfeited as per terms & conditions of the bidding documents but management failed to forfeit the same.

Similarly, twenty-four (24) flour mills were prequalified vide Head Office letter dated December 29, 2020 for Lahore Zonal Office. Out of these, management executed agreements with nine flour mills but no agreement was executed by fifteen flour mills. The bid security amounting to Rs 7.500 million (Rs 500,000 x 15) was to be forfeited but management failed to forfeit the same. Detail is given at Annex-80.

Audit is of the view that bid securities submitted by pre-qualified flour mills should have been forfeited due to non-execution of agreements but the same was not done.

DAC meeting was held on 01.02.2024. DAC was apprised that pre-qualified period for supply of Atta against PASSCO wheat started from 1st January to 31st December of each year. M/s Esmail Flour Mill Islamabad, M/s Al Karim Flour Mill, Rawat, Rawalpindi and Al-Mehraj Roller Flour Mill, Kala Gujra, Jhelum had executed agreements with USC. However, remaining 7 Flour Mills did not execute agreement with USC. The security money of these 7 Flour Mills would be forfeited. Further, M/s OK FM, M/s Awami FM, M/s Qaiser FM, M/s Ramzan FM, M/s Data Foods, M/s Dayan FM, M/s Al-Hamad FM, M/s New Capital FM, and M/s Bajwa FM had executed agreements with USC. However, remaining 6 Flour Mills did not execute agreement with USC. The security money of these 6 Flour Mills would be forfeited. DAC pended the para and directed the management to provide copies of agreements of flour mills pointed out and updated status of the forfeiture of bid security of flour mills to Audit for verification.

Audit recommends implementation of directives of the DAC.

Para-23 (USC- 2021-23)

9.15.4.20 Irregular extension of transportation contract – Rs 4.899 million

According to contract agreement for transportation of stock of the consumer goods from warehouses to stores, USC Islamabad Zone, there exists no clause for extension of contract.

During audit of USC Regional Office, Islamabad for the years 2021-22 & 2022-23, it was observed that a contract for transportation of stock of consumer goods from warehouses to stores, USC Islamabad Zone was awarded to M/s Shahbaz Nasir Goods Transportation Company on 01.02.2022 for a period of one year. The contract was extended for a period of 3 months from 01.02.2023 to 30.04.2023. The contract was again extended w.e.f. 01.05.2023 till the finalization of new tender vide USC HO letter No. 327/SOS/Tender-Trans./2022/772 dated 17.07.2023.

Audit observed that no fresh contract was executed till the close of audit. An amount of Rs 4.899 million was paid to the contractor from 01.02.2023 to 30.09.2023 which was held irregular in Audit. The extension in contract tantamount to undue favour to the contractor.

DAC meeting was held on 01.02.2024. DAC was apprised by the management that before the expiry of previous contract on 31.01.2023, USC processed a tender and opened on 14.02.2023 wherein four firms participated but due to certain discrepancies, contract could not be awarded to the lowest firm. The 2nd lowest bidder was ignored due to lack in capacity of delivery while the rates of 3rd lowest vendor were high, due to which tender was scrapped. Since, the month of Ramzan was approaching (in March), it was decided to extend the existing agreement with the previous vendor. Audit argued that the technical bids of all the four participating companies were approved but later on, the contract was not awarded to the lowest firm due to non-submission of requisite documents. The 2nd lowest bidder was also not awarded the contract

due to lack of capacity which indicated that no proper technical evaluation criteria were adopted due to which the firms were technically qualified but later on contract was not awarded to the lowest firm and previous contract agreement was continued without having a clause of extension therein. DAC directed the management to justify the extension of the transportation contract for seven months even though no clause of extension of the contract was available in the agreement.

Audit recommends implementation of directives of the DAC.

Para-14 (USC- 2021-23)

9.15.4.21 Irregular retention of staff beyond sanctioned strength – Rs 93.473 million

According to Rule-5, Clause-5 (a) of Public Sector Companies (Corporate Governance) Rules, 2017, the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance of the principle of probity and propriety which entails that company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage. The principle shall be adhered to, especially with respect to (i) handling of public funds, assets, resources and confidential information by directors, executives and employees; and (ii) claiming of expenses.

During the audit of USC for the year 2021-22 and 2022-23, it was observed that excess staff was appointed in USC HO, in different categories over and above the sanctioned strength which resulted into irregular / extra expenditure of Rs 93.473 million on pay and allowances from July 2021 to June 2022. Further, payment detail of certain staff was not produced to Audit. Moreover, the pay roll for the year 2022-23 was also not produced to Audit.

Audit is of the view that the retention of staff in USC HO beyond the sanctioned strength and payment of salary to the unauthorized staff was irregular.

DAC meeting was held on 01.02.2024. The management apprised the DAC that for smooth functioning / operations, the staff was posted / deputed at various posts in excess of approved sanctioned strength. DAC pended the para with the direction that management should revise the sanctioned strength as per the requirement with the approval of competent authority.

Audit recommends implementation of directives of the DAC.

Para-28 (USC- 2021-23)

Chapter-10

Ministry of Information, Broadcasting and National History & Literary, Heritage Division

Overview

The Ministry is responsible to release the Government information, media galleries, public domain and government unclassified non-scientific data to the public and international communities. The MoIB has jurisdiction for administrating the rules and regulations and laws relating to information, broadcasting and the press media in Pakistan.

Aims & Objectives

The goal of MIBS is “to achieve country wide media coverage for a well-informed public.”

The specific objectives are:

- To provide legal and policy framework in order to guide the operations of the media industry
- To coordinate the provision of government information to the public in order to ensure consistency and portray a positive image of government
- To interpret Government policy to the public in order to solicit their support and participation in national programmes
- To provide timely news and information to the public
- To improve the capacity of the public media in order to attain countrywide coverage
- To conduct research in media and national topical issues in order to improve the quality of media products, measure public response and influence government policy
- To facilitate the protection of copyright and related rights in order to reduce piracy and unfair exploitation of intellectual property
- To develop and manage human resources in order to enhance the performance of the ministry
- To provide effective financial management services and oversight in order to ensure accountability and transparency
- To provide administrative and logistical support services for efficient operations of the Ministry
- To establish and maintain an information management system in order to improve accessibility to information for speedy and informed decision making
- To plan, coordinate, monitor and evaluate the implementation of ministerial policies, legal framework, projects and programmes in order to ensure their effective implementation and compliance

Governing Laws and Policies

- Rule of Business 1973
- Information Policy of the Federal Government
- Copy right Act.

**Audit Profile of Ministry of Information, Broadcasting and National History & Literary,
Heritage Division**

(Rs in million)

S. No.	Description	Total	Audited	Expenditure audited FY 2022-23	Revenue /Receipts audited FY 2022-23
1	Formations	4	1	14,095.00	1,415.00
2	Assignment Accounts (excluding FAP)				-
3	Authorities /Autonomous Bodies etc. under the PAO	4	1	-	-
4	Foreign Aided Projects (FAP)	-	-	-	-

Classified Summary of Audit Observations

Audit observations amounting to Rs 12,438.956 million were raised as a result of this audit. This amount also includes recoverable of Rs 11,393.136 million as pointed out by the audit. Summary of the audit observation classified by nature is as under:

Overview of the Audit Observations

Sr. No.	Classification	Amount (Rs in million)
1	Non-Production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities:	
A	HR/Employees related irregularities	389.842
B	Procurement related irregularities	118.612
C	Management of accounts with Commercial Banks	-
4	Value for money and services delivery issues	316.361
5	Others	11,614.141

10.1 Pakistan Television Corporation Limited

10.1.1 Introduction

Pakistan Television Corporation Limited (PTVCL) was established as an un-quoted public limited company under Companies Act 1913 (Now Companies Act 2017) on Nov 26, 1964. All its shares are held by Government of Pakistan. There is no change in the pattern of shareholding of company since incorporation.

Aims & Objectives

The main purpose and objectives of the corporation are:

- i To provide television broadcasting services by telecasting programs of all kinds, news pictorials and documentaries, local and foreign films of all kinds and nature for the purpose of disseminating information, education and entertainment.
- ii To carry out instructions of the Government of Pakistan with regard to general pattern or policies of programs, announcements, news etc.
- iii To carry on the business of commercial advertisement by selling programs and advertising time of television stations either directly or through advertising agencies or by setting up advertising agencies or by other means.

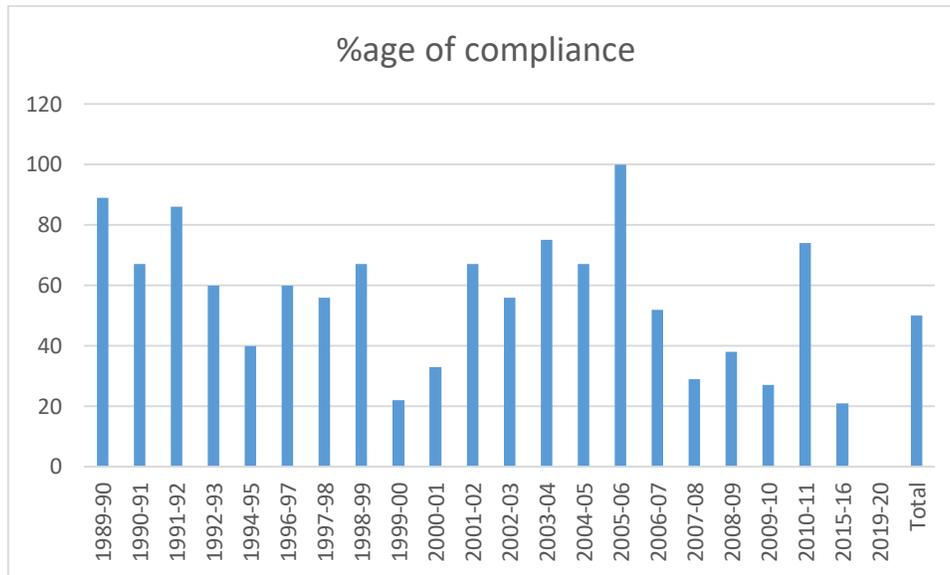
10.1.2 Comments on Audited Accounts

10.1.2.1 The annual audited accounts are required to be provided to Audit for review each year. Contrary to this, the management failed to provide audited annual accounts of the organization for the years 2019-20 to 2022-23 till December 31, 2023.

Audit recommends that the annual audited accounts of 2019-20 to 2022-23 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*refer Annex-2*).

10.1.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	%age of compliance
1989-90	09	08	1	478	89
1990-91	06	04	2	362,364	67
1991-92	07	06	1	312	86
1992-93	05	3	2	212,214	60
1994-95	05	02	3	223,225,228	40
1996-97	05	03	2	184,187	60
1997-98	09	05	4	121,122,123,124	56
1998-99	06	04	2	1.1.4,2.1.1(SAR-55)	67
1999-00	09	02	7	165,166,168,169,170,172,173	22
2000-01	18	06	12	133,134,137,170,(1.1,1.1.1,1.1.3,1.1.2,1.1.5,1.1.6,1.1.7,4.11)	33
2001-02	03	02	1	158	67
2002-03	09	05	04	166.1,166.3,166.4,166.7	56
2003-04	08	06	02	126.2,130	75
2004-05	03	02	01	81	67
2005-06	12	12	00	Nil	100
2006-07	21	11	10	121.6,121.8,122,124,125,126,127,128,129,130,	52
2007-08	07	02	05	100,100.1, 101.2,101,102	29
2008-09	13	05	8	138,139,140,141,142,143,144,145	38
2009-10	11	03	08	152,153,154,156,157,158,159,160	27
2010-11	23	17	06	12.3.2.5,12.3.2.6,12.3.2.7,12.3.2.13, , 12.3.4.5,12.3.4.7	74
2015-16 One Para	34	07	27	9.1.2.1, 9.1.2.2,9.1.2.3,9.1.2.4,9.1.2.5, 9.1.2.6, 9.1.2.7, 9.1.2.8,9.1.2.9, 9.1.2.10,9.1.2.11,9.1.3,9.1.4.1,9.1.4 .2, 9.1.4.3, 9.1.4.4,9.1.4.6,9.1.4.8,9.1.4.9, 9.1.4.10,9.1.4.12,9.1.4.16,9.1.4.17, 9.1.4.18,9.1.4.19,9.1.4.21,9.1.4.22	21
2019-20	08	0	08	8.2.4.1, 8.2.4.2, 8.2.4.3, 8.2.4.4, 8.2.4.7, 8.2.4.8, 8.2.4.9, 8.2.4.14	0
Total	231	115	116		50



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

10.1.4 Audit Paras

10.1.4.1 Loss due to non-recovery of revenue of sport events – Rs 338.39 million

According to Rule 10(i) of the PBA Rules, the management was required to send their outstanding bills/invoices against agencies to Pakistan Broadcasting Association (PBA) supported with telecast certificate along-with the statement of bills within 15 days of the last date of each clearance period. They were also required to obtain proper acknowledgement of the receipt of these bills from the agencies.

During audit of PTVC for the year 2022-23, it was observed following sports events were telecasted on PTV Sports during the period 2022-23. Advertisement business to be transmitted during live sports events was awarded to various agencies during the said period. However, the agencies failed to clear their dues and an amount of Rs 338.39 million remained outstanding as detailed below;

(Rs in million)				
Name of Event	Telecast between	Net Income	Recovery/ Adjustment	Outstanding
Pak Tour Srilanka (Test Series)	16.07.2022 to 28.07.2022	43.40	40.10	3.30
Asia Cup	27.08.2022 to 11.09.2022	495.70	493.61	2.09
Pak Vs England (PCB)	20.09.2022 to 02.10.2022	324	293.95	30.05
English Premier League 2022	N/A	126	123.94	2.06

ICC Men's T20 World Cup 2022	16.10.2022 to 13.11.2022	1,275.90	1,075.35	200.55
PSL 2023	13.02.2023 to 18.03.2023	1,437.60	1,340.26	97.34
Pak Vs AFG	N/A	25	22	3
Total		3,727.6	3,389.21	338.39

Audit is of the view that cases for defaulting agencies should have been sent to Pakistan Broadcasting Association (PBA) for early recovery in order to avoid a huge loss of Rs 338.39 million.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends that balance recovery may be made besides fix responsibility for not forwarding the case to PBA.

Para-58 (PTVC- 2022-23)

10.1.4.2 Irregular appointment of Chief Commercial Officer on bogus degree – Rs 104.347 million

According to judgment of the Supreme Court of Pakistan (case 2009 SCMR 1492) no leniency should be shown in favour of employees possessing fake/bogus degrees/certificates. Supreme Court of Pakistan recommended authorities to examine the possibility of getting registered criminal case against such employees so that in future no one should dare to commit such misconduct. Further, the authority awarding punishment of dismissal from service to an employee cannot reinstate him in service.

During audit of PTVC for the year 2022-23, it was observed that services of Mr. Muhammad Ameen Akhtar were hired as Chief Commercial Officer on contract basis w.e.f March 20, 2018 @ Rs 1,500,000 per month which was subsequently enhanced to Rs 1,950,000 per month w.e.f. 01.09.2023. Further, it was observed that his appointment was made without advertisement i.e. in violation of Supreme Court judgment and his degrees were not verified from concerned Boards / HEC. Moreover, The Board of Secondary Education Karachi has declared Matriculation certificate of officer as bogus.

It was further observed that a complaint No. IS251020-87503668 regarding bogus degree was lodged on Prime Minister Portal and Managing Director PTVC vide dated July 14, 2021 responded that relief could not be granted, if degrees found fake, bogus disciplinary action will be taken as per service rules. No action had been taken.

Thus, the appointment as well as payment of Rs 104.37 million made to him was held irregular.

The non-compliance of rules and regulations is an indicative of malafide intention, weak managerial and financial internal control.

Audit is of the view that appointment had to be made by following rules & regulations.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to explain the reasons of appointment without advertisement and having bogus degree. Inquire the matter to fix the responsibility on the person(s) at fault. Terminate his service

immediately and recover the perks drawn since his appointment in 2007 in compliance of Supreme Court Judgment.

Para-14 (PTVC- 2022-23)

10.1.4.3 Irregular extension in contract of a Security Company - Rs 241.248 million

Board of Directors in its 244th & 245th meeting held on 30.12.2020 and 04.01.2021 vide item No.12 and 13 respectively directed to advertise tender notice in newspapers inviting bids for hiring of Security Company to provide security guards for PTV offices / installations.

According to clause-42(C)(IV) of PPRA, repeat orders should not exceed fifteen per cent of the original procurement.

During audit of PTVC for the year 2022-23, it was observed that the services of security company “M/s Sigma Security Services (Pvt.) Ltd” were hired w.e.f. 01.02.2020 on monthly payment of Rs 8,935,100 (449 guards * Rs 19,900 per guard per month without GST) for one year. Further, it was noted that, with the approval of Chairman of Corporation, several advertisements were published but subsequently cancelled the tender process. Later on, an advertisement was approved by MD PTVC on 31.01.2023. Accordingly, M/s Sigma Security Services Pvt. Ltd was awarded the contract for one year w.e.f.11.05.2023. It was further observed that the management extended the contract of existing company for a period of 27 months and 9 days from 01.02.2021 to 10.05.2023 in violation of BOD directions and payment of Rs 241,247,700 (Rs 8,935,100 per month *27 months) was paid without approval of Board of Directors.

Audit is of the view that the management had to comply with the directions of BoD and not to exceed the repeat order beyond the limit of PPRA.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends that the reasons of ill-planning for unnecessary delay in hiring of Security Company be explained and the placement of variation order over & above the permissible limit under PPRA may be justified. Ministry should conduct Inquiry fix responsibility.

Para-7 (PTVC- 2022-23)

10.1.4.4 Loss Due to Defective Lease Agreement with HBL - Rs 156.693 million

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

During audit of PTVC for the year 2022-23, it was observed that a space of 1024-square-ft was allotted to M/s Habib Bank Ltd (HBL) for the establishment of a branch through an agreement in 1977. Banking facilities were also extended to the general public and other departments located in the vicinity. Moreover, no clause for receipt of rent/ other utilities was inserted in the agreement. A recovery notice of Rs 138.817 million against utilization of space and allied services was served to HBL, upon non receipt of response, PTVC filed a civil suit in 2017 which was dismissed in 2018 due to non-insertion clause of recovery of rent and utilities etc. in the agreement and directed HBL to start payment of rent immediately.

Although the court decided the case in 2018 yet the PTVC signed a formal agreement with the HBL on December 31, 2021, after a lapse of three years. It is worth mentioning here neither recovery of previous rent nor current rent has so far been realized.

Weak internal controls, financial & managerial failure caused non recovery of rent and corporation sustained a loss of Rs 156.693 million (Rs 138,816,600 + Rs 17,876,275).

Audit is of the view that management should have inserted recovery clause of rent in the agreement. Moreover, the management failed to recover the rent even after the decision of the court.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends that recovery of the outstanding rent may be made besides fix responsibility on the person(s) at fault.

Para-17 (PTVC- 2022-23)

10.1.4.5 Loss due to extra deduction of service charges fee by K-electric on collection of TV License - Rs 133.448 million

According to the Ministry of Water and Power, vide letter dated 16.05.2016, service fee collected by electric distribution companies on collection of TV License Fee from electricity bill was reduced to Rs 1 from Rs 5 per paid bill w.e.f 01.04.2016.

During audit of PTVC for the year 2022-23, it was observed that service charges on account of TV license fee was being charged @ Rs 5.00 per bill instead of Rs 1.00 per bill by K-electric Company in violation instructions of Ministry of water and power. Consequently, excess service charges amounting to Rs 133.488 million were deducted during the period 2022-23 as detailed below:

Month	Total Consumers	TV Fee Collected (Rs)	TV Fee transfer to PTV (Rs)	KESC deducted fee @ Rs 5 per consumer bill	KESC fee @ Rs 1 per bill to be deducted by KESC	Excess fee deducted by KESC (Rs)
Jul-22	2,980,190	111,369,082	96,468,126	14,900,956	2,980,190	11,920,766
Aug-22	2,740,804	110,430,138	96,726,116	13,704,022	2,740,804	10,963,218
Sep-22	3,024,217	112,510,184	97,389,103	15,121,081	3,024,217	12,096,864
Oct-22	2,938,418	111,598,957	96,906,864	14,692,093	2,938,418	11,753,675
Nov-22	2,822,060	106,705,520	92,595,223	14,110,297	2,822,060	11,288,237
Dec-22	2,636,299	99,785,835	86,604,335	13,181,500	2,636,299	10,545,201
Jan-23	2,801,020	107,125,955	93,120,858	14,005,097	2,801,020	11,204,077
Feb-23	2,792,968	106,131,017	92,166,180	13,964,837	2,792,968	11,171,869

Mar-23	2,550,859	94,930,445	82,176,151	12,754,294	2,550,859	10,203,435
Apr-23	2,576,918	96,969,620	84,085,031	12,884,589	2,576,918	10,307,671
May-23	3,022,934	114,304,025	99,189,355	15,114,670	3,022,934	12,091,736
Jun-23	2,485,340	93,765,867	81,339,163	12,426,704	2,485,340	9,941,364
Total		1,265,626,645	1,098,766,505	166,860,140	33,372,027	133,488,113

Audit is of the view that the management did not pursue the matter with K-electric vigorously resultantly sustained a loss of Rs 133.488 million to corporation.

Non- recovery of excess deductions of service charges fee is indicative of weak managerial and internal control.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter at Ministry level for excess deduction of charges by K-electric. Besides, recover the extra amount from K-electric under intimation to Audit.

Note: The issue of excess deduction of TV license fee was also reported earlier in the Audit Report for the year 2021-22 vide Para No. 9.2.4.24 having financial impact of Rs 1,067.038 million. Recurrence of same irregularity is a matter of serious concern.

Para-42 (PTVC- 2022-23)

10.1.4.6 Irregular appointment of surplus staff - Rs 130.399 million

According to PTVC Service Rules 3.12: *Establishment* means approved staff strength indicating the designation, group, pay scale, and number of posts sanctioned for each separate unit from time to time by the Managing Director. Moreover, as a general establishment rule, available strength / holding should not exceed the sanctioned strength/rationalization.

During audit of PTVC for the year 2022-23, it was observed that management hired / appointed 66 employees of different categories and posted at PTV Lahore center in excess of the sanctioned strength. A huge expenditure of Rs 130.339 million was incurred on account of their salary and allowances annually. These appointments and payment of salary to the employees without the sanctioned strength posts was held irregular.

Audit is of the view that the services of these employees were unauthorized / irregular as they were engaged without any post. Non-compliance of sanction strength is an indicative weak internal control.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the appointment of officers/staff without sanctioned posts and fix responsibility.

Para-16 (PTVC- 2022-23)

10.1.4.7 Non recovery of cost against acquisition of Land - Rs 129.937 million

According to Public Corporate Rule-5(5) the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety, objectivity, integrity and honesty and relationship with the stakeholders.

During audit of PTVC Multan Center for the year 2022-23, it was observed that Multan Development Authority (MDA) advised to construct a boundary wall of Multan PTV center leaving a 75ft land beside the road vide letter dated 21.11.2007. Further observed that District Collector Revenue Department Multan in its meeting held on 2008 decided that PTVC may be compensated against the utilization of land. Subsequently NHA utilized the land by extending the road. Neither MDA nor NHA compensated PTVC against the cost of land even after a lapse of more than 10 years. Thus, a sum of Rs 129.937 million was still recoverable as detailed below;

- | | |
|--|-------------------|
| a. Total Land utilized by NHA | = 83 Marlas |
| b. Measurement in Square Ft per Marla | =250 sqft |
| c. Total land in Sq Ft (83x250) | = 20750 sqft |
| d. Land price per square ft. in Shujabad Road Multan | =Rs 6262 per sqft |
| e. Total price of the land (29750 x 6262) | =Rs 129,936,500 |

Audit is of the view that cost of land should be recovered as per prevailing market rates.

Non-recovery of land cost since long is indicative of a weak managerial and financial internal control.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to recover the cost of land besides fixing responsibility on the person(s) at fault.

Para-54 (PTVC- 2022-23)

10.1.4.8 Wasteful expenditure on the construction of TV tower - Rs 108.553 million

According to para 9.4 of Project Management Guidelines, the project is approved with a specific period of completion. Efforts should be made to complete the project within the stipulated period to ensure flow of benefits well in time. Due to certain reasons, if extension in the implementation period is in-avoidable to achieve the planned objectives, the Principal Accounting Officer of the Ministries/Divisions is competent to accord extension in the implementation period but within the approved cost of the project. As per the Planning Commission's Guidelines issued for the implementation of projects under PSDP grants, the project is approved with a specific period of completion. Efforts should be made to complete the project within the stipulated period to ensure the flow of benefits well in time.

During audit of PTVC for the year 2022-23, it was observed that PC-1 for a project of fabrication, erection & installation of 500 FT TV Tower at RBS Badin was approved in the year 2003-04. The contract was awarded to M/s NZ & Company at total cost of Rs 16.208 million on 14.05.2010 along with completion date of 31.12.2011. During scrutiny of record, major observations were found as detailed below:

1. The contract was awarded after laps of seven years of approval of PC-1.
2. A sum of Rs 2.541 million was paid to contractor even then he left the work and the contract was terminated on 25.03.2015, whereas, neither performance guarantee was forfeited nor the company was blacklisted.
3. Leftover work was awarded to M/s Sachal Construction Company on 21.12.2016 at a cost Rs 26.448 million but they did not start work till February 2022. Their contract was also terminated on 24.02.2022 whereas, neither their performance guarantee was forfeited nor the company was blacklisted.
4. Due to delay in construction work w.e.f. 2003-04 to 2022-23, the fresh engineering estimates @ Rs 108.553 million were submitted by the consultant M/s Sarfraz Ahmed & Associates on 28.04. 2022. Resultantly, cost increased by 92.345 million.

Thus, Corporation sustained a loss of Rs 92.345 million (Rs 108.553 million-16.208 million) due to delay in construction work.

Audit is of the view that management should have enforced risk & cost clause and blacklisted the company to avoid cost overrun.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends explaining the reason(s) for non-completion of work in time and cost overrun resulting into huge loss. Investigating the matter at administrative level besides fixing responsibility.

Para-20 (PTVC- 2022-23)

10.1.4.9 Unjustified recurring expenditures on hiring of equipment / items - Rs 49.340 million

According to rule-5(5)(a) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders.

During audit of PTVC for the year 2022-23, it was observed that various equipment i.e. Drone, Osomo & FS7 Camera, Lights Sound System, SPL Effect, JIB and Generators, etc. were hired on rental basis from market on need basis and a sum of Rs 49,340,868 was incurred during the period.

Moreover, the equipment hired on rent basis per day were of fixed asset nature and were usable for every program for longer period. Hence, the decision for hiring instead of purchasing was not justified. PTV Karachi center had incurred a sum of Rs 94,077,568 on hiring of equipment during last five years from 2017-18 to 2021.

Further probe into the matter revealed that that the rental cost of a year was more than the actual cost of the equipment as detailed below;

HIRING EQUIPMENTS (at Karachi and Lahore)	Actual cost of equipment(Rs) (approximately)	Equipment Hired on rental basis at Karachi (Rs)	Equipment Hired on rental basis at PTV-Sports	Equipment Hired on rental basis at PTV News
Sound System	75,000	7,291,794		
Camera Fs7	1,050,000	6,199,717		
Jib	883,500	3,494,841		
Spl Effect Lights	53,865	13,002,993		
Generator	335,000	4,360,120		
SMD	220,000	1,989,935		
Osomo Camera	119,999	1,835,693		
Drone Camera	378,000	2,764,595		
Lens Kit Cp-2 Hd Camera Lens 35-85	53,000	459,700		
OB With Hd Cameras	3,699	681,416		
Sd Drive	17,500	49,424		
Camera	93,000	902,000		
Floor Mounted Ac	250,000	300,000		
Total amount		43,062,228	2,003,365	4,275,275
Grand Total of Equipment hired in PTV Karachi, PTV Sports and PTV News			49,340,868	

The above analysis of rental equipment and their actual cost is of only two centers out of 09 centers of PTVC.

Audit is of the view that the management should have analyzed cost effectiveness before hiring the equipment to save public money. Consequently, corporation had to incur unjustified huge expenditure on hiring of equipment.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter in question at administrative level besides fixing responsibility.

Para-4 (PTVC- 2022-23)

10.1.4.10 Loss due to non-recovery of dramas' revenue – Rs 87.644 million

According to Rule 10(i) of the PBA Rules, the management was required to send their outstanding bills/invoices against agencies to PBA supported with telecast certificate along-with the statement of bills within 15 days of the last date of each clearance period. They were also required to obtain proper acknowledgement of the receipt of these bills from the agencies.

During audit of PTVC for the year 2022-23, it was observed that following eight dramas were procured from private parties and aired on PTV home. Further, it was observed that income generated from 08 dramas was Rs 256.311 million upto June 2023 out of which only Rs 168.666 million were recovered up to 30.09.2023, leaving balance of Rs 87.244 million as outstanding. Detail is as under:

S. No.	Name of Drama	Total Income earned upto June 2023	Total income recovered upto September 2023 (Rs)	Outstanding amount (Rs)
1	Sultan Abdul Hamid	195,017,319	119,380,542	75,636,777
2	Ghao	4,364,018	96,050	4,267,968
3	Sotaily	2,958,438	96,050	2,862,388
4	Dolly Ki Super Family	3,038,649	1,982,880	1,055,769
5	Laddu mein Haddi	7,372,222	5,738,572	1,633,650
6	Inam yafta	370,742	0	370,742
7	Mor Mohran	21,353,499	20,439,481	914,018
8	Aju aur Bhola	21,836,239	20,933,301	902,938
Total outstanding amount (Rs)		256,311,126	168,666,876	87,644,250

Audit is of the view that revenue amount from advertising agencies was to be recovered within stipulated time otherwise be reported to Pakistan Broadcasting Association (PBA) for early recovery to avoid huge loss of Rs 87.644 million.

Non recovery of revenue from advertising agencies is indicative of weak internal control.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating non-recovery of long outstanding revenue from agencies and fixing responsibility on the person (s) at fault.

Para-24 (PTVC- 2022-23)

10.1.4.11 Irregular retention of employees holding bogus degrees - Rs 46.559 million

According to judgment of the Supreme Court of Pakistan (case 2009 SCMR 1492) no leniency should be shown in favour of employees possessing fake/bogus degrees/certificates. Supreme Court of Pakistan recommended authorities to examine the possibility of getting registered criminal case against such employees so that in future no one should dare to commit such misconduct. Further, the authority awarding punishment of dismissal from service to an employee cannot reinstate him in service.

During audit of PTVC for the year 2022-23, it was observed that management retained 49 officers/officials in various cadres whose degrees/certificates were declared as bogus / fake by concerned institutions as detailed below:

S.#	Category of employees	No. of employees	Annual Salary (Rs)
1.	Retained in Services after award of punishment	17	16,017,834
2.	Re-instated after termination	11	5,219,765
3.	Cases under disciplinary action	21	19,639,666
4.	Terminated but their cases were not forwarded to FIA for recovery of illegal salary drawn	04	5,682,696
	Total	53	46,559,961

Moreover, the degrees / certificates of 1037 and 117 employees were partially verified and yet to be verified respectively.

Due to non-compliance of Supreme Court order is an indicative of managerial failure.

Audit is of the view that the management was required to terminate the services of these employees and subsequent recovery of salary thereof, but the same was not done after laps of considerable period. Thus, payment of Rs 46.559 million on account of salary was held irregular.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter for not taking timely action for verification of certificates / degrees and responsibility may be fixed on the person(s) at fault. Moreover, the services of employees of bogus degrees should be terminated and recovery of pay & allowances be effected.

Para-9 (PTVC- 2022-23)

10.1.4.12 Irregular appointment of officer as Head of Sales – Rs 22.275 million

According to clause (vi) of appointment letter dated March 20, 2020, “employment is subject to verification of educational documents and if any variance is found then the employment will stand revoked from the date of employment and will be liable to return the salaries/ benefits received.”

The Supreme Court of Pakistan in its judgment dated January 19, 1993, in Human Rights Case No: 104 of 1992 stated that recruitments, both ad hoc and regular, without publicly and proper advertising the vacancies, is violation of fundamental rights. As such, no post could be filled without proper advertisement, even on ad hoc or contract basis.

During audit of PTVC for the year 2022-23, it was observed that services of Mr. Muhammad Sarosh Butt were hired on contract basis as head of sales for PTV- center Lahore @ salary of Rs 495,000 per month on. April 01, 2020. His contract was further extended up to 31.03.2024. He was paid a sum of Rs 22.275 million (Rs 495,000 *45 month) on account of pay & allowances for the said period. Following discrepancies were found during scrutiny of his personal file;

1. Appointment was made without advertisement
2. Two transcripts of same discipline MBA having CGPA 2.53 and 3.02 issued on 15.03.1995 and 18.12.2021 respectively were submitted by the officer creating serious doubts.

Audit is of the view that hiring of the officer without advertisement and attested degree through HEC was irregular.

Non observation of rules is indicative of weak internal control.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to stop the salary and terminate the services immediately besides fixing responsibility on the persons at fault.

Para-15 (PTVC- 2022-23)

10.1.4.13 Loss due to non-recovery of TV License Fee - Rs 5,502.136 million

According to the Television Receiving Apparatus Rules 1970, the Government of Pakistan levied T.V. license fee on each and every T.V. set holder has to pay monthly T.V. license fee @ Rs 35 per domestic and Rs 60 for commercial TV set. Under Agreement 2004, the fee has to be collected through monthly electricity bills.

During audit of PTVC for the year 2022-23, it was observed that an amount of Rs 6,211.224 million on account of TV license fee @ Rs 35 and Rs 60 per domestic and commercial electric bill, respectively for the audit period was collected by PEPCO and K-electric, but only Rs 1,488.445 million was paid to PTVC leaving a balance of Rs 5,502.136 million as detailed below;

Name of Company	TV Fee Income (Rs)	TV Fee received (2022-23)	Receivable (Rs)
-----------------	-----------------------	------------------------------	--------------------

		(Rs)	
PEPCO	5,009,429,224	389,678,363	5,399,107,587
K-ELECTRIC	1,201,795,133	1,098,766,505	103,028,628
Total	6,211,224,357	1,488,444,868	5,502,136,215

Further, observed during the scrutiny of financial statements of K-electric, a liability of Rs 130.316 million towards PTVC was pending. The difference in figures is due to non-reconciliation of TV license fee with consumers of electric companies.

Audit is of the view that the management never reconciled the TV license fee with consumers of electric companies for collection of recovery is indicative of weakness of internal control.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends explaining non-reconciliation of TV license fee with electric companies as well as non-recovery of TV License Fee. Moreover, recovery should be conducted and responsibility be fixed.

Para-43 (PTVC- 2022-23)

10.1.4.14 Irregular payment of professional fee to legal advisor as co-council - Rs 7.105 million

According to office order issued by Managing Director PTVC dated April 15, 2019, professional fee for court cases for Supreme Court lawyers are as follow and will be paid in lump sum and miscellaneous expenditures will not be allowed:

S. No.	Name of court	Professional Fee for Supreme court lawyer (Rs) all-inclusive taxes	Professional Fee for high court/civil court lawyer (Rs) all-inclusive taxes
1	Supreme court cases	125,000	-
2	High court/ equivalent	100,000	70,000
3	Civil courts/NIRC/ Wafaqi Mohtasib/ Appeal/ Representation against the decision of Wafaqi Mohtasib to the President of Pakistan	40,000	35,000

During audit of PTVC for the year 2022-23, it was observed that legal councils were hired to deal various court cases and made payments to them in advance as professional fee of each case. It was further revealed that a sum of Rs 7.105 million was also paid as co-counsel against the same cases to Mr. Sultan Hayat Ranjha who was

the legal advisor of PTVC. However, his services had already been hired on retainer-ship fee @ Rs @ 440,000 per month.

The engagement of legal advisor as co-counsel with the counsels and payment of Rs 7.105 million made to him was irregular.

Audit is of the view that the dual payments to counsels and co-counsel on the same court cases were unjustified and irregular. Further, management should not have paid professional fee to legal advisor as co-counsel who was already on the payroll of PTVC.

Due to weak internal control, a loss of Rs 7.105 million was caused to the corporation.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter and fixing responsibility besides effecting recovery.

Para-10 (PTVC- 2022-23)

10.1.4.15 Irregular appointment and unauthorized allocation of vehicle to legal advisor - Rs 3.549 million

According to agenda item No: 3 of the 243rd meeting of Board of Directors dated December 07, 2020, the Board approved termination of the services of professionals / contract employees who were drawing salary above Rs 350, 000 per month.

The Supreme Court of Pakistan in its judgment dated January 19, 1993, in Human Rights Case No: 104 of 1992 stated that recruitments, both ad hoc and regular, without publicly and proper advertising the vacancies, is violation of fundamental rights. As such, no post could be filled without proper advertisement, even on ad hoc or contract basis.

During the audit of PTVC for the year 2022-23, it was observed that Mr. Sultan Hayat Ranjha was appointed as legal advisor on 10.05.2022 without advertisement. Later on, his retainer ship fee increased from Rs 200,000 to Rs 440,000 per month on 01.07.2023 without approval of BoD resulting a huge increase of 120% without justification. On the other hand, he was also drawing professional fee on case-to-case basis along with retainer-ship fee.

Further probe to the matter revealed that a vehicle bearing R. No 382 was permanently allocated to legal advisor without the terms of his contract and expenditure of Rs 2.109 million was incurred on account of POL/repair & maintenance.

Audit is of the view appointment, increase in retainer-ship fee in addition to drawing professional fee and allocation of vehicle were irregular.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter and fixing responsibility besides effecting recovery.

Para-18 & 35 (PTVC- 2022-23)

10.1.4.16 Non-recovery of long overdue receivables - Rs 1,157.097 million

According to Corporate Governance Rules 2013 (2A) (a) the business of the Public Sector Company is carried on with integrity, objectivity, due care and the professional skills appropriate to the nature and scale of its activities. Furthermore as per clause 5 (5) The Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders, in the following manner, namely:- (a) the principle of probity and propriety entails that company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage.

During audit of PTVC for the year 2022-23, it was observed that an amount of Rs 1,157.096 million was receivables from foreign debtors ranging from 2 years to 10 years, as detailed below:

Sr. No.	Particulars	Amount (Rs)
1.	Receivable on account of foreign debtors	469,153,088
2.	Receivable from TAJ TV Mauritius	71,780,004
3.	Receivable from Government of Pakistan	18,311,477
4.	Misc. Receivable	597,852,240
Total		1,157,096,809

As evident above, the receivables were pending, but no efforts made to realize these overdue amounts.

Weak internal controls resulted into blockage of funds.

Audit is of the view that the management should accelerate its efforts to recover the amount to take up matter through respective embassies.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the reasons for not collecting the overdue amount.

Para-49 (PTVC- 2022-23)

10.1.4.17 Irregular procurement by splitting in violation of PPRA - Rs 69.272 million

According to rule 9 of PPRA, a procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly without any splitting or regrouping of the procurements so planned. The annual requirements thus determined would be advertised in advance on the Authority's website as well as on the website of the procuring agency in case the procuring agency has its own website.

During audit of PTVC for the year 2022-23, it was observed that IT Equipment valuing of Rs 69,407,572 was purchased from suppliers in piecemeal. Further it was observed that IT department did not

prepare its procurement plan just to grant favour to the selected suppliers. Consequently, procurement was considered as non-transparent.

Non observance of procurement rules is an indicative internal control.

Audit is of the view that management was required to assess the requirements of IT equipment at the start of financial year and should have advertised to get economical rates in fair and transparent manner.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating purchase on piecemeal basis besides fixing responsibility on the person(s) at fault.

Para-3 (PTVC- 2022-23)

10.1.4.18 Loss due to cost overrun of civil work at Regional Broadcast Station - Rs 44.119 million

According to the Planning Commission's Guidelines issued for the implementation of projects under PSDP grants, the project is approved with a specific period of completion. Efforts should be made to complete the project within the stipulated period to ensure the flow of benefits well in time.

During audit of PTVC for the year 2022-23, it was noted that a contract for construction of civil work at Regional Broadcast Station(RBS) Shakargarh valuing of Rs 25.929 million was awarded to M/s Ali Associates on 26.01.2007 to be completed by 11.12.2007. However, the contractor stopped the work on 28.01.2010 after 60% of work and payment of Rs 15.559 million was made. Further, the same work was re-awarded to M/s Rehmat Traders Lahore on 20.11.2013 with a completion period of 10 months i.e. 30.09.2014. Later on, the contract was extended to 2.3 years i.e. 31.12.2016, with a revised contract value of Rs 24.821 million.

During scrutiny of record, several major observations were found as detailed below:

1. Neither performance guarantee of M/s Ali Associates was forfeited nor risk and cost clause was enforced.
2. The second contractor left the work after doing 26% only of the remaining work without cogent reason and was paid an amount of Rs 6.189 million. Consequently, the contract was terminated on 13.03.2018 after lapse of 2 years of extension.
3. The leftover work was awarded to third contractor viz. M/s Sher Bacha & Brother on 22.06.2023 after revision of cost to Rs 44,119,230 against the engineer's estimate of Rs 34.216 million i.e. excess of 28.94%.

Consequently, a loss Rs 18.189 million was incurred due to excess expenditure.

Due to weak internal control, this irregularity occurred which causes cost overrun of Rs 44.119 million.

Audit is of the view that management should have enforced risk & cost clause and blacklisting the firms to avoid cost overrun.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to inquire the matter at Administrative level besides fixing responsibility on the person(s) at fault.

Para-19 (PTVC- 2022-23)

10.1.4.19 Irregular Payment to Security Company - Rs 39.856 million

According to clause 8 & 11 of terms and conditions for bidders for hiring services of security company, employees of the security company should have group insurance and the company must be registered with EOBI and Social Security institution and clause 16 the company / bidder must comply with the rates fixed by the Federal government under minimum wages ordinance and Act and shall be responsible for any deviation from the said.

According to EOBI Act, 6% contribution (5% from employers and 1% from employees (Rs 780 per employee PM) is to be paid to EOBI for their employees. Similarly, Social Security contribution is required to be paid @ 6% of the wages of their employees (having wages up to Rs 22,000 i.e. Rs 1,080 per employee PM) to the Islamabad Employees Social Security Institution.

During audit of PTVC for the year 2022-23, it was noted that services of security company i.e. M/s SIGMA security (Pvt.) ltd were hired w.e.f 01.02.2020 and 487 security personnel were deployed. It was observed that Security Company was failed to deposit EOBI and Social Security contribution of their employees as the personal registration numbers of 487 employees regarding EOBI and Social Security were not available.

Descriptions	No. of employees	Period	Total amount to be deposited by security company
EOBI @ Rs 780 (Employer contribution @ 650 Employee @ 130)	487	01.02.2020 to 30.09.2023 (44 months)	16,713,840 (487x780x44)
Social Security @ Rs 1080	487	01.02.2020 to 30.09.2023 (44 months)	23,142,240 (487x1080x44)
Total			39,856,080

Therefore, it is construed that the security staff provided to PTVC was not registered with EOBI and Social Security Institution which is a violation of the rules and regulations.

Audit is of the view that PTVC should have verified registration of security staff with EOBI and Social Security before making payment to the Security Company of Rs 39.856 million, hence held irregular.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to justify irregular payment to the security company in the absence of EOBI and Social Security registration.

Para-8 (PTVC- 2022-23)

10.1.4.20 Renewal of dubbing contract of Turkish Drama in violation of PPRA Rules - Rs 33.425 million

According to Rule-12 (2) of PPRA-2004, all procurement opportunities over two million rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu. According to Rule-42 (c) (iv) of PPRA-2004 "Repeat orders exceeding fifteen percent of the original value of contract shall not be awarded".

During audit of PTVC for the year 2022-23, it was observed that a contract was awarded to M/s KJ Production on December 12, 2021 amounting to Rs 18.153 million @ Rs 96,050 per episode for dubbing of 189 episodes of Season-I&II of Turkish Drama "Sultan Abdul Hameed-II". Later on, the contract was extended for dubbing of 348 more episodes of Season 3, 4 & 5 on 31.10.2022 amounting to Rs 33.425 million. The contract was extended upto 184% in violation of PPRA rules.

Audit is of the view that the undue favor was granted to the firm by extending of contract beyond the permissible limit and should have been re-advertised, hence, held irregular. Violation of rules is a weak internal control.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter and fixing responsibility.

Para-30 (PTVC- 2022-23)

10.1.4.21 Non recovery of long outstanding amount on account of decreed case - Rs 26.565 million

According to clause 5 (5) of Corporate Governance Rules 2013, The Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders, in the following manner, namely:- (a) the principle of probity and propriety entails that company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage.

During audit of PTVC for the year 2022-23, it was observed that a decree was announced in favour of PTVC by Sindh High Court (SHC) of Rs 26.565 million during the year 2010 against a defaulter media agency namely M/s Blazon and others. The M/s Blazon media agency was owned by well-known media personalities namely Mrs. Uzma Gilani & Mr. Asif Raza Mir. It was observed that no recovery of decreed amount was made even after lapse of more than thirteen (13) years. Consequently, a sum of Rs 26.565 million remained outstanding against the defaulters.

Audit is of the view that management should initiate proper proceedings to recover long outstanding amount.

Non-recovery of long outstanding amount indicated weak internal controls on managerial and financial levels.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends that recovery of long outstanding amount should be made. Fix the responsibility on the person(s) at fault.

Para-6 (PTVC- 2022-23)

10.1.4.22 Loss due to low rating and non-viable morning show - Rs 24.096 million

According to rule 23 of GFR, every Government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part.

During audit of PTV Lahore center for the year 2022-23, it was observed that a program 'Morning @ Home' was broadcast against a budget of Rs 307,461 per episode for the year 2022-23. It was observed that average rating of said program remained at 0.8 which was very low as compared to other morning shows on various channels e.g. ARY and GEO etc. It was further observed that total cost incurred on the program was 67.641 million and the revenue recovered thereof was 43.547 million bearing a loss of Rs 24.094 million as worked below:

Program Name	Total Cost per episode (Rs)	Episodes on-aired	Total Cost (Rs)	Revenue generated (Rs)	Revenue recovered (Rs)	Outstanding Revenue (Rs)	Loss (Rs)
---------------------	------------------------------------	--------------------------	------------------------	-------------------------------	-------------------------------	---------------------------------	------------------

Morning @ Home	307,461	220	67,641,420	48,010,612	43,546,951	4,463,661	24,094,469
----------------	---------	-----	------------	------------	------------	-----------	------------

Thus, due to non-analysis of cost effectiveness of program, loss of Rs 24.094 million was caused to public exchequer.

Audit is of the view that management should keep the programs telecasting viability in public.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends justifying continuity of low rating and loss making program.

Para-23 (PTVC- 2022-23)

10.1.4.23 Irregular appointments of anchor persons - Rs 23.029 million

According to the Supreme Court of Pakistan in its judgment dated January 19, 1993, in Human Rights Case No: 104 of 1992 stated that recruitments, both ad hoc and regular, without publicly and proper advertising the vacancies, is violation of fundamental rights. As such, no post could be filled without proper advertisement, even on ad hoc or contract basis.

According to para 4 of the minutes of 184th meeting of BoD dated: April 23, 2009, job applications for various categories shall be received on a regular basis for which a database was to be maintained. To further strengthen the database, advertisement would be placed on PTVC website and newspapers periodically, inviting applications.

During audit of PTVC for the year 2022-23, it was observed that twelve professionals/anchors were appointed on contract basis without advertisement during the year 2022-23 on the basis of monthly salary amounting to Rs 23.029 million (Annex-81).

Audit is of the view that the management was required to advertise in the newspapers to fetch healthy competition. Thus, appointments without following due procedure was held irregular.

Non observance of appointment's rules & regulations is indicative of weak internal control.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends explaining the reasons for the irregular appointment without advertisement besides fixing responsibility.

Para-46 (PTVC- 2022-23)

10.1.4.24 Unauthorized regularization of contract employees – Rs 22.553 million

According to Para–1(i) of Establishment Division’s letter No.F.53/1/2008-SP dated May 11, 2017, all contract/contingent Paid/Daily Wage/Project employees who have rendered a minimum of one year of service, in continuity, as on January 01, 2017 (herein after referred to as eligible employees) may apply for appointment on regular basis.

During audit of PTVC for the year 2022-23, it was observed that the services of sixty-seven contractual, daily wages employees were regularized on 15.03.2023 whose appointments were made during the period from August-2022 to December 2022. It was further observed that the services of another batch of sixty-one employees whose induction had taken place during the period 01.01.2023 to 04.08.2023 was regularized on 04.08.2023. in violation of Government instructions. Financial implication of pay & allowances of 61 employees was Rs 22.553 million per annum whereas, that of the rest of 67 employees was not provided by the management.

Audit is of the view that the management was required to comply with above directions but the same was not observed.

Non-compliance of rules & regulations is an indication of weak internal control.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter at administrative level besides fixing responsibility.

Para-56 (PTVC- 2022-23)

10.1.4.25 Irregular hiring of Law Officers - Rs 13.997 million

According to the Government of Pakistan Ministry of Law, Justice and Human Rights letter No.F.6/1/2013-LA dated 3rd June, 2015 Clause-V, every Government Department or semi Government or Public Corporate Body shall seek concurrence of the Law, Justice and Human Rights Division for engagement of Lawyer where professional fee exceeds Rs 300,000. In such case the concerned Department will send a panel of at least three Advocates for selection of one of them along with proposed professional fee for approval of Law, Justice and Human Rights Division. Any failure in doing so will render the engagement of Advocate/Counsel etc. void and no ex-post facto approval will be allowed.

During audit of PTVC for the year 2022-23, it was observed that management hired the services of various advocates for pursuing the court cases and made advance payment of Rs 13.998 million on account of legal fee without prior approval of the Ministry of Law and Justice as detailed below;

Sr. No.	Name of Advocate	Number of Cases	Court Cases Status	Legal Fee Paid (Rs)
1	Mr. Faisal Naqvi Advocate	06	Under process	6,000,000
2	M/s Surridge & Beecheno	-	Under process	1,141,954
3	Mr. Sallahuddin Advocate	04	Under process	6,000,000
4	Mr. Shahid Mehmood Khokar	01	Under process	6,000,00

5	Raja Muqsit Nawaz Advocate	03	Under process	500,000
6	Mr. Taimour Aslam Advocate	01	Under process	350,000
Total				13,997,954

Further noted that professional fee was paid in advance to above advocates without making contract agreements whereas no single case was decided/settled till completion of audit.

Audit is of the view that management did not comply with the directions of Ministry of Law, Justice and Human Rights, hence, incurring expenditure Rs 13.997 million was held irregular.

Non-observance of rules & regulations is indicative of weak internal control.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter besides fixing responsibility.

Para-37 (PTVC- 2022-23)

10.1.4.26 Unjustified retention of vehicles - Rs 8.004 million

The provision of staff car alongwith driver and other support staff to the Federal Minister is the responsibility of Establishment/Cabinet Division.

During audit of PTVC for the year 2022-23, it was observed allotted four vehicles 1300cc to 3000cc to the office of the Minister Information & Broadcasting, one vehicle to focal person to PM and one vehicle to Parliamentary Secretary of I&B along with drivers. A sum of Rs 8.004 million was incurred on the operation of vehicles during the period. The provision of these vehicles by PTVC was unjustified. Detail is as under:

S. No	Vehicle No	Make	Allotted	POL Exp. (Rs)	Repair Maint (Rs)	Total Amount (Rs)
1	11-225	Toyota D/Cabin	Protocol duty with Minister's squade	1,558,098	350,714	1,908,812
2	LH-516	Honda Civic	Duty with director to Minister office	1,045,645	208,338	1,253,983
3	KD-583	Toyota Corolla	Protocol duty with Minister's office	724,535	175,606	900,141
4	JV-515	Toyota Corolla	Protocol duty with focal person to PM	641,683	289,721	931,404
5	VY-213	Suzuki Vain	Minister's office staff	1,525,929	75,860	1,601,789

6	VG-621	Toyota Corolla	Parliamentary Secretary for I&B	899,750	507,929	1,407,679
			Total			8,003,808

Audit is of the view that all Ministries / Administrative departments are allotted their own vehicles along with budget for POL and maintenance. Thus, retention of PTVC vehicles is unjustified.

Non observance of rules is an indicative of weak managerial control.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends withdrawal of the said vehicles immediately.

Para-59 (PTVC- 2022-23)

10.1.4.27 Irregular appointment of Anchors for program “Current Affairs” - Rs 7.125 million

The Supreme Court of Pakistan in its judgment dated January 19, 1993, in Human Rights Case No: 104 of 1992 stated that recruitments, both ad hoc and regular, without publicly and proper advertising the vacancies, are violation of fundamental rights. As such, no post could be filled without proper advertisement, even on ad hoc or contract basis. A per Agenda Item No: 3 of the 243rd meeting of PTVC Board of Directors dated: December 07, 2020, the Board approved termination of the services of professionals / contract employees who are drawing salary above Rs 350,000 per month.

During audit of PTV Lahore center for the year 2022-23, it was observed that three anchors were hired for program “Current Affairs” on contract basis initially for a period of three years on a monthly salary of Rs 750,000 each w.e.f. September 26.2023 without advertisement and approval of BoD. The detail of anchors as well as payment made to them is given as follows:

Sr. No.	Anchor Name	Date of Joining	Salary per month (Rs)	Total salary paid till close of audit (Rs)
1	Mr. Faheem Gohar Butt	26.09.2023	750,000	2,375,000
2	Mr. Wajahat Masood	27.09.2023	750,000	2,375,000
3	Syed Imran Shafqat	26.09.2023	750,000	2,375,000
Total				7,125,000

Audit is of the view that undue financial benefit was extended to these anchors in violation of rules and regulations. Weak financial as well as managerial internal controls led to irregular appointment.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter and fixing responsibility.

Para-29 (PTVC- 2022-23)

10.1.4.28 Unjustified hiring of DSNG van and accessories on rental basis - Rs 6.996 million

According to rule-5 (a) of the Corporate Governance Rules, the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders, in the following manner, namely:- the principle of probity and propriety entails that company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage.

During audit of PTV Lahore center for the year 2022-23, it was observed that Program Manager (PTV) intimated that a Digital Satellite News Gathering Unit (DSNG) van along with accessories was required for Ramzan Transmission. Further observed that Executive Engineering Manager informed vide letter dated 24.03.2023 that PTVC's own Outside Broadcasting (OB) van was grounded due to disorder of Generator. Thus, a DSNG van was hired from M/s Telreel on Rs 6.996 million for the month.

Audit is of the view that hiring of DSNG van instead to repairing the generator of own vehicle was unjustified.

Weak internal control caused loss of Rs 6.996 million to the corporation.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends inquiring the matter of hiring of DSNG van on rent instead of repairing the generator and fixing responsibility.

Para-21 (PTVC- 2022-23)

10.1.4.29 Irregular appointment and payment on degree of unrecognized institution - Rs 3.85 million

According to clause-vi of appointment letter dated 28.12.2018, the verification of degree/ educational documents is mandatory from the concerned Board/ institute / university within one month from the date of joining. In case of non-compliance, services will be terminated automatically without any notice. Further as per Supreme Court of Pakistan in its judgment dated January 19, 1993, in Human Rights Case No: 104 of 1992 stated that recruitments, both ad hoc and regular, without publicly and proper advertising the vacancies, is violation of fundamental rights. As such, no post could be filled without proper advertisement, even on ad hoc or contract basis.

During audit of PTVC for the year 2022-23, it was observed that services of Mr. Rizwan Malik were hired as Regional Sales Manager at Lahore PTV center for a period of one year vide letter dated 28.12.2018, subject to authenticity / verification of his degrees by HEC. During scrutiny of his personal file, following deficiencies were found;

1. Appointment was made without advertisement
2. He joined his duties after six months of appointment letter and without submitting credential
3. Copies of BBA and MBA degrees were sent to HEC for attestation dated 03.10.2019. HEC vide its letter dated 16.10.2019 intimated that degree awarding institution i.e. Premier College of Business Administration & Economics Lahore was not recognized, therefore transcripts could not be attested.
4. His services were terminated on 17.08.2020 but after lapse of ten months

5. The salary of the officer was not released since his appointment on the recommendation of Finance department PTVC, for want of attestation of degrees from HEC. However, after the decline from HEC, he was terminated and his salary (Rs 3.85 million) was released after three months of his termination from service.

Audit is of the view that payment of salary to the employee on the degree awarded by an unrecognized institution by HEC was undue favor to him.

Unjustified payment of salary is indicative of malafide intention and internal control.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter and fixing responsibility besides effecting recovery.

Para-13 (PTVC- 2022-23)

10.1.4.30 Non deduction of Income Tax from sports experts - Rs 3.073 million

According to section 153 of Income Tax Ordinance 2001, every prescribed person making a payment in full or part including a payment by way of advance to a resident person or permanent establishment in Pakistan of non-residential person for the sale of good, and the rendering of or providing of services shall at the time of making the payment, deduct tax from the gross amount payable at the rate of 10% from active tax payer and @ 20% from person not on ATL.

During audit of PTVC for the year 2022-23, it was observed that the services of foreign players Mr. Lance Klusener and Mr. Kasturi Naidu were hired as guests for program viz. "Game on Hai" telecasted for ICC T-20 World Cup-2022 during October to December 2022. Further, it was transpired that a sum of Rs 15.364 million was paid to them but the income tax @ 20% amounting to Rs 3.073 million was not deducted as detailed below:

Sr.	Name of player/expert	Agreement period	Amount Paid in US\$ Including Taxes	Income Tax @ 20% US \$	Gross Amount in US\$	Amount Paid in Rupees Avg @ Rs 235 per US\$	Amount of tax to be deducted in Rupees
1	Lance Klusener	Oct to Dec 2022	37,500	7,500	37,500	8,812,500	1,762,500
2	Kasturi Naidu		27,880	5,576	27,880	6,551,800	1,310,360
Total			65,380	13,076	65,380	15,364,300	3,072,860

Audit is of the view that income tax was to be deducted before making the payment to the experts.

Loss to the government exchequer due to non-deduction of income tax is indicative of weak internal control.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter and fixing responsibility besides effecting recovery.

10.1.4.31 Irregular payment of POL allowance to the Deputationst - Rs 1.981 million

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

During audit of the PTVC (Head office) for the year 2022-23, it was observed that official vehicles were allocated to four officers of group 7 & 8 who were posted on deputation basis in corporation. A sum of Rs 4.533 million was incurred on account of POL / repair & maintenance whereas, without entitlement. Moreover, in addition to this, these officers were also drawing POL allowance per month. Detail is below:

Sr. No	Name of officer	Allocated Vehicle No.	Period	POL and Repair & maintenance (Rs)	POL Allowance Per month (Rs)	Total PoL Allowance Paid (Rs)
1	Ms. Narita Farhan (BPS-18) (Group-8)	IDM-630		1,033,232	32,000	Rs 32,000*29 months =928,000
2	Mr. Tasawar Arfat (Group-7)	ME-680 and No. SJ.331	19.04.2022 to 31.12.2023	1,934,579	28,552	Rs 28,552*20= Rs 571,040
3	Ms. Duriyya Amir (BPS-18) Ms. NehaalFaridKhattak (Group -8 & 7)	LJ-223		1,565,410	Rs 32,320 Rs 27,924	Rs 32,320*8= Rs 258,560 Rs 27,924*8= Rs 223,392
	Total			4,533,221		1,980,992

Audit is of the view that the payment on account of POL allowance in addition to allocation of government vehicles and expenditure incurred thereon was irregular.

Allocation of vehicle as well as allowing POL allowance is an indicative of weak internal control.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter and fixing responsibility besides effecting recovery.

10.1.4.32 Overpayment on account of House Ceiling - Rs 1.205 million

According to letter of Ministry of Housing & works dated September 28th 2021, there was no rental ceiling for hiring of residential accommodation at Multan except Islamabad, and other specified stations i.e. Rawalpindi, Lahore, Karachi, Peshawar and Quetta.

During audit of PTV Multan Center for the year 2022-23, it was observed that five officers transferred from different centers to Multan center were drawing house rental ceiling based on their previous station's entitlements. This practice has been ongoing since the date of their transfer and poses a significant risk of financial mismanagement.

Audit is of the view that payment of Rs 1.206 million on account of rental ceiling to the officers transferred at Multan center was irregular.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to immediate stop payment on account of house rent ceiling to them. Recover the overpayment under intimation to audit. Responsibility be fixed who allowed to take undue benefit.

Para-41 (PTVC- 2022-23)

10.1.4.33 Non-recovery of long overdue receivables - Rs 3,889.907 million

According to Rule 10(i) of the PBA Rules, the management was required to send their outstanding bills/invoices against agencies to PBA supported with telecast certificate along-with the statement of bills within 15 days of the last date of each clearance period. They were also required to obtain proper acknowledgement of the receipt of these bills from the agencies.

During audit of PTVC for the year 2022-23, it was observed that corporation awarded business to various agencies over the period of more than 30 years, but failed to recover outstanding dues. Resultantly, the dues were accumulated to Rs 3,889.908 million, as detailed below;

(Rs in million)

Description	Current	Receivables over 01 year	Receivables over 02 years	Receivables over 03 years.	Receivables over 05 years	Receivables over 06 years	Recovery	Total
Receivables advertising agencies	79.596	764.203	157.463	1,266.280	1,697.631	307.041	382.307	3,889.908

Channel wise Receivable Position	
PTV Home	1,040.598
PTV National	148.131
PTV News	617.444
PTV Channel 3	57.505
PTV Sports	1,992.196
PTV World	6.538
Tele School	27.496
Total	3,889.908

Thus, chances of long overdue recovery were remote and a loss to that extent would be borne by the corporation.

Audit noticed that advertisement business was being awarded to various agencies having huge overdue amounts for more than 05 years.

Audit is of the view that non-recovery of such a huge amount of receivables is indicative of weak internal.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating non-collection of the long overdue amounts besides fixing responsibility thereof.

Para-60 (PTVC- 2022-23)

10.1.4.34 Loss due to shortage / missing of various equipment - Rs 1.183 million

According to rule 159 of GFR Vol-1, physical verification of all stores should be made at least once in every year under rules prescribed by competent authority, and subject to the condition that the verification is not entrusted to a person– (i) who is the custodian, the ledger, keeper, or the accountant of the stores to be verified, or who is a nominee of, or is employed under the custodian, that the ledger keeper or the accountant; or (ii) who is not conversant with the classification, nomenclature and technique of the particular classes of stores to be verified.

During audit of PTV Lahore center for the year 2022-23, it was observed that various equipment / items valuing Rs 1.184 million were found short/ missing during physical verification of fixed assets conducted as on April 30, 2023. Further, no efforts were found.

Audit is of the view that management had to safeguard its assets properly which was not done. Loss due to shortage/ missing of various equipment was incurred due to poor inventory check and weak managerial controls.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter and fixing responsibility besides effecting recovery.

Para-25 (PTVC- 2022-23)

Chapter-11

Ministry of Information Technology and Telecommunication

Overview

The Ministry of Information Technology and Telecommunication (MoITT) is the national focal Ministry and an enabling arm of the Government of Pakistan for planning, coordinating and directing efforts to initiate and launch Information Technology and Telecommunication programs and projects aimed at economic development of the country.

Aims & Objectives

The following are the functions of the Ministry of Information Technology and Telecommunications:

- Preparation of an overall integrated plan as well as the formulation of policy for the development and improvement of Information Technology and Telecommunications, including related infrastructure, in Pakistan.
- Co-ordination with the Provincial Governments, autonomous bodies, private sector, international organizations and foreign countries in respect to Information Technology and Telecommunications.
- Human resource development in the field of information technology and telecommunications.
- Promotion of information technology applications.
- Providing guidelines for the standardization of software for use within the Government.
- Planning, policy-making and legislation covering all aspects of telecommunication excluding radio and television and issuance of policy directives.
- Matters relating to the National Information Technology Board and Pakistan Software Export Board.
- All matters relating to National Telecommunication Corporation (NTC), Telecommunications Foundation (TF), Special Communication Organization (SCO), Virtual University (V.U) and Electronic Certification Accreditation Council.
- The administration of the Prevention of Electronic Crimes Ordinance 2007 and the rules made there under.
- Safeguard the interest of Government of Pakistan in entities having public shares or government equity-like PTCL, USF Co. & Information and Communication Technology R&D Co.

Governing Laws and Policies

- The Prevention of Electronic Crime Act, 2016
- Pakistan Telecommunication (Re-Organization) Act, 1996
- ETO Act
- Telegraph Act 1885
- Wireless Act
- SF Rules, 2006

- R&D Fund Rules, 2006
- Rule of Business 1973

Audit Profile of Ministry of Information Technology & Telecommunication

(Rs in million)

S. No.	Description	Total	Audited	Expenditure audited FY 2022-23	Revenue /Receipts audited FY 2022-23
1	Formations	1	1	834.729	1,024.748
2	Assignment Accounts (excluding FAP)				-
3	Authorities /Autonomous Bodies etc. under the PAO	1	1	-	-
4	Foreign Aided Projects (FAP)	-	-	-	-

Classified Summary of Audit Observations

Audit observations amounting to Rs 1,407.857 million were raised as a result of this audit. This amount also includes recoverable of Rs 11.258 million as pointed out by the audit. Summary of the audit observation classified by nature is as under:

Overview of the Audit Observations

Sr. No.	Classification	Amount (Rs in million)
1	Non-Production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities:	
A	HR/Employees related irregularities	37.509
B	Procurement related irregularities	-
C	Management of accounts with Commercial Banks	126.326
4	Value for money and services delivery issues	-
5	Others	1,244.022

11.1 Pakistan Software Export Board (Guarantee) Limited

11.1.1 Introduction

Pakistan Software Export Board (Guarantee) Limited was founded in Pakistan under the Companies Ordinance, 1984 on June 13, 1998, as a company limited by guarantee. It is an apex Government body mandated to promote Pakistan's IT Industry in local and international markets. PSEB facilitates the IT industry through a series of projects and programs in infrastructure development, human capital development, company capability development, international marketing, strategy and research, and the promotion of innovation and technologies to deliver high value-added services and enhance IT and IT-enabled services export from Pakistan. The registered office of the Company is situated at 2nd floor, Evacuee Trust Complex, Sector F-5/1 Islamabad. The company is wholly owned and controlled by the Federal Government through the Ministry of Information Technology.

11.1.2 Comments on Audited accounts

11.1.2.1 The working results of Pakistan Software Export Board for the year 2022-23 as compared to the previous years are as under:

(Rs in million)

Particular	2022-23	%age increase/ (Dec)	2021-22	%age increase/ (Dec)	2020-21
Amortization of deferred grant	522.30	8.22	482.63	324.44	113.71
Federal govt. grant	868.04	170.81	320.54	152.41	126.99
Amortization of deferred grant in kind	30.74	(1.60)	31.24	(1.94)	31.86
Revenue from bandwidth and related services	90.43	35.27	66.85	4.68	63.86
Registration and renewal fee	84.21	(1.70)	85.67	17.66	72.81
Other income	119.91	217.05	37.82	64.72	22.96
Total	1,715.63	67.42	1,024.75	137.11	432.19
Expenditure					
Project cost- deferred grants related to projects	522.30	8.22	482.63	324.44	113.71
Salaries, allowances and benefits	185.7	37.48	135.07	12.33	122.74
Data node bandwidth and related charges	48.99	50.78	32.49	7.19	30.31
Travelling & Conveyance allowance	7.06	14.80	6.15	-	-
Advertisement & publicity	7.04	135.45	2.99	-	-
Communication charges	18.52	270.40	5.00	-	-
Utilities	11.22	55.40	7.22	-	-
Rent, rates & taxes	60.62	156.97	23.59	57.16	15.01
Vehicle running expenses	3.89	21.94	3.19	-	-

Fee & subscription	2.18	24.57	1.75	-	-
Printing & stationery	1.48	(4.52)	1.55	-	-
Exhibition & seminars	279.69	232.45	84.13	-	-
Research studies	3.90	50.00	2.60	-	-
Repair & maintenance	6.88	(6.64)	7.37	32.55	5.56
Industries Skills & Development programs	581.05	765.43	67.14	-	-
Legal & professional charges	10.62	543.64	1.65	-	-
Depreciation	5.75	139.58	2.40	-	-
Depreciation of assets related to deferred grants	30.74	(1.60)	31.24	-	-

11.1.2.2 The total income of the board increased to Rs 1,715.63 million during the year 2022-23 as compared to Rs 1,024.75 million of 2021-22, registering an increase of 67.42% over previous year. The increase was mainly due to increase in Federal Govt. Grant, revenue from bandwidth and related services and other income by 171%, 35% and 217% respectively. The formation is still relying on government grant, efforts needs to be made to increase the revenue from its core activities to made the formation a self-reliant organization.

11.1.2.3 Accrued liabilities as on 30th June, 2023 increased to Rs 23.12 million against Rs 11.72 million in the year 2021-22. The figure is silent by means of notes, detailed breakup along with current status may be provided. Early clearance of said liability is stressed upon the management.

11.1.2.4 Trade and other payable increased from Rs 63.17 million in 2021-22 to Rs 104.56 million in 2022-23 registering an increase of 65.52% over previous year. Detailed breakup of these liabilities needs to be provided along with early clearance of liabilities.

11.1.2.5 Legal & professional charges increased to Rs 10.62 million in 2022-23 from Rs 1.65 million in 2021-22 registering an increase of 544% over previous year. The huge increase under the head needs justification.

11.1.2.6 During the year utilities expenses increased from Rs 7.22 million in 2021-22 to Rs 11.22 million in 2022-23. The Federal Government in Austerity Measures for the year 2022-23 categorically desired that the utilities expenses may be cut down by 10% at least, despite clear cut directions of the government, utility expenses increased by 55.40% in PSEB which needs to be explained.

11.1.2.7 Expenditure under the heads Advertisement & Publicity and Rent, Rates & taxes increased by 135% and 157% to Rs 7.04 million in 2022-23 (2021-22 – Rs 2.99 million) and Rs

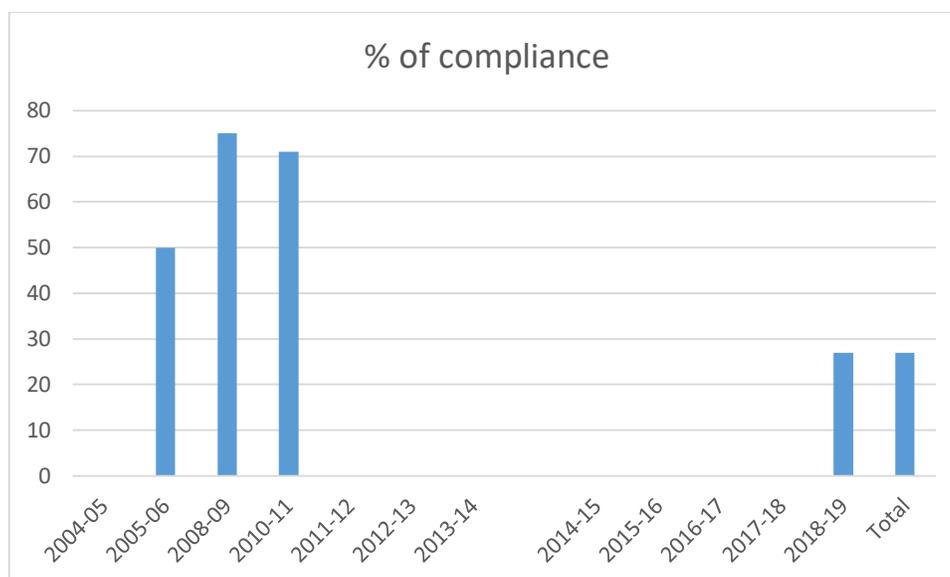
60.61 million in 2022-23 (2021-22 – Rs 23.59 million) respectively. The figure is silent by means of notes; abnormal increases under the heads need justification.

11.1.2.8 There was abnormal increase in expenditure under the head Industry Skills and Development Programs by 765% to Rs 581.05 million in 2022-23 (2021-22 – Rs 67.14 million). The figure is silent by means of notes; abnormal increase under the head needs justification with reference to benefit and beneficiaries of the programs.

11.1.2.9 Expenditure under the head Exhibition and Seminars increased by 232% to Rs 279.69 million in 2022-23 (2021-22 Rs 84.13 million). Figure is silent by means of notes; abnormal increase under the head needs clarification with regard to each Exhibition and Seminar and expenditure their against.

11.1.3 Compliance of PAC Directives

Sr. No.	Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
1	2004-05	01	0	01	82	-
2	2005-06	02	01	01	159	50
3	2008-09	04	03	01	147	75
4	2010-11	17	12	05	13.1.4.3, 13.1.4.5, 13.1.4.8, 13.1.4.9, 13.1.4.10,	71
5	2011-12	03	0	03	11.1.2.1, 11.1.3, 11.1.4.1	0
6	2012-13	03	0	03	11.1.2.1, 11.1.3, 11.1.4.1	0
7	2013-14	03	0	03	10.1.2.1, 10.1.3, 10.1.4.1	0
8	2014-15	09	0	09	11.1.2.1, 11.1.2.2, 11.1.2.3, 11.1.2.4, 11.1.2.5, 11.1.2.6, 11.1.2.7, 11.1.2.8, 11.1.3	0
9	2015-16	07	0	07	10.1.2.1, 10.1.2.2, 10.1.2.3, 10.1.2.4, 10.1.2.5, 10.1.2.6, 10.1.3	0
10	2016-17	04	0	04	9.1.2, 9.1.3, 9.1.4.1, 9.1.4.2	0
11	2017-18	07	0	07	12.1.2.1, 12.1.2.2, 12.1.2.3, 12.1.2.4, 12.1.2.5, 12.1.2.6, 12.1.3	0
12	2018-19	11	03	08	11.1.4.1, 11.1.4.2, 11.1.4.3, 11.1.4.5, 11.1.4.7, 11.1.4.8, 11.1.4.10, 11.1.4.11,	27
Total		71	19	52		27



Overall compliance with the PAC directives was very poor which requires immediate attention of PAO.

11.1.4 Audit Paras

11.1.4.1 Irregular execution of projects without preparation of PC-I - Rs 1,168.00 million

According to Section-10.1(v) of Guide Lines for Project Management issued by Project Wing, Planning Commission, Government of Pakistan no project under directive of any authority is started without proper preparation of PC-I/PC-II and relevant competent forum.

During audit of PSEB for the year 2021-22, it was observed that Board of Directors in its 48th Meeting held on 23rd November 2021 approved the following project involving cost of Rs 1,168.000 million.

S. No.	Name of the Project	Date on which the project was started.	Amount Approved by BOD (Rs in million)	Expenditure incurred up to March 2023 (Rs in million)
01	IT Industry Academia Bridge Program (Training to University enrolled students on latest technologies & training of the Teachers.	May 2022	418.00	109.070

02	Boot Camp for unemployed ICT Graduates	June 2022	550.00	88.943
03	Imparting of soft skills to Industry Professionals.	July 2022	200.00	-
Total: -			1,168.00	198.013

According to the project management guidelines issued by the Government of Pakistan, the above projects were required to be started after preparation of proper PC-I/PC-II but the same were started without preparation of PC-I/PC-II.

Audit is of the view that starting and execution of projects involving funds of Rs 1,168.000 million without following the guidelines issued by the Government was irregular. It is further to be added that an amount of Rs 198.013 million had been incurred up to March 2023 for the execution of the above projects which was also held irregular and needed justification.

Matter was reported to the management through AIR. Management in its reply dated 08.11.2023 stated that the projects mentioned in the audit para were not being funded from PSDP. Furthermore, the above mentioned projects were in line with the memorandum of PSEB object clause-5 and PSEB Board was empowered to approve the initiation of the said projects.

Reply is not tenable because the guidelines for Project Management issued by Project Wing, Planning Commission were required to be observed due to the reasons that all funds were provided by the government.

DAC meeting was held on 23.01.2024 but the minutes of the meeting were awaited till finalization of this report.

Audit recommends to explain the reason for non-making of PC-I may be explained.

Para-23 (PSEB-2021-22)

11.1.4.2 Irregular drawl of funds from assignment account for advance payment - Rs 105.593 million

According to F. T. Rules 290, no money shall be drawn from the treasury unless it is required for immediate disbursement. It is not permissible to draw money from the treasury in anticipation of demands or to prevent the lapse of budget grants.

According to Para-8 of Finance Division letter No.F.15913)-R14/82 dated September 05, 1982 the funds provided, acquired or generated by autonomous /semi-autonomous bodies and corporations are public funds, which cannot be utilized at the sole discretion of the management. The funds should be utilized with due care and caution strictly in accordance with prescribed rules.

During audit of PSEB for the year 2021-22, it was observed that the Government of Pakistan provided funds for the execution of various PSDP funded Projects. For the purposes management was maintaining assignment accounts. Instead of actual utilization of funds for the purposes for which the funds were provided, management withdrew funds of Rs 105.593 million from treasury for making mobilization advance to various companies during the period June 2020 to June 2021. The detail of which is given below:

S.#	Name of PSDP Project	Name of company	Date	Voucher No.	Narration	Amount Advances (Rs)
01	Certification of IT Professionals	The Capital Technologies.	19-Jun-2020	CITBPV-2	20% mobilization advance issued against CMMI Training & Consultancy.	53,610,144
02	-do-	Phalia International Pvt Limited	26-Jun-2020	CITBPV-3	20% mobilization advance issued against certification /trainings of IT participants	24,500,000
03	-do-	Stepnex Services	31-Aug-2020	CITBPV-12	20% mobilization advance issued against IT certification & trainings.	24,502,500
04	Enhancing of IT Export.	Quality Assurance Institute.	18-Jun-2021	EITE BPV-5	20% advance payment issued against CMMI Level-2 Appraisal Services of 5	2,980,000
Total: -						105,592,644

According to the above provisions of rules no money was to be drawn from the treasury unless it was required for immediate disbursement. Further it was also not permissible to draw money from the treasury in anticipation of demands or to prevent the lapse of budget grants. Thus, action of the management was not in line with the provisions of rules and directives of the GoP.

Audit is of the view that drawl of funds of Rs 105.593 million in violation of rules and directives of the GOP was irregular. It is also to mention here that a period of more than 2 years the said mobilization advance was not yet been adjusted by the PSEB management.

Matter was reported to the management through AIR. Management in its reply dated 08.11.2023 stated that in exercise of power delegated by Ministry of Information Technology to Project Director vide letter No F. No 7-5/2019-ACP dated January07, 2020 and with reference to “System of Financial Control & Budgeting” vide SRO No. 285 (10/2021) of March 08, 2021, the project director had been authorized to approve payments keeping in view the requirements for smooth running of the project. Furthermore, according to Accounting Policies and Procedures Manual clause 4.2.15.1 “Payment must not be made in advance unless it is required by the agreement with the supplier and supported by a bank guarantee for the value of the advance.” In the case of the mobilization advances in question the terms of the contract dictated for the provision of such advance which PSEB secured against bank guarantee/insurance guarantee of equal value.

Reply is not tenable because the payment was made against the directives of the Finance Division.

DAC meeting was held on 23.01.2024 but the minutes of the meeting were awaited till finalization of this report.

Audit recommends that the reasons for with-drawal of funds from treasury for making advance payment and non-adjustment thereof may be investigated/inquired.

Para-24 (PSEB-2021-22)

11.1.4.3 Loss of revenue income charges due to non-renewal of registration of IT companies - Rs 39.670 million

According to Section-III (16) of Memorandum of Association of Pakistan Software Export Board one of the objectives for which the company is established is to receive money, without interest, by way of penalty, fines subscriptions, entrance or membership fees, rents from members, companies or any other persons for the objects of the company and to put the same to any use deemed fit.

According to fee structure renewal charges are determined by the annual revenue earned by the respective company during last financial year as per details given below:

Rs 10, 000	Companies with annual revenue upto Rs 50 million
Rs 15, 000	Companies with annual revenue upto Rs 50-100 million
Rs 20, 000	Companies with annual revenue upto Rs 100-300 million
Rs 25, 000	Companies with annual revenue upto Rs 300-600 million
Rs 30, 000	Companies with annual revenue upto Rs 600 million

During audit of PSEB for the year 2021-22, it was noticed that as per registration policy IT companies, call centers and Free Lancers were being registered with PSEB for 01-05 years. According to available data, 7,574 IT companies were registered with Pakistan Software Export Board, out of which registration of 3,967 IT companies had expired and neither efforts from management been made to renew their registration nor the said companies renewed their registration. Due to non-renewal of registration/membership of the IT Companies, PSEB was suffering loss to the extent of Rs 39.670 million (i.e. 3967x Rs 10,000 minimum renewal charges).

Audit is of the view that management failed to optimize their main revenue source i.e. registration and its renewal fee from their members/registered companies due to non-formulating efficient and effective marketing strategy and renewal policy. Had the registration of registered member companies been timely monitored, loss of Rs 39.670 million could be avoided.

Matter was reported to the management but no reply was received.

DAC meeting was held on 23.01.2024 but the minutes of the meeting were awaited till finalization of this report.

Audit recommends that reasons for non-renewal of registration of IT companies may be enquired. Exact total numbers of IT Companies, Call Centers and Free Lancers having valid registration, expired registration and closed case may also be shared with audit. Category wise renewal charges against each of

IT Companies, Call Centers and Free Lancers may be calculated and shared with Audit. Early renewal of registration may be made to avoid losses.

Para-33 (PSEB-2021-22)

11.1.4.4 Unauthorized award of study work to non-entitle firm - Rs 33.750 million

According to Request for Proposal (RFP) for conducting study on “Impact of International Certification on IT and ITes Industry” regarding Mandatory Technical evaluation criteria vide Sr. No.2 Applicant Company should have valid NTN and GST certificate issued by the competent authority. Further at least one key consultant of the applicant company must have completed CMMI Certification.

During audit of PSEB for the year 2021-22, it was noticed that a Tender No. A (01)/PSEB/2021-14 for conducting local study titled “Study on Impact of International Certification on IT Industry” was floated in the Newspaper on 26.05.2021 with closing date June 15, 2021. Two firms i.e. M/s. I-Consultant Pvt. Ltd and Lune sys Pvt. Ltd participated in the bidding process. Both of firms were technically qualified by the Technical Evaluation Committee on 15.06.2021 and afterwards financial bids were opened and M/s Lune sys Pvt. Ltd being the lowest was awarded the above said research study contract. Accordingly work order dated October 04, 2021 valuing Rs 33.750 million inclusive of all taxes was issued to the firm with delivery time of 112 days.

It was noticed that as per mandatory criteria at S. No. 2 of RFP, bidders were required to submit valid NTN and GST registration duly issued by the competent authority i.e. FBR. Whereas M/s. Lune sys Pvt. submitted online enquiry and did not show GST and NTN validation of the firm. Thus in the absence of valid GST/NTN valid certificate, the award of research study contract valuing Rs 33.750 million tantamount to undue favor to the contractor at the cost of Govt. funds and was held irregular in Audit.

Furthermore, after award of contract one of the approved CMMI consultants against Technical bids also left M/s Lune Sys Pvt. Ltd due to some business dispute. The management also approved such unauthorized change vide procurement committee meeting held on October 16, 2022. It is to be mentioned here that for change of CMMI consultant, no provision was existed in the signed agreement. Due to the very reason the progress towards completion of research study was badly affected and only two milestones could be achieved upto June 2023.

Audit is of the view that change of approved consultant in violation of technical evaluation criteria was un-authorized and tantamount to undue favor to the selected firm at public exchequer.

Matter was reported to the management through AIR. Management in its reply dated 08.11.2023 stated that a copy of (online) NTN certificate was attached as reference. Further, management replied that CMMI consultant was replaced on the request of M/s LUNESYS (Pvt.) Ltd through its letter dated July 07, 2022. The procurement committee members reviewed the request and after due deliberation to the subject matter, the procurement committee in its meeting held on October 18, 2022 allowed replacement of CMMI consultant on the condition that new entrant consultant must possess at least equal or more qualification and experience as compared to retiring consultant which was more than that of earlier.

The reply is not tenable because the management provided taxpayer profile inquiry dated October 30, 2023 instead on the date when the bidding process was done. Further the replacement of consultant was made without having any provision in technical evaluation criteria.

DAC meeting was held on 23.01.2024 but the minutes of the meeting were awaited till finalization of this report.

Audit recommends to investigate the matter at appropriate level. Fix the responsibility on person(s) at fault

Para-40 (PSEB-2021-22)

11.1.4.5 Irregular transfer of funds from assignment account to other accounts - Rs 20.733 million

According to F. T. Rules 290, no money shall be drawn from the treasury unless it is required for immediate disbursement. It is not permissible to draw money from the treasury in anticipation of demands or to prevent the lapse of budget grants.

According to Controller General of Accounts Office Letter No. 574/CGA/AC-IV/I-I/2011 dated 20th June, 2012 and para-2 (VI) of the Revised Procedure for Operation of Assignment Accounts, the transfer of funds from the assignment account for deposit into chest or any bank account is completely forbidden. Moreover, as per O.M of the Finance Division (Expenditure Wing) issued vide No.F.2 (2)-BR-II/2008-695/2017, dated: 16-06-2017, Principal Accounting Officer of the concerned Ministry will ensure that no such transactions take place. In case of any deviation/violation from the prescribed procedure, the head of the organization and officers/officials of AGPR will be held responsible and a case will be forwarded to be proceeded under E&D rules against all concerned.

During audit of PSEB for the year 2021-22, it was observed that the management remained in a practice to transfer all funds on account of Medical allowance and leave encashment from Assignment Account and deposit it into other bank accounts and then incurred expenditure from those accounts even after close of the financial year. Year wise summary of funds transferred from assignment accounts to other accounts is given as under:

Financial Year	Description	Amount Transferred (Rs)
2021-22	Medical allowance	5243,898
2021-22	Leave encashment	15,489,090
Total		20,732,988

Audit is of the view that the transfer of funds from assignment account to other account is violation of Revised Procedure for Operation of Lapse-able Assignment Account which was held irregular and needed justification.

Matter was reported to the management through AIR. Management in its reply dated 08.11.2023 stated that PSEB service regulations under its chapters medical and leave regulations provide annual limits/ceilings of medical for each entitled employee for reimbursement of medical expenses and carrying forward of un-utilized balance to the succeeding years and encashment of un-utilized/carried forward balance on severance/termination of employment. Similarly, leave regulations under annual/earned leave clause provides that accumulated leave shall be en-cashed at the time of severance of employment and encashment of leave shall be made on the last basic salary drawn by the officer plus maximum entitlement of house rent as approved by the competent authority per month. Consequently, PSEB was under obligation to fulfill its commitments by paying carried forward balance of unutilized medical ceiling/limits and accumulated annual/earned leaves upon termination/severance of employment. It is important to note that PSEB operates with limited financial resources and relies on an annual government grant that lapses if not fully utilized. Given these financial constraints and the absence of alternative funding sources for settling severance benefit liabilities, PSEB included the provision for medical and accrued leave payments in its annual budget with the approval of BOD.

Reply is not tenable because the action of management was in disregard to the above quoted operating procedure for assignment account.

DAC meeting was held on 23.01.2024 but the minutes of the meeting were awaited till finalization of this report.

Audit recommends to fix responsibility on the person(s) at fault. Further, irregular practice may be stopped forthwith

Para-35 (PSEB-2021-22)

11.1.4.6 Irregular appointment of Managing Director – Rs 15.358 million

According to advertisement published on May 12, 2019”, the candidates having MS degree in computer Science/Electrical/Electronic Engineering and or Master Degree in Marketing/Management /Business Administration /IT from HEC recognized university (minimum 18 years of education) along with 15 years’ relevant professional experience with minimum five years in senior leadership role.

During audit of PSEB for the year 2021-22, it was observed that the post of Managing Director was advertised twice without any cogent reason. In response of earlier advertisement dated 12.05.2019 total 49 candidates applied for the post. As per scrutiny statement of selection committee only 06 candidates met the criteria for the post whereas remaining candidates were rejected due to not meeting the criteria specified in the advertisement. The management was required to appoint and select one of them but for un-known reasons, the complete hiring process was stopped and it was decided to re-advertise the post.

The post was re-advertised on 15.09.2019 and according to advertisement the education qualification was changed from 18 years to 16 years and relevant professional experience from 15 years to 12 years with minimum five years in senior leadership role. As per their report, out of 141 applicants 25 candidates were shortlisted. The evaluation/selection committee under the Chairmanship of the then Federal Minister for Information Technology interviewed the candidates and Mr. Usman Nasir was stood 1st. Subsequently Mr. Usman Nasir was appointed as Managing Director PSEB in MP-I scale at monthly

pay package of Rs 650,510 for a period of two years vide appointment letter dated August 10, 2020. It is worth mentioning that in response of earlier advertisement dated 12.05.2019 Mr. Usman Nasir had also applied for the post and as per remarks of scrutiny short-listing committee, the said candidate did not meet the advertisement criteria as the post qualification was less than the required experience of 15 years. Further probe in to the matter, revealed that rejection of recruitment process and subsequent advertisement was tailor made only for the benefit of particular candidate by giving undue favor.

Thus, it is evident that the officer was not eligible for appointment even for short-listing as the candidates having more experience were available in the list applied for the post who were ignored.

In the light of above position, it could be concluded that the management granted undue favor to the officer by violating the merit. Thus, the appointment of the officer and payment of Salary Rs.15.358 million was held irregular in Audit.

Matter was brought to the notice of the management through AIR. Management in its reply dated 08.11.2023 stated that in order to attract larger pool of candidates with relevant experience in International Marketing, the post was re-advertise with change in required qualification from eighteen years to sixteen years, reduction in post qualification experience from fifteen (15) years to twelve (12) years and extension in applications submission deadline from fifteen (15) to thirty (30) days with approval of BOD granted in 41st BOD meeting.

The reply is not convincing because the post was re-advertise by degrading the required qualification and experience for the post of MP-I scale. Further the individual concerned had also applied for the post against first advertisement dated 12.05.2019 and at that time he was not shortlisted due to not meeting the criteria and post was re-advertised according to qualification and experience which he possessed.

DAC meeting was held on 23.01.2024 but the minutes of the meeting were awaited till finalization of this report.

Audit recommends to inquiry may be conducted regarding irregular appointment. Responsibility may be fixed on the person(s) at fault.

Para-16 (PSEB-2021-22)

11.1.4.7 Irregular excess payment of house rent allowance @ 45% of the running basic to staff – Rs 6.188 million

According to Rule 3(1) of PSEB Service Regulation House Rent Allowance @ 45% of the basic pay is admissible to all employees.

Furthermore, Board of Directors in its 48th meeting held on November 23,2021 approved house rent allowance to their employees at the rate of 45% of basic pay w.e.f January 01,2022.

During audit of PSEB for the year 2021-22, it was noticed that the management granted House Rent Allowance @ 45% of running basic pay to all of their employees instead of initial basic pay as required. Accordingly, the management paid House rent allowance of Rs 6.188 million to its 37employees for a period up to June 2022.

Audit is of the view that the management made irregular payment to their employees by giving House Rent Allowance @45% at running basic pay instead of initial basic pay by violating board decision/service rules as well as Federal Government practice.

Matter was reported to the notice of the management through AIR. Management stated in its reply dated 08.11.2023 that the PSEB is giving house rent allowance to its employees as per rules and no violation has been made. PSEB is paying this allowance since its incorporation in 1998 and no objection was ever raised by Commercial auditors since then although commercial audit is carried out every year.

The reply is not tenable because as per Corporate Governance Rules -5 (11), the Board shall ensure compliance with policy directions received from Government from time to time. Further, all employees of PSEB were getting 45% of the basic pay as house rent allowance.

DAC meeting was held on 23.01.2024 but the minutes of the meeting were awaited till finalization of this report.

Audit recommends investigating the matter besides affecting the recovery.

Para-26 (PSEB-2021-22)

11.1.4.8 Irregular re-employment of an officer after retirement on superannuation - Rs 5.80 million

According to Govt. of Pakistan, Establishment Division O.M.No.4/1/84-R-I, dated 02.09.1990, all Ministries/Divisions were requested to adhere to the instructions issued by the Establishment Division and not to allow any officer to continue in service beyond the age of superannuation or contractual appointment without prior approval of the competent authority i.e. prime minister. Further, as per policy guidelines for contract appointments in autonomous/semi-autonomous bodies/corporation, issued by the Government of Pakistan, Establishment Division vide O.M No. 6/2/2000-R.3, dated 6th May 2000, the post should be advertised.

During the audit of Pakistan Software Export Board (PSEB) for the year 2021-22, it was observed that Mr. Talib Hussain Baloch, Director Finance was retired from service on March 10, 2022 after attaining the age of superannuation. The officer was granted extension by the BoD in its 50th board meeting held on

March 25, 2022 on the same post and same salary drawn before retirement for a period of one year. Accordingly, he was paid an amount of Rs 5.80 million up to December 2022.

Audit observed that the re-employment of the officer after superannuation and without advertising the post was irregular as the officer was re-employed on the same post without any approval of Prime Minister. Thus payment of Rs 5.80 million on account of pay and allowances was held irregular in audit.

Matter was brought to the notice of the management through AIR. Management in its reply dated 08.11.2023 stated that the extension of the said employee beyond the age of superannuation was duly approved by the Board in its 50th Board meeting held on 25.03.2022 on the recommendation of HR in line with PSEB Service Rules vide Clause 4 of Chapter "Severance of Employment".

Reply of the management did not hold well because according to Section 5 (11) of Corporate Governance Rules 2013 the Board shall ensure compliance with policy directions received from Government from time to time. In this case Board did not comply with directives of the Government.

Further according to the service rules of PSEB the case for extension was required to be referred to the Board of Directors with full justification well in time. If approval of the Board of Directors is not received before the person has completed his/her current tenure of service, he/she will not be granted an extension and will automatically stand retired. The employees were retired from service on 10.03.2022 and board granted approval for extension on 25.03.2022 which showed that the approval of the BOD was received after the completion of his current tenure of service and he was not be granted an extension and will automatically stand retired.

DAC meeting was held on 23.01.2024 but the minutes of the meeting were awaited till finalization of this report.

Audit recommends to the matter needs to be investigated at appropriate level. Fix the responsibility on person (s) at fault. Regularize the irregularity from authority.

Para-13 (PSEB-2021-22)

11.1.4.9 Irregular expenditure on account of foreign visits – Rs 2.602 million

The Government of Pakistan Cabinet Division, Islamabad vide O.M. No. F-9-148/2002-Min dated February 19, 2003 prescribe the following procedure for visit abroad for official/officers working in autonomous bodies:

- i. In case of officer of BPS-20, and above the approval of the Minister In charge will be necessary with prior clearance by the Ministry of Finance.
- ii. At the conclusion of a foreign visit, the delegation/official shall submit post visit report to the Ministry of Foreign Affairs and Economic Affairs Division within 15 days of the completion of visit.
- iii. All cases of visits abroad will require clearance from the Ministry of Foreign Affairs.

During audit of PSEB for the year 2021-22, it was observed that certain foreign visits were performed by the Managing Director and other officers of PSEB during the period under review. An amount

of Rs 2.602 million was spent on this account. It was however observed that neither the approval of the Competent Authority as mentioned above nor post visit reports on the return from visit, were submitted. Thus, the expenditure of Rs 2.602 million incurred on the foreign visits without observing the Government procedure was held irregular in Audit. It was further observed that there was no such practice in the company for obtaining approval for foreign visits from the relevant competent authorities' i.e. Ministry of Foreign Affairs and Finance Division.

Matter was brought to the notice of the management through AIR. Management in its reply dated 08.11.2023 stated that all international travel of PSEB staff had been carried out from PSEB's Self-Generated Funds with the approval of Managing Director by exercising the powers delegated to him by the BOD. Furthermore, in case of travel by the Managing Director, PSEB according to Cabinet Division's Instructions dated 26th October, 2018. Minister Incharge shall be competent to accord approval for travel of officers in BPS-20 and above and their equivalent working in Autonomous/Semi-Autonomous Bodies where no Government Grant funding is involved. In such cases, Foreign Affairs Division was duly notified and NOC sought by the Ministry of IT and Telecommunication.

Reply is not acceptable because the NOC from Foreign Affairs Divisions and proof of utilization of self-generated funds were not found attached with reply. Further management reply was also silent about submission of post visit report to the Ministry of Foreign Affairs and Economic Affairs Division which was necessary.

DAC meeting was held on 23.01.2024 but the minutes of the meeting were awaited till finalization of this report.

Audit recommends to investigate the reasons of performing foreign visits in violation of the government prescribed procedure. Fix responsibility thereof.

Para-14 (PSEB-2021-22)

11.1.4.10 Irregular appointment of Director (Skills and Capacity Development) - Rs 2.906 million

According to advertisement published on April 26, 2022 the candidates having minimum 16 years of education in engineering, computer sciences or management disciplines from HEC recognized local or international university, preferably with a higher degree in management engineering management or business administration. Minimum 7 years of experience in public sector initiatives preferably building and management skills development programs or alike public sector programs. Candidate should also have ability to understand stakeholders and eco system of IT/ITES & freelance sectors in line with strategic vision of the Federal Government's ongoing initiatives.

During audit of PSEB for the year 2021-22, it was observed that the management advertised the post of Director Skills and Capacity Development on April 26, 2022. In response to advertisement, 246 applications received out of which 07 applicants were shortlisted for interview. Accordingly, shortlisted candidates were interviewed by the selection committee and finally Mr. Raza Ahmed Sukhera was appointed as Director Skills and Capacity Development till further orders vide appointment letter dated June 29, 2022 @ monthly pay package of Rs 484,430 with other benefits.

During scrutiny of record audit observed the following discrepancies:

1. The incumbent had no relevant experience; his past experience was 09 years in Ministry of IT& Telecommunication on Ignite National Technology strength as Deputy Manager Project having no sufficient experience in Managing Skill Development Program in the field of IT as required for the post. As per C.V details his experience was in the field of Internal Audit and he assisted to PSEB and MOIT in other fields. Furthermore, experience mentioned for the post of other 04 Directors appointed during the period was 08 years whereas the experience for Director Skill and Capacity was 07 years which indicate that un-due favor was extended to the officer.
2. As per offer letter, the candidate was required to get medical fitness certificate before joining which was also not done.
3. Educational degrees and certificates were also not verified thorough HEC as required from respective universities and Board.

In the light of above position, it can be concluded that the management granted undue favor to the officer by violating the merit. Thus, the appointment of the officer and payment of Salary Rs 2.906 million (6 Months i.e. up-to December 2022 x Rs 484,430) was held irregular in audit.

Matter was reported to the management through AIR. Management in its reply dated 08.11.2023 stated that the Mr. Raza Ahmed Sukhera possessed 18 years of education, and his selection was made on a 16-year of bachelor's Hons. in Business Administration earned in 2009. The incumbent holds around 14 years' experience out of which 9 years' experience is related to working at senior level at MOITT at Joint Director Policy managing public sector initiatives/ programs. He worked in Ministry as Joint Director of Policy & Sector Growth where he not only took part in public sector initiatives but also led different skills initiatives, freelancers' policy and other tasks assigned by the top management.

Reply is not tenable because no proof of his experience was attached with the reply. Further his Minimum 7 years of experience in public sector initiatives preferably building and management skills development programs or alike public sector programs. Management also did not mention the reasons for reducing the period of experience as 7 years for Director Skill and Capacity Development against 8 years for other posts of Directors.

DAC meeting was held on 23.01.2024 but the minutes of the meeting were awaited till finalization of this report.

Audit recommends to inquiry showed be conducted regarding irregular appointment and responsibility be fixed thereof

Para-20 (PSEB-2021-22)

11.1.4.11 Irregular appointment of Project Manager – Rs 2.187 million

According to PC-1 of the project titled "ICT intern ship Program" the candidates for the post of Project Manager having minimum 16 years of education in Business /Project Management/information Technology /Telecom Engineering or relevant from a reputable university recognized by HEC, Project

Management Resource (PMP) certificate is plus point and with minimum of 07 years of relevant project management experience.

During audit of PSEB for the year 2021-22, it observed that the management advertised the post of Project Manager on June 23, 2021 for project titled "ICT interim ship Program". In response to advertisement 183 applications were received out of which 14 applicants were shortlisted for interview by the short-listing committee. Accordingly, the candidates were interviewed by the selection committee and finally Choudhry Asad Kamal was appointed as Project Manager vide appointment letter dated November 12, 2021 @ monthly pay package 175,000 (all inclusive), 5% annual increment would be given based on performance w.e.f 15.11.2021.

During scrutiny of record the following short-coming were noticed by audit:

1. The qualification possessed by the officer was Bachelor of Computer Science (Hons), most of the contents of his degree did not cover Project management/Information Technology/Telecom Engineering as required for the post already advertised. Furthermore, he also did not possess Project Management Resource Certificate.
2. As per C.V record he served as Manager Software Development from November 2015 to November 2021, in Posi scan Company which did not cover relevant project management experience for the post as required. Furthermore, the experience certificate did not show any credibility/authenticity as having no proper monogram of the company, complete address, contact number and other information, which created doubt about his experience.

In the light of above, it can be concluded that the officer was not eligible for the post as neither he possessed required qualification nor had relevant experience as per requirement mentioned in advertisement. The whole process of selection indicated that the management granted undue favor to the officer by violating the merit criteria. Thus, the appointment of the officer and payment of Salary Rs 2.187 million was held irregular in audit.

Matter was reported to the management through AIR. Management in its reply dated 08.11.2023 stated that the Mr. Asad Kamal possessed 16 years of education with a degree in Computer Science which falls in the relevant category of Information Technology. Hence, he met the qualification criteria. The individual worked on different research-related initiatives while working for Air University as a Research Associate from 2007 until the appointment, he worked on various technical initiatives for multiple software businesses.

Reply is not tenable because neither any proof of his experience is attached with reply nor verification of experience certificate was done. Further the management in its reply stated that the officer worked on different research-related initiatives while working for Air University as a Research Associate from 2007 until the appointment which was also not correct because as per CV, he worked for the post of Research Associate only from 2005 to 2007.

DAC meeting was held on 23.01.2024 but the minutes of the meeting were awaited till finalization of this report.

Audit recommends to investigate the matter regarding appointment of irrelevant officer in violation of the given criteria

Para-21 (PSEB-2021-22)

11.1.4.12 Irregular payment of annual increment on running basic pay – Rs 1.145 million

The PSEB Board in its 48th meeting held on November 23, 2021 approved the revision of salary structure and fixed annual increment @ 10% of the initial basic pay w.e.f. January 2022 as per detail given below:

Position	Salary package limit (Rs)
CMO/CCO/CIDO/CF&AO	310345-10%-517241
Directors/Company Secretary	275862-10%-339078
Managers	173,973-10%-260179
Asstt. Managers/Coordinators	89420-10%-130065
Secretary to MD	89420-10%-130065
Assistt. Officers	67484-10%-93935
Assistants	43947-10%-62011
Receptionist	35000-10%-37,108
Clerk	30000-10%-37108
Drivers	25000-10%-37108
Naib Qasid	20000-10%-37108
Maintenance staff	18000-10%-37108

During audit of PSEB for the year 2021-22, it was observed that the management did not observed the board decision while implementing the rate of annual increment. The management granted annual increment on the running basic instead of initial basic pay. As per practice of the Govt. annual increment

was allowed at initial basic pay or at fixed prescribed rate. Thus, payment of annual increment that allowed by the management was not covered under any rules.

Therefore, payment of Rs 1.145 million on account of annual increment was held irregular in audit.

Matter was reported to the management through AIR. Management in its reply dated 08.11.2023 stated that PSEB is an autonomous body and Civil Servant Rules 1973 does not apply to PSEB. PSEB has its own Service Regulations. This was evident from the fact that annual increments provided by the Federal Government in Annual Budget every year had never been provided to PSEB employees.

The reply is not tenable because BOD approved annual increment on initial basic pay. Further the PSEB is a government funded organization on that basis approval from government was required to be obtained.

DAC meeting was held on 23.01.2024 but the minutes of the meeting were awaited till finalization of this report.

Audit recommends to matter regarding un-authorize/irregular payment needs to be justified. Exact financial impact of rate of increment may be calculated since adopting such practice besides affecting recovery.

Para-27 (PSEB-2021-22)

11.1.4.13 Irregular/unauthorized payment of leave encashment - Rs 2.835 million

According to Section-8 of revised format for contract appointments circulated by Cabinet Secretariat (Establishment Division) OM No.F.10/52/95-R.2 dated 18.07.1996 all leaves at the credit of contract employee will lapse on the termination of the contract.

During audit of PSEB for the year 2021-22, it was noticed the management of PSEB paid an amount of Rs 2.835 million under the head of account of Leave Encashment at the rate of last basic salary drawn by the officer plus maximum entitlement of House Rent per month to the under mentioned contractual employees on the termination/expiry of contract.

S#	Name of employee	Designation	Amount (Rs)	Payment date
01	Muhammad Naveed	Assistant Admin Officer	40,987	27.04.18
02	Saif-ur-Rehman	Director Project	672,854	15.10.18
03	Ali Muhammad Awan	Accounts Asstt.	293,290	12.03.19
04	Tayyaba Ameer	Admin Asstt.	63,075	20.04.20
05	Abdul Khaliq	Driver	242,035	07.07.20
06	KhursheedBangash	Manager Admin & HR	818,041	26.03.21
07	HashimYasin	Asstt. Marking Officer	357,535	21.04.21

08	TehleelMumtaz	Executive Secretary	152,653	07.12.21
09	Maryum Khan	Marketing Officer	157,695	14.12.21
10	Tayyaba Ameer	Asstt Admin Officer	37,120	22.06.22
Total:-			2,835,285	

As per above referred letter of Establishment Division at the time of termination/expiry of contract the leave at the credit of above contractual employees was required to be treated as lapsed but the management paid encashment against credit balance of leave to the said employees which was a violation of directives issued by the Government and in disregard to standard terms and conditions of contract employment.

Audit is of the view that leave encashment amounting to Rs 2.835 million was paid in violation of directives of the Federal Government and was held irregular/unauthorized.

Matter was reported to the management through AIR. Management in its reply dated 08.11.2023 stated that all leave encashment was paid to PSEB employees as per rules and no violation was made. The auditors' stance by referring Establishment Division's rule is incorrect as PSEB being an autonomous body had its own service regulations and all the benefits paid to the employees were according to the law.

Reply is not tenable because the directives of Establishment Division are necessary to be observed.

DAC meeting was held on 23.01.2024 but the minutes of the meeting were awaited till finalization of this report.

Audit recommends to recover the amount from the concerned employees or person(s) held responsible for making such irregular/unauthorized payment. Further calculate the total amount paid under the head leave encashment since inception to date and recover the same.

Para-37 (PSEB-2021-22)

**11.1.4.14 Irregular/unauthorized payment of medical re-imburement -
Rs 1.090 million**

According to medical regulations of PSEB all employees shall be entitled to free medical facilities in respect of themselves and members of their families. For the purposes an entitled employee may utilize his/her reimbursement for medical consultations, purchase of medicines, dental and/or ocular treatment all types (optometry excluding optical frames), and hospitalization of self and/or dependents. Limits for reimbursement of medical expenses are defined as under:

S #	Designation	Entitlement of medical re-imburement per years
01	Managing Director/ Director	As per employment contract
02	Project Managers & Senior Project Managers.	60% of one month's pay
03	Project Coordinators, Project Officers, Administrative/Accounts Officer	80% of one month's pay or Rs 17,500 whichever is higher.
04	Secretarial, clerical and other support staff	One month's pay plus Rs 5,000

Regulations further state that the call for cost of medicines shall be supported by a prescription and a cash memo and presented on prescribed form. Any amount in balance in an employee's limit will be allowed to be carried forward to the succeeding years, and would be encashed on termination of the employment.

During the audit of Pakistan Software Export Board, Islamabad for the year 2021-22 it was noticed that the management of PSEB paid an amount of Rs 1.090 million under the head medical re-imburement to the under mentioned contractual employees on the termination/expiry of contract.

S#	Name of employee	Designation	Amount (Rs)	Payment date
01	Muhammad Naveed	Assistant Admin Officer	13,688	27.04.18
02	Ali Muhammad Awan	Accounts Asstt	177,876	12.03.19
03	Tayyaba Ameer	Admin Asstt	000,836	20.04.20
04	Hashim Yasin	Asstt. Marking Officer	460,840	21.04.21
05	Tehleel Mumtaz	Executive Secretary	044,315	07.12.21
06	Nasir Khan Afridi	Director Infrastructure	392,794	09.03.22
Total:-			1,090,349	

As per medical regulations of PSEB and Medical Attendance Rules, the claim for reimbursement should be supported by Voucher/non-availability certificate duly countersigned by the "Authorized Medical Attendant". The non-availability certificate had to be issued only when it was verified that the medicines prescribed were not available in the hospital/dispensary stock. But, the management of PSEB paid an amount of Rs 1.090 million under the head medical re-imburement to the employees without necessary supporting documents at the time of termination of their contracts.

Audit is of the view that as per PSEB Medical Regulations, all employees shall be entitled to free medical facilities in respect of themselves and members of their families. Hence payment of medical reimbursement amounting to Rs 1.090 million was paid in disregard to the fundamental rules and without supporting documents was held irregular/unauthorized.

Matter was reported to the management through AIR. Management in its reply dated 08.11.2023 stated that the medical re-imburement paid to highlighted employees was the medical balance which was paid as severance benefit to the employees who resigned/deceased. The medical attendance rule referred by the auditor was not applicable to PSEB as Autonomous body. PSEB had its independent rules.

Reply is not tenable because action of management was against the provisions of PSEB own regulations.

DAC meeting was held on 23.01.2024 but the minutes of the meeting were awaited till finalization of this report.

Audit recommends to recover the amount from the concerned employees and person(s) held responsible for making such irregular/unauthorized payment. Further calculate the total amount paid under the head medical re-imburement since inception to date and recover the same.

Para-38 (PSEB-2021-22)

11.1.4.15 Non-maintenance of data/record of export remittance made by member companies/call center/free lancers of PSEB

According to Section-III (24) of Memorandum of Association of Pakistan Software Export Board one of the objectives for which the company is established was to take all other action as may be required to promote the creation and growth of software development and export industry/business in Pakistan and to do all such other acts and things as may be considered incidental or conducive to the objectives or any of them.

During audit of PSEB for the year 2021-22, it was noticed that Pakistan Software Export Board (PSEB) is a government body, mandated to promote Pakistan's IT Industry in local and international market. As per record company, registered IT Companies, Call Centers and Free Lancers toward achievement of its objectives. The year wise number of member companies/call center and freelancer are given here under:

Years	Companies	Call Centres	Free Lancers	Total Members
2007-08	195	105		300

2008-09	283	213		496
2009-10	252	195		447
2010-11	112	197		309
2011-12	118	183		301
2012-13	101	158		259
2013-14	187	279		466
2014-15	150	205		355
2015-16	211	254		465
2016-17	244	200		444
2017-18	417	278		695
2018-19	491	331		822
2019-20	590	553		1143
2020-21	925	927		1852
2021-22	1423	744		2167
Total	5699	4822		10,521

In order to assess the promotion and growth of export industry/business in Pakistan, export remittance made by the member companies/call centers/ freelancers was enquired from the management during audit. In response, management provided data/figures which was shared by State Bank of Pakistan.

It is to mention here that SBP is maintaining data of export remittance at Pakistan level (Total IT & ITes companies existed in Pakistan) not particularly of PSEB member companies / call centers / freelancers. This showed that PSEB management was not maintaining its own record of export remittance made by member/registered companies/call center/free lancers. Thus the overall performance of PSEB with respect to promotion and growth of IT industry and business could not be assessed due to slackness and poor financial management. Matter was reported to the notice of the management through AIR but no reply was received.

DAC meeting was held on 23.01.2024 but the minutes of the meeting were awaited till finalization of this report.

Audit recommends to explain the reasons for not maintaining separate data of export remittance made by PSEB member/registered companies/call center/free lancers. Further proper record of above `mentioned period may be maintained and shared with audit to assess the performance of the company.

Para-39 (PSEB-2021-22)

11.1.4.16 Non observance of approved standard format and non-approval of service rules from government

According to Establishment Division letter dated November 2, 2021 an autonomous body soon after its establishment, it is mandatory to frame service rules in order to run the organization in a legit manner. To facilitate and standardize the procedure Establishment Division has developed a standard format of service rules for guidance of the management for implementation in respective autonomous bodies. Apart from standard format guidance may also be sought from Estacode and other relevant compilations of rules issued by Establishment Division/Cabinet Division /Finance Division etc.

Furthermore, all autonomous Bodies /Corporations/ Organizations etc. need to submit their draft rules for approval to the competent authority as specified in their respective Act/Ordinance. However, these service rules are required to be submitted to Establishment Division for vetting/concurrence.

During the audit of accounts of Pakistan Software Export Board, Islamabad for the year 2021-22 it was noticed that the Secretary, IT& Telecom Division granted approval of Service Regulation of PSEB vide letter dated October 27,2000. Later on Ministry vide their letter dated February 2, 2010 forwarded service rules to Establishment Division for concurrence. The Establishment Division vide their letter dated January 25, 2010 informed that the service rules of PSEB do not require their concurrence.

It is worth mentioning here that company had been running their HR matter on draft and un approved rules despite lapse of more than 20 years.

Establishment Division in its letter dated November 2, 2021 strictly instructed to all autonomous Bodies /Corporations/ Organizations to frame service rules on standard format duly vetted and approved from Establishment Division.

It was observed that management failed to approve their service rules from Establishment Division. Thus, the payment of pay and allowance and other HR related expenditure were held irregular in Audit. The inefficiency on the part of management caused hindrance in the smooth affairs of the organization.

Matter was reported to the management through AIR. Management in its reply dated 08.11.2023 stated that the first service rules of PSEB were duly approved by the BOD in its 2nd meeting held on September 18, 1999. The new service rules were in process of approval.

Reply is not tenable because no approval was granted for service rules in 2nd meeting of BOD and no progress of new service rules was shown from the documents provided by the management.

DAC meeting was held on 23.01.2024 but the minutes of the meeting were awaited till finalization of this report.

Audit recommends to matter needs to be investigated at appropriate level. Service rules be framed as per standard format and vetted from Establishment Division.

Para-41 (PSEB-2021-22)

11.1.4.17 Unauthorized change/replacement of trainers for execution of project

According to Para-9.1 of Request for Proposal (RFP) for IT Industry Academia Bridge Program regarding Mandatory Technical evaluation criteria vide Sr. No.7 vendor has to provide details minimum number of technical professionals available to execute trainings under this project i.e. 30 trainers against each lot on a template annexed to the RFP. The minimum qualification and experience criteria for the trainers was as follows:

16 years of education with bachelor's degree from HEC recognized local university or international university in IT/Computer Science/Software Engineering and relevant programs

Minimum three (03) years' experience in developing software, IT system architect, IT system design, Software development consultancy, software quality assurance, software business analysis, web development, cloud architect, cloud platform architect, database design, database architect, database design consultancy preferably, but not limited to the technologies listed under clause # 3.1.

During audit of PSEB Islamabad for the year 2021-22, it was noticed that for the execution of Lot#2 of IT Industry Academia Bridge Programme in the Northern Region i.e. Rawalpindi, Islamabad and Peshawar, Tender No. A (01)/PSEB/2022-12 with closing dated February 23, 2022 was floated in the Newspaper on 06.02.2022. Two Consortiums led by M/s. PTCL and PDL participated in the bidding process. M/s. PTCL was technically disqualified and M/s. PDL (Pak Datacom Limited Technically qualified by the Technical Evaluation Committee and afterwards contract was awarded to the said firm.

It was observed that against S # 7 of Mandatory Criteria M/s. PDL submitted details as per annexure to the RFP. In detail, 189 profiles of the trainers were attached out of which 97 HR were the members of the companies. The Technical Evaluation Committee evaluated the trainers/ candidates in light of above said qualification and experience and approved the trainers.

After signing of agreement on 26.04.2022, M/s Pak Datacom Limited requested the management of (Chief Industrial Development Officer), PSEB to change the training resource as mentioned in the technical proposal submitted to PSEB's project "IT Industry Academia Bridge Program" vide letter # PSEB-220503 dated 10.05.2022. The CIDO of PSEB accepted the request and out of 62 approved trainers, 57 Trainers were changed/replaced vide letter dated 12.05.2022. It is to mention here that for change of trainers, no provision existed in the signed agreement.

Audit is of the view that change of trainers without approval of technical evaluation committee in violation of contractual obligation was irregular and tantamount to undue favour extended to the selected person on the public exchequer.

DAC meeting was held on 23.01.2024 but the minutes of the meeting were awaited till finalization of this report.

Audit recommends justifying the change of trainers without approval of technical evaluation committee in violation of contractual obligation. Further, payment made to the changed/replaced trainers may be shared with audit.

Para-32 (PSEB-2021-22)

Chapter-12

Ministry of Interior

Overview

Interior Ministry is responsible for policing, emergency management, national security, registration, supervision of local governments, conduct of elections, public administration and immigration matters.

Aims & Objectives

To make Islamic Republic of Pakistan a country where rule of law reigns supreme; where every Pakistani feels secure to lead a life in conformity with his religious beliefs, culture, heritage and customs; where a Pakistani from any group, sect or province respects the culture, tradition and faith of the other, where every foreign visitor feels welcome and secure.

Polices

- National Internal Security Policy 2018-2023
- SOPs 2017
- Government Procedures 2017
- Rules of Business
- Visa Policy General
- Visa Abolition Agreements
- Visa Policy For Indian Nationals
- Private Security Companies
- Updated Arms Policy 2012

Audit Profile of Ministry of Interior

(Rs in million)

S. No.	Description	Total	Audited	Expenditure audited FY 2022-23-22	Revenue /Receipts audited FY 2022-23
1	Formations	2	2	9,894.364	393.074
2	Assignment Accounts (excluding FAP)	-	-	-	-
3	Authorities /Autonomous Bodies etc. under the PAO	1	-	-	-
4	Foreign Aided Projects (FAP)	1	1	1,362.458	-

Classified Summary of Audit Observations

Audit observations amounting to Rs 55,891.536 million were raised as a result of this audit. This amount also includes recoverable of Rs 368.194 million as pointed out by the audit. Summary of the audit observation classified by nature is as under:

Overview of the Audit Observations

Sr. No.	Classification	Amount (Rs in million)
1	Non-Production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities:	
A	HR/Employees related irregularities	232.490
B	Procurement related irregularities	1,016.396
C	Management of accounts with Commercial Banks	5,772.016
4	Value for money and services delivery issues	1,273.781
5	Others	47,596.853

12.1 National Database and Registration Authority (NADRA)

12.1.1 Introduction

National Database and Registration Authority (NADRA) was established on March 10, 2000 by the Government of Pakistan under the National Database and Registration Authority Ordinance 2000 by merging the National Database Organization (NDO) and the Directorate General of Registration (DGR). The principal office of the Authority is situated at Islamabad. The purpose and object of the Authority is to formulate and implement policies and plans for:

- (i) The development and establishment of an improved and modernized system of registration in the Country;
- (ii) The broadening of the registration base to bring within its purview all persons and things, wherever they may be to the extent and in the manner laid down in the Ordinance; and
- (iii) The establishment and maintenance of multi-purpose databases, warehousing, networking, interfacing of databases and related facilities and services.

12.1.2 Comments on Audited Accounts

12.1.2.1 The annual audited accounts are required to be provided to Audit for review each year. Contrary to this, the management failed to provide audited annual accounts of the organization for the years 2022-23 till December 31, 2023.

Audit recommends that the annual audited accounts of 2022-23 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*refer Annex-2*).

12.1.2.2 Working results of the NADRA for the years 2021-22 with those of the previous years are as under:

(Rs in million)

Particulars	2021-22	% Inc/ (Dec)	2020-21	% Inc/ (Dec)	2019-20
Turnover-net	40,340.494	38.95%	29,032.305	33%	21,867.31
Operating Expenditure	(25,590.971)	22.36%	(20,915.160)	-209%	-19,177.93
Operating Income	14,749.524	81.71%	8,117.145	202%	2,689.380
Finance Cost	(359.657)	5.43%	(341.125)	-214%	(299.63)
Other Income	2,529.321	62.07%	1,560.674	-7%	1,685.53
impairment loss on trade receivables	(163.688)	-79.10%	(783.305)		0.00
Net income before tax	16,755.500	95.89%	8,553.389	110%	4,075.282
Taxation	(854.892)	119.35%	(389.746)	-222%	(318.18)
Net income for the year	15,900.607	94.77%	8,163.643	117%	3,757.102
Actuarial gain/(loss) – Gratuity	67.029	-169.55%	(96.375)	-159%	164.38
Actuarial (loss) – Pension	(4,247.575)	442.77%	(782.574)	-53%	(1,675.42)
Total comprehensive income for the year	11,720.061	60.89%	7,284.694	-582%	2,246.062

(Source: Annual Audited Accounts for the financial year ended 30th June 2022)

In 2021-22, revenue growth stood at 39%, with operations revenues increasing from 24,685.603 million to 34,766.606 million. This was driven by a substantial rise in local operations (19,671.647 to 27,529.111) and increased international business (5,013.956 million to 7,237.495 million). Project revenue also grew positively from 4,346.701 million to 5,573.887 million, with local project revenue increasing from 3,544.745 million to 4,090.560 million and foreign project revenue rising from 801.955 million to 1,483.326 million. However, details of the factors leading to increase in revenues (Price increases in the year, revenue from new projects etc.) that contributed to the growth needs to be provided to audit. Income vouchers may also be provided on sample basis.

12.1.2.3 Operating expenditure increased by 22.36% in 2021-22. Abnormal increases in the following heads be justified:

	2021-22	2020-21	% Inc/ (Dec)
Printing	83,915,451	37,955,836	121.09%
Postage & courier	1,705,808,944	746,161,545	128.61%
Security charges	201,675,015	151,501,212	33.12%
license fee	36,122,610	4,809,372	651.09%

12.1.2.4 As per Note 08 to the financial statements, NADRA has a wholly owned subsidiary called National Technologies Limited (NTL). NADRA financial statements only shows investment of 25 million, whereas International Financial Reporting Standard 10 “Consolidated Financial Statements” which outlines the requirements for the preparation and presentation of consolidated financial statements, requires entities to consolidate entities it controls. The management should make necessary amendments or provide consolidated financial statements to audit.

12.1.2.5 The entity's payables have increased from 1,457.728 million to 2,124.198 million, reflecting a 46% growth. These payables are predominantly owed for services provided to various Provincial or Federal organizations such as NHA, Ministry of Interior, and the Government of Punjab. Audit requires the provision of contracts with these organizations to ascertain the duration for which NADRA can retain the funds collected on their behalf and to gather information about their utilization (e.g. earning interest).

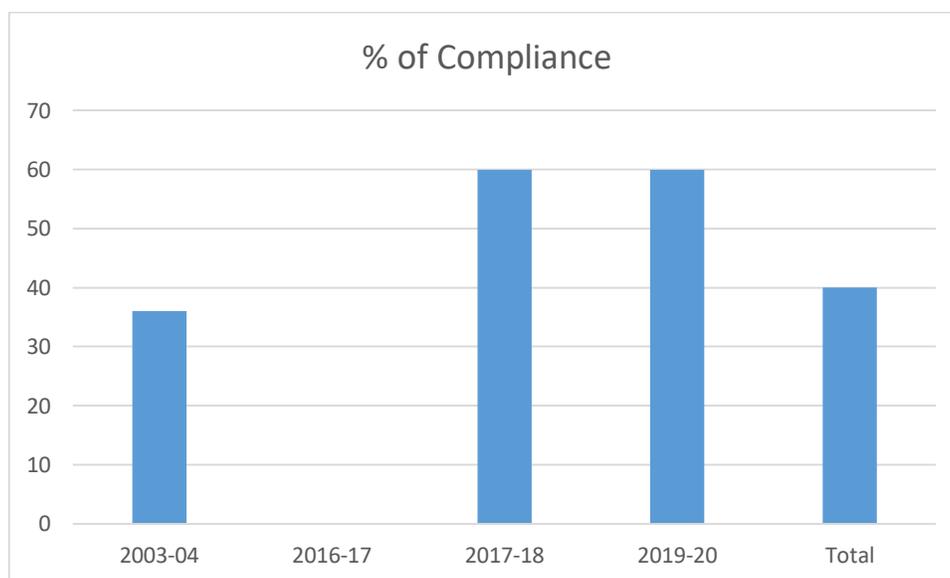
12.1.2.6 The profit and loss statement contains impairment loss on trade receivables amounting to Rs 163.688 million. The basis of creating the impairment allowance is not clear. Workings on which the figure has been arrived may be shared with audit.

12.1.2.7 The balance sheet shows Right-of-Use (ROU) assets at Rs 3,271.817 million. However, there's a lack of disclosures in line with IFRS 16. Key details such as how liquidity risk is managed, income from sub-leasing, and the nature of leasing activities need to be included for compliance and a more transparent audit.

12.1.2.8 NADRA provides bridge finance facility to run FATA-TDP ERP project. The management needs to provide evidence of directives from any competent authority which allows the bridge facility for the project. This is significant, especially in connection with the receivable of Rs 56.839 million, as indicated in Note 14.4.1.

12.1.3 Compliance of PAC Directives

Sr. No.	Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras #	% of Compliance
1	2003-04	75	27	48	11.3, 11.4, 11.5,11.6, 11.8, 11.13, 11.14, 11.15, 11.16, 11.22, 11.24, 11.25, 11.11, 11.12, 11.23, 11.25,11.26, 11.27, 11.28, 11.29, 11.30, 11.32, 11.35, 11.37, 11.44, 11.45, 11.48, 11.36, 11.38, 11.39, 11.40, 11.42, 11.54, 11.57, 11.71, 11.75, 11.46, 11.50, 11.51, 11.53, 11.54, 11.55,11.59, 11.61, 11.65, 11.67, 11.68, 11.69	36
2	2016-17	04	0	04	10.1.4.2, 10.1.4.3, 10.1.4.6, 10.1.4.7,	0
3	2017-18	10	06	04	13.1.1, 13.1.3, 13.1.4.2, 13.1.4.5, 13.1.4.8,	60
4	2019-20	15	9	6	9.1.2.3, 9.1.2.4, 9.1.3, 9.1.4.2, 9.1.4.3, 9.1.4.4,	60
	Total	104	42	62		40



The overall compliance of PAC directives was very poor. Immediate attention of the PAO was required to improve the situation.

12.1.4 Audit Paras

12.1.4.1 Irregular transfer of ARM license fee in Commercial bank (HBL) instead of Govt. Treasury worth - Rs 351.289 million

According to GFR, (Vol-1) Chapter 01 sub-clause 02-VIII Federal Consolidated Fund Public Account. 1. All revenues received by the Federal Government, all loans raised by that Government and all money received by it in repayment of any loan shall be from part of a consolidated fund to be known as the Federal Consolidated Fund. Further, as per section V, rule 7 of Treasury rules Vol-1 all moneys received by or tendered to Government officers on account of the revenues of the Federal Government shall without undue delay be paid in full into a treasury or into the Bank, and shall be included in the Federal Consolidated Fund of the Federal Government. Moneys received as aforesaid shall not be appropriated to meet departmental expenditure, nor otherwise kept apart from the Federal Consolidated Fund of the Federal Government. No department of the Government may require that any moneys received by it on account of the revenues of the Federal Government be kept out of the Federal Consolidated Fund of the Federal Government.

During audit of National Database and Registration Authority (NADRA) for the year 2022-23, it was observed from the record that the management of NADRA collected Rs 351.289 million on account of Arm License Fee on behalf of Federal Government and retained in its commercial bank account maintained in Habib Bank Limited (HBL). The said amount was deposited into Government Treasury after a gap of 15 to 30 days which was violation of rules.

Audit is of the view that retention of public money in a private commercial bank was violation of financial as well as treasury rules. The authority should remit said amount in Federal Treasury or in State Bank of Pakistan / National Bank of Pakistan within 24 hours of its receipts.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends justifying the reasons for retention of public money in commercial bank and taking appropriate step for immediate transfer of public money into Government Treasury.

Para-1 (NADRA-2022-23)

12.1.4.2 Unjustified change in specifications of items on suppliers' request after purchase order - Rs 787.497 million

According to rule 31 (1) of Public Procurement Rules, no bidder shall be allowed to alter or modify his bid after the bids have been opened. However, the procuring agency may seek and accept clarifications to the bid that do not change the substance of the bid. According to the bidding documents, specifications for lot-1, Computer Desktop with Monitor will be mid tower casing, Intel Core i7 (9th Generation or above), 8GB DDR4 memory having storage of 3.5" 500 GB SSD HDD, Display 221" FHD and Operating system: pre-installed windows 10.

During audit of NADRA for the year 2022-23, it was observed that NADRA floated a tender in newspaper on 17th and 20th October for purchase of different items in multiple lots. Lot 01 was for purchase

of 2500 Computer Desktops with Monitors. Two bidders i.e. M/s Premier Systems and M/s Megaplus participated and both were found technically qualified. M/s Premier Systems won the financial bid which was opened on 15th December 2022. Purchase order was issued to M/s Premier Systems on 3rd February 2023. After the issuance of purchase order, the vendor requested for a change in specifications (from Dell Optiplex 5000 Tower to Dell Optiplex 7010 Tower) of the Computer Systems. The same was approved by NADRA management. Following points were observed by Audit:

- i. Change in specifications after issuance of purchase order was irregular. Change in specification at belated stage was undue favor to a particular firm which raised question on transparency in the whole process of procurement.
- ii. It was the supplier's responsibility to produce the same product for which purchase order was issued.
- iii. NADRA management did not insist for supply of same items as was committed and ordered. Further, no action was taken for the purchase of same product at supplier's risk and cost.
- iv. Delivery period was 16-18 weeks, but the relevant produced was silent about actual delivery dates and imposition of any penalty in case of late delivery.

Audit is of the view that NADRA management did not comply with procurement regulations and modified the bids after the award of the contract which was irregular. Thus, NADRA entered into irregular procurement with M/s Premier System for Computers systems worth Rs 787.497 million.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter and fixing responsibility on the person(s) at fault to avoid such instances in future.

Para-26 (NADRA-2022-23)

12.1.4.3 Non cancellation of expired arm licenses and loss to the Govt. due to non-renewal of arm licenses - Rs 300.00 million (Approx.)

According to clause 16 of Arm License Policy 2012, the license may be renewed after twelve months but before the lapse of two years of the date of expiry thereof under the orders of the licensing authority on the payment of fee. Further, if a license is not renewed within specified period, the license shall, on the expiry of the said period, stand cancelled.

During the audit of NADRA for the year 2022-23, it was observed from the record that approximately 60,000 arms licenses issued by the Federal Government were expired. Further, scrutiny of the record revealed that neither the holders of these licenses had contacted for their renewal nor were these canceled by the Authority. Due to non-renewal of these licenses, Federal Government was deprived from the potential revenue of approximately Rs 300 million.

Audit is of the view that competent authority should have taken appropriate action against defaulters who failed to renew their arms license by way of imposing penalties or cancellation of licenses.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends justifying the reasons for non-cancellation of expired license and matter should be taken up at appropriate level regarding cancellation of licenses or penalizing the holders of these licensees.

Para-17 (NADRA-2022-23)

12.1.4.4 Non-recovery of long outstanding amount from Punjab Information Technology Board (PITB) - Rs 207.864 million

According to clause 5.1 (c) of the contract agreement signed between NADRA and PITB regarding provision of Biometric verification services. The client (PITB) shall pay the invoices due to NADRA within thirty days (plus 10 days' grace period) from the date of issuance of invoices. Further, as per clause 5.2 of said agreement, in case of delay in payment of beyond 30 days, the client shall be liable to pay late payment charges at the rate of 3% per month on any undisputed amount remaining unpaid. If the amount remained unpaid beyond 51 calendar days, NADRA shall become entitled to suspend or terminate Biometric verification services with immediate effect.

During audit of NADRA for the year 2022-23, it was observed that PITB management failed to pay an amount of Rs 207.864 million to NADRA on account of biometric verification services rendered by NADRA to PITB. Aging analysis of said amount revealed that the amount was outstanding since long.

Audit is of the view that no serious efforts were made by the NADRA management to recover long outstanding amount from PITB.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends justifying the position regarding non recovery of long outstanding amount from PITB and the matter regarding early recovery of NADRA's dues should be taken up at higher level.

Para-4 (NADRA-2022-23)

12.1.4.5 Expenditure on non-budgeted items - Rs 185.054 million

According to Section 26 of Chapter 08 (funds, accounts and audit) of NADRA Ordinance 2000, "Budget" (1) "The authority shall, in respect of each financial year, submit for the approval of Federal Government by such date and in such form as may be specified by the Federal government a statement showing the estimated receipts and current and development expenditure and the sums which are likely to be required from the Federal government during the next financial year." As per rule Standards of Financial Propriety (10) Every officer incurring or authorizing expenditure from public funds should be guided by high standards of financial propriety. Among the principles on which emphasis is generally laid are (i) Every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

During audit of the National Database and Registration Authority (NADRA) for the year 2022-23, it was observed that NADRA incurred expenditure on buildings and machinery & equipment amounting to Rs 185.055 million in the absence of budget/approved budget. Audit noted that the same items were not budgeted in the financial year 2022-23 and upon comparison with draft financial statements for 2022-23, actual expenditure of Rs 185.054 million was pointed out. Calculations are as under:

Summary of amount spent without budget				
S#	Item	Budget (Rs)	Expenditure (Rs)	Over Spent amount (Rs)

01	Buildings	0.00	74,108,482	74,108,482
02	Machinery & Equipment	0.00	110,946,512	110,946,512
	Total			185,054,994

Audit is of the view that expenditure in the absence of budget provision was non-compliance of the NADRA Ordinance. Hence, the amount of Rs 185.054 million spent for the above items without any budget was held irregular.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends explaining the reasons for incurring expenditure without budget provision and fixing responsibility thereof.

Para 33 (NADRA-2022-23)

12.1.4.6 Irregular procurement of common use items by splitting – Rs 170.658 million

According to rule 9 of PPRA, a procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly without any splitting or regrouping of the procurements so planned. The annual requirements thus determined would be advertised in advance on the Authority's website as well as on the website of the procuring agency in case the procuring agency has its own website. According to rule-12 (2) of PPRA, all procurement opportunities over two million Pakistani Rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

During the audit of NADRA for the year 2022-23, it was observed that the management issued a number of purchase orders amounting to Rs 89.661 million after regular short intervals for the purchase of different common use items. These items were procured from different suppliers by splitting the requirement as given below:

Type	Amount (Rs)
Electronic Equipment	7,217,629
General Equipment	6,135,910
IT Equipment	39,927,040
Misc. Items	3,788,473
Office Equipment	29,778,159
Stationery	2,864,276
Total	89,661,762

It was further observed that splitting of procurement amounting to Rs 80.977 million was also done in other items as detailed below:

Type	Amount (Rs)
Construction	8,656,367
Furniture	18,968,211
Motorbikes	1,542,100
Repair and renovation works	37,230,319
Rolls	496,000
Services	6,564,507
Vehicle parts	7,519,566
Total	80,977,070

Audit is of the view that the management was required to assess the requirement of said common-use items at the start of year as part of the annual procurement plan by adhering to the Public Procurement Rule for transparency and economy. Hence, the procurement of various items valuing Rs 170.658 million in violation of purchase procedure was considered irregular.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the splitting of purchase orders in violation of public procurement rules and fixing responsibility thereof.

Para-8 & 13 (NADRA-2022-23)

12.1.4.7 Non-recovery of long outstanding amount from Federal Board of Revenue (FBR) – Rs 64.479 million

According to clause 6 (1)(J) of contract agreement signed between NADRA and FBR regarding provision of three verification services namely Web Based XML (with Data) Services-1, Web Based XML No Data Services and Family Details service. The client (FBR) shall pay the invoices due to NADRA within thirty days from the date of issuance of invoices. Further, as per clause 6.2 of said agreement, in case of delay in payment of beyond 30 days, the client shall be liable to pay late payment charges at the rate of 3% per month on any undisputed amount remaining unpaid. If the amount remained unpaid beyond 51 calendar days, NADRA shall become entitled to suspend or terminate Biometric verification services with immediate effect.

During the audit of NADRA for the year 2022-23, it was observed that FBR management had to pay an amount of Rs 64.479 million to NADRA on account of services rendered by NADRA to FBR. Aging analysis of said amount revealed that with the passage of time, the amount was increasing. At the start of financial year 2022-23 the outstanding amount was Rs 39.088 million. However, at year end i.e. June 2023 it jumped to Rs 64.479 million.

Audit observed that NADRA management did not make significant efforts to recover outstanding dues and despite failure to pay dues by FBR, NADRA continued to provide services to FBR without interruption.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends justifying the position regarding non recovery of long outstanding dues from FBR besides taking up the matter at higher level for early recovery of NADRA's dues.

Para-3 (NADRA-2022-23)

12.1.4.8 Unjustified Payment of salary to un-identified employees - Rs 38.782 million

According to clause 11 (C) (iv) (6) of operation manual of the project, NADRA's FM Team will manage financing of entire TA Component-3 of the project. Team comprises of three or four staff headed by Director Finance responsible for managing entire financials as well as reporting with the World Bank and NADRA. Further, staffing requirement was envisaged in a table attached in annexure 4 of project appraisal document (PAD) regarding implementation support program.

During audit of NADRA for the year 2022-23, the record of a project executed by NADRA in ex-FATA districts revealed that management charged salaries of employees working in Citizen Facilitation Centers (CFCs) of the project. The salary sheets showed payment of Rs 38.782 million to 180 employees of CFCs. No further detail about their designations, place of posting, date of appointment, CNIC No. ERP #. date of joining and qualification etc. was available with salary sheets. Hence, no conclusion could be drawn regarding these employees. Most of the salary of these employees was paid during July 2022 to January 2023 and later on discontinued which showed that these employees might be terminated from service.

The activity flow chart approved in operation manual and other official documents revealed that staff requirement had already been met, hence there was no justification of such staff and payment/charging of salary for these staff created doubt about their existence.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter of hiring of staff and subsequent discontinuation of their services with full facts and figures and Job descriptions besides providing the recruitment and personal record of these staff to Audit.

Para-25 (NADRA-2022-23)

12.1.4.9 Irregular appointment of staff without observing prescribed qualification - Rs 38.406 million

According to clause 10 of the recruitment and selection policy of the NADRA the minimum prescribed qualification for the post of Dy. Director, Director and Director General of NADRA. The Dy. Director in NADRA scale of O-8/T-8, Director in O/T-9 and Director General, O/T-10 must have Relevant Sixteen Years Education with 07 to 25 Years of experience.

During the audit of NADRA for the year 2022-23, it was observed (on sample basis) that management hired the services of 59 employees in violation of minimum prescribed qualification required for induction in NADRA. As per NADRA recruitment policy, minimum sixteen years' education was required for induction in NADRA from Dy. Assistant Director & above but these 59 employees possessed graduation or below qualification which was held irregular. Thus, payment of salary to these employees to the tune of Rs 38.406 million was held irregular.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigate the hiring of staff without observing minimum qualification requirement and fixing responsibility besides providing complete detail of payment of salaries & other benefits made to these staff.

Para 44 (NADRA-2022-23)

12.1.4.10 Irregular appointment due to unjustified favor granted to the employees - Rs 32.160 million

According to regulation 11(1) part II chapter 2 of the service regulations, 'initial appointment to post BS-17 or equivalent 'O' or 'T' pay scale, and above shall be made by the appointing authority on the recommendation of board. As per regulation 09 of NADRA services regulations, appointing authority of BS-19-20 and equivalent is "authority". As per NADRA's recruitment policy minimum 15 to 25 years' experience is required for appointment in O & T -10 grades.

During audit of NADRA for the year 2022-23, it was observed that management hired the services of Mr. Tanveer Abbas as Management Associate without having a post in approved organogram of NADRA, Management floated a tailor made advertisement in newspaper. Qualification requirement was also changed through corrigendum to enable a graduate to apply against the post. Further, maximum age was fixed as 55 years and only three years desired experience was mentioned. Immediately after the selection, the officer was granted the charge of Director (EMD), while he was not appointed against said post. Further, his salary was fixed at Rs 268,400 per month but was enhanced to Rs 384,000 within six months in November 2021 exceeding the contractual 10% annual increase limit. Currently, the officer was granted acting charge of DG RHO Multan. His monthly salary was Rs 480,000 (approx.), thus payment of Rs 5.760 million (Rs 480,000*12 months) was considered as irregular.

Similarly, the services of Brig. (R) Abdul Rehman were hired as Chief Human Resources Officer (CHRO) at monthly salary of Rs 427,097 despite lacking the relevant qualification. Further, the management overlooked its own policies by requiring only 8 years of experience in the advertisement.

There was no evidence of the creation of the CHRO position. It was also observed that the posts of CHRO and DG (HR) were of same nature and grade (O/T-10). Further, the appointment was also approved by the chairman instead of 'Authority' (Board of Directors). The officer was drawing salary of Rs 2.200 million per month. Thus, appointment of officer as CHRO and payment of salary of Rs 26.400 million (2,200,000*12) was considered as irregular and unjustified.

Audit is of the view that management granted undue favor to the officers by hiring them in non-transparent manner hence the appointment and payment of salary Rs 32.160 million (Rs 5.760 million + Rs 26.400 million) to the officers was irregular.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter of hiring of officers in non-transparent manner without vacancy position, justifying the position regarding fixation of higher salary and increment over and above the contract terms and fixing the responsibility.

Para 43 (NADRA-2022-23)

12.1.4.11 Non recovery of amount due from Home Department Sindh - Rs 30.918 million

According to clause 19.1.1 of the contract agreement signed between the NADRA and Home Department Govt. of Sindh for Computerized Arms License Issuance Management System (CALMIS) total cost of the project was Rs 290.048 million (which was later on reduced to Rs 259.048 million vide addendum – I of the project. Further as per clause 19.1.7 the amount of project was payable by the Home Department GoS in four installments.

During the audit of NADRA for the year 2022-23, it was observed that management of NADRA being consultant in Computerized Arm License Management Information System (CALMIS) of Government of Sindh discharged its responsibilities within agreed time period and handed over the project to Home Department Government of Sindh. However, Home Department, Government of Sindh failed to clear pending amount of Rs 30.918 million to NADRA. The said agreement was silent regarding imposition of any penalty in case of default in discharge of any responsibility by either party.

Audit is of the view that management failed to recover the pending amount from Govt. of Sindh (Home Department).

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends justifying the reasons for non-collection of amount from Home Department, Government of Sindh and taking up the matter at higher level for early recovery of pending dues.

Para-2 (NADRA-2022-23)

12.1.4.12 Irregular award of work of officers' mess - Rs 27.095 million

According to clause 3 of Public procurement regulations 2008, a Procuring agency when engaged in procurement of works, shall use the standard form of bidding documents prescribed by the Pakistan

Engineering Council constituted under the Pakistan Engineering Council Act, 1975 (V of 1976). Further, as per clause 10.1 of standard forms of bidding documents 2007 (for smaller work) issued by the PEC, the bidder shall fill up the Schedule of Prices (Schedule A to Bid) indicating the unit rates and prices of the Works to be performed under the Contract. Prices in the Schedule of Prices shall be entered keeping in view the instructions contained in the Preamble to Schedule of Prices.

During audit of NADRA for the year 2022-23, it was observed that management floated a tender for shifting and establishment of officers' mess in NADRA HQ Islamabad. In response, five bidders participated and contract was awarded to M/s Frontier Works Promoters. In this regard, following irregularities were observed:

- i. Standard bidding documents approved by the PEC were not used as required under rules.
- ii. Bidding documents prepared by NADRA were ambiguous and were not cleared, as there was no option of quoting unit price of each item of work. Thus unit rate remained unattended.
- iii. In NADRA's bidding documents, two type of evaluation criteria were mentioned under clause 30 and 31. In clause 30, minimum eligibility criteria were given without any number of each condition mentioned thereupon.
- iv. The amounts quoted by the bidders were differing from the amounts mentioned in comparative statement of both bidders.

Audit is of the view that management granted undue favor to the bidder of its own choice by not using standard bidding documents in bidding process and non-mentioning evaluation marks of criteria mentioned under clause 30 of bidding documents.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to investigating the matter and fixing responsibility.

Para-19 (NADRA-2022-23)

12.1.4.13 Unjustified Favor granted to supplier due to faulty procurement process and non-obtaining of performance guarantee - Rs 21.179 million

According to PPRA S.R.O. No. 370(I)/2022 dated 25.02.2022, the procuring agencies shall use the National Standard Procurement Documents (available at PPRA's website) for national and international competitive bidding, as amended on 30th June of each Financial Year considering regularly experience feedback based on monitoring the procurement practices. As per clause 10 of standard bidding documents the performance security (of Guarantee) shall be provided to the procuring agency no later than the date specified in the letter of acceptance.

During audit of NADRA for the year 2022-23, it was observed that management floated a tender for procurement of 50 DVBRCS/VSAT Remote Terminals. M/s Supernet was declared successful bidder and a purchase order dated 20.09.2023 was issued with a delivery period of 8-10 weeks. However, the bidder failed to provide relevant goods even after the lapse of more than one year. The record revealed that

the procurement process was faulty and the bidder might not be forced to complete work order. Following discrepancies were observed in bidding process;

- a. Standard bidding form was not used by the NADRA as required under PPRA.
- b. Performance security clause was not included in bidding documents used by NADRA.
- c. Purchase order was issued on 20.09.2022 without ensuring submission of performance guarantee.
- d. The bid was valid for 90 days from the date of opening of tender (i.e. June 09, 2022). However, purchase order was issued on September 20, 2022 after 11 days of expiry of bid / price validity period. Thus the case of NADRA against the bidder was on weak grounds.
- e. Risk and cost clause was not inserted in purchase order / bidding documents.
- f. LD was not imposed on the bidder despite of his failure.
- g. The bid money had not been forfeited till December 2023. The amount of bid money was not sufficient to cover the loss sustained by NADRA.

Audit is of the view that due to faulty procurement process, the bidder could not be forced for execution and completion of contract and NADRA would suffer heavy loss due to exchange rate fluctuation. Forfeiting bid money would not compensate the heavy cost of future procurement.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to explain the reasons for non-using of standard bidding documents in procurement process, non-imposition of penalty and non-forfeiture of bid money till date. Justify the position regarding non-inclusion of risk and cost clause and non-obtaining of performance guarantee from successful bidder. Investigate the matter of delay in issuance of purchase order after expiry of bid validity period. Intimate the exact amount incurred on procurement of said items / goods.

Para-6 (NADRA-2022-23)

12.1.4.14 Irregular promotion of an officer and wrong fixation of Salary - Rs 19.200 million

As per regulations 21-A, 'the authority may promote an employee to the next higher scale or post based on such criteria and in accordance with such procedure as may be laid down by the authority from time to time in promotion policy. Further, as per regulation 21-B, 'the authority may as a special case and for reasons to be recorded in writing, promote an employee holding a technical / professional post or increase in salary, emolument, benefits etc. of his existing posts by placing the same in a higher pay scale or otherwise. A special assessment report will be drawn, countersigned and submitted to the authority in respect of employee for assistance in consideration of a special case under this regulation.

During the audit of NADRA for the year 2022-23 it was observed that Ms. Reema Aftab was appointed as Dy. Chief Commercial officer in NADRA T-9 Scales in NADRA Technologies Limited (NTL). The officer requested for promotion in next grade and the Chairman, NADRA granted her promotion in next scale. In this regard, following irregularities were observed:

1. The promotion was granted without Annual Assessment Report (AAR) and Special Assessment Report (SAR). These reports were mandatory for promotion in next scale.
2. There were only five AARs for the year 2010, 2011, 2012, 2014, 2015, 2016 and 2017 but the AARs of remaining years were not found in relevant file.
3. Promotion was made without any vacancy.
4. The officer was appointed on the basis of MBA degree obtained from 'Preston University' Islamabad but the same was not recognized by the HEC as disclosed in its letter dated October 04, 2017.
5. The officer was appointed in NTL but her promotion and posting was made by NADRA on NADRA pay scales and promotion was also approved by the Chairman, NADRA.
6. The pay of officer was re-fixation at exorbitant rate from Rs 365,000 to Rs 565,000 per month plus other usual allowances. Currently, officer was drawing salary @ Rs 1,600,000 per months (approx.). Thus, payment of salary from July 2022 to June 2023 to the incumbent of Rs 19.200 million (Rs 1,600,000 x 12) approx. was considered as irregular.

Thus, officer was granted undue favor by promoting her without considering any AAR or SAR for promotion without any vacancy and increasing salary at exorbitant rates without observing due process, which was held irregular. Further, she possessed MBA degree from an institute not recognized by the HEC.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to investigate the matter and fix responsibility.

Para 39 (NADRA-2022-23)

12.1.4.15 Irregularities in promotion and fixation of salary of an officer- Rs 18.00 million

According to regulations 21-A, 'the authority may promote an employee to the next higher scale or post based on such criteria and in accordance with such procedure as may be laid down by the authority from time to time in promotion policy. Further, as per regulation 21-B, 'the authority may as a special case and for reasons to be recorded in writing, promote an employee holding a technical / professional post or increase in salary, emolument, benefits etc. of his existing posts by placing the same in a higher pay scale or otherwise. A special assessment report will be drawn, countersigned and submitted to the authority in respect of employee for assistance in consideration of a special case under these regulations'. Chapter-6 regulation 44, required that pay at initial appointment of a persons to a post shall fixed at the minimum of the pay scale.

During audit of NADRA for the year 2022-23 it was observed that Mr. Saif ur Rehman Abbasi was promoted in T-9 Scales of NADRA. The record revealed that his promotion was made without existence of any vacancy and without determination of sanctioned strength at the time of promotion. The officer was granted exorbitant increase in salary and was fixed at Rs 377,000 per month plus other usual allowances. Currently, the officer was drawing his gross salary @ 1,500,000 per month (approx.). Furthermore, said officer was appointed as Assistant Manager in O-7 grades, however, at the time of his promotion as Deputy Manager (HR) in O-7 grade, his grade was changed from O-7 to T-8 without any justification. He was further promoted from T-8 to T-9 in 2022 and his pay was fixed

accordingly. Thus, payment of salary of Rs 18.00 million (1,500,000 x 12) during the year 2022-23 was considered as irregular and unjustified.

Audit is of the view that management granted undue favor to the officer by promoting him without considering vacancy positions and approved sanctioned strength. Further, his pay scale category was changed from 'O' to 'T', which was irregular.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter and fixing responsibility.

Para 42 (NADRA-2022-23)

12.1.4.16 Non recovery of amount due from various organizations – Rs 17.246 million

As per contract agreement signed by NADRA with its clients regarding provision of certain services, the client shall pay the invoices due to NADRA within specified time from the date of issuance of invoices. Further, in case of delay in payment of beyond specified period, the client shall be liable to pay late payment charges on any undisputed amount remaining unpaid. If the amount remained unpaid beyond 90 days, NADRA may suspend the services or terminate the contract.

During the audit of NADRA for the year 2022-23, it was observed that many clients failed to pay their dues on account of services rendered by NADRA. At the start of financial year 2022-23, the outstanding amount was Rs 6.732 million. However, at year end i.e. June 2023 it was Rs 17.246 million. The management showed undue favor to the entities by not imposing penalty on the amount stuck up and yet not paid by the clients. The detail of amount receivable from client is reproduced hereunder:

	National Rural Support program (NRSP)	Pb. Land Record Authority (PLRA)	IGP Isd XML	Higher Education Commission (HEC)	HQ-19 Div. Khawaza Khela	TOTAL
Current	2,549,833	4,077,822	0	698,500	0	7,326,155
1-31 Days Past Due	15,803	0	0	18	0	15,821
32-60 Days Past Due	3,803	0	0	0	0	3,803
63-93 Days Past Due	3,927	0	0	0	0	3,927
94-124 Days Past Due	5,681	0	0	0	0	5,681
125-365 Days Past Due	4,519,101	0	0	39,375	0	4,558,476

365+ Days Past Due	2,895	0	3,104,985	734,574	1,490,654	5,333,108
Total	7,101,042	4,077,822	3,104,985	1,472,467	1,490,654	17,246,971

Audit is of the view that no serious efforts were made by the management to recover its long outstanding amount from the clients. NADRA was continuously providing services to certain clients without any interruptions despite non-payment of outstanding dues.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends justifying the position regarding non-recovery of long outstanding amount from the clients, imposing penalty as per provisions of relevant agreement and the matter regarding early recovery of dues should be taken up at higher level.

Para 35 (NADRA-2022-23)

12.1.4.17 Irregular payment of salary due to continuation of services beyond superannuation – Rs 16.732 million

As per regulation 8 (3) of NADRA services regulations ‘no person who has attained the age of sixty years shall be appointed to a post in the authority, provided that authority may on case to case basis, in the best interest of the authority and for reasons to be recorded in writing, appoint or retain a person in services despite his attaining the age of sixty years’. Further, as per regulation 26 (2) once entered, the date of birth shall not be altered in any event. It is also stated that, the Supreme Court of Pakistan held in its decision on 16.02.2021 in civil petition No. 4428/2019 that “the date of birth of a civil servant once recorded at the time of joining of Government service as a general principle shall be final and would not be altered except (i) there is a clerical mistake (ii) the change is sought within the period of two years” As per prevailing Government directions issued by the cabinet Secretariat vide letter dated 26.05.1999, approving authority for re-employment after the age of superannuation is Prime Minister of Pakistan.

During the audit of NADRA for the year 2022-23 it was observed that Mr. Mir Alam Khan, ERP No. 27956 was appointed in 2009 as Dy. General Manager. At that time, his CNIC showed only the year of birth as 1963. As per NADRA policy, his date of birth had to be considered as 01.01.1963 and date of superannuation as 01.01.2023. The officer vide letter dated November 07, 2022 requested for correction of his date of birth as 01.07.1963. He also filed a writ petition 93/13 of 2022 for change of date of birth. The court ordered to amend his date of birth accordingly. Instead of going into appeal in light of Supreme Court of Pakistan’s judgment dated 16.02.2021, NADRA implemented the court’s decision and employment record was corrected accordingly and communicated to the officer vide letter dated February 23, 2023. The official website of NADRA revealed that the officer was still working in NADRA as Regional Head Quetta and yet either not retired or was re-employed without approval from Prime Minister as required in such kind of instances. The gross salary of the officer was Rs 2.789 million per month. Thus, payment of salary of Rs 16.732 million (July to Dec 2023) was considered as irregular and unjustified.

Audit is of the view that the officer was performing his duties unlawfully beyond the date of superannuation and all the salary & perquisites paid after that date were irregular.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigate the matter of continuation of services or re-employment beyond the age of superannuation and fixing responsibilities on persons at fault.

Para 38 (NADRA-2022-23)

12.1.4.18 Unjustified payment of property tax to CDA - Rs 12.299 million

According to rule Standards of Financial Propriety (10) Every officer incurring or authorizing expenditure from public funds should be guided by high standards of financial propriety. Among the principles on which emphasis is generally laid are (i) Every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

During audit of NADRA for the year 2022-23, it was observed from the record that NADRA paid an amount of Rs 0.961 million to Capital Development Authority (CDA), Islamabad on account of property tax on behalf of SBP i.e. the owner of building; under occupation of NADRA. an amount of Rs 12.299 million was also paid by NADRA as property tax to different Governmental Organizations/ Departments. Audit demanded the record of rented and NADRA's owned property to assess the rationale of the payment made but the same was not produced.

Audit is of the view that payment of property tax was the responsibility of owner of the building. Thus payment of property tax by NADRA being tenant was considered as irregular and unjustified.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to state the reasons for not taking due care in the hiring process. Recover the unjustified paid taxes from the owner of the building for current and previous periods.

Para-11 (NADRA-2022-23)

12.1.4.19 Non-approval of budget from Federal Government - Rs 46,042.276 million

According to Section 26 of Chapter 08 (funds accounts and audit) of NADRA ordinance 2000, "Budget" (1) "The authority shall, in respect of each financial year, submit for the approval of Federal Government by such date and in such form as may be specified by the Federal government a statement showing the estimated receipts and current and development expenditure and the sums which are likely to be required from the Federal government during the next financial year."

During audit of the NADRA for the year 2022-23, it was observed that NADRA management had to obtain approval of the Federal Government of their budget but the same was not done. Budget Approval from the Federal Government was demanded via requisition No. 07 dated 18.12.2023 but the same was not provided till closure of the audit.

Audit is of the view that expenditure in the absence of approved budget from the Federal Government was non-compliance of the NADRA Ordinance. Hence, the expenditure worth Rs 46,042.276 million for the financial year 2022-23 was considered as irregular.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends justifying the reasons for non-seeking approval of the budget from the Federal Government and fixing responsibility thereof.

Para 15 (NADRA-2022-23)

12.1.4.20 Irregular Expenditure on guest entertainment and repair & maintenance of vehicles – Rs 7.202 million (Approximately)

According to Petty cash SOPs approved by Director General Admin NADRA in October 2019, petty cash imprest is maintained by various departments to meet day-to-day small expenditures without involving the procurement department and going into a lengthy procurement process. Such purchases can be made through petty cash more swiftly and conveniently. It is also clarified that fixed asset items cannot be purchased out of petty cash as it requires codal formalities as per rules/SOPs. Moreover, petty cash should not be expended on the entertainment of guests/employees as a separate guest entertainment ceiling is provided to departments for the said purpose. To streamline the procedure following guidelines were issued: c) a single transaction shall not exceed Rs 5,000 and bifurcation of bills must be avoided.

During the audit of NADRA for the year 2022-23, it was observed that various departments of NADRA violated the Standard Operating Procedures of consuming petty cash and incurred expenditure on guest entertainment for which a separate ceiling had been provided to departments. Moreover, petty cash was also expended on repair of vehicles in violation of the approved SOPs. Audit checked the expenditure on a sample basis in the month of November 2022. Details are as under:

Details of Entertainment Expenditure out of Petty Cash				
S #	Bill No	Date	Expenditure Type	Amount (Rs)
1	PV-246, PV 247	08.09.2022	Entertainment	46,535
2	Ch. 7505591	25.11.2022	Entertainment	125,539
3	Ch. 7505358	11.11.2022	Entertainment	14,260
November Total				186,334
Full year 2022-23 (X12)				2,236,008
Details of Repair & Maintenance of Vehicle Expenditure out of Petty Cash				
S#	Bill No	Date	Expenditure Type	Amount (Rs)
1	Ch. 7505321	10.11.2022	Repair/Maintenance of Vehicles	150,020
2	Ch. 7505506	18.11.2022	Repair/Maintenance of Vehicles	150,620
3	Ch. 7505588	25.11.2022	Repair/Maintenance of Vehicles	56,810
4	Ch. 7505641	30.11.2022	Repair/Maintenance of Vehicles	56,390
November Total				413,840

Full year 2022-23 (X12)	4,966,080
Grand Total	7,202,088

The irregularity occurred due to violation of SOPs for expending petty cash in various departments of NADRA.

Audit is of the view that due to violation of SOPs during the expenditure, NADRA management incurred irregular expenditure of Rs 7.202 million on account of guest entertainment / vehicles repair for which a separate ceiling / budget was already available to the departments.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to explain the reasons for incurrence of entertainment & repair of vehicles expenditure from petty cash. State the reasons for violation of the SOPs. Recover guest ceiling from the departments that incurred petty cash instead utilizing of entertainment ceiling.

Para-9 (NADRA-2022-23)

12.1.4.21 Non-recovery of long outstanding dues - Rs 10.726 million

According to clause 3.1 of contract agreement signed between NADRA and SCO regarding provision of ID verification services. The client (SCO) shall pay the invoices due to NADRA within forty-five days from the date of issuance of invoices. Further, as per clause 3.2 of said agreement, in case of delay in payment of beyond 45 days, the client shall be liable to pay late payment charges at the rate of 2% per month on any undisputed amount remaining unpaid. If the amount remained unpaid beyond 90 days, NADRA may suspend the ID verification services to SCO.

During the audit of NADRA for the year 2022-23, it was observed that SCO management failed to pay Rs 10.727 million to NADRA on account of services rendered. The management showed undue favor to the SCO by not imposing penalty at the rate of 2% per month on the amount stuck up and yet not paid by the client. Despite non-payment, NADRA was continuously providing services to SCO without any interruption.

Audit is of the view that no serious efforts were made by the NADRA management to recover its long outstanding amount from SCO.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends taking up the matter at higher level for early recovery of NADRA's dues besides imposing penalty as per agreement.

Para-18 (NADRA-2022-23)

12.1.4.22 Avoidable expenditure incurred on medical reimbursement to employees for indoor treatment - Rs 28.151 million

According to Charter of Services of Sehat Sahulat Program draft dated 28th February 2021 "the program started with providing social health insurance to poor families and now its coverage has gradually been increased to other socio-economic strata of the population with district by district expansion in Punjab,

Islamabad Capital Territory (ICT), Azad Jammu and Kashmir (AJK), Gilgit-Baltistan (GB), Newly Merged Districts of Khyber Pakhtunkhwa (NMD-KP) and Tharparkar - Sindh. As of today, Federal Government and Government of Punjab, under its Quami Sehat Card, is providing free of cost health insurance to more than 10 million families. Both Governments are also working to increase the ambit to additional 25 million population of districts under its domain. In addition to it, Government of Khyber Pakhtunkhwa, under its Sehat Insaf Plus card, is providing free of cost health insurance to more than 6 million families in the province”.

During the audit of National Database and Registration Authority (NADRA) for the year 2022, it was observed that NADRA spent Rs 28.151 million on medical reimbursements for indoor treatment for its employees in Islamabad/Rawalpindi. The Government had implemented the Universal Health Insurance (UHI) Program covering 100% population of Islamabad/Rawalpindi, Punjab, KP and GB and paid billions of rupees on account of premium to the State Life Insurance Corporation of Pakistan (SLIC) and almost all the major hospitals in Public & Private sector were providing best indoor facilities to the public under UHI program. Thus, reimbursement to employees for treatment in private hospitals was wastage of government resources, as all residents were eligible for UHI benefits.

Audit is of the view that the medical reimbursement for indoor treatment should not be allowed to NADRA employees as the Federal Government had already paid premium to SLIC for residents of Islamabad/Rawalpindi. The payment of medical claims by NADRA management to its employees for indoor medical treatment was considered duplicate expenditure on public exchequer.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends justifying the medical reimbursement for indoor treatments despite the availability of free treatment under UHI in all significant public & private sector hospitals of ICT, Punjab and KP.

Para 32 (NADRA-2022-23)

12.1.4.23 Loss due to expensive purchase of Biometric Machines - Rs 10.523 million

According to Article iv section 4.01 of general conditions ‘the recipient and the project implementing entity shall carry out their respective parts of the project a) with due diligence and efficiency b) in conformity with appropriate administrative, technical, financial, economic, environmental and social standards and practice ...

During audit of NADRA for the year 2022-23 it was observed that NADRA implemented a project in ex-FATA and procured 75 bio metric devices for facilitation centers costing Rs 18.227 million. However, record revealed that per unit cost of that device was Rs 293,991 which was higher than per unit cost of similar imported devices which were purchased during the same period @ US\$ 580, which comes to Rs 153,682 (at the \$ exchange rate of Rs 264.97). Thus, due to procurement of devices at higher rates, project sustained a loss of Rs 10.523 million (Rs 293,991 – 153682 x 75).

Audit is of the view that management of the project did not exercise due diligence while procuring Biometric devices (Thumb Digitizer).

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter and fixing responsibility.

Para-22 (NADRA-2022-23)

12.1.4.24 Irregular procurement of waiting bench - Rs 21.927 million

As per rule 12 (2) of PPRA 2004, all procurement opportunities over three million Pakistani Rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

During audit of NADRA for the year 2022-23 it was observed that a NADRA implemented a project in ex-FATA and procured 460 three seater waiting bench for general public at a total cost of Rs 21.927 million without preparation of tender documents and advertisement in newspapers. Instead, the management called for quotations and selected the lowest bidder. Thus, the procurement was made in violation of procurement rules.

Audit is of the view that management violated the PPRA rules and failed to exercise due diligence and procurement was made in non-transparent manner.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter and fixing responsibility.

Para-23 (NADRA-2022-23)

12.1.4.25 Undue favor to supplier due to non-encashment of Guarantee - Rs 4.612 million

A per clause 19 of PPRA rules, 'the procuring agencies shall specify a mechanism and manner to permanently or temporarily bar, from participating in their respective procurement proceedings, suppliers and contractors who either consistently fail to provide satisfactory performances or are found to be indulging in corrupt or fraudulent practices. Such barring action shall be duly publicized and communicated to the Authority: Provided that any supplier or contractor who is to be blacklisted shall be accorded adequate opportunity of being heard.

As per purchase order issued to M/s UBC Convertec (Pvt.) Ltd dated January 19, 2023 for procurement of 40,000 paper ream, the delivery time for supply of required quantity of paper reams was within 60 days after issuance of purchase order.

During the audit of NADRA for the year 2022-23, it was observed that management issued a letter of acceptance to successful bidder i.e. M/s UBC Convertec (Pvt.) Ltd on December 12, 2022 for the supply of 40,000 paper reams and requested to submit a performance guarantee within 28 days. The bidder submitted bank guarantee of Rs 4.612 million having expiry of July 08, 2023. Accordingly, the purchase order was issued to supplier on January 19, 2023 for supply of paper reams within 60 days. The supplier only supplied 5,000 paper reams and showed its inability to supply the balance quantity vide letter dated

February 16, 2023. However, management neither forfeited the bank guarantee nor issued any letter to the supplier for early supply of the remaining paper reams till the expiry of bank guarantee i.e. July 08, 2023.

Audit is of the view that management extended undue favor to the supplier by non-forfeiture of bank guarantee.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter and fixing responsibility.

Para-5 (NADRA-2022-23)

12.1.4.26 Non-transparent hiring of officer and payment of salary - Rs 4.789 million

According to regulation 11 (5) candidate for initial appointment must possess the qualification and experience and must be within the age limit laid down for the post by the authority. According to regulations 12 (1) vacancies against all posts in any pay scale shall be filled in accordance with the same merit and provincial quotas prescribed by the Government for recruitment against posts in equivalent pay scale. Further regulation 11 (5) candidate for initial appointment must possess the qualification and experience and must be within the age limit laid down for the post by the authority. Similarly, regulation 14, required verification of the character and antecedents of the candidate, regulation 15 (4) required security clearance from relevant agency or agencies. Chapter-6 regulation 44, required that pay at initial appointment of a persons to a post shall fixed at the minimum of the pay scale.

During the audit of NADRA for the year 2022-23, it was observed that management appointed Mr. Muneeb Ashraf Cheema as Dy. Director (Legal) at a monthly remuneration of Rs 279,097 at O-8 grade of NADRA. However, following discrepancies were observed in the hiring process:

1. Original advertisement in newspaper was not made. Only computer generated advertisement print was available in relevant file provided to audit.
2. Merit list was not prepared by the HR department which showed that appointment was made in non-transparent manners.
3. At the time of hiring, no vacant position existed. Organogram of legal department and vacancy position was also not found. It showed that vacant position was not available at the time of hiring.
4. File was not complete in respect of other competitor's data sheets and documents. In a minute sheet dated 17.02.2023, four candidates were shortlisted for interview out of 84 applicants. The bio data of remaining candidates was not found in relevant file. It indicated that selection was made on pick & choose basis and merit based shortlisting was not made.
5. The salary of the officer was fixed as Rs 279,097 per month in O-8 grade while the initial salary of O-8 grade was Rs 200,000 per month plus allowances as per NADRA approved pay scale given in service regulations. No special circumstances were mentioned for offering such high salary.
6. His security verification was not made despite the fact that he was appointed on such post for the first time.
7. Maximum age limit as per criteria mentioned against the posts was 35 years but the officer's age at the time of appointment was 39 years.
8. His credentials were not verified (independently) from relevant forum i.e. HEC

Audit is of the view that appointment of officer was made in non-transparent manner by ignoring the facts mentioned above. Currently, the officer drawing monthly salary Rs 399,000 (approx.). Thus, the payment of salary & other benefits worth Rs 4.789 million (Rs 399,000 x 12) were held irregular.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the appointment of officer in non-transparent manner without having a vacant post, fixation of pay above minimum of relevant pay scale and fixing responsibility on person(s) at fault.

Para 37 (NADRA-2022-23)

12.1.4.27 Unjustified provision of non-practicing allowances despite of higher salaries - Rs 6.609 million

According to Appendix-I of NADRA services regulations defined the allowances of perquisites. According to appendix-I, in addition to basis salary as per relevant “O”/“T” scales NADRA employees will be provided / compensated with Head Quarter allowance, field allowance, conveyance allowance, house rent allowances, cash allowance and other facilities like mobile telephone, vehicles facility, hiring of house etc. however, there was no provision of providing non-practicing allowances to the officers of professional cadre e.g. lawyers, doctors, Chartered Accountants etc. or any other class of professionals.

During the audit of NADRA for the year 2022-23, it was observed that management introduced “T” pay scales with competitive remuneration packages to attract qualified professionals. The management also allocation a budget of Rs 6.609 million for non-practicing allowance (NPA) without having its provision in NADRA services regulations. The NPA policy, circulated by the chairman was without the consent of NADRA BoD. The NPA was being paid to the officers of O-7 to O-20 at the rate ranging from Rs 80,000 per month to Rs 200,000 per month. Detail of employees drawing NPA could not be acquired due to non-provision of relevant data by the management.

The provision of NPA without approval of the BoD and inclusion in terms and conditions of service of the appointees was considered as irregular and unjustified.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter for provision of NPA without approval from authority and in violation of terms and conditions of contact appointments and fixing responsibility thereof.

Para 47 (NADRA-2022-23)

12.1.4.28 Irregular appointment in non-transparent manners and payment of salary - Rs 9.611 million

According to chapter 2, regulations 9 of NADRA Service Regulations, the appointing authority of officers in BPS-19 and BPS-20 or equivalent in “O” and “T” pay scales and above is the “Authority.”

During audit of NADRA for the year 2022-23, it was observed that management floated an advertisement for hiring of Director General for its legal department. In response, only one person Mr. Tajammal Hussain Shah applied for the position. The management selected him through an interview conducted by executive committee instead of HR committee of the Board of Directors and offered contract appointment at a monthly salary of Rs 800,905. The chairman approved his hiring without the proper authority of the Board of Directors who was competent for hiring of grade 19-20 or equivalent officers. Later on, the services of officer were terminated without serving any legal notice despite the fact that his contract was renewed for three years on May 05, 2023 just 03 months before termination of contract on September 01, 2023. He drew monthly gross salary of Rs 2,100,000 approximately. Thus, due to non-transparent hiring of officer, the salary of Rs 25.200 million (Rs 2,100,000 x 12) paid to him during 2022-23 was held irregular.

Audit is of the view that appointment of officer through tailor-made criteria, interviewed by the executive committee headed by COO and two BPS-20 grade officers and approved by Chairman NADRA was irregular.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter of irregular appointment of officer in non-transparent manners without the approval of BoD and fixing responsibility.

Para 41 (NADRA-2022-23)

12.1.4.29 Non recovery of salary paid to an officer during suspension - Rs 20.050 million

As per clause 4 of civil services (efficiency and discipline) rules 1973, misconduct means conduct prejudicial to good order or service discipline or contrary to Government Servants (Conduct) Rules, 1964 or unbecoming of an officer and, a gentlemen and includes any act on the part of a Government servant to bring for attempt to bring political or other outside influence directly or indirectly to bear on the Government or any Government officer in respect of any /matter relating to the appointment, promotion, transfer, punishment, retirement or other conditions of service of a Government servant;

During the audit of NADRA for the year 2022-23 it was observed that management after going through complete inquiry procedure imposed major penalty of removal from services on Mr. Ashfaq Ahmad (D.G) vide order dated July 13, 2015. However, the officer filed a writ petition in Islamabad High Court. On the direction of Islamabad High Court, the chairman re-instated the officer for the sake of re-inquiry only. However, during re-inquiry proceedings, the officer filed another writ petition # 313/2016 in Islamabad High Court. The proceedings of fresh inquiry remained suspended due to this court case and the officer was placed on HR pool with no duty assigned to him. Later on, writ petition No. 313/2016 was

dismissed by the court on 23.05.2018, thus after dismissal of writ petition, the competent authority on recommendation of authorized officer again imposed major penalty of removal from service. The officer was paid an amount of Rs 20.05 million during suspension period on account of salary etc. The authority requested the officer to deposit 20.05 million (approx.) amount drawn by him during this period. However, no documentary evidence regarding recovery was found in the file.

Audit is of the view that NADRA management should take up the matter at appropriate level for recovery of its dues.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends explaining the reasons of non-recovery from the employee besides early recovery of amount under intimation to audit.

Para 50 (NADRA-2022-23)

12.1.4.30 Non reflection of amount of PPO Project PAK ID expenditure and revenues in ledgers

According to clause 17-D of contract dated 20th June, 2017 between NADRA and Pakistan Post Office for provision of Physical counters for Pak-ID applicants, “NADRA shall use its own resources to procure equipment, i.e. computer, camera, printer, scanner, finger print digitizer, and internet connectivity for the project”. According to Section 27 of Chapter 08 of NADRA ordinance 2000, “Accounts and Audit” (1) “The authority shall maintain complete and accurate books of accounts of its actual expenses and receipts.”

During audit of NADRA for the year 2022-23, it was observed that NADRA initiated Pakistan Post Office PAK ID Project through contract between NADRA and Pakistan Post Office dated 20th June 2017. The main objective of the project was to provide citizen registration facilities as mentioned above through designated counters in Pakistan Post offices in the country. As part of the contract dated 20th June 2017, NADRA would use its own resources to procure equipment, i.e. computer, camera, printer, scanner, fingerprint digitizer, and internet connectivity for the project. Audit observed the following:

- The ledgers of NADRA did not reflect any costs related to purchase/maintenance or replacement of equipment relating to the PPO project.
- As per agreement, PPO staff being trained on the processing of Pak ID counters, but no such costs appeared in the ledgers.
- There had been consistent shifting history of PPO counters due to low performance which had cost implications but the same was not reflected in ledgers.
- There was also revenue sharing process agreed between the two parties as per annex F of the contract but no revenue record was found in the ledgers.

The irregularity occurred due to violation of NADRA Ordinance which required the management to maintain complete and accurate books of accounts of its actual expenses and receipt.

Audit is of the view that due to violation of NADRA Ordinance; the books of accounts did not reflect any related expenditure to the PPO project.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to state the reasons for non-ensuring booking of PPO expenditure in ledgers and fix responsibility.

Para-28 (NADRA-2022-23)

12.1.4.31 Losses due to Non-charging of Sales Tax on Computerized Arms Licenses

According to Section 2(12) of Sales Tax Act 1990 “goods” include [production, transmission and distribution of electricity,] every kind of movable property other than actionable claims, money, stocks, shares and securities. Section 13 states Exemption: (1) Notwithstanding the provisions of section 3, supply of goods or import of goods specified in the Sixth Schedule shall, subject to such conditions as may be

specified by the [Federal Government], be exempt from tax under this Act. According to Letter of Government of Pakistan, Revenue Division, Federal Board of Revenue No. 3(10)/ST&FE/policy/2021(pt-II)/54486-R Islamabad dated 10th April 2023, after perusal of the aforesaid provision of law, it is transpired that all goods are chargeable to sales tax at the applicable rate of sales tax subject to the exclusion as provided in terms of section 2(12) of the sales tax act 1990, read with section 13 of the Act ibid as specified in the sixth Schedule thereon. Since, goods in question supra as pointed out by the Honorable FTO at para 9 (i) above, do not fall, the ambit of exclusion/exemption, accordingly the same are chargeable to sales tax at the applicable rate of 18%. In view of the above forgoing, computerized licenses in the form of cards, being supplied by NADRA, Islamabad to the Federal Government, and Provincial Governments, attract charge of sales tax at the standard rate.

During the audit of NADRA for the year 2022-23, it was observed that NADRA provided computerized arms licenses to the Ministry of Interior without charging sales tax contrary to the provisions of the Sales Tax Act, 1990. The licenses issued were considered as taxable goods for the purpose of sales tax. NADRA issued total licenses worth Rs 516.684 million (32,044 prohibited bore tokens valuing Rs 308.135 million and 84,536 tokens of Non prohibited bores valuing Rs 208.548 million) to the public but neither calculated nor collected the amount of tax on said licenses in violation of provisions of Sales Tax Act, 1990.

Thus by non-charging of sales tax on chargeable goods, NADRA incurred loss to the government exchequer.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends justifying reasons for non-charging of sales tax on the provision of the computerized licenses, calculate the total tax according to the value supplied to the Government and deposit the tax into Government exchequer under intimation to Audit.

Para30 (NADRA-2022-23)

12.1.4.32 Poor project feasibility and lack of monitoring mechanism resulting in losses and damage to the reputation of NADRA

According to annex A of the contract dated 20th June 2017 between NADRA and Pakistan Post Office for the establishment of designated counters at GPOs for providing registration facilities states: following categories of ID cards will be processed through NADRA PAK-ID Web based applications at PPOs: (A). Renewal of ID card (B). Duplicate of ID card and (C). Modification of ID card.

During audit of NADRA for the year 2022-23, it was observed that NADRA initiated Pakistan Post Office PAK ID Project through contract between NADRA and Pakistan Post Office dated 20th June 2017. The main objective of the project was to provide citizen registration facilities as mentioned above through designated counters in Pakistan Post offices in the country. Audit observed the following:

- a) The project sites were selected randomly without any feasibility study or demographic survey. This is evidenced by the fact that hundreds of sites were subsequently shifted from one GPO to another. This can hurt NADRA's reputation.

- b) No monitoring mechanism had been devised by project management to check the progress.
- c) No marketing efforts were made by NADRA to market the services launched.
- d) NADRA primary ledger was thoroughly searched by audit but the expenditure in relation to the project could not be ascertained. NADRA ledgers were silent about the detailed breakup.
- e) The data of NADRA is very confidential in nature and there is a chance of data leakage by the post office staff. This may hurt NADRA's reputation.
- f) Trained staff was regularly transferred from one GPO to another by GPO office which resulted in hindering activities.
- g) Apparently, there was no need to establish physical counters if the project was considered as an extension of PAK ID services which were online services.

Audit is of the view that PPO project was started without proper feasibility and lack of monitoring mechanism which resulted into poor performance and extra administrative burden and losses.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to explain reasons for the lack of feasibility and monitoring and give a breakup of the income and expenditure (all items lines including equipment, HR, renovation etc.)

Para-27 (NADRA-2022-23)

12.2 NADRA Technologies Limited

12.2.1 Introduction

NADRA Technologies, the commercial interface for NADRA, provides a variety of products and value-added services to both national and international clients, with Identity Verification and eSahulat being the most significant domestic services. Our professional staff provides clients with objective and optimal solutions.

Vision & Mission

Our mission is to continually demonstrate a passion for the customer and provide the finest level of service. We believe in producing trustworthy and cutting-edge solutions that address today's problems and pave the way for technological advancements in the future.

12.2.2 Comments of audited Accounts

12.2.2.1 The annual audited accounts are required to be provided to Audit for review each year. Contrary to this, the management failed to provide audited annual accounts of the organization for the year 2022-23 till December 31, 2023.

Audit recommends that the annual audited accounts of 2022-23 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*refer Annex-2*).

12.2.3 Compliance of PAC Directives

There were no pending PAC directives for compliance.

12.2.4 Audit Paras

12.2.4.1 Unauthorized investment of funds in Treasury Bills – Rs 3,919.561 million

According to the Finance Division O.M. No.F.4(1)/2002-BR-II dated July 02, 2003, September 06, 2004, September 22, 2005, and December 23, 2014 (a) for the sake of the safety and security of deposits, the bank/financial institutions taking a deposit should have a minimum "A" rating (long-term) as appearing on the website of the State Bank of Pakistan. (b) The process of selection of bank/(s) should be transparent therefore, before placing deposits with a bank under this new policy..." The Finance Division vide its OM No. F.4(1)/NTR/2002-666/2022 dated May 18, 2022 has withdrawn its earlier O.M. No. F.4(1)/2002-BR-II dated July 02, 2003, September 06, 2004, September 22, 2005, and December 23, 2014 and the approval accorded to any public sector entities for maintaining working balance are also hereby withdrawn.

During audit of NADRA Technologies Limited for the year upto 2021-22, it was observed that the management invested Treasury Bills at a purchase price of Rs 3,919.567 million having a face value of Rs 4,050.00 million on June 21, 2022 with a maturity date August 25, 2022 in disregard to the above referred Finance Division OM.

Audit is of the view that the investment made contrary to the clear instruction of the Finance Division was unauthorized.

The matter was reported to the management on December 05, 2023 and Principal Accounting Officer (PAO). The DAC in its meeting held on December 28, 2023 directed the management to obtain clarification from Finance Division on the matter of investment made by the company.

Audit recommends compliance of the DAC directives.

Para-1 (NTL - 2021-22)

12.2.4.2 Wasteful expenditures due to non-achievements of objectives set for the establishment of the company - Rs 1,273.781 million

According to the Memorandum of Association of NADRA Technologies Limited, there were 72 objectives to be achieved. The rationale behind the establishment of the company was to undertake surveys, development of electronic chips, software development, data warehousing, and management, business process re-engineering, documentation, and reporting in the field of information technology and graphic information system for the public and private sector, nationally and internationally to achieve a market share in the global market through Innovation & efficient utilization of Resources, generate foreign currency reserves, revitalize the IT industry, and create employment.

During Audit of NADRA Technologies Limited for the year upto 2021-22, it was noted that the management of the National Database and Registration Authority (NADRA) established a subsidiary company namely NADRA Technologies Limited in the year 2004, under the Companies Ordinance, 1984. There were seventy-two (72) objectives defined in the company Memorandum of Association.

Audit observed that management of NADRA Technologies Limited did not take any kind of practical initiative for the achievement of the objectives as defined in the Memorandum of Association of the Company since its establishment. Financial Statements for the year ended June 30, 2022, showed huge amount of expenditure incurred but the achievement of objectives were very insignificant. During the financial year 2021-22 NTL had major sources of earning from E-Shaulat project and Verisys project only. This showed that the management could not develop appropriate marketing strategies which could give it a competitive edge over the competitors in the global markets of information technology or bring a new project to the company. It is pertinent to mention here that the order/decision of the competent Authority for its needs of establishment as a subsidiary company was not shared with the audit.

Audit is of the view that non-initiative for achievements of major objectives as mentioned in the company Memorandum of Association was a serious lapse on the part of the company besides expenditure amounting to Rs 1,506.284 million incurred on operating costs out of which Rs 1,273.781 million incurred on salary & wages and traveling & conveyance respectively stands wasteful.

The matter was reported to the management on December 05, 2023 and Principal Accounting Officer (PAO). The DAC in its meeting held on December 28, 2023 directed the management to share yearly progress for achievement of objectives of NTL with Audit.

Audit recommends compliance of the DAC directives.

Para-3 (NTL - 2021-22)

12.2.4.3 Irregular investment of funds in Treasury Bills – Rs 1,501.166 million

According to Finance Division O.M. No. F.4(1)/2002-BR-II dated July 02, 2003, investment of working balances/surplus funds be made subject to fulfillment of various requirements such as investment in 'A' rating banks, competitive bidding process, investment exceeding Rs10 million shall not be kept in one bank, setting up of in-house professional treasury management functions, formation of Investment Committee, employment of qualified investment management staff, utilization of services of professional fund managers approved by SECP, annual certificate of the Chief Executive of the organization, etc.

During audit of NADRA Technologies Limited for the year upto 2021-22, it was observed that the management invested Rs 1,501.166 million having a face value of Rs 1,546.00 million on April 21, 2022 with a maturity date of July 14, 2022 in treasury bills. In disregard to the above-referred policy of the Government dated July 02, 2003, the following irregularities were also observed:

- The working balance limit was not determined with the approval of the administrative Ministry in consultation with the Finance Division.
- The funds were invested without the recommendations of the Investment Committee and the approval of the Board.
- The services of professional fund managers duly approved by SECP were not obtained.
- The CEO of the company was required to issue a certificate on an annual basis that the instructions contained in the above referred OMs are being followed in respect of working balance and surplus funds of the organization which was not done.

Audit is of the view that during the time of investment, the directions of Finance Division dated July 02, 2003, were fully applicable at the time of making investment. However, the management of NTL did not follow the said directions and invested funds against the policy which was considered as unauthorized/ irregular.

The matter was reported to the management on December 05, 2023 and Principal Accounting Officer (PAO). The DAC in its meeting held on December 28, 2023 directed the management to share yearly progress for achievement of objectives of NTL with Audit.

Audit recommends compliance of the DAC directives.

Para-4 (NTL - 2021-22)

12.2.4.4 Unauthorized expenditure of Rs 691.694 million incurred by the parent organization

According to rule-9 of General Financial Rule Volume-I, as a general rule no authority may incur any expenditure or enter into any liability involving expenditure from public funds until the expenditure has been sanctioned by general or special orders of the President or by an authority to which power has been duly delegated in this behalf and the expenditure has been provided for in the authorized grants and

appropriations for the year. According to Corporate Governance Rules, 2013 5 (5) The Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders, in the following manner, namely:- (a) the principle of probity and propriety entails that company's assets and resources are not used for private advantage and the due economy is exercised to reduce wastage.

During audit of NADRA Technologies Limited for the year upto 2021-22, it was observed that the financial statements for the year ended June 30, 2022, showed expenditures incurred by the parent organization of Rs 373.991 million and Rs 317,703 million for the year ended June 30, 2021, respectively. It is pertinent to mention here that the parent organization can not incur expenditure on behalf of a subsidiary company without prior written approval and without any legal agreement between the parties.

Audit is of the view that the incurrence of expenditure on behalf of the company by the parent organization without prior approval from competent authority and without any legal agreement with parties was unauthorized.

The matter was reported to the management on December 05, 2023 and Principal Accounting Officer (PAO). The DAC in its meeting held on December 28, 2023 directed the management that detail of services provided by the NTL to NADRA and agreement between NADRA and NTL be got verified from audit.

Audit recommends compliance of the DAC directives.

Para-10 (NTL - 2021-22)

12.2.4.5 Appointment of Chief Executive Officers of the company without approval of Federal Government

According to Cabinet Secretariat Establishment Division OM No. 6/4/96-R-3 dated September 14, 2018 and OM No. 6/4/96-R-3 dated May 10, 1997, provides that the appointment of Chief Executive/Head of Organization "Selection Board headed by the Minister Incharge to consider and recommend from a panel of three names for each vacancy" provided that, where the charge of the Ministry/Division is headed by the Chief Executive, the selection board shall be headed by the Secretary of the respective Ministry/Division and approving authority for the said appointment is the Prime Minister/Chief Executive. According to rule 5 (2) of Corporate Governance Rule 2013, "the Board shall evaluate the candidates based on the fit and proper criteria and the guidelines specified by the Commission for appointment to the position of the chief executive and recommend at least three candidates to the Government for its concurrence for appointment of one of them as chief executive of the Public Sector Company..."

During audit of NADRA Technologies Limited for the financial years upto 2021-22, it was revealed that the Chief Executive Officers of the company were appointed without approval/concurrence of Federal Government which was clear violation of above referred Cabinet Secretariat Establishment Division OM and provisions of Corporate Governance rules and was held irregular.

Audit is of the view that appointment of the Chief Executive Officer of the Company without concurrence of Federal Government contrary to the Cabinet Secretariat Establishment Division OM and the provisions of Corporate Governances rules was considered irregular.

The matter was reported to the management on December 05, 2023 and Principal Accounting Officer (PAO). Management explained in DAC meeting that chairman NADRA and CEO was the same positions and there was no need to obtained separate approval from the Govt. of Pakistan for appointment of CEO of the NTL. The DAC in its meeting held on December 28, 2023 directed the management that relevant record be got verified from audit.

Audit recommends compliance of the DAC directives.

Para-6 (NTL - 2021-22)

Chapter-13

Ministry of Housing & Works

Overview

As per Rules of Business, 1973, Ministry of Housing and Works is responsible for development of sites, construction, furnishing and maintenance of Federal Government buildings, except those under the Defense Division and Ministry of Foreign Affairs. Pak PWD, FGEHA, and PHAF are the implementing arms of Housing and Works to discharge with the assigned responsibilities. Pak PWD is responsible for construction and maintenance works (Buildings and Roads) of the Federal Government. The FGEHA is authorized to initiate, launch, sponsor and implement Housing Schemes for Federal Government Employees in major cities of Pakistan, to make and assist, as far as possible, each of them to have house at the time of retirement or earlier. PHAF is mandated to provide shelter and to reduce the housing shortfall in Pakistan.

Aims & Objectives

Ministry of Housing and Works is responsible to carry out the following functions:

1. Acquisition of Federal Government buildings, except those under the Defence Division.
2. Provision of Government owned office accommodation and residential accommodation, policy for acquisition, requisitioning and hiring of office and residential accommodation for officers and staff of the Federal Government.
3. Fixation and recovery of rent of Government owned, hired and requisitioned buildings.
4. Management of Federal lodges.
5. Land and buildings belonging to the Federation wherever situated and revenues derived there from.
6. Administration of the Federal Government Lands and Buildings (Recovery of Possession) Ordinance, 1965 (LIVof1965).
7. Matters relating to the Federal Government lands licenses to various cooperative housing societies in Karachi, except those under the Defence Division.
8. Transfer of property, other than agricultural land, registration of deeds and documents.
9. Administrative control of the National Housing Authority.
10. National Housing Policy.
11. Development of sites, construction, furnishing and maintenance of Federal Government buildings, except those under the Defence Division.
12. Coordination of civil works budget and Execution of Federal Government works.
13. Officers belonging to the Engineering Group.
14. Matters relating to the National Construction (Domestic) Limited.
15. Physical planning and human settlements including urban water supply, sewerage and drainage.

Governing Laws and Policies

- Accommodation Allocation Rules
- Allotment of Semi-Permanent Accommodation in Federal Government Hostels Rules, 2019.
- Building Codes of Pakistan

Audit Profile of Ministry of Housing & Works

(Rs in million)

S. No.	Description	Total	Audited	Expenditure audited FY 2022-23	Revenue /Receipts audited FY 2022-23
1	Formations	1	1	15.301	88.603
2	Assignment Accounts (excluding FAP)	-	-	-	-
3	Authorities /Autonomous Bodies etc. under the PAO	1	1	-	-
4	Foreign Aided Projects (FAP)	-	-	-	-

Classified Summary of Audit Observations

Audit observations amounting to Rs 843.684 million were raised as a result of this audit. This amount also includes recoverable of Rs 147.015 million as pointed out by the audit. Summary of the audit observation classified by nature is as under:

Overview of the Audit Observations

Sr. No.	Classification	Amount (Rs in million)
1	Non-Production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities:	
A	HR/Employees related irregularities	51.641
B	Procurement related irregularities	11.60
C	Management of accounts with Commercial Banks	0
4	Value for money and services delivery issues	215.400
5	Others	565.043

13.1 Pakistan Environmental Planning & Architectural Consultant (Pvt.) Limited

13.1.1 Introduction

PEPAC is a self-financed Company established/incorporated in 1974 through resolution to provide Town Planning, Environmental Engineering and Architectural Consultancy Services to projects initiated by the Government, Semi-Government and Autonomous Bodies.

It is registered with Securities Exchange Commission of Pakistan (SECP), Pakistan Engineering Council (PEC) and Pakistan Council of Architects and Town Planners (PCATP) and is administered by a Board of Directors, which has its Chairman; Federal Secretary to the Government of Pakistan in an ex-officio capacity. The Managing Director is the operational head of the firm. The organization has advantage of being fully under the Federal Government, yet operating as a private professional entity and competing with other private sector consultancies in the field to procure business in the market through competition generating finance from consultancy fee by clients to meet the day to day expenses/expenditures.

13.1.2 Comments on audited accounts

13.1.2.1 The working results of the Company for the year 2022-23 as compared to the previous years are given below:

(Rs in million)

Particulars	2022-23	% inc/ (Dec)	2021-22	% inc/ (Dec)	2020-21
Revenue/Professional Fee	51.593	(11.88)	58.548	(1.80)	59.624
Cost of revenue	42.307	(2.78)	43.517	(14.29)	50.772
Gross Profit / (loss)	9.286	(38.22)	15.031	69.80	8.852
Administrative Expenses	8.417	(28.61)	11.790	37.64	8.566
Distribution Cost	0.121	28.72	0.094	(35.17)	0.145
Finance Cost	0.020	(16.67)	0.024	(35.14)	0.037
Operating Profit / (loss)	0.728	(76.69)	3.123	2,902.88	0.104
Other operating income	0.403	69.33	0.238	83.08	0.13
Profit before Taxation	1.131	(66.35)	3.361	1336.32	0.234
Provision for Taxation	1.078	10.56	0.975	-	-
Profit for the year	0.053	-97.78	2.386	919.66	0.234

(Source: Annual Audited Accounts)

The revenue of the company decreased to Rs 51.593 million during the year 2022-23 as compared to Rs 58.548 million in 2021-22 registering a decrease of 11.88%. This showed poor performance

of the company especially with reference to sale of consultancy services. Reasons for decrease of revenue need to be explained.

13.1.2.2 Trade and other payables increased by 7.61% (2022-23: Rs 134.554 million – 2021-22: Rs 125.037 million) during the year 2022-23. Main increase was made in trade creditors and payable to statutory funds. Detailed aging of these liabilities along with reasons need to be explained. Audit stresses for early release of these liabilities.

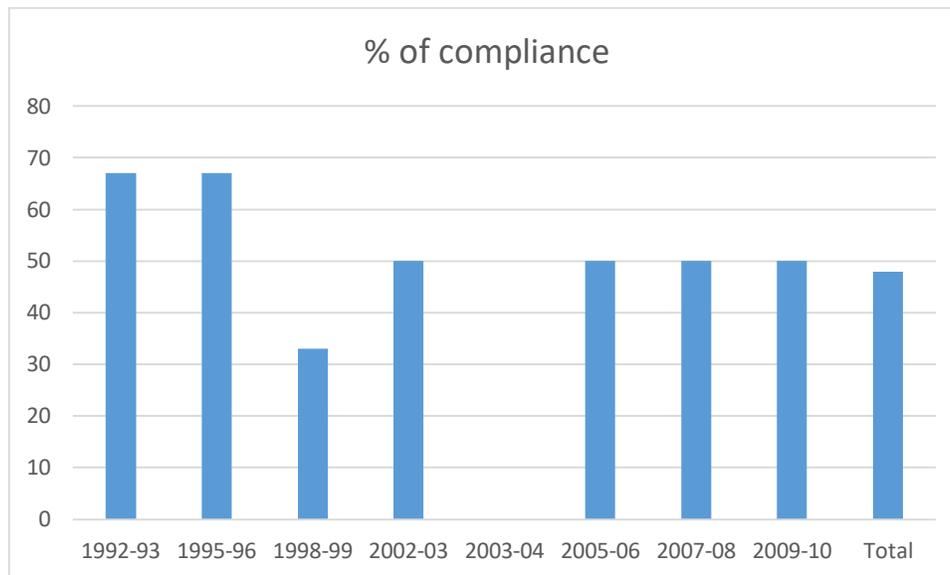
13.1.2.3 Trade debts increased by 13% (2022-23: Rs 127.28 million– 2021-22: Rs 135.22 million) during the year 2022-23. The non-recovery of trade debts may result in bad debts in the years to come. This indicated ineffective credit policy of the Corporation. Effective steps needed to be taken for early recovery and to avoid its conversion into bad debts.

13.1.2.4 Retention money receivables increased in the current year as compared to previous year i.e. Rs 21.36 million as on June 30, 2023 and Rs 18.66 million as on June 30, 2022. Break-up of retention money receivables along with reasons for non-receipt of retention money may be explained.

13.1.2.5 Physical verification of assets valuing Rs 16.35 million as on June 30, 2023 was not conducted by an independent store verifier. Value of store assets, therefore, cannot be authenticated which needs to be explained.

13.1.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No	% of compliance
1992-93	03	02	01	138	67
1995-96	03	02	01	123	67
1998-99	03	01	02	103, 104	33
2002-03	06	03	03	47 & 48, 48.4, 49	50
2003-04	02	0	02	35.3, 35.5	-
2005-06	04	02	02	54, 54.3	50
2007-08	02	01	01	41.2	50
2009-10	02	01	01	64	50
Total	25	12	13		48



Overall compliance of the PAC directives was not satisfactory especially during 2003-04, which needs to be improved.

13.1.4 Audit Paras

13.1.4.1 Irregular expenditure without approval of budget and non-submission of the annual accounts to the SECP - Rs 301.481 million

Chapter V (A) "Management and Administration" of the Articles of Association of the company requires the establishment of the BoD comprising the number of Directors shall not, in any case, be less than two. According to S. No. 08 of Section 196 of the SECP rules, powers of Directors with regard to managing the business of the company, the directors of a company will approve annual or half-yearly or other periodical accounts as are required to be circulated to the members;

During the audit of the PEPAC for the year 2019-22, it was observed that last meeting of the BOD was conducted on 17.06.2017 and thereafter no meeting was convened till expiry of the tenure of BoD in 2020. Further, management failed to prepare the budgets for the years 2017-18 to 2021-22 for approval from the PAO in the absence of the BoD.

Audit is of the view that due to non-preparation and approval of the annual budgets, the expenditure of Rs 301.481 million incurred without prior approval was irregular.

Year	Total expenditure (Rs)
2017-18	63,697,468
2018-19	63,235,991
2019-20	58,470,072

2020-21	59,678,259
2021-22	56,399,625
Total:-	301,481,415

The annual financial statements of the company were also not submitted to the SECP as the same were not approved by the BoD which was a violation of the SECP rules.

The matter was reported to the management on September 21, 2023. The management in its reply dated January 06, 2024 stated accounts would be presented to Board as and when constituted.

The reply is not convincing as BOD was not constituted since 2020 and management failed to prepare the budgets for the relevant years for approval from the PAO.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends justifying the incurrence of the expenditure without prior approval of the budget from the PAO and intimating the reasons for non-formation of the BoD.

Para-1 (PEPAC – 2019-20-2021-22)

13.1.4.2 Unauthorized execution of the works through joint venture firms without competition - Rs 215.40 million

According to Para 12 (1) of the PPRA 2004, all procurement opportunities over three million Pakistani Rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu. According to Para 15 (1) of the PPRA 2004, a procuring agency, prior to the floating of tenders, invitation to proposals, or offers in procurement proceedings, may engage in pre-qualification of bidders in case of services, civil works, turnkey projects.

During audit of PEPAC for the years 2019-22, it was observed that 05 works of Rs 215.40 million were executed through joint ventures with other firms/companies by signing MoUs without adopting the proper procedure.

The following points were observed during the audit:

1. Open tendering system as required under the PPRA was not adopted to prequalify the joint venture firms.
2. MoUs were directly signed by the acting Managing Director without approval of BoD or administrative ministry.
3. Works were obtained on the goodwill of the PEPAC and then awarded to other companies despite the availability of technical staff.
4. All Joint venture agreements were signed with M/s Zeeruk, EPCM, M/s EGC and M/s Sheher Saaz which seemed that undue favour was given to the firms.
5. Record relating to the Joint venture firms were not produced to audit.

6. All works were given to the companies/firms on the profit sharing ratios of 05: 50:25:20 to 30:70 without any proper justification, which seemed that firms were benefited at the cost of the company.
7. No Joint venture bank accounts were opened before the execution of the works and payments were made directly to the companies/firms.

Audit is of the view that works were illegally executed through the joint venture companies /firms therefore, held Irregular and violations of the PPRA 2004 rules.

The matter was reported to the management on September 21, 2023. The management in its reply on January 06, 2024 stated that PEPAC, as part of joint venture, received project awards but was lacking PCATP registration, hindering its ability to bid independently for town planning projects. Additionally, PEPAC lacked the necessary experience, bid security, performance bank guarantee, annual turnover, and required professionals for such projects. Consequently, PEPAC was unable to meet the criteria for bidding on town planning projects as a single entity.

The reply is not tenable as PPRA was not adopted to prequalify the joint venture firms prior to the execution of the works with them.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter and fixing responsibility thereof.

Para-2 (PEPAC – 2019-20-2021-22)

13.1.4.3 Non-recovery of outstanding dues from various clients - Rs 127.283 million and non-imposition of penalty on the clients for delayed payments - Rs 12.728 million

Rule 7 (2) (L) of the Public Sector Companies (Corporate Governance) Rules, 2013, stipulates that the Board shall establish appropriate arrangements to ensure to enable it to carry out its role effectively. (2) For the purpose of sub-rule (1), significant issues shall, inter-cilia, include the following, namely: - (L) failure to recover material amounts of loans, advances, and deposits made by the Public Sector Company, including trade debts and inter-corporate finances.

During audit of PEPAC for the years 2019-22, it was observed that an amount of Rs 127.283 million was outstanding against various departments as on 30.06.2023 since long but the management failed to recover the amount. Management also failed to include a penalty clause in the contract agreements, of Rs 12.728 (@ 10 % of Rs 127.283 million).

Audit is of the view that due to lack of financial control, the company sustained loss of Rs 140.011 million (Rs 127.283 + Rs 12.728 penalty).

The matter was reported to the management on September 21, 2023. The management in its reply on January 06, 2024 stated that PEPAC was mostly working on public sector projects and payments remained outstanding due to lack of funds by the Government. Further, payments were linked with deliverables which needed approvals from different forums.

The reply is not tenable as a huge amount was recoverable since long.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends justifying non-inclusion of the penalty clause in the agreements and recover the amount involved from the departments.

Para-5 (PEPAC – 2019-20-2021-22)

13.1.4.4 Loss due to irregular creation of salaries' liability of employees - Rs 56.862 million

According to Para 09 of the General Financial Rules Vol-1, as a general rule no authority may incur any expenditure or enter into any liability involving expenditure from public funds until the expenditure has been sanctioned by general or special orders of the President or by an authority to which power has been duly delegated in this behalf and the expenditure has been provided for in the authorized grants and appropriations for the year.

During audit of PEPAC for the years 2019-22, the financial record of the company showed a pending liability of Rs 56.862 million (Rs 46.769 million and Rs 10.093 million) on account of payment of arrears of salaries to current and ex-employees respectively till May 2023.

Audit observed that out of total 93 employees, there were 39 current employees and 27 ex-employees whose salaries were pending for the last six months to two and half years. Such situation depicted that either these employees were not actually performing their duties or might be fake/ghost.

Audit is of the view management failed to curtail / reduce the staff according to the actual requirement of the company and a huge liability of Rs 56.862 million had been created which was a burden on the company.

The matter was reported to the management on September 21, 2023. The management in its reply on January 06, 2024 stated PEPAC had requested the government many times for one time grant for the clearance of the outstanding dues of the ex-employees. PEPAC staff was reduced to bare minimum and in fact lacking by technical professionals.

The reply is not tenable as more than 13 salaries were paid to the current employees whereas, dues of few ex-employees & other liabilities were also cleared during the FY 2021-22.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to justifying creation of liability of the salaries, rationalize the staff and strenuous efforts be made to make the company an ongoing concern.

Para-6 (PEPAC – 2019-20-2021-22)

13.1.4.5 Non-payment of outstanding liability of CP Fund of the employees of PEPAC – Rs 35.889 million

According to Para 24 and 27 of the CP Fund rules, 1975, every subscriber and employer shall contribute equally @ a minimum of 10 % of the pay to the fund each month.

During audit of PEPAC for the years 2019-22, it was observed that there was an outstanding liability of statutory funds amounting to Rs 35.889 million payable to the CP Fund trust of the employees.

PEPAC failed to deposit the due share of the employees' as well as the employer's contributory provident fund upto 30.06.2022.

Audit is of the view that due to non-payment of the due share of the fund, employees were deprived of the benefit of the CP Fund amounting to Rs 35.889 million.

The irregularity was occurred due to lack of internal control.

The matter was reported to the management on September 21, 2023. The management in its reply dated January 06, 2024 stated that PEPAC was hardly managing to disburse the salaries to its staff, however as and when funds would be available, CP fund contribution would be deposited.

The reply is not convincing as PEPAC management failed to pay its outstanding liability of CP fund.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends immediately deposit the amount into the CP Fund trust and disciplinary action be initiated against the individuals held responsible for non-payment of the subscriptions in-time.

Para-7 (PEPAC – 2019-20-2021-22)

13.1.4.6 Loss due to irregular payment of adhoc relief allowances - Rs 15.325 million

According to the Office Memorandums of the Finance Division of Govt. of Pakistan for federal employees issued in the year 2017 to 2019 and 2021, Public Sector Corporations and Autonomous / Semi-Autonomous Bodies which have adopted different pay scales / allowances, in case of such organizations, the revision of Basic Pay Scales-2017 @ 10% of basic pay subject to existing conditions will be allowed with the concurrence of Standing Committee of Finance Division on recommendations of the respective Board of Directors / Governors. The revision of basic pay scales -2017 to 2021 and grant of Adhoc Relief Allowance 2017 to 2018 @ 10%, 2019 @ 05 % and 2021 @ 10 % of basic pay will invariably be tagged with the financial position of the organization.

During audit of PEPAC for the years 2019-22, it was observed that Govt. of Pakistan sanctioned adhoc relief allowances for the federal Govt. employees and the same were implemented by the management of PEPAC and made payment to its employees amounting to Rs 15.325 million in the years 2017 to 2021 without approval of BOD.

Audit is of the view that payment of the adhoc relief allowances to the employees without approval of the BOD was irregular.

The matter was reported to the management on September 21, 2023. The management in its reply dated January 06, 2024 stated that BOD in 83rd meeting at agenda item No. 83.4 dated 28th January 2007 allowed Managing Director PEPAC to "adopt the Government of Pakistan's pay scales and allowances as & when announced and subsequently apprise the Board in next meeting".

The reply is not tenable as PEPAC incurred expenditure of adhoc relief allowances without approval of BOD.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends justifying the payment of adhoc relief allowances without approval of BOD, fixing responsibility and effecting recovery from the employees.

Para-8 (PEPAC – 2019-20-2021-22)

13.1.4.7 Irregular award of contract to Sub-Consultant - Rs 11.60 million

According to rule 03 (1) of the delegation of powers of the company, Chief Executive is empowered to approve quotations, and tenders and incur expenditure on works up to Rs 5 lac.

According to notification No. 1(1) Admn-IV/PEPAC /PD/18 dated 08.10.2020, the present Deputy Managing Director PEPAC was entrusted the charge of the post of M.D just for releasing salaries to the staff.

During audit of PEPAC for the years 2019-22, it was observed that a work “Establishment of 250 bedded hospital at Skardu (Consultancy Services)” was awarded to the PEPAC at an estimated cost of Rs 11.600 million vide letter dated 12.05.2020. The work “Structural design vetting of project establishment of 250 bedded hospital Skardu” was sub-let to the sub-consultant M/s Design Inn. @ Rs 1.7 per sft vide work order dated 26.10.2020.

Audit observed the following:

1. Chief Executive/Managing Director was empowered to approve the works up to Rs 05 lac only, therefore the work was required to be got approved by the Board.
2. Comparative statement of the work was put up to the Managing Director (Muhammad Anwar Hussain Ch.) but he did not approve the work being entrusted to the look after charge of the company.
3. Eng. Nawazish Iqbal, Deputy Managing Director, entrusted charge of the post of M.D by the Ministry just for the purpose of releasing salaries of the employees therefore he was not competent to approve the said work hence considered violation of the ministry’s orders.
4. Work was awarded to the consultant M/s Design. Inn at the rate of Rs 1.7 to 03 per sft but the other firm M/s City Engineering Consultant and M/s EDFIC who offered Rs 1.75 per sft each were ignored by the management being the lowest firm.
5. The company had qualified and experienced Engineers in grades G-8 to G-12 (BPS 17 to 21) therefore was required to do the vetting of design work at their own level but instead, the work was sublet to other consultant and thus company was deprived of the revenue received from the client.

In light of above, audit is of the view that consultancy work was irregularly awarded to the dear one consultant at the cost of the company.

The matter was reported to the management on September 21, 2023. The management in its reply dated January 06, 2024 stated that structure design Engineer was not available in house therefore structural

design services were hired as per authorization given by the BOD in its 84th meeting vide agenda No. 84. The work was awarded @ Rs 1.7 per sft while bids of other bidders were more than Rs 1.7 per sft.

The reply is not convincing as the work was awarded by the Deputy Managing Director beyond his delegation of financial powers.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter of award of consultancy work of design vetting to the sub-consultant by ignoring the lowest bidder and fix responsibility.

Para-9 (PEPAC – 2019-20-2021-22)

13.1.4.8 Non-payment of liabilities of the ex-employees Rs 9.517 million and unjustified final payments to the members of the trustee's - Rs 6.326 million

According to Para 45 of the CP Fund rules, 1975, when a subscriber quits the services of the company, the amount standing at his credit in the Fund shall become payable to him.

During audit of the PEPAC for the years 2019-22, it was observed that trustees of the CP Fund invested Rs 4.00 million in the defense saving certificates in 2009-10 for a period of ten years. On maturity, a sum of Rs 12.335 million was received vide cheque dated 03.09.2019. Out of total funds received by the trust, two officers of the board of trustees, Mr. Najeeb Ur Rehman Khan, Ex-M.D and Bashir Ahmad Malik, Accountant were paid Rs 6.326 million (Rs 3.241 million and Rs 3.086 million) vide cash book Page No. 29 14.10.2019 and cheque No. 38211840 23.01.2023 respectively and remaining amount was paid as advances to the existing employees, despite of the fact that final payment liability of Rs 9.517 million of the poor ex-employees of the company was outstanding since long.

The matter was reported to the management on September 21, 2023. The management in its reply dated January 06, 2024 stated that PEPAC was hardly managing to pay the salaries of the current employees. However, liabilities of ex-employees were being cleared from time to time with surplus amount.

The reply is not tenable. The management of PEPAC ignored poor employees who were not paid their salaries since long and disbursed Rs 12.529 million to blue eyed employees by granting advances and clearing their retirement benefits.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter and fixing responsibility.

Para-10 (PEPAC – 2019-20-2021-22)

13.1.4.9 Loss due to execution of the work by Sub-letting to another firm without competition - Rs 8.970 million

According to rule 12 (1) of the PPRA 2004, all procurement opportunities over three million Pakistani Rupees should be advertised on the Authority's website as well as in other print media or

newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu. According to rule 15 (1), a procuring agency, prior to the floating of tenders, invitation to proposals, or offers in procurement proceedings, may engage in pre-qualification of bidders in case of services, civil works, turnkey projects.

During audit of PEPAC for the years 2019-22, it was observed that the work “Consultancy Services for a feasibility study of establishment of education city of Barwand area -South Waziristan” was won by the PEPAC at a cost of Rs 8.970 million from the Higher Education Department, Govt. of Khyber Pakhtunkhwa vide approval letter dated. 16.03.2021 and agreement dated. 02.03.2021. The work was sub-let by the management to M/s Sheher Saaz (Pvt.) Ltd vide agreement dated 17.03.2021 at the profit sharing ratio of 30:70% (2,691,000: 6,279,000) respectively. A sum of Rs 2.900 million had been received from the client till date of audit i.e. 31.03.2023 against which Rs 1.080 million were paid to the sub-contractor M/s Sheher Saaz (Pvt.) Ltd.

Audit is of the view that the work was sublet to the dear one firm without any codal formalities i.e. competition by advertising in daily newspapers to achieve the most economical rates, therefore, held irregular.

The matter was reported to the management on September 21, 2023. The management in its reply dated January 06, 2024 stated that project was procured along with JV firm because not having the similar expertise, professionals required for performing the services and not having the PCATP registration.

The reply is not tenable as the work was won by PEPAC independently which was sublet irregularly in violation of PPRA rules.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends conducting a fact-finding inquiry to probe into the matter and fixing responsibility.

Para-11 (PEPAC – 2019-20-2021-22)

13.1.4.10 Irregular promotion / appointment of officers - Rs 24.861 million

According to Para 6.5 of the service rules 1975 of the PEPAC, vacancies as far as possible in each group will be filled by departmental promotions subject to the availability of departmental personnel of minimum prescribed qualifications and experience and also taking seniority, merit, suitability, efficiency and experience into consideration of which the company shall be the scale judge. According to the appointment, qualification, and experience criteria for each pay scales of the PEPAC, prescribed experience with a bachelor degree in civil and mechanical engineering from Pakistan or Middle East University was required. According to rule 6(1) (a) of schedule-II of EstaCode edition 2021, minimum length of service for eligibility for promotion to posts in various BPS shall be as follows:

For BPS 18	5 years in BS 17
For BPS 19	12 years in BS 17 and above
For BPS 20	17 years in BS 17 and above

During audit of PEPAC for the years 2019-22, it was observed that the management of PEPAC promoted five officers on the recommendations of the appraisal committee of the local officers and no officer from the Ministry or elsewhere was part of the committee to cross-check the suitability of the officers for promotion and without approval of the BOD. The detail is given at Annex-82.

No rules regarding minimum length of service for promotion of the officers from one grade to another were available resulting in to undue benefit granted to the officers due to irregular promotions.

Audit is of the view that in the absence of PEPAC's own rules regarding length of service, Government rules should have been adopted which was not done. Thus, due to irregular promotions of the officers, the company sustained a loss of Rs 24.861 million due to payment of excess pay & allowances.

The matter was reported to the management on September 21, 2023. The management in its reply dated January 06, 2024 stated that PEPAC recruitment and qualification were revised and approved by the BOD in its 84th meeting at agenda No. 84.12 and all the hiring and promotions were made accordingly. BOD authorized Managing Director with full administrative and financial powers for hiring and promotion of the employees.

The reply is not convincing as the Service Rules of PEPAC were silent regarding tenure required for promotion of the officers. Therefore, in absence of rules of PEPAC, the management was required to apply Government rules for promotions.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends justifying appointment and promotions of the officer without fulfilling the required length of service, conduct fact-finding inquiry to probe into the matter for the irregular promotions of the officers, besides fixing responsibility and recovery of the overpaid amount from the officer concerned.

Para-12, 13, 14, 17, 18, (PEPAC – 2019-20-2021-22)

13.1.4.11 Loss due to overpayment of salaries to the project staff - Rs 4.718 million

According to the minutes of the meeting held on 20.072020 between MD PEPAC and the Director Works "Workers welfare complex (Phase-1), Adjacent to Sundhar Industrial Estate District Kasur", monthly remunerations to the staff of the project were as follow:

S. No.	Particulars	Qty.	Amount (Rs)	Total Amount (Rs)
1	Project Manger	01	80,000	80,000
2	Resident Engineer	01	65,000	65,000
3	Assistant Resident Engineer	01	60,000	60,000
4	Supervision Inspectors	09	30,000	270,000
5	Office Expense	01	35,208	35,208
	16 % PRA Tax			81,633

	7.5 % tax	38,266
	Grand Total:-	630,107

During audit of PEPAC for the years 2019-22, it was observed that consultancy services of the work “establishment of workers’ welfare complex adjacent to Sundar Industrial Estate (Phase-1) Distt. Kasur” was awarded to the PEPAC vide work order dated 25.10.2011. The record revealed that PEPAC claimed the salaries on agreed rates from the client but actually paid salaries in excess of the entitlement causing an overpayment of Rs 4.718 million.

Audit is of the view that the company sustained a loss of Rs 4.718 million on payment of excessive salaries to the employees, therefore, held irregular.

The matter was reported to the management on September 21, 2023. The management in its reply dated January 06, 2024 stated that PEPAC received Rs 16.412 million against the design work and Rs 14.860 million against the supervision fee whereas expenditures on this project were much less than the payment received therefore no loss to the company.

The reply is not tenable as the management made payment of salaries in excess of the entitlement.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter, fixing responsibility and recovery of overpaid amount from the concerned employees or the person(s) held responsible.

Para-15 (PEPAC – 2019-20-2021-22)

13.1.4.12 Loss due to overstatement of the CP Fund contribution - Rs 4.693 million

According to Para 24 and 27 of the CP Fund rules, 1975, every subscriber and employer shall contribute equally @ a minimum of 10 % of the pay to the fund each month.

During audit of PEPAC for the years 2019-22, the accounts of the CP Fund Trust of the PEPAC employees showed contributions of Rs 9.598 million from 2019-20 to 2020-21, whereas the actual contribution credited into the bank account of the trust was only Rs 4.905 million.

Audit is of the view that due to non-payment of due share of the fund, employees were deprived of the benefit of the CP Fund amounting to Rs 4.693 million.

The matter was reported to the management on September 21, 2023. The management in its reply dated January 06, 2024 stated that PEPAC was hardly managing to disburse the salaries to its staff, however as and when funds would be available, the same would be deposited into CP fund account.

The reply is not tenable as due share of CP fund contribution was not deposited into CP Fund account.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter and fixing responsibility on the person(s) at fault besides payment of due amount into the CP Fund account.

13.1.4.13 Loss due to overpayment of leave fare assistance and non-recovery of the amount from the officers/officials – Rs 4.42 million

According to clause 23 (a & b) of the revised TA rules 1983 of PEPAC, Leave Fare Assistance (LFA) is allowed to employees at the following rates:

- a) In respect of workers in scale No. 1 to 7 or those specially classified as such.
Half month's pay inclusive of cost of living allowance admissible as on the date of entitlement i.e. last day of each year's continuous service which shall be payable with earned (annual) and or casual leave equal to a minimum of 10 days for each spell of privilege which shall not be refused.
- b) In respect of Supervisory and Managerial Staff in scale No. 8, one month's pay inclusive of cost of living allowance admissible as on the date of entitlement

During audit of PEPAC for the years 2019-22, it was observed that the management paid Leave Fare Assistance (LFA) to its employees on the rates of gross salaries (pay and allowances) for the period instead of gross pay (basic pay, qualification pay and personal pay etc.) resulting into excess payment of Rs 4.42 million. Further, no leave account was maintained by the management to know the factual position of leave.

Audit is of the view that due to excess payment of the LFA to the employees, company sustained a loss of Rs 4.42 million.

The matter was reported to the management on September 21, 2023. The management in its reply dated January 06, 2024 stated that rules regarding LFA were revised by the management with the approval of the BOD and detailed working would be shared accordingly.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter and fixing responsibility for over payment of Leave Fare Assistance in violation of rules besides effect recovery.

Para-20 (PEPAC – 2019-20-2021-22)

13.1.4.14 Non-deposit of tender fee into govt. treasury - Rs 1.294 million

According to the NIT of the bidding documents, tender fee at the prescribed rates mentioned in the advertisement was required to be deposited by the bidders with the PEPAC.

During audit of PEPAC for the years 2019-22, it was observed that the management of PEPAC issued tender documents of different projects to the bidders with the condition to deposit tender fee mentioned in the NIT. However, the bank accounts of the company were silent about the receipt and deposit of the tender fee amount. Further, no tender register was maintained by the company.

Audit is of the view that due to non-deposit of tender fee, the company sustained a loss of Rs 1.294 million.

The matter was reported to the management on September 21, 2023. The management in its reply dated January 06, 2024 stated that inquiry against Mr. Shad Muhammad Dy. Manager (A&F) was under process and findings would be shared with Audit upon finalization.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter at the earliest, fixing responsibility and effecting recovery.

Para-21 (PEPAC – 2019-20-2021-22)

13.1.4.15 Non-recovery of advances from employees - Rs 1.017 million

Rule 7 (2) (L) of the Public Sector Companies (Corporate Governance) Rules, 2013, stipulates that the Board shall establish appropriate arrangements to ensure to enable it to carry out its role effectively. (2) For the purpose of sub-rule (1), significant issues shall, inter-cilia, include the following, namely: - (L) failure to recover material amounts of loans, advances, and deposits made by the Public Sector Company, including trade debts and inter-corporate finances.

During audit of PEPAC for the years 2019-22, it was observed that management paid advances of Rs 1.017 million to different employees as TA/DA and meeting expenses of purchase & services. Most of the advances were lying outstanding against employees for the last 03 to 05 years but management failed to recover the amount in the same financial year causing loss to the company.

Weak internal control led to non-recovery/adjustment of dues from the employees.

The matter was reported to the management on September 21, 2023. The management in its reply dated January 06, 2024 stated that only one person was working in the account/ finance section and he was entering the adjustment against the advances and these adjustments would be completed before closing of the financial year account of PEPAC.

The reply is not cogent as the adjustments of outstanding advances should have been made before the close of financial year, which was not done.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends recovery / adjustment of advances from the employees without further delay.

Para-24 (PEPAC – 2019-20-2021-22)

13.1.4.16 Irregular appointment of staff without advertisement and approval of the Managing Director - Rs 1.30 million

Cabinet Secretariat (Establishment Division) letter dated 6th May, 2000, (iii) (b) stipulates that vacancies should be advertised in the leading national and regional newspapers (c) selection should be made through regularly constituted Selection Committees / Board.

During audit of PEPAC for the years 2019-22, it was observed that the following staff was appointed on contract basis without advertisement and approval of the Managing Director:

Name	Designation	Appointment order dated	Pay & Allowances per month (Rs)	Total Expenditure up to March 2023(date of audit)
Engr. Waqar Ahmad, Electrical Engineer	Electrical Engineer	16.05.2022	33,342	350,162
Mr. Saqib Hussain	Resident Architect	15.07.2022	46, 804	397834
Mr. Abdul Qadir Khan	Assistant Manager (Finance)	13.07.2022	65,000	552,500
Total:-				1,300,496

Thus, the appointments and expenditure of Rs 1.300 million incurred up to 30.06.2022 was held irregular.

The matter was reported to the management on September 21, 2023. The management in its reply dated January 06, 2024 stated that inquiry against Mr. Shad Muhammad Dy. Manager (A&F) was under process and findings will be shared with Audit upon finalization.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter and fixing responsibility thereof.

Para-28 (PEPAC – 2019-20-2021-22)

Chapter-14

Ministry of Maritime Affairs

Overview

Ministry of Maritime Affairs in Islamabad is the central administrative authority of the Government of Pakistan primarily assigned to facilitate the ports and shipping industry of Pakistan by providing policy guideline to encourage port development and growth in shipping while maintaining safety standards. The Ministry is headed by the Federal Minister for Maritime Affairs assisted by the Secretary, Maritime Affairs. In Karachi Director General (Maritime Affairs) represents Ministry.

Aims & Objectives

- To formulate and implement plans and policy in conformity with International best practice to transform the ports of Pakistan into modern, competitive, user friendly and a transshipment hub of the region with hinterland connectivity.
- To encourage private ship owning under Pakistan flag by creating favourable conditions.
- To improve governance of the ports while focusing of modern and innovative approaches of land lard posts strategies.
- To maintain safety and security standards as per international Maritime Organization (IMO) Conventions with strenuous efforts aimed at maintaining world class standards of marine pollution control
- To ensure and maintain quality of Pakistani seafarers in accordance with the Standards for Training Certification and Watch-keeping (STCW) 1978 Convention.
- To promote Deep Sea Fishing of Pakistan.
- To regulate the export of Fish and Fisheries Products and also to bring a pronounced positive change in the Harbour Environment.

Governing Laws and Policies

- i. GPA Ordinance, 2002
- ii. KoFHA Ordinance, 1982
- iii. Pakistan National Shipping Ordinance, 1979
- iv. Companies Ordinance 1984
- v. PP Rules 2004.

(Rs. in million)					
S#	Description	Total	Audited	Expenditure audited FY 2021-22	Revenue/ Receipts audited FY 2021-22
1	Formations	4	4	63,148.909	112,718.079

Classified Summary of Audit Observations

Audit observations of Rs 397,600.37 million were raised as a result of this audit. This amount also includes recoverable of Rs 15,528.983 million as pointed out by audit. Summary of the audit observations classified by nature is as under:

(Rs. in million)		
S#	Classification	Amount
1.	Non-production of record	-
2.	Reported cases of fraud, embezzlement and misappropriation	11.13
3	Irregularities	
A	HR / Employees related irregularities	208.566
B	Procurement related irregularities	236,239.273
C	Management of Accounts with Commercial Banks	81,082.984
4	Value for Money and service delivery issues	23,282.207
5	Others	56,776.213

14.1 Gwadar Port Authority

14.1.1 Introduction

Gwadar Port Authority (GPA) was established as a separate organization, after promulgation of the GPA Ordinance No. LXXVII of 2002 dated October 17, 2002, for construction, operations, management, and maintenance of Gwadar Deep Water Port.

The Government of Pakistan has adopted the landlord concept for development of Gwadar Port. This means that GPA will drive the overall development of the port and will raise the funds for development of general port infrastructure (primarily dredging of channels and construction of breakwaters), while private sector investors will be the primary source for the development of terminals and cargo handling capacity. Reputable private investors/operators will be sought on a Build–operate–transfer (BOT) basis for the design, construction and operations of the various terminals that are foreseen. In the longer term, as much as possible, different cargo types will be handled by dedicated terminals. This will allow for terminals to be developed and operated by dedicated operators who are specialized in these particular operations.

14.1.2 Comments on Audited Accounts

14.1.2.1 The annual audited accounts are required to be provided to audit for review each year. Contrary to this, the management failed to provide audited accounts of the organization for the years 1986-87 to 2022-23 despite a number of reminders.

14.1.2.2 Audit requires that the annual audited accounts of the years 1986-87 to 2022-23 be provided immediately and timely finalization be ensured in future, besides, fixing responsibility for non-finalization of annual audited accounts (*Annex-2*).

14.1.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	% age of compliance
2014-15	4	1	3	18.1.4.1, 18.1.3, 18.3.2.1	25%
2013-14	5	1	4	16.1.2, 16.1.3.1, 16.1.3.2, 16.1.3.3	20%
2015-16	5		5	17.1.4.3, 17.1.2.1, 17.1.4.1, 17.1.4.2, 17.1.4.4	0%
2016-17	5	4	1	15.1.2.1, 15.1.3, 15.1.4.1, 15.1.4.2	80%
2017-18	4	2	2	14.1.4.1, 14.1.4.3	50%
2019-20	1		1	10.1.4.1	0%
2021-22	8		8	12.1.4.5 (remainig to be discussed in PAC)	0%
Total	34	10	24		29%

The overall compliance of PAC directives needs improvement.

14.1.4 Audit Paras

14.1.4.1 *Non-utilization of the land caused blockage of fund – Rs 287.500 million*

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Gwadar Port Authority (GPA) for the year 2022-23, it was observed that the PC-I was approved for Land acquisition for establishment of Off Dock Terminal on April 2021 at cost of Rs. 287.500 million. Subsequently, the fund was released and management purchased land measuring 100 acres at Mouza Darbela Junubi, Tehsil Gwadar having cost of Rs. 287.500 million on 22nd October, 2021. It was learnt from the record that this “OFF Dock Terminal” had to be offered services for handling temporary storage and custom clearance of containers and general cargo as well as empties. It was to be provided the services for minimizing the demurrage charges and enhancement of confidence for trade and revenue generation through Gwadar Port and an off dock terminal could have been considered as an extension of the port. However, the management acquired the land of 100 acres for Off dock terminal but still no any development works have been started at the site.

Audit is of the view that management should be started development works at the land on war footing basis so the purpose of the acquiring the land could be achieved. It reflects inefficiency and bad governance of the management. Thus, management failed to utilize the peace of land as per PC-I proposed objective and the whole fund of Rs.287.500 million has been block.

The matter was reported to the management on August 03, 2023. The irregularity was discussed in the DAC meeting held on November 22, 2023. DAC directed the management to start the development works on acquired land as per PC-I objectives at the earliest.

Audit recommends implementation of the DAC directives.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year(s) 2022-23 vide para(s) number 14.1.4.14 having financial impact. Recurrence of same irregularity is a matter of serious concern.

14.1.4.2 *Non-mentioning rates and tariffs of the port operations by the Concession holder – Rs.58.770 million*

As per concession agreement clause 4.11 states that the parties agree the structures of rates and tariffs that shall be applicable to the entire range of port operations shall be maintained as simple and transparent as possible and reasonable. Further, the concession holder shall have the discretion to set, maintain, alter and collect the rates and tariffs in respect of services provided in terms of this agreement and to revise such tariffs in order that they are competitive within the region. The concession holder shall inform GPA of the Rates and Tariffs and revisions therein and provide such related information as may be requested by GPA.

During audit of Gwadar Port Authority (GPA) for the year 2022-23, it was observed that GPA entered an agreement with M/s China Overseas Port Holding Company Pakistan Pvt Ltd in 2013 for the operation of port activity as a port operator. Since 2013 till now, the port operator did not mention the rates and tariffs which are applicable to the entire range of the port operations. In May 2023, the port operator shared the documents which showed the revenue generated from the berthing and allied areas but the operator did not mention / share any rates and tariffs structure with GPA which could help out to reconcile / cross verification of the revenue share of GPA and gross revenue earned by the port operator. Detail of revenue earned by the operator is attached (Annex-83).

Audit is of the view that the Board and the management failed to monitor rates & tariff schedule shared / prepared by the port operator since 2013. It reflected weak internal control and bad governance to protect the interest of the GPA. Thus, GPA revenue share of Rs.58.770 million stands understated.

The matter was reported to the management on August 03, 2023. The irregularity was discussed in the DAC meeting held on November 22, 2023. DAC directed the management to verify its last three years reconciled statement of rates and tariff prepared by the port operators.

Audit recommends implementation of the DAC directives.

14.1.4.3 *Non-recovery of revenue from the Port Operator – Rs.58.768 million*

As per Concession Agreement of clause 4.10.2 states that upon the commencement of commercial operations, the concession-holder shall pay nine-percent (9%) of its Gross Revenue from the Terminal Services to GPA, every month within one week of the relevant month.

During audit of Gwadar Port Authority (GPA) for the year 2022-23, it was observed that the port operator i.e. M/s China Overseas Ports Holdings Company Pakistan (Pvt) Limited submitted the statements of the outstanding Gwadar Port Authority's Revenue share from the port operation and free zone till April, 2023 having amount of Rs 58.768 million. Detail is as under:

(Amount in Rs.)					
S#	Periods	Gwadar International Terminal Ltd	Gwadar Marine Services Ltd	Gwadar Free Zone Company Ltd	Total Outstanding Amount
1	01.01.2022 to 31.12.2022	8,015,044	7,617,617	6,494,415	22,127,076
2	01.01.2023 to 30.04.2023	32,918,890	3,489,754	233,126	36,641,770
Total		40,933,934	11,107,371	6,727,541	58,768,846

As per agreement, the port operator is bound to pay the share to GPA every month. However, operator has submitted the revenue statement till month of April, 2023 subsequently, payment is still outstanding. The operator did not make comply with terms and conditions of the agreement.

Audit is of the view that the outstanding amount from the port operator should be recovered at the earliest and the strict compliance of the agreement terms and condition should be ensured regarding realization of the GPA revenue. It reflects weak financial management. The strenuous efforts needs to be required for recovery to amounting of Rs 58.768 million from the port operator at the earliest.

The matter was reported to the management on August 03, 2023. The irregularity was discussed in the DAC meeting held on November 22, 2023. DAC directed the management to expedite the efforts for recovery of the revenue and share the record of the recovered amount with Audit for verification.

Audit recommends implementation of the DAC directives.

14.1.4.4 Non recovery of rent from the tenants – Rs.45.451 million

Rule5 (1) of the Public Companies (Corporate Governance) Rule 2013, states that the Board shall exercise its powers and carry out fiduciary duties with a sense of objective judgment and independence in the best interests of the company.

During audit of Gwadar Port Authority (GPA) for the year 2022-23, it was observed that an amount of Rs.45.451 million was lying outstanding from the various tenants on account of rental charges as on 30th June, 2023. Detail is attached.

S#	Tenant's Description	Outstanding Balance of rent charges as on 30.06.2023
01.	QESCO	908,404
02	Mekran Law Chamber	652,233
03	University of Gwadar	3,897,370

04	MORE Enterprises	2,942,283
05	PNSC (container shed)	12,513,517
06	PNSC (Workshop shed)	17,476,800
07	Marine Fisheries Department MFD	1,889,475
08	Port Heath Establishment, Gwadar	817,182
09	National Logistics Cell (NCL)	801,110
10	G-Mart Cash & Carry	157,500
11	UBL ATM	277,155
12	New Gwadar International Air (NGIA) Gwadar	489,372
13	ISI (CID) Plot 10890 Sq. Ft adjacent to Bunglaw # 08	553,200
14	Lieutenant Colonel ISI Bunglow No.03	1,152,000
15	Anti Narcotics Force (ANF) Zirbar Complex	755,460
16	Balochistan Revenue Authority (BRA)	168,038
Total		45,451,099

Audit is of the view that management failed to realize the rent from the tenants on due date. It reflects weak internal control and poor monitoring of the financial management.

The matter was reported to the management on August 03, 2023. The irregularity was discussed in the DAC meeting held on November 22, 2023. The management informed the DAC that an amount of Rs.31.000 million has been recovered from the tenants. DAC recommended to get the record verified from Audit. DAC further directed to expedite the efforts for recovery of remaining amount.

Audit recommends implementation of the DAC directives.

14.1.4.5 Revenue loss due to non-payment of GPA revenue share in the foreign currency – Rs.31.647 million

According to clause 4.10.3 of Concession Agreement of the Revenue Share payments shall be made to GPA in US Dollars if the revenue accrues in US Dollars or in any currency other than rupee and in Rupee if the revenue accrues in Rupees.

During audit of Gwadar Port Authority (GPA) for the year 2022-23, it was observed that the port operator i.e. M/s China Overseas Ports Holdings Company Pakistan (Pvt) Limited intimated of revenue share to GPA regarding port facility and charges imposed to the Vessle in local currency i.e. PKR. Whereas, as per agreement the port operator had to pay the revenue share to GPA in that currency which the currency received by the operator from the shipping company of the vessle. The port operator did not share the berthing / port charges received from the vessels since inception of the concession agreement since 2013. Detail of vessel had been arrived at Gwadar port is attached.

S#	Vessle' Name	Vessel	Total charges received from the Vessel in PKR
1	MV Star Dorado	Wheat	42,129,728
2	MV Christina B	Wheat	43,105,061
3	SSI Erdogan Bey	Wheat	39,419,596
4	MV Lila Chennai	Wheat	42,245,811
5	MV V Rich	Wheat	41,419,324
6	MV Veruda	Wheat	41,048,357
7	MV Ultra Esterhazy	Urea	28,755,366
8	MV Nord Sunda	Urea	31,703,163
9	MV King Win	Urea	28,358,950
10	MV Alamo	DAP	13,454,615
Total Gross Revenue			351,639,971
GPA Share of 9%			Rs. 31.647 million

Audit is of the view that port operator did not follow / observe the terms and condition of the concession agreement. It reflects weak internal control. Thus, the realization of the revenue share by the GPA having amount of Rs. 31.647 million is unjustified.

The matter was reported to the management on August 03, 2023. The irregularity was discussed in the DAC meeting held on November 22, 2023. DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

14.1.4.6 Violation of PPR rules by non-Execution of Integrity Pact for the Contract exceeding the prescribed limit – Rs.10.000 million

According to Clause I B-22 Instruction to bidder integrity Pact, the Bidder shall sign and stamp the form of integrity Pact provided at schedule-F to Bid in the Bidding Documents for all Federal Government procurement contracts exceeding Rupees Ten (10) million. Failure to provide such integrity Pact shall make the bidder non-responsive.

During audit of Gwadar Port Authority (GPA) for the year 2022-23, it was observed that management had executed the contracts valuing to Rs 4,611.050 million for project and rehabilitation of Fish Harbour of GPA. Further, no integrity pact was signed by the contractors and incorporated in the agreement. the details are as under:

S#	Name of Contractor	Nature of Work/ name of the project	Date of Agreement	Amount of contract Rs. (million)
1	M/s China Harbor Engg. company Ltd./ Al-Fajr International JV	Maintenance Dredging of Navigational Channel of Gwadar Port.	14 th February 2023	4,483
2	M/s RAB construction company Brewery Road, Quetta	Up gradation of Berthing facilities for Boats at Gwadar.	27 th October 2020	128.050

Audit is of the view that the management failed to comply the mandatory requirements under PPR rule 7 in all circumstances by non- executing of Integrity Pact for the Contract exceeding the prescribed of Rs.10.00 million. It reflects weak internal controls.

The matter was reported to the management on August 03, 2023. The irregularity was discussed in the DAC meeting held on November 22, 2023. The management informed the DAC that they have made the contract in accordance with the templates given by the Planning Commission and this is not a violation of PPRA Rules, 2004. DAC directed to the management to verify its contention with the Audit.

Audit recommends implementation of the DAC directives.

14.1.4.7 Non-deduction of retention money – Rs.1.500 million

Sub clause 16.1 (V) General contract conditions of the Conditions of Contract, states that the Retention money 5% shall be deducted from all Interim payment Certificate (IPCs) and will be return after completion of defect liability period, which is one year.

During audit of Gwadar Port Authority (GPA) for the year 2022-23, it was observed that the management awarded the contract to M/s R.A.B construction company valuing of - Rs.150.00 million. Further, the first running bill amounting to Rs.30.00 million dated 20th March 2023 was raised by the contractor. However, the bill payment was made without deducting the retention money of Rs.1.500 million (Rs.30 million *5%) by the management in violation of above rule.

Audit is of the view that undue favour was extended to the contractor by non-deduction of retention money, showing poor financial management and weak internal controls.

The matter was reported to the management on August 03, 2023. The irregularity was discussed in the DAC meeting held on November 22, 2023. DAC recommended the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

14.1.4.8 Non-recovery of charges from the Mole Traders – Rs.1.286 million

Clause 16 of agreement states that in case of non-payment of the commission amount within three days from the date of serve of the notice, the GMP/GPA shall draw the cash security deposited by the agent in favour of the GMP/GPA. The agent will in such an event make up the p the short fall of the cash, failing

which he will not be allowed to continue as Agent. In case the commission amount outstanding will exceed the amount of cash security deposit.

During audit of Gwadar Port Authority (GPA) for the year 2022-23, the basic purpose of the Mini port is to provide a space to the fishermen to sale the catch fishes through mole trader. The mole trader is registered by the GPA authority by taking security deposit, registration fee and annual registration fees. At present total 13 mole traders are working under the umbrella of the GPA at the Mini Port. The GPA authority charges commission from the mole trader on account of the business activity at the mini port. During scrutiny of the record it was observed that following mole traders were defaultes due to nonpayment of the commission to the GPA. Detail is as under;

Name of Mole Trader	Siraj Trading	Farhad Trading	Sanahullah Trading	Amjad Trading	Faisal Trading	Anas Trading	Naseeb Trading	Sagheer Trading	King Fisheries	Total amount
Outstanding Balance	95,545	18,859	15,274	125,638	311,255	246,463	290,140	7,000	176,276	1,286,450

It is evident from the above table that total 09 mole traders were defaulters and an amount of Rs 1.286 million is recoverable from them.

Audit is of the view that GPA authority should exercise the power according to the agreement terms and condition and to serve the notice to the mole traders and in case of non-payment should recover the amount from their security deposit and stop the working at the mini port until or unless dues is cleared. Thus, to make ensure the recovery of Rs.1.286 million from the mole traders should be ensured at the earliest before going to bad debts.

The matter was reported to the management on August 03, 2023. The irregularity was discussed in the DAC meeting held on November 22, 2023. DAC recommended the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

14.1.4.9 Non-Finalization of annual audited accounts

Section (e) of Gawadar Ordinance, 2002 states that that the auditor shall report to the Federal Government upon the Annual Balance Sheet and accounts and in their report state whether in his opinion the Balance Sheet is full and properly drawn up so as to exhibit a true and correct view of the state of the Authority's affairs, and in case they have called for any explanation or information from the Board, whether it has been given and whether it is satisfactory.

During audit of Gwadar Port Authority (GPA) for the year 2022-23, it was observed that the Board / management did not finalize the annual audited accounts for the year 2020-21 and 2022-23 after considerable lapse of time.

Audit is of the view that the management was required to finalize its annual accounts in a timely manner so that true and fair picture of the state of affairs of the organization comes to the knowledge of the federal Government and its stake holder. Thus, Non-finalization of annual accounts resulted in non-compliance of statutory requirements and failure to depict true picture of the affaire of the Federal Government.

The matter was reported to the management on August 03, 2023. The irregularity was discussed in the DAC meeting held on November 22, 2023. DAC directed the management to complete the assignment and its report be shared with the Audit and Ministry.

Audit recommends implementation of the DAC directives.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year(s) 2022-23 vide para(s) number 14.1.4.14 having financial impact. Recurrence of same irregularity is a matter of serious concern.

14.2 Korangi Fisheries Harbour Authority

14.2.1 Introduction

The Korangi Fisheries Harbour Authority (KoFHA) was established under Ordinance No. XVI of 1982 for making all arrangements for planning, construction, operation, management and maintenance of Korangi Fisheries Harbour for exploiting fisheries resources beyond territorial waters.

The Harbour was completed in 1992 at a cost of Rs.938.14 million including foreign component of Rs.644.24 million (US\$ 26.121 million) financed by Asian Development Bank.

14.2.2 Comments on Audited Accounts

14.2.2.1 The annual audited accounts are required to be provided to audit for review each year. Contrary to this, the management failed to provide audited accounts of the organization for the years 2015-16 to 2022-23 despite a number of reminders.

Audit requires that the annual audited accounts of the years 2015-16 to 2022-23 be provided immediately and timely finalization be ensured in future, besides, fixing responsibility for non-finalization of annual audited accounts (*Annex-2*).

14.2.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	% age of compliance
2003-04	5	4	1	180.2	80%
2010-11	5	1	4	16.1.4.1	20%
2011-12	1	1			100%
2012-13	1	1			100%
2013-14	8	1	7	16.2.2.1, 16.2.2.2, 16.2.2.3, 16.2.2.4, 16.2.2.5, 16.2.3, 16.2.4.1	13%
2014-15	3	1	2	18.2.3, 18.2.2.1	33%
2015-16	7	1	6	17.2.4.1, 17.2.4.4, 17.2.2.1, 17.2.3, 17.2.4.2, 17.2.4.3	14%
2016-17	3	2	1	15.2.2.1, 15.2.2.1	67%
2017-18	2	1	1	14.2.2.1	50%

2019-20	3		3	10.2.4.1, 10.2.4.2, 10.2.4.3	0%
2021-22	8		8	12.2.4.1, 12.2.4.3 (remainig to be discussed in PAC)	0%
Total	46	13	33		28%

The overall compliance of PAC directives needs to be improved.

14.2.4 Audit Paras

14.2.4.1 *Non-execution of works resulted in escalation of cost – Rs 4,582.000 million*

Rule 5 (1) of the Public Sector Companies (Corporate Governance) Rules, 2013, states that the Board shall exercise its power and carry out fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Korangi Fisheries Harbour Authority (KoFHA) for the year 2022-23, it was observed that following projects were approved by (CDWP) in April, 2020. These projects were sponsored by Japan under the supervision of M/o Maritime Affairs (MoMA). KoFHA was the executing agency and required to initiate the project in July 2020 (as per PC-I). However, no progress was made to initiate the development works till date whereas the sponsor had already released the funds for the accomplishment of the task. Furthermore, due to delay in execution of work, cost of projects were escalated up to Rs 4,582.619 million as detailed below:

(Rs.in million)						
S #	Description	Date of Approval	Date of Completion	PC-I (Initial Amount)	PC-I (Revised Amount)	Variance in Cost
1.	Development work of the business park at Korangi Fish Harbour	15-04-2020	30-06-2023	784.000	4,301.234	3,517.234
2.	Development work of Cold Storage & Freezing Tunnels at KoFHA-	15-04-2020	30-06-2021	170.100	656.075	485.975
3.	Development work for the modification of the auction hall	15-04-2020	30-06-2021	94.510	673.920	579.410
Total						4,582.619

Audit is of the view that non-initiation of the above projects on time was poor planning and inefficiency of the management which needs to be justified.

The matter was reported to the management on November 14, 2023. The management its reply staed that execution of projects were delayed due to non-availability of funds. Moreover, updated required feasibility study and firmed-up cost estimates were submitted to MoPD&SI. Hence, projects were revised, in accordance to current market rates. The reply was not tenable as poor planning and inefficiency of the management resulted in non-execution of projects on time.

Audit recommends a fact-finding inquiry and fixation of responsibility on the person(s) at fault.

(DP No. 758,759 & 760)

14.2.4.2 Investment without competitive process – Rs.1,135.000 million

Memorandum issued by the finance division, Government of Pakistan, dated July 2, 2013, states that the process of selecting banks should be transparent. The selection of the bank(s) as well as the terms of deposits will be approved by the concerned board of directors or governing body on the basis of competitive bids from at least three independent banks.

During audit of Korangi Fisheries Harbour Authority (KoFHA) for the year 2022-23, it was observed that the management invested Rs.135.000 million in term deposit receipts (TDRs) of National Bank of Pakistan (NBP) @ 12.20% on November 26, 2019 without competitive process in violation of above rules.

Further, the management also invested Rs.1,000.000 million in Term Deposit Receipts (TDRs) of National Bank of Pakistan (NBP) for a period of one year on repeated offers as detailed below:

S#	Investment (Rs in million)	Date	Duration years	Remarks
----	-------------------------------	------	-------------------	---------

1	350	March 2021	01	Repeated Offers received at 6.90%, 7.20% & 7.50%
2	310	March 2022	01	Repeated Offers received at 11%, 11.50% & 11.7%
3	340	April 2022	01	Repeated Offers received at 12.50% & 12.90%
Total	1,000			

Audit is of the view that the management failed to observe competitive process for placement of funds which reflected imprudent decision making.

The matter was reported to the management on November 14, 2023. The management in its reply stated that investment was approved by the investment committee constituted by the Board of Directors. Moreover, the investment was made in accordance with federal government investment guidelines received from time to time. The reply was not tenable as management did not observe the Finance Division directives regarding selection of banks for placement of funds.

Audit recommends to justify the matter.

(DP No.745 & 746)

14.2.4.3 Non-payment of loan and interest - Rs.866.060 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Korangi Fisheries Harbour Authority (KoFHA) for the year 2022-23, it was observed that a loan of Rs.644.643 million was required to be paid to Asian Development Bank (ADB) in 60 installments with effect from April 1, 1995 with 6% other charges including interest service charges and an exchange risk fee. However, the management paid only 14 installments since April 1995. The loan scheduled period is about to be completed on October 1, 2024. The details of the outstanding loan is as under:

(Amount in Rs)				
S#	Description	Principal	Interest	Total
1	Initial liability	664,643,000	445,333,120	1,109,976,120
2	Total paid	179,442,000	64,478,000	243,920,000
Total		485,201,000	380,855,120	866,056,120

Audit is of the view that the management failed to manage the loan portfolio effectively and discharging the liability on time, which resulted in having cumulative loan obligations along with finance costs, exchange charges, etc. to the extent of Rs.866.06 million.

The matter was reported to the management on November 14, 2023. The management in its reply stated that non-payment of loan was because of the deep sea fishing operation was stopped which severely affected the revenue generation by KoFHA since 2006. The reply of the management was not tenable because non-payment of loan resulted in accumulation of liability and interest cost also.

Audit recommends to justify the matter.

14.2.4.4 Non-compliance of investment guidelines – Rs.745.000 million

A memorandum issued by the finance division, Government of Pakistan, dated July 2, 2013, states that the process of selecting banks should be transparent. The selection of the bank(s) as well as the terms of deposits will be approved by the concerned board of directors or governing body on the basis of competitive bids from at least three independent banks.

Sr.No. 3(e): “The working balance limit of each organization should be determined with the approval of the administrative ministry in consultation with the Finance Division. The account of this working balance may be maintained in a current or savings bank account”.

6. Before making any investment, set up in-house professional treasury management functions. Specifically, they would need to have an Investment Committee (IC) with defined investment approval authority. Transactions above the approval authority of the IC will be subject to the approval of the Board of Directors or an equivalent forum. The IC should be assisted by an Investment Management Unit employing qualified staff with at least 3–5 years of experience managing investments in debt and equity instruments.
7. The Chief Executive of the PSE/local/autonomous body will be required to issue a certificate annually indicating that the above instructions are being followed with respect to the working balance and surplus funds of the organization.

As per the Finance Division’s directives dated July 7, 2003, Section 3(c), the risk associated with keeping deposits should be diversified. Therefore, in cases where the total working balance of an enterprise exceeds Rs.10 million, not more than 50% of such balance shall be kept with one bank;

During audit of Korangi Fisheries Harbour Authority (KoFHA) for the year 2022-23, it was observed that the management made an investment of Rs 745,000,000 in Term Deposit Receipts (TDRs) in violation of the Finance Division mentioned above. The details are as under:

(Amount in Rs.)				
S#	Investment	KOFHA	CPF	Total
1	Term Deposit Receipt 22 (NBP)	356,000,000	-	356,000,000
2	Term Deposit Receipt 23 (NBP)	-	9,000,000	9,000,000

3	Term Deposit Receipt 24 (NBP)	352,000,000	-	352,000,000
4	Term Deposit Receipt 25 (NBP)	-	28,000,000	28,000,000
	Total	708,000,000	37,000,000	745,000,000

Following irregularities were observed:

1. Non-existence of a formal and approved policy document for investment.
2. Non-availability of approval regarding the working balance limit from the administrative ministry of Kofha in concurrence with the finance division.
3. Non-existence of in-house professional treasury management functions to streamline investment.
4. There is no mechanism for transactions above the approval authority of the IC will be subject to approval of the Board of Directors or an equivalent forum.
5. KOFHA has no mechanism for the Investment Committee (IC) to be assisted by an Investment Management Unit employing qualified staff with at least 3-5 years of experience managing investment in debt and equity instruments, as per federal govt. directives.
6. Non-issuance of a certificate from the Managing Director regarding compliance with instructions in respect of the working balance and surplus funds of KOFHA.
7. The whole investment was made in a single bank.

Audit is of the view that placing of funds in absence of Finance Division's directives stands irregular and unjustified.

The matter was reported to the management on November 14, 2023. The management in its reply stated that the Authority has invested at NBP which offered the highest rate of interest and secured by the sovereign guarantee. The reply was not tenable because management made investment in violation of Finance Division directives.

Audit recommends justification of the matter.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year 2022-23 vide para(s) number 14.2.4.1 having financial impact of Rs.650.000 million. Recurrence of same irregularity is a matter of serious concern.

(DP No.739 & 740)

14.2.4.5 Processing of transactions without due diligence and review – Rs.178.900 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Korangi Fisheries Harbour Authority (KofHA) for the year 2022-23, it was observed that there was no standard mechanism in the authority to examine transaction validity and accuracy, where they had the exposure of expenditures to the extent of Rs.178.899 million including advance expenses along with frequent procurement of stores, supplies and stationery related items in the

year 2022-23. Transactions were processed without due diligence and review, which raises concern about accuracy, completeness, correctness and effective transaction processing.

Audit is of the view that management failed to build and strengthen the mechanism of due diligence and review for transaction processing and ensure the safeguard of business assets while maximizing operational efficiency.

The matter was reported to the management on November 14, 2023. The management in its reply stated that the total budget and released amount under Employee Related Expenditure (ERE) and non-ERE is expended through Assignment Accounts duly maintained at National bank of Pakistan. The expenditure was booked by office of the Director General Pakistan Revenue (Sub-Office) Karachi after taking into account the relevancy and head of expenditure for which funds were released. The reply of the management was not tenable because internally managed pre-audit function was not prevalent therefore; transactions were processed without due diligence and review.

Audit recommends to establish and running effective and efficient transaction processing mechanism for complete, correct and fair transaction processing which could prevent from potential fraud and error and ensure standard reporting.

14.2.4.6 *Non-recovery of dues - Rs.101.194 million*

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Korangi Fisheries Harbour Authority (KoFHA) for the year 2022-23, it was observed that the management did not recover an amount of Rs.101.194 million on account of various heads (**Annex-84**). The brief summary is as under:

S#	Description	Amount (Rs.in million)
1.	Transport Charges	8.970
2.	Rent	74.000
3.	Water Charges	2.764
4.	Electricity charges	15.460
Total		101.194

Audit is of the view that due to poor monitoring and controls, the management failed to recover various dues.

The matter was reported to the management on November 14, 2023. The management in its reply stated that:

- a. There was no levy of any kind of charges as approved by the board or MD subject to ratification by Board of Directors. The reply was not tenable because transportation charges remained outstanding.
- b. The recovery of dues is on going process. The reply was not tenable because no recovery was made by the management.
- c. The amount reflected by the Audit includes over Rs. 12 million in electrical dues to be recovered from just one Fish Processing Plant, this defaulter has been approaching other forums to exert undue influence and pressure on the Authority's concerned section. However, management further claimed recovery of Rs. 14.5 million alongwith LPS Rs.2.102 million. The reply was not tenable because 12 million against single defaulter remained outstanding. Beside management claimed to recover Rs. 16.602 million against reported amount of Rs.15.460 million.
- d. The management informed that they recovered an amount of Rs.15 million. The reply was not tenable because an amount of Rs.59.09 million remained outstanding.

Audit recommends to recover the amount on priority basis.

(DP No.751, 753, 754 & 761)

14.2.4.7 *Un-reconciled / verified balances of supplementary grant - Rs.35.620 million*

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Korangi Fisheries Harbour Authority (KoFHA) for the year 2022-23, it was observed that the management received a grant of Rs.35.619 million from federal government vide letter dated 09-06-2022. Out of total grant, the management released an amount of Rs.5.000 million in favour of M/s Effective Solution for IP Surveillance System. However, the remaining grant of Rs.30.620 million was also utilized but remained un-reconciled / un-verified.

Audit is of the view that the management failed to reconcile the grant amounting to Rs.30.620 million which reflected negligence and slackness.

The matter was reported to the management on November 14, 2023. The management in its reply stated that reconciliation of expenditure of Assignment Account of KoFHA for Rs.30.620 million was carried out from AGPR Sub Office Karachi. The reply was not tenable because an amount of Rs.4.99 million remained un-reconciled.

Audit recommends to justify the matter.

14.2.4.8 *Line losses in electricity supply – Rs.11.130 million*

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Korangi Fisheries Harbour Authority (KoFHA) for the year 2022-23, it was observed that the management sustained losses of Rs.11.130 million on account of leakages in the electricity supply network (Annex-85).

Audit is of the view that due to the weak monitoring and control system, incidents of electricity leakages are occurring with regular and rising frequency and damaging the authority resources on a consistent basis since many years till now, which is alarming.

The matter was reported to the management on November 14, 2023. The management in its reply stated that most losses were occurred during the fault occurred in supply system. K-Electric adopted average billing method for KoFHA against power consumption during August 2022 to February 2023 due to fault of CT/PT at higher side. However, dispute with K-Electric was taken up with NEPRA for adjustment. The reply was not tenable because weak monitoring and control system resulted in loss of electricity units.

Audit recommends taking immediate corrective action to control reported leakages. Further, to recover the losses along with fixing of responsibility on the person(s) at fault.

14.2.4.9 *Loss of interest income due to placement of funds in current account -*

Rs.8.680 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Korangi Fisheries Harbour Authority (KoFHA) for the year 2022-23, it was observed that the management placed funds in the current account which resulted in a loss of potential interest income. The details of loss as on June 30, 2023 are as follows:

(Amount in Rs.)							
S #	Account No	Nature of account	Balance at start	Yearly Deposit	Yearly Withdrawals	Balance at end	Avg Holding
1	4069284635	Revenue	35,719,001.45	5,457,679	4,118,557	37,058,123.45	37,058,123.45
2	40692844626	Retention Money	7,729,551.92	4,347,155	6,782,888	5,293,818.92	5,293,818.92
						TOTAL	42,351,942.37
						Potential Interest Income (42.35 million*20.5%)	8,682,148.19

Audit is of the view that the placement of funds in the current account reflected weak financial management and negligence.

The matter was reported to the management on November 14, 2023. The management in its reply stated that KoFHA has approached NBP for conversion of current accounts into Saving Account. The reply was not tenable because deposits were still parked in current account.

Audit recommends to justify the matter.

14.2.4.10 Loss of interest income due to delay in deposit collection - Rs.5.431 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Korangi Fisheries Harbour Authority (KoFHA) for the year 2022-23, it was observed that the management invested following funds with National Bank of Pakistan (NBP). After maturity of funds, the management was required to recover the principal and interest amount in time however; it failed to recover the principal and interest amount. The delay in recovery of funds resulted in loss (Annex-86). The brief summary is as under:

(Rs in million)				
S #	Amount of investment	Rate (%)	Delay (days)	Loss due to delay in recovery
1.	310.000	11.70	14-19	1.336
2.	350.000	7.50	20	0.676
3.	340.000	12.90	43	3.419
Total				5.431

Audit is of the view that the management could not collect the deposit with interest on time. This shows weak financial management.

The matter was reported to the management on November 14, 2023. The management in its reply stated that the audit's contention regarding extended period of investment at NBP is correct however, the authority received rack (minimum) rate. The reply was not tenable because management could not produce documentary support to avoid the loss of interest income.

Audit recommends to justify the matter.

(DP No.747, 748 & 749)

14.2.4.11 Irregular execution of Supply & installation of IP Surveillance System – Rs 5.000 million

According to the decision of High Level Security Meeting between DG Rangers, Sindh and KoFHA, it was decided to establish high level surveillance and security set up including high resolution camera network (covering all possible blind spots), more street lights and installation of speed breakers, as well as control centers.

During audit of Korangi Fisheries Harbour Authority (KoFHA) for the year 2022-23, it was observed that in compliance of decision of the high-level meeting mentioned above to manage security threats at KoFHA, the management awarded a contract for supply and installation of IP surveillance system to M/s Effective Solution of Rs.5.000 million. However, the work was done with discrepancies and irregularities in comparison of bill of quantities (BoQ):

- The first component of the project was the establishment of an insulated room (cabin) with a protection sheet, which had a financial impact of Rs.2.200 million.
- The second component of the project was the procurement and installation of an IP Surveillance System, which had a financial impact of Rs.2.800 million. Following shortcomings were observed as detailed below:

S#	Insulated Cabin Room	As Per Quotation	As per Actual	Remarks
----	----------------------	------------------	---------------	---------

1	Door Panel	02 units	01 unit	-
2	Small window	01 unit	Not exist	-
3	Glass Partition wall	08 mm imported	Not verified	-
4	Operational and vigilant control centre	01	Not exist	-
IP Surveillance System				
1	DAUHA 08 Megapixel Bullet IP Camera	12 units	08 units	Mostly out of order
2	DAUHA PTZ 4 Megapixel 45X zoom	04 units	03 units	02 out of order

Audit is of the view that the management failed to execute the contract effectively and professionally along with release of payment which resulted in the above reported shortcomings. Thus, contract amounting to Rs.5.000 million stands irregular and unjustified.

The matter was reported to the management on November 14, 2023. The management in its reply stated that the firm engaged for the work had been working in big government and private sector firms, having technical expertise in providing surveillance and monitoring solutions. The reply was not tenable as management failed to execute the contract effectively and professionally.

Audit recommends investigating the matter with a view to fix responsibility on the person(s) found at fault.

14.2.4.12 Loss due to irrational encashment of investment – Rs.4.998 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Chief Executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Korangi Fisheries Harbour Authority (KoFHA) for the year 2022-23, it was observed that the management invested Rs.60.000 million @ 7.48% in TDR with Faisal Bank on May 01, 2018 for 03 years. On May, 2019 to avoid application of Zakat, the management encashed the investment pre-maturely which resulted in penalty of Rs.1.246 million.

Later on, the management re-invested Rs.25.000 million for waiver of penalty on account of pre-mature encashment. In case, had the management did not en-cash the investment pre-maturely, the interest income over the period of three (03) years could be Rs 4,488,000 @ 7.48%. However, the actual realization was Rs 735,823 which registered a short realization of interest income of Rs 3,752,176.

Audit is of the view that the management sustained a loss of Rs.4.998 million (Rs.3.752 million interest income & Rs.1.246 million penalty charges) which reflected imprudent decision making.

The matter was reported to the management on November 14, 2023. The management in its reply stated that the authority keeping a proactive/ preemptive approach to avoid this loss and reinvested the funds on a much higher rate of 12.15% per annum. The reply was not tenable as management did not recover earned amount of interest amounting to Rs3.752 million which was due on the investment parked at the bank.

Audit recommends to probe the matter.

(DP No.742 & 743)

14.2.4.13 *Non-preparation of annual accounts*

Clause (18) (1) of Korangi Fisheries Harbour Ordinance, 1982 states that the accounts of the Authority shall be maintained by the Authority in such forms as may be prescribed by the Auditor General of Pakistan consistent with the requirements of this Ordinance.

Section (10) of Public Sector Companies (Corporate Governance) Rules, 2017 states that every Public Sector shall, within one month of the close of first, second and third quarter of its year of account, prepare a profit and loss account for, and balance sheet as at the end of that quarter, whether audited or otherwise, for the Board's approval. Annual report including annual financial statements shall be placed on the Public Sector Company's website:

During audit of Korangi Fisheries Harbour Authority (KoFHA) for the year 2022-23, it was observed that the management failed to finalize its annual accounts since 2015. According to the above-mentioned rule, the requisite accounts (i.e., profit and loss accounts and balance sheet) were required to be prepared within one month of the close of the first, second, and third quarters and submitted to the Board for approval.

Audit is of the view that due to weaknesses in underlying accounting system have caused delay in timely preparation of accounts and timely completion of audit.

The matter was reported to the management on November 14, 2023. The management in its reply stated that formulation of BoD, KoFHA was in process and likely to be notified by 4th week of Jan 24 or early February, accordingly after its constitution, relevant approvals/ processes will be commenced to undertake the audit of accounts on war footing. The reply was not tenable as the accounts were not finalized since 2015.

Audit recommends preparation of accounts on priority basis.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year 2022-23 vide para(s) number 14.2.4.13. Recurrence of same irregularity is a matter of serious concern.

14.3 Pakistan National Shipping Corporation

14.3.1 Introduction

Pakistan National Shipping Corporation (the Holding Company), its subsidiary companies and associates (together 'the Group') were incorporated under the provisions of the Pakistan National Shipping Ordinance, 1979 and the Companies Ordinance 1984, respectively. The Group is principally engaged in the business of shipping, including charter of vessels, transportation of cargo and other related services.

14.3.2 Comments on Audited Accounts

14.3.2.1 The working results of the Corporation for the year 2022-23 as compared with the preceding years are given below:

(Rs in million)					
Particulars	2022-23	% Inc / (Dec)	2021-22	% Inc / (Dec)	2020-21
No. of Ships	12		11		11
Cargo carried by owned and chartered vessels (in million tons)	10.83	(9.5)	11.97	7.9	11.09
Operation Revenue					
Own vessels	38,317.88	142.4	15,805.60	57.21	10,053.97
Chartered vessels	4,205.51	(19.8)	5,246.51	103.41	726.38
Slot Chartered revenue	4,707.06	86.8	2,520.27	100.3	1,239.01
Total income from shipping business	47,230.45	100.4	23,572.43	96.12	12,019.37
Rental Income	265.46	11.10	239.01	8.34	220.62
Other income/other operating activities	16,549.54	212.3	5,298.93	222.57	1,642.72
Total revenue	64,045.45	120	29,110.37	109.69	13,882.70
Operating expenses					
Fleet expenses Direct and indirect	(27,469)	40.3	(19,579.58)	100	(9,786.81)
Admin expenses	(1,608.71)	32.2	(1,216.63)	17.6	(1,034.52)
Other expenses including Real Estate Expense	(557.22)	3.1	(540.54)	63.8	(329.91)

Total expenses	(30,757.87)	38	(22,282.88)	99.5	(11,168.16)
Operating profit/(loss)	33,287.58	387.5	6,827.79	127	2,999.79
Finance Cost	(1,411.03)	165.9	(530.66)	(4.83)	(557.61)
Profit/(Loss) before Taxation	31,876.55	406.2	6,297.14	157.8	2,442.19
Profit/(Loss) after Taxation	29,994.30	430.9	5,649.89	149.44	2,265.03

(Source: Annual Audited Accounts)

14.3.2.2 Total fleet expenses increased by 40% from Rs 19,579.58 million in 2021-22 to Rs 27,469 million in 2022-23, due to increases in charter hire and related expenses of foreign flag vessels, diesel, fuel and lubricants consumed, demurrage expenses and other miscellaneous expenses.

14.3.2.3 Admin expenses increased by 32% from Rs 1,216.63 million in 2021-22 to Rs 1,608.71 million in 2022-23, due to increases in workshop management, general establishment, rent/rates/taxes, scholarship and training, legal and professional charges and other misc expenses.

14.3.2.4 Finance Cost increased by 165.9 % from Rs. 530.66 million in 2021-22 to Rs 1,411.030 million in 2022-23 due to increases in mark-up on long-term financing.

14.3.2.5 Ratio Analysis:

	UOM	2023	2022	2021	Comments
Profitability ratios; The combined effects of liquidity, asset management and debt on operating results					
Profit before tax	%	58.20	22.72	19.10	Shows positive upward trend in Profit as compared to previous years.
Operating leverage ratio	%	398.94	109.34	262.46	Depicted uneven trends and huge upward trend as compared to previous year needs justification.
Return on equity	%	42.20	13.33	6.10	Shows positive upward trend as compared to previous years.
Liquidity ratios; The ability of the company to pay off its debts as they come due over the short term period					
Current ratio	%	4.07	3.38	3.71	Industry trend always lies between 1.4% and 1.6% whereas PNSC current ratio shows uneven trends, needs justification.
Activity / turnover ratios; The ability of the company to effectively manage its vessels					
Asset turnover ratio	Times	0.64	0.52	0.27	Shows positive upward trends.
Market ratios; An indication of what investors think of company's past performance and future prospects					

Price earnings ratio	Times	0.58	1.13	4.24	Shows downward trend as compare to the previous years.
Share price at year end	Rs	132.53	48.26	72.70	Share price was much high as compared with its preceding year.
Capital structure ratios; It measures the percentage of funds provided by sources other than equity					
Financial leverage ratio	Times	0.10	0.11	0.16	Shows downward trend in times as compared with its preceding years.
Debt to equity ratio	Times	0.10	0.11	0.13	Shows downward trend in times as compared with its preceding years.

14.3.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	%age of compliance
2003-04	6	5	1	181	83%
2006-07	18	17	1	189	94%
2008-09	5	4	1	212	80%
2010-11	13	13			100%
2011-12	13	2	11	22.3.2.1, 22.3.2.2, 22.3.2.3, 22.3.2.4, 22.3.2.5, 22.3.2.6, 22.3.2.7, 22.3.2.8, 22.3.2.9, 2.3.2.10, 22.3.4.1	15%
2012-13	6	2	4	22.1.2.1, 22.1.2.2, 22.1.2.3, 22.1.2.4	33%
2013-14	10	7	3	16.3.2.1, 16.3.4.2, 16.3.4.4	70%
2014-15	12	9	3	18.3.2.1, 18.3.2.2, 18.3.2.3, 18.3.3, 18.3.4.1, 18.2.4.2, 18.2.4.3, 18.3.4.4, 18.3.4.5, 18.3.4.6, 18.3.4.7	75%
2015-16	11	1	10	17.3.2.1, 17.3.2.2, 17.3.2.3, 17.3.2.4, 17.3.3, 17.3.4.1, 17.3.4.2,	9%

				17.3.4.3, 17.3.4.4, 17.4.2.1	
2016-17	10	1	9	15.3.2.1,15.3.3,15.3.4.1, 15.3.4.2, 15.3.4.3, 15.3.4.4, 15.3.4.5, 15.3.4.6,15.3.4.7	10%
2017-18	12	1	11	14.3.2.1,14.3.2.2, 14.3.2.3, 14.3.3, 14.3.4.1, 14.3.4.2, 14.3.4.3, 14.3.4.4, 14.3.4.5, 14.3.4.6, 14.3.4.7	8%
2019-20	4	2	2	10.3.4.1, 10.3.4.2	50%
2021-22	22		22	12.3.4.4, 12.3.4.12, 12.3.4.2 (remaining to be discussed in PAC)	
Total	142	64	78		45%

The overall compliance of PAC directives needs improvement.

14.3.4 Audit Paras

14.3.4.1 *Payment without opening of letter of credit – Rs 9,558.000 million equivalent to USD 43.653 million*

As per S#(h)(7) on General Terms and Conditions of SBP Annexure -1 to Circular No. 03 dated June 28, 2018, “In case of the import of plant and machinery, the foreign currency required for making payment to the machinery manufacturer or the suppliers abroad, against LC, shall be purchased by the PFI of the borrower from the inter-bank market at prevailing rates”.

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the Chief Executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2021-22, it was observed that contrary to above SBP circular management of PNSC purchased following two vessels and made payment of USD 43.653 million without opening of Letter of Credit (LC).

Name of vessel	Amount in USD
Paid for M.T Torrance	21,556,069
Paid for M.T Turin	22,096,588
Total paid price for two vessels	43,652,656

Audit is of the view that procurement of two vessels without opening of Letter of Credit (LC) is irregular.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The Management informed the Committee that the law firm was established in 1969 and BoD has approved the services of law firm as desired by seller. The DAC directed the management to provide relevant documents for verification of law firm, BoD approval and payment made to law firm.

Audit recommends implementation of the DAC directives.

14.3.4.2 Irregular procurement of two vessels – Rs 9,361.000 million equivalent to USD 42.750 million

According to S#(4)(iv) of Government of Pakistan Finance Division (Budget Wing) on Specific Instructions And General Guidelines For Foreign Exchange Budget states “Proposals received after 10th May 2022 or lacking in any manner shall not be entertained. In such case, no provision will be made in the foreign exchange budget 2022-23. The responsibility for the same shall entirely rest with the entity concerned”

According to decision S#(6)(i) of meeting of the Cabinet Committee on Ports & Shipping on March, 9, 2000 “(i) The PNSC Board to be reconstituted with Secretary Petroleum and Additional Finance Secretary (Expenditure), to replace Secretary Industries and Production and Director (Finance), PNSC. The Board will have complete authority to make decisions for acquisition/deletion of vessels.”

According of Finance Division (CF Wing) letter No.6(1)CF-IV/2010-Vol.III-119, dated April, 2022 “...refer to Ministry of Maritime Affairs O.M.No.3(1)/2021-PNSC dated 25 March, 2022 on the subject ‘Public Sector Ceiling Request till 30th June, 2022’ and to convey the approval of Finance Division to allow Credit Ceiling to Rs.10.373 million to PNSC till 30th June, 2022”. “2. However, it is clarified that the Corporation will raise the required financing on its own and will be responsible for servicing and repayment of this financing facility. This will not constitute any direct or indirect liability in any form such as Government Guarantee on the part of Government of Pakistan.”

Rule 20 of PPRA Rules 2004 states that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

Rule 04 of the Public Procurement Rules, 2004, states that procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2021-22, multiple irregularities were observed in procurement two secondhand vessels at USD 42.750 million by the PNSC without obtaining fresh approval from Federal Cabinet and without utilizing the credit limit of Rs.10.373 allocated by Ministry of Finance to PNSC till 30th June, 2022 and no revised, fresh limit was allocated to PNSC.

Further it was observed that procurement was made without competitive bidding, without including 13-15 years old vessels in procurement plan 2021-22 which restricted to allow the widest competition by mentioning age in bracket i.e. from 13 to 15 years due to which only limited bidders participated in competition. Method of procurement was not adopted (single stage/ two stage – one envelope & two envelope). Date of closing, opening of technical and financial bid was not given in advertisement. No confirmation from 43 brokers were received after mailing request for bidding. Different bids were received by BoD (25 bids) & by Sale and Purchase Committee (SPC) (21 bids). Tender opening date was 04.03.2022 at 3:15, but not opened on same time nor was there any extension in due date was made. Speed of vessel was less than the required 14 knots and no inspections before and after purchase were carried out by PNSC. No evaluation report was announced on PPRA website. Tender documents were sold without cost. Third party survey was without any date, signature and stamp which were not received by courier.

Audit is of the view that management made procurement of the vessels without obtaining fresh approval from Federal Cabinet, without submitting Foreign Exchange Budget proposals on due date i.e. 10th May 2022 to Finance Division, without utilizing the credit limit of Rs.10.373 million and allocation of fresh limit from Ministry of Finance and in violation of public procurement rules.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The Management informed the Committee that the procurement of vessels was undertaken vide Rule 42(d)(ii) of PP Rules 2004 as allowed by PPRA through minutes of the Tripartite Meeting held on 05 May 2010 under the Chairmanship of Managing Director (PPRA). Further approval of PNSC BoD was sought for undertaking the said procurement under Rule 42(d). The DAC was not satisfied with the stated facts of managements, hence stand the para and directed the management to refer the matter to Cabinet Division for approval through PPRA.

Audit recommends implementation of the DAC directives.

14.3.4.3 Non-recovery of dues from parties – Rs 8,072.149 million

Rule 4 (3) of Corporate Governance Rules, 2017 states that the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2021-22, it was observed that the management failed to effect recovery of an amount of Rs 8,072.149 million(Annex-87) as detailed below:

(Rs.in million)		
S#	Head of Recovery	Amount
1	Non-recovery / adjustment of advances to Contractors and Suppliers	293.039
2	Non recovery of rent from tenants	52.456
3	Non-recovery of dues from Government parties	197.133
4	Non-recovery of dues from Agents and owners	26.349

5	Non-recovery of Demurrages	4,587.000
6	Non-recovery of freight charges from various Organizations	2,164.871
7	Non-recovery of freight charges (others) from various Organizations	751.301
Total		8,072.149

Audit is of the view that the management failed to safeguard Corporation's interest as it did not recover the amount of Rs. 8,072.149 million which indicates inefficiency, weak financial management and poor internal controls within the organization.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. Management explained that out of total amount mentioned Rs. 8,072.149 million, PNSC has recovered the amount of Rs. 3,876.147 million till date which is 48% of total receivable. The DAC directed the management to provide relevant recovery documents for verification. Audit verified that Rs 3,876.147 million was recovered / adjusted out of total Rs 8,072.149 million.

Audit recommends implementation of the DAC directives.

14.3.4.4 Non-winding of business of Sargodha Shipping Company and irregular change in business of acquired company – Rs 4,760.000 million equivalent to USD 21.74 million

According to PNSC's Subsidiary Companies status:

Company Name	Status
Sargodha Shipping (Private) Limited	LPG business

Section-26(1)(A)(i) of Companies Act 2017, states that the principal line of business of the company shall be mentioned in the memorandum of association of the company which shall always commensurate with name of the company; and (ii) any change in the principal line of business shall be reported to the registrar within thirty days from the date of change.

According's to PNSC Board 386th meeting held on 19-04-2018 'Sargodha Shipping (Private) limited' for LNG Business only. However, no change is made to incorporate the LNG/LPG business in the object clauses of the Memorandum of Association of the companies. Therefore, we suggest that both companies may be used for immediate need of new project, with consent of the Board. Later on new companies may be registered for LNG/LPG business, as and when need.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2021-22, it was observed that was reserved for LNG/LPG business but the management purchased the secondhand Aframax crude oil tanker vessel, M.T Eagle Turin at a price USD21.75 million and named it M/s Sargodha Shipping.

Audit is of the view that the management irregularly changed the business of Sargodha Shipping from LNG/LPG business to crude oil tanker in violation of Board decision and Companies Act, 2017.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The Management informed the Committee that the Memorandum of Association of the said subsidiary company also allows to carry on the business of crude oil tanker. The DAC directed the management to provide relevant documents for verification MoA, BoD minutes of 06.06.2022, 17.05.2022 & 19.04.2018 along with working papers.

Audit recommends implementation of the DAC directives.

14.3.4.5 Non-winding of business of Lalazar Shipping Company and irregular change in business of company acquired –USD21.00 million equivalent to Rs 4,598 million

According to PNSC’s Subsidiary Companies status:

Company Name	Status
Lalazar Shipping (Private) Limited	Available for new project

Section-26(1) (A)(i) of Companies Act 2017, states that the principal line of business of the company shall be mentioned in the memorandum of association of the company which shall always commensurate with name of the company; and (ii) any change in the principal line of business shall be reported to the registrar within thirty days from the date of change.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2021-22, it was observed that Lalazar Shipping (Private) Limited was reserved for purchase of new ship business but the management purchased secondhand ship Aframax crude oil tanker vessel, M.T Eagle Torrance at a price USD 21.00 million and named the purchased ship as M/s Lalazar Shipping.

Audit is of the view that the management irregularly changed the business of Lalazar Shipping from new ship business to secondhand vessel and allotted name as M.T Mardan which is not registered in PNSC and available in books of accounts.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The Management informed the Committee that the Memorandum of Association of the said subsidiary company also allows to carry on the business of crude oil tanker. The DAC directed the management to provide relevant documents for verification MoA, BoD minutes of 06.06.2022, 17.05.2022 & 19.04.2018 along with working papers.

Audit recommends implementation of the DAC directives.

14.3.4.6 Irregular utilization of Foreign Exchange from different head of accounts & financial years – USD18.10 million equivalent to Rs 3,963 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2017 states that the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2021-22, it was observed that Finance Division released foreign exchange of USD 17.2 million from heads of account ‘Current Invisible’, ‘Current Import & Development Expenditure-Import’ during financial years 2021-22 & 2022-23 and SBP allocated advance payment of USD18.10 million during financial year 2022-23 to PNSC for making payment of M.T Eagle Torrance & M.T Turin (two Aframax tankers/ vessels) from M/s AET Inc. Limited, Bermuda.

Audit is of the view that the management did not utilize FE from Capital Expenditure and the same was utilized from different heads of account. The amount approved by Finance Division was USD 17.2 million and SBP as USD 18.10 million.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The Management informed the Committee that the allocation and approvals were made by MoF and SBP and expenditure was incurred from Capital Budget. The DAC directed the management to provide relevant documents for verification of Capital Budget and expenditure.

Audit recommends implementation of the DAC directives.

14.3.4.7 Irregular availing of excess Long Term Finance Facility than the approved limit from a single bank - Rs.2,644 million

Rule 20 of PPRA Rules, 2004, states that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

As per S#(1)(f) of SBP Instructions, Consolidated and Updated Instructions on Long Term Financing Facility (LTFF) for Imported and Locally Manufactured Plant & Machinery on Scope and Eligibility “Maximum financing of banks/DFIs to a single export oriented unit shall not exceed Rs 1.5 billion under LTFF. However, banks/DFIs may provide financing facilities as per their credit policies over and above the said maximum limit from their own sources subject to adherence of applicable Prudential Regulations.”

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2021-22, it was observed that the management purchased two vessels amounting to USD 42.750 million from M/s AET Inc. and payment of USD18.100 million (USD8.6 million + USD9.6 million) was remitted from a local bank i.e. Faysal Bank Ltd which was in excess of maximum limit prescribed by SBP i.e. Rs.1.5 billion. Details are given below:

Name of Bank	Date of payment	Amount in USD	USD conversion rate	Total in PKR
--------------	-----------------	---------------	---------------------	--------------

Faysal Bank	27.07.22	8,600,000	239.9414	2,063,495,859
Faysal Bank	05.08.22	9,500,000	218.9648	2,080,165,866
Total		18,100,000		4,143,661,725
SBP maximum limit				1,500,000,000
Excess facility availed				(2,643,661,725)
% of excess facility				(176)

It was further observed that financing of amount was made without any competitive process.

Audit is of the view that the management availed excess loaning facility of Rs 2,644 million from single bank against the assigned limit of Rs.1.5 billion in violation of SBP Prudential Regulations. Besides, availing of financing facility without competitive process resulted in compromised value for money and non-transparent award of service. Audit required complete file of rates offered by all banks, loaning facility availed, copy of agreements, correspondence & approval of Faysal Bank, SBP, and Ministry of Finance.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The Management informed the Committee that due process was followed for selection of Banks. The DAC directed the management to provide relevant documents of due process for verification.

Audit recommends implementation of the DAC directives.

14.3.4.8 Purchase of two vessels without Dry Docking & Special Survey due on seller – USD 9.948 equivalent to million Rs 2,178 million

Rule 20 of PPRA Rules, 2004 states that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

Rule 04 of the Public Procurement Rules, 2004, states that procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2021-22, it was noted that management made procurement of following two vessels at USD 42.750 million. However, audit observed that the management incurred an expenditure of USD 9.948 million on account of Dry Docking and a number of Special Surveys which were due before purchase of the vessels. Besides, 3rd Special Survey with dry docking under Condition Assessment Program (CAP), containing major surveys, was also mandatory at the age of 15 years for each vessel. Detail of the cost of Dry Docking & Special Surveys is hereunder;

(Amount in USD million)		
Name of Vessel	Eagle Torrance	Eagle Turin

Age	15 years	14.2 years
Dry docking scheduled date	26.07.2022	14.02.2023
Vessels delivered to PNSC	August, 2022	August, 2022
Cost of dry docking	1.2	1.5
Other Cost	3.674	3.574
Total cost of each vessel	4.874	5.074
Total cost of two vessels	9.948	

The breakup of main class surveys in respect of M.T Eagle Torrance due on 26.07.2022 is hereunder;

S#	Main Class Surveys	S#	Main Class Surveys
1	Annual Survey Machinery	4	Special Survey
2	Auxiliary Boiler Survey	5	Docking Survey
3	Exhaust Gas Economizer Survey	6	Annual Survey Hull

It was further observed that procurement of M.T Eagle Torrance vessel was made without renewal of following Statutory Certificates.

S#	Statutory Certificates	Expired on	S#	Statutory Certificates	Expired on
1	International Load Line	26.07.2022	6	Marpol Air	26.07.2022
2	Safety Construction	26.07.2022	7	Marpol Sewage	26.07.2022
3	Safety Equipment	26.07.2022	8	BWM Certificate	26.07.2022
4	Safety Radio	26.07.2022	9	Cargo Gear (Annual)	22.05.2022
5	Marpol Oil	26.07.2022	10	Cargo Gear (5-yearly)	12.8.2022

Audit is of the view that the management made unjustified expenditure of USD 9.948 million on account of Dry Docking and a number of Special Surveys and the factor of renewal of Statutory Certificates were not taken into account while determining the cost of the vessels. This resulted into extra expenditure by PNSC.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The Management informed the Committee that conscious decision and BoD approval was made along with extension of dry docking days. The DAC directed the management to provide relevant documents to audit for verification.

Audit recommends implementation of the DAC directives.

14.3.4.9 Non-deduction of Sales Tax on account of procurement of two vessels - USD

7.268 million equivalent to Rs 1,591 million

As per Section 3 (1) (b) of Finance Act, 2022, there shall be charged, levied and paid a tax known as sales tax at the rate of 17% of the value of (b) goods imported into Pakistan.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2021-22, it was noted that management made procurement of two vessels i.e. M.T Turin & M.T Torrance at USD 42.750 million. However, the management did not deduct the General Sales Tax (GST) @ 17% amounting to USD 7,267,500.

Audit is of the view that non-deduction of Sales Tax caused loss to Government exchequer.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The Management informed the Committee that Sales Tax provision was made in books of accounts. The DAC directed the management to provide relevant documents to audit for verification.

Audit recommends implementation of the DAC directives.

14.3.4.10 Loss due to purchase of two vessels at higher than estimated price – USD 8.75 million equivalent to Rs 1,545 million

Rule 04 of the PPRA Rules, 2004, on principles of procurements states that procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

Rule 20 of PPRA Rules, 2004, on principal method of procurement states that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2021-22, it was noted that Special Projects & Planning Division of PNSC through working papers dated 16.12.2021 recorded that Finance Division of PNSC has worked out the feasibility for the procurement of one secondhand Aframax, aged between 11-15 years, and confirmed that the project is feasible. The revenue and cost-related assumptions were verified by Commercial Division and Ship Management Division respectively, whereas life and cost-related assumptions of vessel were checked by Planning Division. Estimated cost of 15 years old vessel was USD 17 million. However, Audit observed that management procured two secondhand Aframax tanker vessels at exorbitant price. The detail of exorbitant procurement of vessels is hereunder.

Amount in USD			
Name of vessel	Actual cost	Estimated cost	Difference amount
M.T Turin	21,750,000	17,000,000	4,750,000
M.TTorrance	21,000,000	17,000,000	4,000,000

Total	42,750,000	34,000,000	8,750,000
--------------	-------------------	-------------------	------------------

Audit is of the view that procurement of the vessels was not conducted in a fair and transparent manner as it compromised value for money. Thus, the Corporation sustained loss of USD 8.75 million.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The Management informed the Committee that 6th tender was floated and feasibilities of vessels were made. The DAC directed the management to provide relevant documents to audit for verification.

Audit recommends implementation of the DAC directives.

14.3.4.11 *Non-recovery of liquidated damages on late delivery of USD 4.275 million equivalent to Rs.936 million & loss of freight revenue– Rs.976 million*

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2017 states that the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Ordinance and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2021-22, it was noted that management purchased two vessels (M.T Eagle Torrance & M.T Turin) amounting to USD 42.750 million from M/s AET Inc. Ltd. on 29.06.2022. However, it was observed that the management did not effect recovery of liquidated damages (L.D) of USD 4.275 million equivalent to Rs.936 million as there was late delivery of the vessels - the vessels agreed to be delivered in June, 2022 were actually delivered on August, 2022, with a delay of three months.

Audit is of the view that non-recovery of liquidated damages on late delivery (USD 4.275 million equivalent to Rs.936 million) consequent non-operation of the vessels caused loss of freight revenue of Rs.976 million based on the calculations of total per day freight revenue of Shalamar during June,2022 [(173,505,000/16 days) = 10,844,063 x90 days = 975,965,670].

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The Management informed the Committee that negotiated for purchase of two vessels was made in SPC 16 minutes of meeting and vessels were delivered in August, 2022. The DAC directed the management to provide relevant documents to audit for verification.

Audit recommends implementation of the DAC directives.

14.3.4.12 *Procurement of two vessels from other than the lowest bidder/non-participant bidder & consequent loss – Rs.770.000 million equivalent to USD 4.350 million*

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

Rule 04 of the PPRA Rules, 2004, on principles of procurements states that procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

Rule 20 of PPRA Rules, 2004, on principal method of procurement states that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2021-22, it was noted that management published tender on 25.01.2022 for procurement of three Aframax crude oil tankers having age of 13 to 15 years. Out of 23 offers received, only 11 offers were evaluated technically & financially. However, it was observed that management made procurement of two vessels instead of three at USD 42.750 million (from the bidders who had not participated in the bidding process) and the same from other than the lowest bidders. The details are hereunder;

Name of Vessel	Built Year	Country of Built	Amount (USD)	Remarks
M.TBergitta	2007	Japan	18,500,000	Lowest bidder
M.TAfraparl	2007	Korea	19,900,000	Lowest bidder
Total			38,400,000	
M.T Turin	2008	Japan	21,750,000	Not participant bidder
M.TTorrence	2007	Japan	21,000,000	Not participant bidder
Total			42,750,000	
Loss (38,400,000-42,750,000)			-4,350,000	

It was further observed that management requested M/s Dan Willmott, broker for Bergitta vessel, on 03.03.2022 for submission of documents after lapse of one month of opening of financial bids on 02.02.2022. Furthermore, management did not intimate reasons of rejection of the bids to the non-responsive bidders. The technical & financial bid evaluation reports were without any signature and stamp of Procurement Committee and the same were not opened timely.

Audit is of the view that the procurement of vessels was not conducted in a fair and transparent manner. This not only compromised value for money to the agency but also reflected that the procurement process was irregular, inefficient and non-economical. Thus, the procurement was made in violation of the Public Procurement Rules and the Corporation sustained loss of USD 4.350 million.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The Management informed the Committee that M.T Turin & M.T Torrence was participated in bids. Further M.T. Bergitta official price submitted vide email was US\$ 21.5 million and not 18.5 million. Afraparl vessel was not considered further due to her technical score obtained in SM Division technical evaluation in view of its all inspection i.e. Class record Inspection,

Pre Purchase Condition Survey (PPCS) and Third Party Inspection in lieu of PNSC Own Inspection. The DAC directed the management to provide relevant documents to audit for verification.

Audit recommends implementation of the DAC directives.

14.3.4.13 Irregular award of dry docking to 3rd lowest bidder - Rs.382.159 million equivalent to \$2.492 million

Rule 40 of PPRA Rules, 2004, states that save as otherwise provided there shall be no negotiations with the bidder having submitted the lowest evaluated bid or with any other bidder: Provided that the extent of negotiation permissible shall be subject to the regulations issued by the Authority. Further, rule 04 of PPRA Rules, 2004, states that procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner.

Rule 31 (1) & (2) of PPRA Rules, 2004, states (1) No bidder shall be allowed to alter or modify his bid after the bids have been opened. However, the procuring agency may seek and accept clarifications to the bid that do not change the substance of the bid. (2) Any request for clarification in the bid, made by the procuring agency shall invariably be in writing. The response to such request shall also be in writing.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2021-22, it was observed that management published tender on 31.3.2021 for dry docking & associated repairs of Aframax oil tanker M.T. Quetta. Bid opening date was 3.5.2021, 4 bidders quoted bids. However, these bids were altered and management awarded contract to 3rd lowest bidder Dubai dry dock world as per details given below:

Amount in USD						
S#	Name of Bidder	Bids quoted	Ranked	Bids presented before LEC	Bids altered	Ranked
1	Dubai dry dock world	1,765,263	3	2,038,480	2,492,071	1
2	Colombo dockyard PLC	1,626,575	2	1,681,704	2,639,475	2
3	Oman dry dock	2,067,770	4	2,122,460	2,760,184	3
4	Zhoushan Shipyard	827,464	1	906,822	3,084,657	4
Total		6,287,072		6,749,466	10,976,387	

Audit is of the view that the management extended undue favor in awarding of contract to the 3rd lowest bidder, Dubai dry dock world at a higher cost of Rs.382.159 million in violation of PPRA Rule, 2004.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The Management informed the Committee that participating shipyards in this case did not quote for certain items. In order to ensure the comparisons are fair, and does not disadvantage bidders which have quoted for all items, the highest rates offered against the said items from other yards were included to compare the bids fairly which is international practice and in accordance with terms and conditions mentioned in tender (instruction to bidders). The DAC directed the management to provide relevant documents to audit for verification. **(DP No. 233)**.

Audit recommends implementation of the DAC directives.

14.3.4.14 Significant increase in dry docking days than the actual days without approval and loss due to non-imposition of penalty - Rs.285.000 million equivalent to \$1.394 million

As per para (6.5) of Internal Control System (ICS) on Dry docking “Vessels of subsidiary companies are required to be dry-docked after approximately every thirty months (i.e. at least twice in five years) for major repairs and maintenance that cannot be performed while the vessels are operating.”

According to Clause (8) of Instructions for the Bidders on time for completion of work “Time shall be of the essence in the performance of this Contract. The Yard represents and warrants that it has no commitments which will prevent it from putting the vessel into Dry dock for completing the Work timeously and agrees that it will not undertake any such commitments. The Yard undertakes that it shall give the highest priority to the work and any Additional Work and shall not assign a higher a higher priority to any other work which may interfere with its diligent prosecution of Work and any Additional Work. Manager would have the right to increase the scope of work given in the Specifications up to 10% without allowing any increase in time originally quoted by the Contractor...., the amount of penalty specified in the instructions to bidder i.e. @US\$ 8,000/ per day for first 5 days and US\$ 14,000/, per day after first 5 days shall be deducted from contract price”.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2021-22, it was

observed that management published various tenders for dry docking & associated repairs of Aframax oil tanker M.T. Quetta, Shalamar & Lahore, actual days quoted and bids received was total 66 days and actual days utilized was 172 day's details given below:

S#	Vessel Name	Awarded contract to	Days in bids	Actual Days utilized	Excess days	% of excess days (3/1x100)
			1	2	3	4
1	Quetta	Dubai Dry Docking World	22	76	-54	-245
2	Shalamar	Dubai Dry Docking World	22	46	-24	-109
3	Lahore	Dubai Dry Docking World	22	50	-28	-127
Total			66	172	-106	
Penalty for 5 days @\$8,000 x 15					120,000	
Penalty for remaining days @\$14,000 x 91					1,274,000	
Total Penalty for 106 days (Amount in USD)					1,394,000	

Audit is of the view that the management utilized excess 106 days than the bid received without approval from competent authority and loss due to non-imposition of penalty of \$1.394 million in violation of terms and conditions.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The Management informed the Committee that Dry Docking was extended due to reasons beyond the control of PNSC and Dubai Dry Dock Worlds both. The DAC directed the management to probe the matter and share with Audit.

Audit recommends implementation of the DAC directives.

14.3.4.15 Irregular appointment of firm for purchase of two vessels – Rs 264.769 million equivalent to USD 1.2 million

Rule 20 of PPRA Rules, 2004, states that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

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

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2021-22, it was observed that the management appointed M/s Theo Sioufas Escrows Service LLP as an escrow agent for procurement of two vessels. However, audit observed that;

1. Escrow agent was appointed without competitive bidding process.
2. P&I Club on 29.06.2022 did not communicate positive initial feedback about the firm and stated that it is a new firm. Singapore Limited Partnership, supported by Theo V. Sioufas & Co. Law Offices, stated to have a history of more than 50 years with a wide International network was newly incorporated on 09.10.2019 and registration date was 11.08.2021. No tax returns of firm were found for the years 2019 to 2022.
3. Financial worth of firm was 01 Singapore Dollar and only holding one share.
4. Minutes of 52 & 57th meeting of the Board of Directors, reflected that the Company shall open and operate necessary Joint Escrow Account in Citi Bank Singapore for the transaction(s) and necessary operating instructions be communicated to the Bank instead of that Citi Bank will no more be acting as an Escrow agent in the subject procurement.

Audit is of the view that the management appointed firm M/s Theo Sioufas Escrows Service LLP without due diligence and competitive bidding.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The Management informed the Committee that the law firm was established in 1969 and BoD has approved the services of law firm as desired by seller. The DAC directed the management to provide relevant documents for verification of law firm, BoD approval and payment made to law firm.

Audit recommends implementation of the DAC directives.

(D.P No. 220)

14.3.4.16 Loss of revenue due to ocean losses - Rs.223.152 million

As per Clause 6 (l) of the Contract of Affreightment (Agreement), it is agreed that;

- (i) Ocean loss in respect of cargo carried shall not exceed 0.4% by weight of crude oil Loaded quantity as per Bill(s) of lading per voyage, compared with measurement of shore tanks at discharge port ... such computations of ocean losses shall made and settled on a voyage-to-voyage basis.

- (ii) If ocean loss on each cargo carried under this Agreement exceeds 0.4% by weight as per above clause, the Carrier shall be liable to pay the Company the cost of ocean loss in excess of 0.4% by weight and freight thereof.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2021-22, it was observed from the voyages files that due to short delivery of crude oil, various refineries charged/ deducted an amount of Rs.223.152 million on account of ocean losses (freight charges and material price on FOB value), which affected the revenues of PNSC (Annex-88).

It was further observed that contrary to above agreement terms, the management paid the amount on account of ocean losses without taking into account the permissible limit of 0.4% by weight and freight.

Audit is of the view that deduction of amounts on account of short quantity reflects poor operational management and loss to the Corporation.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. Management explained that discrepancies of cargo quantity are mainly due to mechanism adopted for measurement and gauging of shore tanks and variations in density of cargo being discharges on top at shore tanks and 17 premium point fixed out of which 3 premium points solely added for covering Ocean losses. The DAC directed the management to provide relevant documents for verification.

Audit recommends implementation of the DAC directives.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year 2022-23 vide para(s) number 14.3.4.24 having financial impact of Rs.25.401 million. Recurrence of same irregularity is a matter of serious concern.

14.3.4.17 Excess payment on account of procurement of two vessels – Rs.198 million equivalent to USD 0.903 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2017, states that the Chief Executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

Rule 23 of GFR states that every Government officer should realize fully that he will be held responsible for any loss sustained by the Government through fraud or negligence on his part.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2021-22, it was observed that management purchased following two vessels amounting to USD 42.750 million from M/s AET Inc. on agreed price and made payment of an amount of USD 43.653 million which resulted in excess payment of USD 0.903 million. The detail of excess amount is hereunder;

Amount in USD			
Name of vessel	Actual	Paid	Difference
M.T Eagle Torrance	21,000,000	21,556,069	-556,069

M.T Eagle Turin	21,750,000	22,096,588	-346,588
Total purchase price of two vessels	42,750,000	43,652,657	-902,657
Total excess payment in Rupees (USD 902,657 x 218.9648)			(197,650,135)

Audit is of the view that the management made excess payments of without any justification.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The Management informed the Committee that SPC approved the excess payment of bunkers. The DAC directed the management to provide approval of BoD and SPC for payment of bunkers for verification.

Audit recommends implementation of the DAC directives.

14.3.4.18 Loss in chartering of foreign vessel - Rs.152.442 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board.

As per Job Description (JD), General Manager Commercial Division is required to utilize vessels in the most profitable manner, prepare and maintain vessel schedule, and ensure proper execution of the voyage, etc.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2021-22, it was observed that management chartered various foreign flag vessels for the shipment of crude oil during the period July 01, 2021 to June 30, 2022 and incurred loss of Rs.152.442 million. The summary is hereunder;

(Rs. in million)		
Expenditure	Freight Income	Loss
1,510.331	1,357.888	152.442

Audit is of the view that non-commercially viable decision, poor financial management and weak internal controls. This resulted into loss of Rs.152.442 million.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. Management explained that due non availability of own tonnage PNSC charter vessel from open market at best available rates. The vessels were chartered at the competitive levels for M/s PSO under C&F arrangement to avoid any shortage of energy requirement in the country. The DAC directed the management to provide relevant documents for verification.

Audit recommends implementation of the DAC directives.

14.3.4.19 Irregular award of works without tendering - Rs.50.876 million

Rule 20 of PPRA Rules, 2004, states that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

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

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2021-22, it was observed that management awarded following works without open competitive

Rs in million		
S#	Nature of work	Amount
1	Ballast Water Tanks	1.876
2	mooring and repair berth	9
3	cargo & bunker tank cleaning	40
Total		50.876

Audit is of the view that the management awarded various works without tendering process, prior approval from Chairman and without availability of vessel at Karachi in violation of rules.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The Management informed the Committee that tenders were floated and scrapped and there was short time to complete the works due to which retendering was not made. The DAC directed the management to provide relevant documents to audit for verification.

Audit recommends implementation of the DAC directives.

14.3.4.20 Loss due to non-availing of discount - Rs.47 million equivalent to US\$0.277 million

S#1 of noting on discount of M/s Dry-docks World Dubai states that “We are prepared to offer a discount of Twenty percent (20%) of the agreed final invoice amount”.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2021-22, it was observed that management published tender on 23.08.2021 for dry docking & associated repairs of Aframax oil tanker M.T. Lahore, bid opening date was 30.9.2021 two bidders quoted their bids out of which M/s Dubai dry dock world was found lowest evaluated bidder worth \$2.560 million and final payment was made \$1.385 million. However, the management did not avail the 20% discount of \$0.277 million as per offer. Detail is given below:

Amount in USD			
S#	Name of Bidder	Payment made	20% Discount
1	Dubai dry dock world	1,385,000	277,000

Audit is of the view that the management incurred a loss of \$0.277 million due to non-availing of 20% discount during the year 2021-22.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The Management informed the Committee that Dry Docking of MT Quetta was carried out in 02 phases. The total cost for first phase was USD 1,142,236.00, on which 20% discount amounting to USD 144,126 was fully availed. The total cost for 2nd phase was USD 260,200, on which no discount was agreed upon. PNSC has established the normal practice of including the offered

discounts while evaluation of the bids received and discount of 20% on quote received from bidders. The DAC directed the management to provide relevant documents to audit for verification.

Audit recommends implementation of the DAC directives.

14.3.4.21 *Non-recovery of Dead Freight against refineries - Rs.27.8 million*

As per Clause-1-(b) of Contract of Affreightment (COA) of PNSC with NRL, ... The dead freight shall be payable by the Company to the Carrier for the quantity determined as difference between the total quantity notified by the Company over the period of 4 months and 70,000 M.T times no. of cargoes performed during the same period. However, Carrier shall be responsible to arrange upliftment of the quantities as notified by the Company and that cargo quantities are not reduced or short loaded for vessel reasons.

As per Clause-1-(b) of Contract Of Affreightment (COA) of PNSC with PARCO, the Cargo sizes shall not be less than 70,000 metric tons (MT) on an average monthly basis subject to a negative tolerance of 0.5%, failing which dead freight shall be payable by the Company to the CARRIER on the difference between 70,000 MT less negative tolerance and the said monthly average of cargo sizes to be settled on completion of each month.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2021-22, it was observed that contrary to above, the management did not receive an amount of Rs. 27.8 million (NRL = Rs.15.3 million + PARCO = Rs.12.5 million) against dead freight in respect of National Refinery Limited (NRL) and Pak-Arab Refinery Limited (PARCO). The detail of dead freight is tabulated below;

S#	Period	Quantity to be loaded as per COA (MT)	No. of Shipments	Total cargo to be loaded as per COA (MT)	Total actual cargo loaded (MT)	Difference in Quantity (MT)	Average Freight Rate (USD)	Exchange rate (Rs.)	Total amount (Rs.)
		(a)	(b)	C=(a*b)	(d)	E = (c-d)	(f)	(g)	H=(e*f*g)
1	14.05.21 to 13.09.21	70,000	10	700,000	699,000	1,000	5.937	160.609	953,535
2	14.01.22 to 13.05.22	70,000	8	560,000	550,000	10,000	7.8636	182.44	14,346,351
Total outstanding amount in Rupees against NRL (A)									15,299,886
3	21-Jul	69,650*	6	417,900	404,250.94	13,649.06	5.707	160.4	12,494,388
Total outstanding amount in Rupees against PARCO (B)									12,494,388
Total outstanding amount in Rupees (A+B)									27,794,274
<i>Note: *Quantity to be lifted (70,000 MT) – Negative tolerance of 0.5% (350 MT) = 69,650 MT</i>									

Audit is of the view that non-recovery of dead freight against refineries reflects inefficiency and poor financial management.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. Management explained that out of total amount mentioned Rs. 8,072.149 million, PNSC has recovered the amount of Rs. 3,876.147 million till date which is 48% of total receivable. The DAC directed the management to provide relevant recovery documents for verification. Audit verified that Rs 3,876.147 million was recovered / adjusted out of total Rs 8,072.149 million.

Audit recommends implementation of the DAC directives.

14.3.4.22 Irregular appointment of Internees under Management Trainee Program – Rs.19.20 million

BoD in its 413th meeting held on 24th February, 2022 determined following criteria for appointment of Internee under Management Trainee Program;

Division	Required strength of intern / MTO	Required qualification
Commercial	05	MBA (Maritime) preferably MICS, MBA (Supply Chain/Logistics), MBA (Finance)
SP&PL	03	MBA (Preferably Maritime / Finance)

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2021-22, it was observed that the management appointed following two candidates as Internee / MTOs in violation of BoD decision;

S#	Name of Candidates	Degree possess	Required qualification	Division	Per Month Salary	Total Salary (two years)
1.	Bilal Anwar	BBA(Supply chain)	MBA	Commercial	40,000	960,000
2.	Ossama Ali	BE (Mechanical)	MBA	SP&PL	40,000	960,000
Total						1,920,000

Audit is of the view that appointment of the internees without following laid-down criteria of BoD reflected negligence of the management.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. Management explained that placement of Mr. Bilal Anwar holder of BBA (Supply Chain) & Mr. Osama Ali, B.E (Mechanical) was made according to respective departments as they were selected by Selection Committee on fulfilling the required advertised criteria. The DAC directed the management to provide relevant documents for verification.

Audit recommends implementation of the DAC directives.

(DP No. 75)

14.3.4.23 Loss due to less receipt of discount - \$0.107,474 million equivalent to Rs.17 million

S#1 of noting on discount by M/s Dry-docks World Dubai stated that we are prepared to offer a discount of Twenty percent (20%) of the agreed final invoice amount.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2021-22, it was observed that management published tender on 31.3.2021 for dry docking & associated repairs of Aframax oil tanker M.T. Quetta, bid opening date was 3.5.2021, in its response four bidders quoted their bids. Out of four bidders M/s Dubai dry dock world was found lowest evaluated bidder worth \$2.492 million and final payment was made \$1.258 million but the management did not receive the 20% discount of \$0.252 million, as per details given below:

Amount in USD

S #	Name of Bidder	Payment made	20% Discount due	Discount received	Less receipt of discount
1	Dubai dry dock world	1,258,000	251,600	144,126	107,474

Audit is of the view that the management incurred a loss due to less receipt of \$0.107,474 million discount during the year 2021-22.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The Management informed the Committee that Dry Docking of MT Quetta was carried out in 02 phases. The total cost for first phase was USD 1,142,236.00, on which 20% discount amounting to USD 144,126 was fully availed. The total cost for 2nd phase was USD 260,200, on which no discount was agreed upon. PNSC has established the normal practice of including the offered discounts while evaluation of the bids received and discount of 20% on quote received from bidders. The DAC directed the management to provide relevant documents to audit for verification.

Audit recommends implementation of the DAC directives.

14.3.4.24 Irregular appointment of Chartered Accountant Firms - Rs.10.552 million

Rule 20 of Public Procurement Rules, 2004 states that save as otherwise provided hereinafter, the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2021-22, it was observed that the management hired following two Chartered Accountant (CA) firms without competitive bidding during the year 2021-22 at Rs.10.552 million.

(Amount in “000”)			
Description	M/s Grant Thornton Anjum Rehman	M/s Yousuf Adil	Total
Statutory audit fee - the Holding Company	1,514	1,514	3,028
Audit fee – Subsidiaries	2,153	2,153	4,306
Fee for review of half yearly financial statements	530	530	1,060
Fee for review report on CCG	163	163	326
Fee for audit of the consolidated financial statements	191	191	382
Statutory certificates	-	66	66
Out of Pocket expenses	301	301	602
Sales Tax Services	388	393	782
Total	5,240	5,311	10,552

Audit is of the view that award of service contract without competitive bidding deprived the Corporation of the benefit of competitive rates and was in violation of procurement rules.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. Management explained that external auditors of the Corporation are appointed as per the rules and guidelines defined in the Companies Act-2017. The DAC directed the management to provide relevant documents for verification.

Audit recommends implementation of the DAC directives.

14.3.4.25 Loss due to desertion of crew member - USD 16,551 equivalent to Rs.2.648 million

ISM Code Cell - PNSC Bulletin No. 82 Ref. 1887-4779 dated February 14, 2009 entails measures to counter crew desertion from ships and further states that strict disciplinary action shall be taken against those found to be negligent or involved directly or indirectly in any future cases of desertions from the ships.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2021-22, it was observed that one PNSC ship, M.V Hyderabad, crew member, Mr. Pervez John Sohatra-Utility Hand, deserted from the vessel on 20.12.2020 at about 0415 hrs (US time) while the vessel was at Houston, USA for loading of cargo. The United States Coast Guards (USCG)/Customs detained the vessel for further investigation and required external audit / verification by BV class.

It was further observed that following expenditure of USD 16,551 was incurred on account of subsequent actions.

S#	Description	USD	Amount in Rs. (@160)
----	-------------	-----	----------------------

1	Additional security guards	12,500	2,000,000
2	BV Class ISPS Audit	4,051	648,160
Total		16,551	2,648,160

Audit is of the view that such desertion reflected that due diligence in selection of the individual in accordance with the SoPs was not exercised by the management which resulted into loss of both an amount of Rs.2.648 million and image of the Corporation.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. Management explained that PNSC filed suit of recovery of Guarantee amount PKR 1.5 million along-with reputation loss Rs. 5 million. PNSC vigorously pursued the case recovery of PKR 6.5 million with markup at the rate of 20%. The DAC was not satisfied with the reply of management and directed to pursue court case vigorously.

Audit recommends implementation of the DAC directives.

14.3.4.26 Loss due to non-charging of rent at market rate since long - Rs.1.086 million

Rule 4 (3) of Public Sector Companies (Corporate Governance) Rules, 2013, states that the Chief Executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board.

Clause 9.3 of PNSC lease agreement states that the rent shall be increased by 10% annually for 10 years.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2021-22, it was noted that the management rented out vacant space, measuring 500 sqft. 1st floor of Old Rally Building to M/s Master Mariners Society of Pakistan @ Rs.250 per month (Rs 3,000 annually) w.e.f. 1985. However, it was observed that the tenant was continuously paying rent of Rs 3,000 annually from 1985 till-date without any formal lease agreement. Hence, due to non-revision of rent, Corporation sustained a loss of Rs.1.086 million. (Annex-89)

Audit is of the view that non-charging of rent at market rates and allotment of space without any lease agreement reflected negligence of the management in managing assets and thereby loss to the Corporation.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. Management explained that PNSC has written letter to said tenants informing him to execute lease agreement and file appropriate proceedings in the competent court of law at your sole risk and cost. The DAC directed the management to provide relevant documents for verification.

Audit recommends implementation of the DAC directives.

14.3.4.27 Irregular appointment of Senior Storekeeper on fake degree

DO letter dated March 08, 2011 of Establishment Division states that measures should be taken to authenticate degrees/certificates of all ... employees of respective Ministries/Divisions, their subordinate offices and autonomous bodies under their administrative control. ... A certificate along with list of officers whose degrees / certificates have been verified should be furnished to the Establishment Division forty five (45) days of issue of these instructions.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2021-22, it was noted that management appointed Mr. Tariq Shafi as Senior Storekeeper-Workshop on 16-11-2010 on contract basis. However, his B.Com degree (basis of his appointment) sent to University of Karachi for verification on December 13, 2018 was declared forged (fake) by the University on April 19, 2019. Subsequently, an Inquiry Committee was constituted on May 21, 2019. The Committee concluded that the accused employee submitted forged educational degree / certificates and also provided false declarations on his qualifications in his Employment Form.

Audit is of the view that non-verification of degree prior to appointment of the individual reflected negligence of management and favor to the individual.

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. Management explained that The Competent Authority awarded him major penalty to dismissal from service by terminating his contract with immediate effect 17.11.2021. The DAC expressed its displeasure for delay in process of case.

Audit recommends implementation of the DAC directives.

14.3.4.28 Inordinate delay in finalization of procurement of two vessels

Rule 04 of the Public Procurement Rules, 2004, states that procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

During audit of Pakistan National Shipping Corporation (PNSC) for the year 2021-22, it was noted that BoD 384th vide Minutes of Meeting held on 19.01.2018, accorded approval for purchase of two secondhand LR-1 product tankers and one secondhand Aframax crude oil tanker/LR-1 product tanker (as may be appropriate at the time of purchase of the vessel) of size and age (not over 8 years old).

However, it was observed that there was inordinate delay in finalization of procurement of two secondhand vessels. The vessels planned to be procured through (BoD resolution 19.01.2018) tender on 20th December, 2020 were actually procured through (BoD resolution 05.01.2022) advertisement 25th January, 2022. The detail of delay reflected through advertisement is hereunder:

S#	Date of tender	Reason for tender scrap
1	11.10.2020	Non-compliance of technical criteria
2	20.12.2020	Non-compliance of technical criteria
3	30.03.2021	Non-receiving of bids

4	02.06.2021	Bids received did not meet the tender requirements
5	10.09.2021	No bid was received
Delay period from 11.10.2020 to 25.01.2022 (464 days approx.)		

Audit is of the view that reflected that the process of procurement of the vessels was not conducted in a fair and transparent manner and the procurement compromised value for money and that the procurement process was not efficient and economical. Thus, the Corporation might have earned freight revenue of Rs 3,550 million, as detailed below:

Per day average freight revenue of Shalamar was Rs.7.652 million (Rs.10.844 million on June/2022 & Rs.4.459 million on July/2021 / 2). Revenue of Rs.3,550 million (Rs.7.652 x 464 days)

The matter was reported to the management on October, 2023. The irregularity was discussed in the DAC meeting held on December 27, 2023. The DAC directed the management to provide relevant documents for verification.

Audit recommends implementation of the DAC directives.

14.4 Port Qasim Authority

14.4.1 Introduction

Port Qasim Authority was established in 1973 under the Port Qasim Authority Act, 1973 (the PQA Act). The principal activities of the Authority are to provide services of ship movement, storage, berthage, wharfage, and towage, etc., besides, developing and managing an industrial and commercial estate within its occupied area. The location of operations and principal office of the Authority is situated at Port Muhammad Bin Qasim, Karachi.

14.4.2 Comments on Audited Accounts

14.4.2.1 The annual audited accounts are required to be provided to audit for review each year. Contrary to this, the management failed to provide audited accounts of the organization for the years 2006-07 to 2022-23 despite a number of reminders.

Audit requires that the annual audited accounts of the years 2006-07 to 2022-23 be provided immediately and timely finalization be ensured in future, besides, fixing responsibility for non-finalization of annual audited accounts (*Annex-2*).

14.4.3 Compliance of PAC Directives

Audit Year	Total No. of Directives	Compliance reported	Compliance awaited	Breakup of compliance awaited	% Compliance
1999-00	5	2	3	67, 68, 70	40%
2000-01	13	10	3	59, 62, 64	77%
2003-04	5	3	2	182, 183	60%
2005-06	14	11	3	225.1, 225.4, 228	79%
2006-07	1		1	194	-
2008-09	5	3	2	213, 214	60%
2010-11	7	5	2	20.3.3, 20.3.4.3	71%
2011-12	15	12	3	22.4.3, 22.4.4.2, 22.4.4.3	80%
2012-13	11	5	6	22.2.3, 22.2.4.1, 22.2.4.2, 22.2.4.4, 22.2.4.5, 22.2.4.6	45%
2013-14	13	5	8	16.4.3.1, 16.4.3.2, 16.4.3.3, 16.4.3.4,	38%

				16.4.3.5, 16.4.3.8, 16.4.3.10, 16.4.3.11	
2014-15	63	3	60	18.4.4.2, 18.4.4.4, 18.4.4.27, 18.4.4.26, 18.4.4.1, 18.4.4.43, 18.4.4.34, 18.4.4.29, 18.4.4.15, (18.4.3, 18.4.4.3, 18.4.4.5, 18.4.4.6, 18.4.4.7, 18.4.4.8, 18.4.4.9, 18.4.4.10,18.4.4.11, 18.4.4.12, 18.4.4.13, 18.4.4.14, 18.4.4.16, 18.4.4.17, 18.4.4.18, 18.4.4.19, 18.4.4.20, 18.4.4.21, 18.4.4.23, 18.4.4.24, 18.4.4.25, 18.4.4.28, 18.4.4.30, 18.4.4.31, 18.4.4.32, 18.4.4.33, 18.4.4.35, 18.4.4.36, 18.4.4.38, 18.4.4.39, 18.4.4.40, 18.4.4.41, 18.4.4.42, 18.4.4.44, 18.4.4.45, 18.4.4.46, 18.4.4.47,18.4.4.48, 18.4.4.49,18.4.4.50, 18.4.4.51, 18.4.4.52, 18.4.4.53, 18.4.4.54, 18.4.4.55, 18.4.4.56, 18.4.4.57, 18.4.4.58, 18.4.4.58, 18.4.4.59, 18.4.4.60 PAC referred to DAC level)	5%
2015-16	18	1	17	17.4.4.1, 17.4.4.3, 17.4.4.5, 17.4.4.10, 17.4.4.15, 17.4.3, 17.4.4.2, 17.4.4.4, 17.4.4.6, 17.4.4.7, 17.4.4.8, 17.4.4.9, 17.4.4.10, 17.4.4.11, 17.4.4.12, 17.4.4.13, 17.4.4.14	6%
2016-17	10	2	8	15.4.2.1 ,15.4.3, 15.4.4.2,15.4.4.3,15.4.	-

				4.4,15.4.4.5 ,15.4.4.6 ,15.4.4.7	
2017-18	10	1	9	14.4.2.1,14.4.3.14.4.4.1, 14.4.4.2, 14.4.4.3, 14.4.4.4, 14.4.4.5, 14.4.4.6, 14.4.4.7	10%
2019-20	3		3	10.4.4.1, 10.4.4.2, 10.4.4.3	0%
2021-22	26		26	12.4.4.11, 12.4.4.10, 12.4.4.3, 12.4.4.2 (remainig to be discussed in PAC)	0%
Total	219	63	156		29%

The overall compliance of PAC directives needs improvement.

14.4.4 Audit Paras

14.4.4.1 *Irregular award of contract of Port Qasim Coal-Fired Power Project – Rs 210,585.000 million equivalent to US\$ 2.085 billion*

As per agreement between PQA and Port Qasim Power Company (Pvt), Limited Clause F:- PQA and the company desire to enter into Agreement for,(1) granting to the company of leasehold rights over PQA's identified land and seabed for construction and operation of the complex; (2) allowing the Company to construct and operate the Jetty for self-use on BOO(as defined below basis; and (3) issuing the license to abstract and desalinate sea water for the complex. Complex:- means he coal-fired electric power generation station located on the site and Company interconnection Facilities (but excluding the Power Purchaser Interconnection Facilities) having a design capacity of approximately 1320 (620×2) MW (ISO gross) to be designed, engineered, constructed, commissioned, owned, operated and maintained by the company, whether completed or at any stage in its construction, including without limitation or regard to the level of development, engineering and design documents, all energy producing equipment and its auxiliary equipment.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that the managment awarded a contract for the project of 2×660 MW Coal Fired Power Plant at PQA on Built Operate Own (BOO) basis directly to M/s. Power China-Al-Mirab Capital in violation of the rules. The following points were observed:

- Management awarded contract on Built Operate Own (BOO) basis instead of Build Operate Transfer (BOT) basis in violation of PQA rules and practice as all other terminals are given in BOT basis.
- Allotment of land was made on 07-08-2015 and at the time of allotment the PDC rate was Rs.10 million per acre but management charged half of PDC on old rates of PDC i.e. Rs.2.50 million per acre which caused loss of PDC of Rs.1,000 million.

- PDC charges of the 200 acre land allotted to the Power plant were reduced to half of rate and the rate of PDC was Rs.5 million per acre which was reduced to Rs.2.50 per acre resulting loss of Rs.50 million (2.50×200=500 million).
- Fast track charges of Rs.0.5 million per acre was not charged by the PQA, which caused further loss of Rs.100 million (200 acre Rs.0.50 per acre).
- The project of 1320 MW was planned to be built, but file did not show the actual production of MW, this indicates just to purchase and hold the precious sea facing land by the foreign company.

Audit is of the view that the management in violation of the rules/policy directly awarded contract for establishment of coal basis plant on BOO basis instead of BOT basis and also extended undue favor to the contractor and received less charges of dues.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed that the contract was awarded by the Federal Government itself as the project pertained to CPEC. DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

14.4.4.2 Placement of funds in violation of investment policy - Rs.73,370.000 million

According to Board Resolution No. 33/2019 dated 15.10.2019 (2) “after placement of 10% of surplus funds, remaining Funds are recommended to be invested in the ratio of 40:60 in AAA and AA rated commercial banks”. As per the Board Resolution No. 60/2020 dated 27.10.2020;

- Funds should be placed at AAA and AA rated Banks but not more than 50% of surplus Funds should be placed in AA rated Banks.
- Not more than 50% of surplus funds placed in one single bank.
- Placement of PQA Funds should not be more than 30% of Equity of any Bank’s /DFI’s.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that contrary to above the management placed surplus funds of Rs 73,370 million for one year. For the safety purpose, PQA Board redrafted its earlier policy of 2019 and approved some changes regarding placement ratio of Funds in AAA and AA banks to mitigate the risk and encouraging the portfolio investment. However, it was observed that the management while placing the Funds deviated from the investment policy and made investment beyond approved ratio.

(Rs.in million)				
Investment period	Approved Sharing Ratio (AAA/AA)	Funds Available for Investment in million	Actual Investment in AAA	Actual Investment in AA
September, 2021	50:50	5,850	5,850 (ABL) (100%)	00
December, 2021	50:50	6,750	6750 (NBP) (100%)	00
April, 2022	50:50	60,740	48,840	11,900

			(Various Banks) (80.4%)	(19.59%)
Total		73,340	61,440	11,900

Audit is of view that the management not only failed to follow the Board's approved investment policy in its letter and spirit but also extended undue favour to the selected banks by placing the Funds in AAA rating banks only.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed that the investment was made as per PQA investment policy. DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

14.4.4.3 Irregular placement of Funds in violation of PQA Investment Policy - Rs.6,500.000 million

As per the Board Resolution No. 60/2020 dated 27.10.2020;

- Funds should be placed at AAA and AA rated Banks but not more than 50% of surplus Funds should be placed in AA rated Banks.
- Not more than 50% of surplus funds placed in one single bank.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that contrary to above, the management placed surplus funds of Rs 6,500 million during the year under review for the period of one year. For the safety purpose, PQA Board redrafted its earlier policy of 2019 and approved some changes regarding placement ratio of Funds in "AAA" and "AA" banks to mitigate the risk and encouraging the portfolio investment. However, it was observed that the management while placing the Funds deviated from the investment policy intact as detailed below;

(Rs.in million)				
Investment period	Approved Sharing Ratio (AAA/AA)	Funds Available for Investment	Actual Investment in AA	Actual Investment in AAA
August, 2021	50:50	6,500	6500 (Askari bank) (100%)	-

Audit is of the view that the management not only failed to follow the Board's approved investment policy in its letter and spirit but also extended undue favour by placing the Funds in AA banks only.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed that the investment was made as per PQA Investment policy. DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

14.4.4.4 Irregular award of contract of manning, repair & maintenance of dredger - Rs.6,059.560 million equivalent to US\$ 35.230 million

Rule 10 (1) of the PPRA,2004 states that the procuring agency shall allow the widest possible competition by defining such specifications that shall not favour any single contractor or supplier nor put others at a disadvantage.

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

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that the management awarded the contract to M/s China Shipbuilding Trading Company Ltd (CSTC) for manning and repair and maintenance of the dredger (Indus Dolphin, Trailing Suction Hopper Dredger) at US\$ 35.230 million equivalent to Rs 6,059.56 million for the period of 05 years from August/Sep 2021 to August, 2026. Due to specific conditions of experience of dredger-7000 cum and minimum depth 15 meter, only M/s CSTC qualified for tender as this company was already engaged in performing the same services in PQA since 2012, whereas two other local organizations, participated in the bidding and were disqualified due to non-meeting specific conditions of experience.

Audit is of the view that the management ignored Pakistani firms and extended undue favour to M/s CSTC of dredger to continuously awarding the subsequent contracts not only for manning, but also for purchase of spare parts and repair & maintenance from 2012 to 2026. Thus, the contract of US\$ 35.230 million is in violation of rules.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management stated that the parameters of capacity of dredger and crew experience with regard to minimum dredging depth were based on PQA's actual requirement and firm meets the technical specification of tender. DAC directed the management to get the facts verified from Audit.

Audit recommends implementation of the DAC directives.

14.4.4.5 Accounting manipulation of outstanding PDC and allied charges – Rs.5,090.840 million

Section 57(1) and (2) of PQA Act, 1973 regarding Audit and accounts.- The accounts of the Authority shall be maintained by the Authority in such form as may be prescribed by the Auditor General of Pakistan consistent with the requirement of the Act. The accounts of the Authority shall be audited by not less than two auditors who are chartered accountants within the meaning of the Chartered Accountants ordinance, 1961 (X of 1961), appointed by the Federal Government in consultation with the Auditor-General of Pakistan, on such remunerations, to be paid by the Authority, as the Federal Government may fix.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that the provisional accounts of PQA for the year 2021-22 showed the figure of outstanding amount of Rs 4,011.817 million against PDC and Rs. 1,079.023 million against Allied charges. This outstanding of PDC and allied charges is chronic issue in PQA, which was continuously appearing since 2005-2006 in the annual accounts under the said heads till date, without any major change.

It is important to mention here that the provisional accounts show this figure continuously without change since 2005 to 2022, whereas the annual accounts certified by the chartered accountants up to 2016 show this figure at reduced amount, which means the amount of PDC and allied charges have been recovered, but contrary to that the figure of PDC and allied charges were manipulated in the certified annual

accounts of 2007, which is serious negligence on the part of the management and violation of International Standards on Auditing by the Chartered Accountants. The figure of year 2006 and 2007 are as under:

Certified annual accounts-2006 (Rupees)		
Head of account	2006	2005
(Note-9) Trade debt PDC	4,011,817,767	4,398,974,449
Allied charges	1,079,023,409	1,072,582,969

Certified annual accounts-2007 (Rupees)		
Head of account	2007	2006
(Note-9) Trade debt, PDC	1,029,854,951	282,411,773
Allied charges	1,223,540,243	974,206,186

The above tables indicate that the figures of outstanding amount have been changed in the subsequent year to clear the amount of outstanding of PDC and allied charges from the defaulted allottees. Further, the annual accounts of PQA were not certified from the chartered accountants annually since 2005, however, the same were certified from one chartered accountant for 07, 08 years simultaneously up to year 2016, still annual accounts for 07 years are pending, which is serious negligence on the part of the management. The preparation of accounts on this way raises questions on the authenticity of figures.

Audit is of the view that the management has extended undue favour to the defaulted allottees to conceal the facts in the annual accounts. The above outstanding amount had been piled up to rupees twelve billion in year 2022, as one US dollar was equivalent to Rs 60 in 2006 and Rs 200 in June 2022.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management stated the matter may be pended as the facts are being verified. DAC directed the management to investigate the matter and share the report with Audit within 02 months.

Audit recommends implementation of the DAC directives.

14.4.4.6 Non-deduction of tax on royalty income – Rs 4,833.522 million

According to section 3(1) of Schedule II, (98.05) of Sindh Sales Tax on Services Act, 2011 provides that the Services provided or rendered by persons authorized to transact business on behalf of others, is taxable @ 13%.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that PQA received Rs.37,180.93 million from the 12 terminal operators on account of royalty services charges during the year 2020-21 and 2021-22. However, the management did not deposit Sindh Sales Tax (SST) of Rs 4,833.522 million @ 13% to the concerned tax authority on the royalty received. PQA deducted the SST on royalty services charges only on terminal operator M/s Huaneng Fuyun Port & Shipping (Pvt.) Ltd. @ of 10% per month as per agreement. The details of royalty income (including opening balance as on 01.07.2021) are under;

(Rs. in million)							
Sr. #	Name of Terminal	Royalty Income (Rs)	SST @ 13%	Sr. #	Name of Terminal	Royalty Income (Rs)	SST @ 13%
1	FOTCO	716.882	93.194	7	(PROGAS/SSGS)	532.433	69.216
2	(PGPL)	1,744.699	226.810	8	(PQEPCPL)	5,538.299	719.978
3	PIBT)	12,958.859	1,684.651	9	(CHCS)	154.488	20.083
4	QICT)	2,850.017	370.502	10	(EETL)	7,698.182	1,000.763
5	QICT-2)	2,048.268	266.274	11	(EVTL)	1,397.206	181.636
6	LCT/FWQ)	248.220	32.268	12	(FAP)	1,293.381	168.139
Total						37,180.939	4,833.522

Audit is of the view that the management failed to deposit the SST to Sindh Sales Tax authority.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed that the matter is sub-judiced. DAC directed the management to pursue the case properly.

Audit recommends implementation of the DAC directives.

14.4.4.7 Irregular transfer of plots to private parties – Rs 4,334.000 million

Clause 4 of Agreement terms and conditions provides the plot shall be non-transferable to any outsider individual or company and even power of attorney shall not be acceptable. However, the plot can be transfer to a regular Employee of PQA with prior permission of the competent Authority.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that contrary to above the management allotted plots to their employees for the welfare and subsequently transferred 1,086 residential plots valuing Rs. 4,344 million (plots 1,086 x Rs 4,000,000 per plot) to private parties. The details are hereunder:

S#	Category-wise				Total plots Transferred	Period
	200	300	500	1000		
1.	147	72	18	2	239	2022
2.	119	51	19	0	189	2021
3.	64	42	6	2	114	2020
4.	130	57	22	0	209	2019
5.	186	101	45	3	335	2018
Total	646	323	110	7	1,086	

Audit is of the view, that management extended undue favor to the employees for frequent transfer of plots merely on recovering transfer fee.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed the DAC that the Board is competent and resolved to open the transfer of plots to the general public in 2006. DAC directed the management provide the relevant record to Audit for verification.

Audit recommends implementation of the DAC directives.

14.4.4.8 Non-allotment of 1,250 acre of PQA land – Rs 4,000.000 million

Federal Government made following decisions on 13.04.2021:-

- The agreement for lease of 1,250 acres of land between PQA and PTCL, shall be terminated immediately and the entire land be given back to PQA.
- PQA shall reimburse to PTCL any expenditure incurred by the latter on development of the leased land.
- PTCL shall continue to seek alternate land for establishing textile city at some other suitable site.
- Further necessary action shall be taken accordingly to effect implementation of the decision within one month.

Clause-xx of PQA's Land Allotment Policy, 2000 states that in case of failure, the allotment of plot shall be cancelled and 25% of total Peripheral Development Charges shall be forfeited.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that the management allotted land of 1,250 acres of land to M/s Pakistan Textile City Limited (PTCL) in 2006/2007 for boosting export of textile products. The project could not succeed due to multiple reasons. Subsequently, the matter was discussed in the Cabinet meeting on 13.04.2021. However, management did not implement the decision of the Government even after lapse of 02 years, expenditure of Rs.4,000.00 million was not refunded to PTCL and also the land was not re-allotted.

Audit is of the view that non-implementation of Government decision (non-refunding of expenditure of Rs.4 billion and non-allotment of land compromise PDC charges of Rs.50,000 million (40 million/acre*1,250 acres).

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed that the land has been cancelled and process of refund of amount is under consideration. DAC directed the management to implement the decision of Government and allot the land as per Policy.

Audit recommends implementation of the DAC directives.

(DP No 176 & 291)

14.4.4.9 Non-insurance of dredger – Rs 3,345.000 million

Section 166 (3) of Insurance Ordinance, 2000 provides that all insurance business relating to any public property, or to any risk or liability appertaining to any public property, shall be placed with the Company (NICL) only and shall not be placed with any other insurer.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that the management purchased Trailing Suction Hopper Dredger (TSHD) amounting to US \$ 36.95 million equivalent to Rs.3.345 billion under agreement dated 12 November 2012. However, it was observed that the dredger was not insured with M/s National Insurance Company Limited and management awarded contract of manning and maintenance including insurance at US\$ 35.230 million to M/s China Shipbuilding & Trading Company (CSTC), from 2015 to-date.

Audit is of the view that non-insurance and payment of insurance cost of dredger to third party was unjustified and is held irregular in Audit.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed that the dredger was insured by the Company (M/s CSTC) being operator and management stated that NOC would be obtained from NICL. DAC directed the management to get the dredger insured from NICL.

Audit recommends implementation of the DAC directives.

14.4.4.10 Non vacation of 74 acres of land by a company - Rs. 2,960.000 million

According to Report issued by the representatives of survey of Pakistan along with Nazir of the Court dated 21-03-2019, the land of PQA was encroached by M/s Lucky Electric Power Company (As per item No. 11 of 205 BM dated 21-01-2021).”

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that M/s Lucky Electrical Power Company Ltd (LEPC) encroached 109 acres of land of PQA. Out of this, 35 acres land was allotted as per consent of the parties before High Court of Sindh and remaining 74 acres valuing Rs 2,960.00 million could not be vacated. M/s LEPC got allotment of 250 acres of land from Government of Sindh at Deh Ghangiaro. During demarcation of land, PQA objected the demarcation and claimed that M/s LEPC has encroached 139 acres. Accordingly, PQA filed Suit No. 1917/2017 against LEPC and others in

the high court of Sindh, to cancel the lease agreement dated 22-09-2015 executed in favor of LEPCL to the extent of 139 acres (out of 250 acres comprising seashore and sea itself and within 50 yards of high water mark.) The Court granted stay order on 25-08-2017. Inspection survey was carried out from Survey of Pakistan through Nazir of the Court, which reported 109 acres of land was disputed (report dated 21-03-2019).

However, PQA accepted the offer of M/s LEPCL dated 14.09.2020 for out of court settlement. Out of 109 acres of disputed land, the land of 35 acres only were allotted to LEPCL at the PDC of Rs 40.00 million per acre. (Totaling 1,400.00 million) and PQA surrendered the land of 74 acres equivalent to Rs 2,960.00 million, despite the fact that a consent decree dated 09-06-2021 required that, “upon allotment of 35 acres land from PQA, M/s LEPCL shall vacate entire encroached land of PQA falling under 50 yards of high-water mark including encroached land of M/s Metal Investment Holding Corporation and handover its peaceful possession to Metal Investment and PQA without further delay”. However, the land was not vacated

Audit is of the view that non vacation of the land caused a loss of Rs. 2,960.00 million (Rs 40.00m/per acres x 74 acres).

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed that land has been retained from the Company. DAC directed the management to arrange survey from Survey of Pakistan to confirm its actual occupancy.

Audit recommends implementation of the DAC directives.

14.4.4.11 Manning of foreign nationals on Pakistani Dredger in violation Merchant Marine Policy- Rs 2,444.310 million equivalent to US\$ 14.211 million

As per Clause 10(i) of Merchant Marine Policy 2001 states that Ships and other floating crafts including tugs, dredgers, survey vessels and other specialized crafts flying the Pakistan flag shall normally be manned by Pakistani nationals. However, in the event where no qualified or suitable Pakistani national is available for any particular job a non-Pakistani national can be employed.

Clause 14 of the contract between PQA & M/s CSTC stipulates that “the contractor will impart training (if required) to Pakistani crew during the contract period up to the level that crew could be able to operate the dredger independently.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was found that the management awarded the contract to M/s China Shipbuilding Trading Company Ltd (CSTC) for manning of the dredger (Indus Dolphin, Trailing Suction Hopper Dredger) at Rs 2,444.310 million for the period of 05 years from August 2021 to August 2026. M/s CSTC deployed foreign nationals on the Pakistani dredger of PQA, in violation of above marine policy.

As per above policy, PQA had to arrange the national human resource for running this Pakistani flagged dredger, but the management handed over this one to the foreign nationals. To avoid violation of marine policy, DG operation initiated the note to DG (Admin) for hiring of Pakistani nationals (Human

Resource) on 13-01-2021 well before 08 months from the date of expiry of the contract instead of letting the dredger to foreign crew and suggested that this would not only avoid violation of Marine Policy, but also save the foreign exchange. The HR and Admin department showed their reluctance to accept the proposal of DG (Operations) and continued to award the contract to the same contractor from whom the dredger was purchased some 10 years ago and was running the dredger with manning, repair & maintenance. Total cost of the award of contract for 05 years is Rs 6.00 billion, and such equivalent amount has been paid to the contractor from 2015 to 2021, which is almost the four times higher than the purchase price of the dredger.

It was further observed that there was an agreement with M/s CSTC in 2012 on imparting training to Pakistani nationals for running the dredger at its own within the period of contract of 03 years, but after lapse of more than 10 years, the management could not materialize imparting training to the local crew.

Audit is of the view that even after passage of 10 years of purchase of the ship (dredger) has neither trained the local crew nor has arranged local man power. This reflected negligence and non-efficient handling of the matters. Thus, the award of contract of manning of US\$ 14.211 million (Equivalent to Rs 2,444.310 million) to the foreign company/crew instead of National crew is irregular and unjustified.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed that marine operation is a specialized domain for which expertise is not readily available due to which foreign crew was hired. DAC directed the management to intimated time schedule for training of locals and submit revised reply.

Audit recommends implementation of the DAC directives.

14.4.4.12 Loss of PDC income due to conversion of plots from warehouse into CFS/Industries – Rs 2,065.000 million

Section 10 of PQA Act 1978 states that the Authority shall prepare a master-plan and a phased master-programme for the development of the Port area and the plan and programme shall be submitted to the Federal Government for approval.

As per para xx and xxv of Land Allotment Policy, 2005:-

Commission of the proposed unit within the time specified in case of failure, the allotment of plot shall be cancelled and 25% of total Peripheral Development Charges shall be forfeited. The allotment of plot shall be cancelled and 10% of total PDCs of whole plot area shall be forfeited against PQA administrative charges and also annual land rent will be charged for the period the plot is retained by you.

During audit/special study of Port Qasim Authority (PQA) for the years 2017-18 to 20221-22, it was observed that the management converted warehouses and CFS to Industries through DG P&D summary to Board 216th meeting held on 08-02-2022. The management received only outstanding charges instead of cancelling the plots and re-allotment of the same on prevalent charges. Thus PQA sustained loss of PDC charges of Rs 2,065 million.

Audit is of the view that the management in violation of the act allowed conversion of allottees/transferee which is showing mismanagement for handling of the P&D Division.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management stated that no loss incurred from conversion of plots. DAC recommended the management to get the record verified from Audit. Audit recommends the management to conduct inquiry on conversion of plots and subsequent loss.

Audit recommends implementation of the DAC directives.

14.4.4.13 Non-payment of royalty charges on import of LNG - US\$ 11.125 million equivalent to Rs 2,025.923 million

As per Schedule 13 of the Implementation Agreement, 2007 between Port Qasim Authority and M/s Pakistan Gas Port Limited (PGPL), M/s PGPL had to pay the royalty charges as under:

1-5 years	6-10 years	11-15 years	16-20 years	21-25 years	26-30 years
US\$/Tonn	US\$/Tonn	US\$/Tonn	US\$/Tonn	US\$/Tonn	US\$/Tonn
1.90	2.375	3.325	4.090	4.855	5.624

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was noted that M/s Pakistan Gas Port Limited (PGPL) operated LNG terminal since 2011. However, the company did not deposit the royalty of the LNG imported during the period under review. The detail is as under:

Period	No of ships	Quantity imported (M.Tonn) (cm/2.18)	Royalty US\$/tonn	Amount in US\$	Rs rate against US\$ in June	Amount Rs in million
July,21 to June 22	51	3,416,083	1.90	6,490,559	204	1,298.11
Nov, 20 to June 15, 21	41	2,439,872	1.90	4,635,756	157	727.813
Total	92	5,855,955	1.90	11,126,315		2,025.923

Audit is of the view non-payment of royalty charges on import of LNG caused to the Port Authority of US\$ 11.125 million equivalent to Rs. 2,025.923 million.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed the DAC that efforts are being made to recover the amount. DAC directed the management to expedite the efforts for early recover.

Audit recommends implementation of the DAC directives.

**14.4.4.14 Non-deduction of Sales Tax and Income Tax on Services of manning contract—
Rs 1,755.260 million equivalent to US\$ 11.18 million**

According to the agreement between PQA and M/s China Shipbuilding Trading Company Ltd (CSTC) 2016, all types of taxes including income tax and sales tax was to be paid by the employer (PQA).

According to the Section 3(1) of Sindh Sales Tax on Services Act-2011, service provided by person engaged in contractual execution of work or furnishing supplies is taxable @ 13%.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that the management awarded contract to M/s China Shipbuilding Trading Company Ltd (CSTC) for manning of the dredger (Indus Dolphin, Trailing Suction Hopper Dredger) at US\$ 31.00 million for 05 years from @ 2016 to 2021 and at US\$ 35.23 million for the period of 05 years from August 2021 to August 2026.

The bidder had quoted US\$ 31.00 million without tax and US\$ 42.18 million with Tax. PQA accepted the option without tax and PQA itself had to deposit the income and sales tax under contract of 2016 and US\$ 35.23 million excluding sales tax of US\$ 4.932 million (Rs 848.304 million) and all other taxes. However, the file did not show that income tax and sales tax amount was deposited with the Tax Authorities. Thus, the income tax and sales tax of US\$ 11.18 million (equivalent to Rs 1,755.26 million @ Rs 157 in June 2021 x US\$ 11.18m) was not paid to the tax authorities for the contract from 2016 to 2021 and sales tax of US\$ 4.923 million (848.304 million) and income tax US\$ 4.403 million (Rs 757.316 million) @12.5 % of income under the contact from 2021 to 2026 was not being paid to the tax authorities as no evidence of tax payment was available in the file, which caused loss to the national exchequer.

Audit is of view that management extended undue favour to the contractor by agreeing to pay the taxes on his behalf to the tax authorities, which was not also deposited.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed that the matter was sub-judice. DAC directed the management to pursue the case properly.

Audit recommends implementation of the DAC directives.

14.4.4.15 Irregular award of contract for repair work of tugs and boats –Rs 1,714.290 million

Rule 12(2)of PPRA, 2004 states that all procurement opportunities over three million Pakistani Rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

Rules 16A (1) of PPRA, 2004 states that the procuring Agency shall arrange the procurement through framework agreements of recurrent or common use items, services including maintenance services and those commodities, whose market prices fluctuate during the term of the agreement, for a maximum period of three years. (2) The procuring agency shall prepare provisional annual estimates including description, specifications, statement of requirements and quantities, based on rational demand estimates.

(3) Based on such estimate, procuring agency shall initiate the prequalification proceedings for selection of suppliers and service providers.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that the management incurred heavy expenditure of Rs1,714.290 million on repair and maintenance of tugs and boats during the period under review. The management was required to publish open advertisement in the newspapers and if the common use of items and maintenance services, the Rule 16A was needed to be followed, but the management neither observed the open tendering process nor prequalification of bidders for the repair and maintenance services of the Tugs and boats, which is a violation of the PPRA-2004.

The above position indicates that the management was not following the rules in true letter and spirit to avail the competitive rates from the market. Thus, expenditure of Rs 1,714.290 million incurred on account of repair and maintenance without observing PPRA Rules,2004 is held irregular and unjustified.

Audit is of the view that the management was extending undue favour to few contractors by getting the work done from them without inviting competitive rates from the market.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. Management stated that repair work was assigned to the contractors after fulfilment of codal formalities. DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

14.4.4.16 Irregular award of conventional twin screw buoy tender contract- Rs.1,671.522 million equivalent to US \$ 9.149 million

Section IV, para 04 on “Technical Evaluation Criteria” of Tender document states that for qualifying technically minimum marks are required to be required in Each Category and overall of minimum 60 marks. Category C provides;

Category	General Experience of Supplier of One (01) Conventional Twin Screw buoy tender	Min Marks	Max marks
C	<ul style="list-style-type: none"> Min 5.0 years’ experience of construction of conventional twin screw vessel of LOA=40 meters and above. (All weather sea going class), 05 points for 05 years and for each additional year 1.0 point. 	05	10
	<ul style="list-style-type: none"> Construction of at least (03) Twin Crew Buoy Tender vessel or 3 twin screw supply vessel of LOA=40 meters or above 15 points and for every additional twin screw vessel of LOA=40 meters or above shall earn 05 points. 	15	25
	<ul style="list-style-type: none"> Construction of at least two 12 knots speed Twin Screw Conventional vessels of LOA=40 meters or above. 	10	15
	Total points/Marks	30	50

Rule 48 (2) of PPRA Rules, 2004 states that any party may file its written complaint against the eligibility parameters, evaluation criteria or any other terms and conditions prescribed in the bidding

documents if found contrary to the provisions of the procurement regulatory framework, and the same shall be addressed by the Grievance Redressal Committee (GRC) well before the proposal submission deadline. (4) In case, the complaint is filed against the technical evaluation report, the GRC shall suspend the procurement proceedings.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that the management floated advertisement for the supply / construction of one conventional twin screw Buoy vessel on 13.12.2020. Three firms M/s Med Marine, M/s P.T Dumas and M/s Daymen Shipyard were technically qualified by the technical Evaluation Committee on 15.10.2021 whereas financial bids were opened on 22.10.2021. M/s Med Marine being the lowest bidder was awarded the contract of new supply / construction of one conventional twin screw Buoy tender at the cost of US\$ 9.149 million. As per Technical evaluation report, M/s Med Marine secured overall 83% marks while in category C obtained 36 marks against minimum 30 marks. The Report was uploaded on PPRA website on 03.11.2021. The bidding documents revealed that M/s Med Marine was representing Eregli Shipyard of Turkey.

Moreover, it was noticed that one of the technically qualified bidder M/s P.T Dumas lodged complaint on 01.11.2021 and raised objection that M/s Med Marine through Eregli Shipyard Turkey has never built a Buoy Tender/Supply Vessel so far while the shipyard (Eregli) has produced lots of sea chemical tankers, tugs and pilot boats that are neither classified nor equivalent to Buoy Tender/Supply Vessel. As legally none of Eregli Shipyard products fall in the category of Buoy Tender so the shipyard does not meet the above mentioned technical criteria and should be given zero (0) marks in reference (i) and (ii).

Resultantly, the management constituted a Grievances Committee (GRC) to recheck the evaluation Criteria on the complaint of M/s P.T Dumas on 08.12.2021 with direction to submit the report within 15 days i.e.23.12.2021. However, it was noticed that the management issued orders of abolition of the GRC vide letter No. PQA/Marine Ops/Conservancy/2021 dated 28.02.2021 without submitting any report on the complaint. Besides, no justification of the GRC abolition was recorded in the file.

Audit is of the view that the management extended undue favour to M/s Med Marine and awarded the contract of US\$ 9.149 million equivalent to Rs. 1671.522 million) in violation of the rule 48 of PPRA 2004. Besides, abolishing GRC without its proper disposal and justification raises serious questions on the management and the undue favour given by technical evaluation committee to M/s Med Marine, a technical non-qualified bidder, cannot be ruled out.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management stated that as per specification, bidder was qualified and accordingly contract was assigned. DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

14.4.4.17 Non-recovery of liquidated damages, wharfage and other charges – Rs 1,155.495 million

According to Schedule 18 of the Implementation Agreement dated October 10, 2016 between Port Qasim Authority and M/s. Huaneng Fuyun Port & Shipping (Pvt) Ltd (HFP), M/s. HFP had to pay the charges of land lease, annual maintenance charges, royalty, etc. to PQA.

During audit of Port Qasim Authority (PQA) for the year 2021-22, following irregularities were observed in case of M/s Huaneng Fuyun Port & Shipping (Pvt) Ltd;

1. Company operating at Marginal Wharf-3 & 4, and the amount of wharfage/other dues were not recovered in accordance with the agreement.

S#	Description	Period	Amount (Rs)
1.	Wharfage charges	2019-20	62.641
2.	Land rent & maintenance	Upto May, 2021	381.329
3.	Portable water	Upto April, 2021	0.633
4.	Liquidated Damages	June, 2020	543.500
Total			988.103

Furthermore, M/s Huaneng Fuyun Port & Shipping (Pvt.) Ltd, a company operating at Marginal Wharves - 3 & 4, requested for dredging services at Marginal Wharf, which was done by the PQA through the dredger Dolphin in 2020 worth Rs.167.392 million. However, the same were not paid by the company.

Audit is of the view that the management failed to enforce the contract which reflected controlled weakness.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed that the company is reluctant to pay the dues. DAC directed the management to pursue the case for recovery of outstanding amount from the Company.

Audit recommends implementation of the DAC directives.

(DP No.179 & 195)

14.4.4.18 Loss due to non-fulfilment of obligation on maintaining the channel at minimum required level – Rs.986.845 million

According to Clause-4.3(b)(ii)(a) of the Implementation Agreement with M/s. Qasim International Container Terminal dated August 17, 2006, PQA shall ensure a minimum draught of 13 meters available at all time. Within two years from the date of commercial operations, PQA shall ensure a minimum draught

of 14 meters, Failure by PQA to provide and maintain draught shall entitle QICT to reduce Royalty by US\$ 2.00 per Move till achievement of the target.

During audit of Port Qasim Authority (PQA) for the year 2021-22, following irregularities were observed;

1. M/s Qasim International Container Terminal (QICT) established container terminal at Port Qasim on Build, Operate and Transfer (BOT) basis under agreement dated August 17, 2006. However, PQA failed to dredge the minimum draught even after lapse of more than sixteen years of the agreement. This resulted into paying royalty at reduced rate of \$2.00 per container. The detail is as under:

QICT	Tues (Container)	Royalty to be received @ US\$ 9.00	Royalty received @ US\$ 7.00	Difference US\$	Loss (Rs)
1	567,856	5,110,704	3,974,992	1,135,712	227,142,400
2	787,731	7,089,579	5,514,117	1,575,462	315,092,400
Total	1,355,587	12,200,283	9,489,109	2,711,174	542,234,800

2. Further, management failed to provide minimum 14.5 meters of draught level under the agreement with M/s Fauji Akbar Portia (FAP). As a result, the company paid the royalty to PQA at reduced rate of US\$ 0.10 per metric ton from US\$0.65. Thus, M/s FAP refused to pay an amount of Rs.139.005 million and claimed from PQA further to return an amount of Rs.55.535 million paid in excess of amount, totaling Rs.194.54 million to be borne as loss to PQA.

3. M/s HR Wallingford & M/s Techno-Consultant International Pvt. Ltd (Joint Venture), submitted its feasibility report amounting to US\$ 268.07 million (reflecting cost of dredging on a to c options) in February, 2020, for deepening, widening & straightening of the existing navigational channel, commissioning of alternate inner navigation channel and supervision of capital dredging work. The feasibility study was submitted to the Ministry for Federal Government approval in March, 2020.

Audit is of the view that non-fulfilment of obligation on maintaining the channel at minimum required level caused recurring loss to PQA.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed that the implementation of

dredging project is dependent upon approval from MOMA/Federal Government. DAC directed the management to pursue the case for early approval of Federal Government.

Audit recommends implementation of the DAC directives.

(DP No. 197 & 238)

14.4.4.19 Irregular award of contracts of civil maintenance in violation of PPRA - Rs.760.000 million

Rule 16A of PPRA Rules, 2004 provides; (1) The Procuring Agency shall arrange the procurement through framework agreements of recurrent or common use items, services including maintenance services and those commodities, whose market prices fluctuate during the term of the agreement, for a maximum period of three years. (2) The procuring agency shall prepare provisional annual estimates including description, specifications, statement of requirements and quantities, based on rational demand estimates. (3) Based on such estimate, procuring agency shall initiate the prequalification proceedings for selection of suppliers and service providers.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that the management awarded the annual maintenance contracts of various works / services carried out by Civil and Maintenance Department of amounting to Rs.760 million in violation of above rule. The contracts were of the recurring maintenance nature and were awarded without conducting prequalification proceedings for selection of suppliers and service providers. The details are as under;

(Rs in million)			
Sr #	Name of annual maintenance Service contract	Name of Contractor	Amount
1	PQA Housing Complex	M/s Allied Business	80.00
2	PQA Roads Networks & Bridges EIZ	M/s KA & Brothers	150.00
3	Building and offices	M/s Indusmen & Co.	80.00
4	PQA Roads Networks & Bridges SWIZ	M/s Hassan & Co	150.00
5	contract of NWIZ	M/s Gulzari Associates	200.00
6	PQA Marine Structure	M/s Indusmen & Co.	100.00
Total			760.00

Audit is of the view that the award of annual maintenance contracts without prequalification process and proceedings makes all the contracts irregular.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. Management stated that the contract was awarded to the qualified bidders participated in bidding after tender. DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

14.4.4.20 Loss due to charging less rate of royalty and non-recovery Rs.406.379 million

As per schedule 13 of the agreement between Port Qasim Authority and Pakistan International Bulk Terminal (Pvt) Ltd dated November 06, 2010, the rate of royalty was required to be paid by the Company (PIBT) as under:

S#	Years	Rate/per ton	S.No.	Years	Rate/per ton
1.	1-5	US\$ 2.27	5.	22-26	US\$ 2.7591
2.	6-11	US\$ 2.3835	6.	27-31	US\$ 2.8971
3.	12-16	US\$ 2.5026	7.	32	US\$ 3.0420
4.	17-21	US\$ 2.6278			

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that the management awarded the contract of coal and clinker/ cement terminal to M/s Pakistan International Bulk Terminal (Pvt) Ltd on Build Operate and Transfer (B.O.T) basis. The company was required to pay the above charges on account of royalty on per ton of coal and clinker/ cement, but the management charged the rate of royalty less than required in the subsequent years. The detail is hereunder:

Month	Quantity (M.Ton)	Royalty charged (US\$/Ton)	Royalty to be charged (US\$/Ton)	Difference (US\$/Ton)	Loss (US\$/Ton)
July – June 2021-22	8,114,641	2.27	2.5026	0.2326	1,887,465

This caused loss of US\$ 1.887 million equivalent to Rs.349.181 million (US\$ 1,887,465 x Rs.185) during 2021-22. Besides, PQA did not charge the first enhanced rate of US\$ 2.3835 per ton from 6th year of the contract and onwards, which needed to be calculated and recovered from the company.

It was further observed that due amount for the month of May and June, 2022 amounting to US\$ 309,179 equivalent to Rs.57.198 million was not received from the above Company.

Audit is of the view that charging of less rate of royalty and non-recovery caused loss to the Authority amounting to Rs.406.379 million.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management stated that the royalty was charged as per Implementation agreed and from the date of commencement of business and the outstanding amount was received. DAC recommended the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

14.4.4.21 Loss due to charging less than approved rate of wharfage to terminal operator – Rs.259.760 million

Article 6.2 of tariff agreement dated July 25, 1995, with M/s Qasim International Container Terminal (QICT) states that QICT will pay to PQA wharfage charges @ Rs. 400 per TEU (Container) handled on a weekly basis. Such payment will be subject to proportionate revision by PQA as and when the wharfage charges are altered or revised and are so notified by the Government.

As per Gazette notification dated June 17, 2010, the rates of wharfage were revised to Rs. 620 per TEU and Rs. 1,240 per FEU by the Government of Pakistan.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that the management charged less rate of wharfage to QICT, a terminal operator, than the rate approved in Gazette. The detail is given as under:

QICT	No. of TEUs (Containers)	Wharfage chargeable @ Rs. 620	Wharfage charged @ Rs. 440	Difference (Rs.) loss
1	567,856	352,070,720	249,856,640	102,214,080
2	787,731	504,148,479	346,602,079	157,546,399
Total	1,355,587	856,219,199	596,458,719	259,760,479

Audit is of the view that the management extended undue favour to QICT and charged wharfage rate of 1995 instead of wharfage rates of 2010 (which also needed revision as the rupee devalued significantly against dollar). Thus, PQA sustained a loss of Rs.259.760 million.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed that the wharfage is charged as per implementation agreement from the date of commencement of the operation. DAC directed the management to provide the relevant record to Audit for verification.

Audit recommends implementation of the DAC directives.

14.4.4.22 Enlistment of hospitals without competitive bidding – Rs.222.491 million

Rule 16A (1) of PPRA Rules, 2004 provides that the Procuring Agency shall arrange the procurement through framework agreements of recurrent or common use items, services including maintenance services and those commodities, whose market prices fluctuate during the term of the agreement, for a maximum period of three years.

Rule 20 of the PPRA Rules, 2004 states that save as otherwise provided hereinafter, the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that PQA paid an amount of Rs 222.491 million to 18 enlisted hospitals after the approvals of the Medical Committee. However, it was observed that the Authority enlisted the hospitals without any formal agreement without any competitive bidding.

Audit is of view that the management deprived the organization of competitive advantages of bidding process in violation of PPRA. Thus, the payment of Rs.222.491 million is held irregular.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed the DAC that the hospitals have

been enlisted as per PQA medical policy approved by the Board. DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

14.4.4.23 Un-authorized conversion from Warehouse to Industry and subsequent loss on account of PDC charges – Rs.179.800 million

Section 10 of PQA Act, 1973 states that the Authority shall prepare a Master Plan and a Phased Master Programme for the development of the Port area and the plan and programme shall be submitted to the Federal Government for approval.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that the Board through resolution on 16.10.2021 approved conversion (change of category) of following five allottees from Warehouse and Container Freight Station (CFS) to Industry without approval of the Federal Government i.e. Cabinet.

S#	Name Allottee/Transferee	Date of Application	Plot No.	Area	Zone
1	Mrs. Atiya Anis Hussain	17.01.2020	W2/8	02 Acres	NWIZ
2	Mr. Pirbhu Lal	05.10.2021	W1/13	01 Acre	EIZ
3	Mr. Nawal Behrumal	07.10.2021	W1/B/62	01 Acre	EIZ
4	Mr. Raja Asser Mal & Anil Kumar	27.09.2021	A-14	05 Acre	EIZ

The change of category was effected directly through the Board resolution without any recommendation of the same from PQA Planning & Development (P&D) Committee. Such change in category resulted into loss of Rs.179.800 million on account of difference in Peripheral Development Charges (PDC) leviable on North Western Industrial Zone (NWIZ) and Eastern Industrial Zone (EIZ). The details are as under;

(Amount in Rs.)					
Zone	Acres	Warehouse /acre	Industrial /acre	Difference in rate per acre	Loss
EIZ	7	40,000,000	30,000,000	10,000,000	70,000,000
NWIZ	5.49	60,000,000	40,000,000	20,000,000	109,800,000
Total Loss					179,800,000

Audit is of the view that change of category from warehouse and CFS to industry without prior approval of Federal Government and P&D Committee was in violation of PQA Master Plan, unjustified and irregular in Audit.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed that conversion of plots were approved by the Board as allowed by the Ministry of Maritime. DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

14.4.4.24 Irregular appointment of employees – Rs.136.000 million

According to Rule 8 of PQA Employees Service Regulations, 2011, all vacancies to be filled in by initial recruitment shall be on merit, advertised in leading national and local newspapers, in light of chapter-V of PQA Act, 1973, as amended from time to time.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that only 59 new employees were appointed during the Year 2021-22 on contract/regular/daily wages basis. However, while scrutiny of the Payroll it was observed that management opened 135 new ID's / recruited new employees instead of 59 employees during the Year 2021-22 on contract/regular basis. The non-provision of appointment files indicates that the appointments have been made without completion of codal formalities such as advertisement, qualification age, regional quota, sanctioned strength etc. thus, the expenditure on account of salary of Rs.136.000 million is held irregular and unjustified.

Audit is of the view that the management has violated the recruitment rules which resulted into extra financial burden and avoided open merit.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed the DAC that the 118 employees were mariners from Pakistan Navy working on deputation. DAC directed the management to provide appointment files and other record to Audit for verification.

Audit recommends implementation of the DAC directives.

14.4.4.25 Non-accountal of electricity units – Rs.122.037 million

As per para viii of general lease agreement conditions, the allottee will be required to pay services Charges i.e. water& electricity etc. on the basis of billing direct to the M&E/Civil maintenance Department, in the case of default the services will be discontinued without notice.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that there was non-accountal of electricity units amounting to Rs. 122.037 million during the year 2021-22 (**Annex-90**).

Audit is of the view that the management failed to account for the electricity units billed from K-Electric whereas short billing to its allottees /consumers on account of electricity charges consumption cannot be ruled out.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. Management stated that the consumers are billed as per agreement and no short billing is made. DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

14.4.4.26 Irregular waiver of PDC charges - Rs.81.250 million

As per PQA Land Allotment Policy 2005:- Clause:-iv (a) The Peripheral Development Charges (PDCs) for different categories of land allotments shall be as follows:

a. South west Industrial Zone (SWIZ) - Rs.5.00 million / acre.

During audit of Port Qasim Authority (PQA) for the years 2021-22, it was observed that the PQA allotted land in half PDC in violation of the above stated rules. Furthermore, management initially allotted

land measuring 10 acres in South West Industrial Zone (SWIZ) to M/s. Marine Dynamics (Pvt), Ltd for establishing warehouse business at a rate of Rs.2.5 million per acre whereas the rate of PDC but the rate was Rs.5.00 million per acre and management extended undue favor and issued allotment letter on 29-06-2012.

Moreover, Board rectified the earlier decision and its 151st meeting held on 7th February, 2013. The land allotted vide above referred BRs fall within the boundaries of bonded warehouse/backup area of south western zone where the PDC charges are 6.5 million instead of 5.00 million per acre as mentioned mistakenly. Therefore, as per approved policy i.e. half of the PDC, the rate per acre comes to Rs 3,250,000 and not Rs.2,50,0000/- as mentioned in the subject resolutions. Board after necessary discussion the BRs on rectification approved as the Board approved both allotments that comes to an area measuring twenty five (25) acres in total to M/s. Marine Dynamic (Pvt), Ltd in South Western Industrial Zone for the establishment of Bonded Warehouse facility @ Rs. 3,250,000 per acre being occupancy value.

Audit is of the view that management in violation of the rules/policy directly allotted plot measuring 10 acres but later on 15 acres were also allotted and total 25 acres was allotted on lower rates and charged half of the PDC instead of actual which resulted loss of Rs. 81.250 million (25 acres×3.250 million per acre) to PQA.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed the DAC that the same para has already been discussed in PAC and PAC settled the para. DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

14.4.4.27 Failure in charging outer anchorage charges from various ships - Rs.77.165 million

As per general note 0405, Gazette of Pakistan June 17, 2010, states that these charges apply to vessels using Port Qasim's Outer Anchorage area and approaches and are levied as per 0406.

0406: Rates:

• Vessels using anchorage area Outer anchorage and approaches	US\$ 0.013 per GRT per day or part thereof.
---	---

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that numerous vessels anchored at outer anchorage for many days. The management of PQA had to charge outer anchorage fees from the ships waiting for berth on the respective jetties of PQA terminals. Some instances are given below and rest of examples is attached but no outer anchorage fees was charged from the ship owners, which is violation of above Gazette notification of the Government of Pakistan.

S#	Name of Ship	Rate per GRT	GRT	Total PKR	Date of Outer Anchorage	Berthing Date	Dates Difference	Arrived late but Birthed first	Remarks
	01	02	03	04	05	06	07	08	09
01	M.T- AFRA LAUREL	0.013	57567.00	8,026,755	13/11/21	23/12/2021	40	17	It has been noticed that many

02	M.T- ATLANTIS	0.013	55898.00	5,188,452	14/10/21	18/11/2021	35	08	ships already waiting at outer anchorage for birthing but ships that notified in column 08 were arrived late and berthed earlier.
03	M.T- QIU CHI		30456.00	2,261,540	23/01/22	21/02/2022	29	08	
04	M.T- FAROS	0.013	42443	2,813,970	05/09/21	30/09/2021	25	04	
05	M.T- NORD NEPTUN	0.013	42432	2,250,593	06/09/21	26/09/2021	20	01	
06	M.T- MARVEL	0.013	24066	1,212,637	20/08/21	08/09/2021	19	02	
07	M.T- SANMAR SONGBIRD	0.013	28517	1,210,033	01/09/21	17/09/2021	16	01	
08	M.T- PACIFIC DIAMOND	0.013	28778	1,144,788	02/08/21	17/08/2021	15	01	
09	M.T- CHEMTRANS ARCTIC	0.013	41994	1,670,521	31/07/21	15/08/2021	15	02	
10	M.T- JAG LAVANYA	0.013	58374.00	2,167,309	04/06/22	18/06/2022	14	04	
11	M.T- PRESTIGIOUS	0.013	40037	1,486,493	22/07/21	05/08/2021	14	02	
12	M.T- SEA TIGER	0.013	52512	1,949,665	25/07/21	08/08/2021	14	01	
13	M.T- SCF DON		29967	953,669	29/06/21	11/07/2021	12	03	

Total Amount of above table in Rs. 32,336,425/- Total of 209 other cases of anchorage charges Rs. 44,829,110/-Grand Total: 77,165,535/-

The examination of the records provides evidence of significant instances of malpractice within the Port Qasim Authority (PQA). It seems that the management, in a calculated manner, engaged in biased conduct by bestowing unjustified privileges upon vessels that arrived subsequently, yet was granted berthing priority over vessels that had already anchored. This illuminates a troubling trend of favoritism and unethical practices that permeate the operational framework of the PQA. Such a neglect of fairness and impartiality impacts merit system of evaluation.

Audit is of the view that the management extended undue favor to the ships arrived late, but berthed before the ships already waiting at PQA outer anchorage to be berthed. Further, the management also extended favor to the ships waiting at outer anchorage by not charging anchorage fees, resulting loss of Rs. 77.165 million to the PQA.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management stated that the outer anchorage is liable to be charged from the ships waiting for their turn. DAC directed the management to provide the record to audit for verification.

Audit recommends implementation of the DAC directives.

14.4.4.28 Failure to pay royalty charges on import of coal - Rs.66.315 million equivalent

to US\$. 343,873

As per schedule 10 of the implementation of the agreement dated 22 April, 2015, M/s Port Qasim Electric Power Co. Ltd had to pay the royalty charges as under:

1-5 years	6-11 years	12-16 years	17-21 years	22-26 years	27-31 years	32-36 years	37-41 years	42-46 years	47-50 years
US\$/Tonn	US\$/Tonn	US\$/Tonn	US\$/Tonn	US\$/Tonn	US\$/Tonn	US\$/Tonn	US\$/Tonn	US\$/Tonn	US\$/Tonn
2.27	2.38	2.50	2.62	2.76	2.90	3.04	3.19	3.35	3.52

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that M/s Port Qasim Electric Power Co. Ltd conducting its operations since April 22, 2015. However, the management is currently receiving outdated rates of 2.27 per MT, whereas as per agreement, the rate per MT from 6-11 years entitled for the company is 2.38 per MT. The details are as under:

Period	No. of Ships	Quantity imported (M.Tonn)	Royalty US\$/Tonn	Amount in US\$	Rate of US\$ in June	Amount in Rs.
July 21 to June 22	61	3,126,114	2.38	7,440,151	192.85	1,434.83
OLD RATE OF ROYALTY CHARGES						
July 21 to June 22	61	3,126,114	2.27	7,096,278	192.85	1,368.51
Difference				343,873		66

Thus, the company did not fulfill its obligation to deposit the royalty amount of US\$.343,873/- equivalent to Rs. 66.315 million, from July 2021 to June 2022.

Audit is of the view that the management extended favor to the company, resulting in the accumulation of loss of Rs. 66.315 million. This reflected weak revenue collection.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed that the royalty is charged as per implementation agreement from the date of commencement of the operation. DAC directed the management to provide the relevant record to Audit for verification.

Audit recommends implementation of the DAC directives.

14.4.4.29 Irregular award of hiring of firefighting Services – Rs.62.706 million

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

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that management floated tender for hiring of firefighting services (manpower viz. 59 Fireman, 08 HTV drivers and 03 LTV drivers) on 01.11.2021. Three bidders were technically qualified whereas M/s Elite Services, a sole proprietor, was awarded the contract at Rs.5,225,516/- per month on 28.03.2022. However, the record

reflected that M/s. Elite Services did not quote the financial rates of any item of schedule instead crossed the same page of submitted bidding documents. While a separate paper of “Schedule / BOQ-A” of the schedule rates were submitted by the bidder for financial evaluation.

Moreover, PQA Legal Department rose following observations on the award of the contract to M/s Elite Services;

- Outsourcing was to be from firefighting companies however, M/s Elite was sole proprietor.
- Profile of the bidder in bid showed that area of operation and ability of the firm was “janitorial services” which was evident from the Tax payer online verification document.
- Evaluation criteria showed the bidder should have four years “similar nature of contract experience” which was not justified from the available bidding documents.
- The bidder was generously evaluated by getting more marks.
- Recommended the case for re-examination / reevaluation to Evaluation Committee.

Audit is of the view that award of work without quoting of rates against BOQ items and by neglecting observations of legal department reflected that procurement was not fair/not transparent.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed the DAC that qualified manning was arranged from service provider. DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

14.4.4.30 Loss of interest income due to placement of funds with 2nd highest offered rate - Rs.57.375 million

As per Board Resolution No. 60/2020 dated 27.10.2020;

- Funds should be placed at AAA and AA rated Banks but the same may not be more than 50% of surplus Funds should be placed in AA rated Banks.
- Not more than 50% of surplus funds placed in one single bank.
- All investment should be at KIBOR (+/-) rate.
- Placement of PQA Funds should not be more than 30% of Equity of any Bank’s /DFI’s.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that management placed surplus funds of Rs 6,750 million with NBP @ KIBOR plus base rate (10.62%) for the period of one year. The Samba Bank offered highest rate KIBOR plus base rate (11.47%) to PQA for the same investment made in December 2021. However, it was observed that management placed all funds in NBP and ignored the highest offered rate which resulted into loss of interest income amounting to Rs 57.375 million to PQA. The details are as under;

Investment Period	Funds Available for Investment in million	KIBOR offered rate by NBP	KIBOR offered rate by Samba Bank	% of Funds against 30% Equity NBP	% of Funds against 30% Equity Samba Bank	Loss due to difference of rate (10.62-11.47 =0.85)
December, 2021	6,750	10.62	11.47	51%	39%	57.375

Audit is of the view that the management extended undue favour to NBP which resulted into loss of interest income amounting to Rs 57.375 million to the Authority.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed the DAC the Samba Bank was at the verge of closing business due to which, investment was made with 2nd lowest bidder. DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

14.4.4.31 Loss due to late delivery of 02 pilot boats - Rs.53.040 million equivalent to US\$ 260,000

As per terms and conditions of agreement, M/s Sanmar Denizcilik Makina Ve Ticaret as Istanbul, Turkey dated 24-03-2021 had to execute the delivery or supply of pilot boats within a time frame of 09 months.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that management imported 2 pilot boats from M/s Sanmar Denizcilik Makina Ve Ticaret as Istanbul, Turkey. The (LC) was opened on 08-04-2021, whereas, the company delivered the pilot boats on 03-02-2022, after lapse of 26 days. Consequently, the management should have received penalty charges amounting to US\$.10,000 per day. The total penalty amount for the 26 days delay is US\$.260,000 (equivalent to Rs.53.040 million). However, the management failed to recover the aforementioned amount.

Audit is of the view that non-receiving of late delivery charges reflected negligence of the management.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management stated that these boats were delivered within stipulated time as mentioned in the agreement and after opening of LC. DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

14.4.4.32 Non-imposition of Liquidity Damages charges – Rs.39.862 million

As per clause 47.1 of condition of contract on Liquidated Damages (LD), "...maximum 10% of contract price stated in the Letter of Acceptance be imposed.

As per clause 43.1 & 48.2, "Special Stipulations of the Conditions of Contract", for whole of the work was 360 days, from the date of commencement and the date for completion of the project was 09th November, 2021.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that the management awarded contract of Package-II, "Construction of remaining water supply network in NWIZ and SWIZ" to M/s. Norrulhaq & Brothers at a total cost of Rs.398.625 million on 14.11.2020. The contract was to be completed within 360 days from November 14, 2020 to November 09, 2021. The contractor failed to complete the project within stipulated time despite granting three extensions, the project was not completed till-date.

Audit is of the view that management extended undue favour to the contractor and did not impose LD Charges amounting to Rs.39.862 million @ 10% charges of contract price on account of delayed and non-completion of the project.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. Management stated that contractor completed the work within the time extended by the management. DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year 2022-23 vide para(s) number 14.4.4.15 having financial impact of Rs.93.883 million. Recurrence of same irregularity is a matter of serious concern.

14.4.4.33 Non-imposition of liquidity damages charges - Rs.39.022 million

As per clause 47.1 of conditions of contract, "...maximum of 10% of contract price stated in the Letter of Acceptance be imposed as Liquidated Damages, in case of failure to deliver the project.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that the management awarded following two contracts namely;

Sr#	Name of contract /Package	Name of Contractor	Cost Rs in Million	Engineer's Notice to Commence date (Period 12 months)	LD Charges @ 10%
1.	Package-I "Sewerage System" Gulshan-e-Benazir Township Scheme (GBTS)	M/s NLC Engineers	108.624	15.03.2021	10.862
2.	package-II "Water Supply System" Gulshan-e-Benazir Township Scheme (GBTS)	M/s NLC Engineers	281.605	15.03.2021	28.160
				Total	39.022

However, the contractor failed to complete the project within stipulated time whereas the management did not impose liquidated damages (LD) of Rs.39.022 million for delay in completion of the works @ maximum 10% of contract price stated in the letter of acceptance. (108.624+281.605=390.229*10%=39.022).

Audit is of the view that management extended undue favour to the contractor and did not impose LD charges amounting to Rs. 39.022 million on account of delay in completion of the works.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management and informed that project was not completed in time due to difficulties occurred during the project and extension was made as per contract. DAC directed the management to get the record (completion certificate) verified from Audit.

Audit recommends implementation of the DAC directives.

14.4.4.34 *Non-charging of fast track charges from terminal operator-Rs.30.890 million*

As per Annex-2 to the PQA Land Allotment Policy, Rs.0.5 million per acre over and above the prevailing rates of Peripheral Development Charges is payable for consideration of allotment on priority / Fast Track basis.

As per Ministry of Ports & Shipping approved the its letter No.4(16)/2003-P&S-II dated 21.02.2005, letter No.4(16)/2003-P&S-II dated 02nd May, 2005 and PQA B.R # 9/2005 dated 25.01.2005, all applicants requiring land on priority basis be charged additional Peripheral Development Charges (PDC) @ of Rs.05 million per acre over and above the existing Peripheral Development Charges.

The Board further resolved that an undertaking should be furnished by the applicants of priority cases: I / We shall pay the additional Peripheral Development Charges (PDC) Rs.0.5 million per acre over and above the existing PDC in all zones of PQA.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was noted that land of 61.775 acres was allotted to M/s. Pakistan International Bulk Terminal (Pvt), Limited in NWIZ. However, the fast track basis charges of Rs.0.5 million per acre over and above the existing PDC were not charged from M/s. PIBTL.

Audit is of the view that non-recovery of charges caused loss of Rs.30,887,500 (61.775 acres x Rs.500,000 per acre as per prevailing land allotment policy).

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed that due to competitive bidding process the charges of fast track could not be charged DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

14.4.4.35 *Irregular appointment and non-achievement of objectives by HR Consultant – Rs.28.250 million*

According to Policy guidelines of the Establishment Division, Government of Pakistan for appointment of consultant that;

- The client organization is required to ascertain as to whether or not the required expertise is available within the organization/ government. In case the expertise is available in-house, reasons for not undertaking the assignment internally may be spelled out and detailed justification.
- Selection Board headed by the Secretary of the Ministry/ Division will recommend a panel of at least three candidates in order of merit for consideration of the appointing authority.

Clause 2 of contract agreement dated October 05, 2020, if the consultant fails to complete the assignment within six (6) months or such extended period of further six (6) months he shall pay Liquidated damages (LD) @ 10% of consultancy amount.

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

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that the management hired HR Consultant, M/s HRSG, for providing following five-phase services at Rs.28.250 million on 05.10.2020 with completion date of 04.10.2021.

Phase	Description	Phase	Description
1 st	HR Audit report	4 th	Improving HR ERP system
2 nd	Job Description	5 th	Changes affecting Labour Laws
3 rd	PQA Service Rules Review		

However, it was observed that:

- a. The hiring of the contractor was irregular as the same was made without utilizing available in-house expertise and detailed justification of hiring the HR Consultant. The panel of three consultants was not submitted to concerned ministry for its approval. Besides, the award of consultancy contract was made to a single participating bidder without any market survey which was in violation of the procurement rules. Hence, contract award amounting to Rs.28.25 million is held irregular in Audit.
- b. PQA paid an amount of Rs.2.225 million on account of 1st installment of the scheduled payments. But, PQA HR Committee intimated Board on 13.10.2021 & 5.12.2022 that the reports submitted by the consultant are incomplete, irrational and illogical as the consultant failed to deliver the task. The Committee also recommended to the Board for cancellation of the contract.
- c. Further, the management did not recover an amount of Rs.2.825 million on account of Liquidity Damages (LD) as the contract was not completed on 04.10.2021.

Audit is of the view that hiring of the only participating bidder as consultant without any market survey, utilizing in-house services and subsequent non-achievement of objectives by HR Consultant was irregular in Audit. Further, non-imposition of Liquidity Damages (LD) reflected undue favour to contractor.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. Management apprised the DAC that M/s HRSG consulting Pvt was appointed for the work, which has not been completed as yet. DAC pended the para till completion of the project.

Audit recommends implementation of the DAC directives.

(DP No. 188, 212 & 214)

14.4.4.36 Procurement of multiple items through splitting - Rs.28.200 million

Rule 20 of PPRA Rules, 2004 states that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was found that the management incurred an expenditure amounting to Rs.28,200,385 on account of purchases under following heads through splitting up and on piecemeal basis. The detail is as under:

S#	GL #	Description	Amount (Rs)
01	1010010008	Office Equipment	2,044,753

02	1050010001	Stock of material supply (coded & non-coded)	9,522,993
03	1010010010	AC, LEDs, Laptops, computer printer, etc (other equipment)	1,440,249
04	5030200024	Sundry expenditure & hire decoration items	4,561,390
05	1010010007	furniture and fixture	10.631
		Total	28,200,385

The procurements were made during 2021-22 with a short interval of few days, months and each purchase was split up in such a way so that the prescribed limit for tendering may not be crossed in order to avoid tendering and obtaining approval of higher authority as per delegation of power.

Audit is of the view that the management made splitting of all procurement of Rs.28.200 million and avoided open competition process.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management stated that the purchases are made when needed by the department and on urgent basis. DAC directed the management to comply with PPRA.

Audit recommends implementation of the DAC directives.

(DP. 211 & 205)

14.4.4.37 Payment on account of dredger without rendering services – Rs. 26.738 million

Rule 5 (1) of Public Sector Companies (Corporate Governance) Rules, 2013 state that the Board shall exercise its power and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was noted that management awarded the contract to M/s China Shipbuilding Trading Company Ltd (CSTC) for manning of dredger (Indus Dolphin, Trailing Suction Hopper Dredger) for the periods from 2015 to 2021 and August 2021 to August 2026. However, dredger remained non-functional from July 05 to November 03, 2021 as per fuel consumption report, but the contractor was paid for the (4th quarter of 5th year US\$ 116,592/3=US\$ 38,864 x 4 months=US\$ 155,456 x Rs.172= Rs.26.738 m) as per payment file.

Audit is of the view that the payment was made without rendering manning services. Thus, the payment was held irregular and unjustified.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management stated that the payment was made to the contractor as per work performed by the dredger. DAC directed the management to get the facts verified from Audit.

Audit recommends implementation of the DAC directives.

14.4.4.38 Irregular payment of manning, operation and 1st line maintenance - Rs.24.930 million

As per Clause 4 (iv) (k) of Special Conditions of Contract to Terms of Manning & Operations, in case of planned / laid-up / non-ops status of the craft for more than 30 days, by mutual consent of Employer and Contractor, manning may be reduced to half.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was noted that the PQA entered into the contract with M/s Bahria Foundation for manning, operation and 1st line maintenance of tug boat, Sohna, for a period of two years on 14-2-2019. As per payment schedule, 1st year payment was to be paid Rs.142.417 million and 2nd year of Rs.149.580 million. The boat remained under dry docking w.e.f. 16.09.2021 to 09.02.22 (almost five months). However, contrary to above, the PQA management did not reduce the manning charges to half. Thus, PQA paid excess amount of Rs.24.930 million.

Audit is of the view that excess payment of Rs.24.930 million was unjustified.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management stated that the payment was made as per contract during the period of high tide. DAC directed the management to provide relevant record for verification.

Audit recommends implementation of the DAC directives.

14.4.4.39 Irregular / unjustified payment on account of repair and maintenance of School – Rs.19.552 million

IB.26 (2) “Standard Forms of Bidding Documents” (Civil Works) of PEC 2007 provides; “A material deviation or reservation is one (i) which affect in any substantial way the scope, quality or performance of the Works; (ii) which limits in any substantial way, inconsistent with the Bidding Documents, the Employer’s rights or the bidder’s obligations under the Contract; or (iii) adoption/rectification whereof would affect unfairly the competitive position of other bidders presenting substantially responsive bids.”

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that the management awarded contract of repair and maintenance of Boy’s Primary and Secondary School at Housing Complex to M/s Glamour Construction at the cost of Rs. 42.019 million on 18.04.2022. Interim Payment Certificate (IPC-3) reflected that an amount of Rs. 19.552 million was paid to the contractor on account of “Extra Items” work done which was not part of the actual Bill of Quantity (The extra items represented 46.5% of the original cost of BOQ).

Audit is of view that payment of 46.5% of non-BOQ items and without any analysis and approvals reflected negligence of the management and was in violation of procurement rules.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management stated that the repair work was carried out by the contractor as per specification and some changes were made in the drawing duly approved by the competent authority. DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

14.4.4.40 Non-deduction of Sindh Sales Tax on Services – Rs.14.306 million

As per section 3(1) of Sindh Sales Tax on Services Act, 2011, service provided by person engaged in contractual execution of work or furnishing supplies is taxable @ 13%.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was noted that M.T. Mohna, a vessel of PQA, was dry-docked at KS&EW on 16.09.2021 for repair of oil leakage and un-docked on 09.02.2022. However, out of total payments of Rs.187.878 million, PQA paid an amount of Rs.110.046 million on account of labour service charges without deducting Sindh Sales Tax @ 13% of Rs.14.306 million.

Audit is of the view that the management was liable to deduct tax at source from the contractor.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed that the matter is sub-judice. DAC directed the management to pursue the case vigorously.

Audit recommends implementation of the DAC directives.

14.4.4.41 Unjustified long delay of ship/vessel on anchoring showing poor performance of marine operations and non-recovery of anchoring charges – Rs.13.946 million

Rule 4(3) of Public Sector Companies (Corporate Governance) Rules, 2017 states that the Chief Executive is responsible for the management of a public sector company and for its procedures in financial and other matters, subject to the oversight and directions of the Board.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that from the marine operation, harbor operation record that following two ships/ vessels named “MT Afra Laurel and MV Yangze-6” arrived on outer anchorage on 23.11.2021 and 14.03.2022 were carrying HSFO and Soybeans respectively. Scrutiny of the record revealed that the MT Laurel took berthage after 40 days whereas 17 ships anchored after MT Laurel were allowed berthing by the management without recording cogent reasons. Besides, MV Yangze-6 was allowed vessel was taken on re-anchorage on 13.02.2022 just after 04 days of berthing and no cogent berthing and was observed re-anchored at outer sea for more than 70 days for the reasons best known to the management. However, PQA as evident from the record did not collect anchoring charges from the ship agent/owner. The details are as under;

S.#	Name of Ship	Name of Agent	Anchored Date	Berthage date	Sailing Date	Delay in days	GRT	Amount @ USD 0.013 (Rs 204)	Remarks
1	MT Afra Laurel	PNSC	13.11.21	23.12.21	25.12.21	40	57,567	7,184,361	The Ship allowed birthing after 17 ships.
2	MV Yangze-6	Al-Pine Marine	14.03.22	19.03.22	01.06.22	70	36426	6,762,122	After berthing, ship anchored for 70days.
Total								13,946,483	

Audit is of the view that the ships took unusual delays at outer anchoring and allowing berthing to other late anchored ships prior to the 1st anchored shows undue favour whereas not receiving the anchoring charges amounting to Rs.13.946 million is loss to the government exchequer. This modus operandi of marine operations which caused long delays in ship movement, raise many doubts on the practice of management concerned.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management stated that the outer anchorage is liable to be charged from the ships waiting for their turn. DAC directed the management to provide the record to Audit for verification.

Audit recommends implementation of the DAC directives.

14.4.4.42 Unjustified long delay of ship/vessel on anchoring showing poor performance of marine operations and non-recovery of anchoring charges - Rs.12.889 million

As per general note 0405, Gazette of Pakistan June 17, 2010, states that these charges apply to vessels using Port Qasim’s Outer Anchorage area and approaches and are levied as per 0406.

0406: Rates:

• Vessels using anchorage area Outer anchorage and approaches	US\$ 0.013 per GRT per day or part thereof.
--	---

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that from the marine operation, harbor operation record that a vessel named “Stratton” arrived on outer anchorage on 23.01.2022 carrying coal through agent M/s Water link. After 17days waiting on anchorage, the vessel took berthing at PIBT terminal on 09.02.2022. Scrutiny of the record revealed that the vessel was taken on re-anchorage on 13.02.2022 just after 04 days of berthing and no cogent reasons were recorded. Further, it was noticed that the vessel anchored till April 20, 2022 whereas no evidence of sailing out /date was found in the available record. Besides, PQA as evident from the record did not anchoring charges amounting Rs.12.889 million from the ship agent/owner.

Audit is of the view that the management failed to deal with ship M/s “Stratton” which anchored and re-anchored for more than 4 months without recorded cogent reasons. This model of marine operations which caused long delays in ship movement, raise many doubts on the practice of management concerned.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management stated that the outer anchorage is liable to be charged from the ships waiting for their turn. DAC directed the management to provide the record to audit for verification.

Audit recommends implementation of the DAC directives.

14.4.4.43 Less deduction of income tax – Rs.12.450 million

Section 149 (1) of Income Tax Ordinance, 2001, stated that every person responsible for paying salary to an employee shall, at the time of payment, deduct tax from the amount paid at the employee’s average rate of tax computed at the specified rates on the estimated income of the employee chargeable under the head “Salary”.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that the management made less deduction of Income Tax of Rs.12.45 million from salary of the PQA employees as under:

(Rs. in million)			
Number of employees	Tax due	Tax deducted	Short deduction
243	110.46	98.01	12.45

Audit is of the view that less deduction of Income Tax reflected negligence and loss to Govt. exchequer.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed that the tax was calculated properly. DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

14.4.4.44 Construction without approval and non-provision of drawings for establishment by terminal operators - Rs.12.000 million

As per Clause-(xx) of PQA Land Allotment Policy, 2005, the drawings for the construction work duly prepared by a Licensed Architect/Engineer shall have to be submitted in quadruplicate for approval by Port Qasim Authority. Construction shall only be undertaken in accordance with terms and conditions of Implementation Agreement (IA).

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that the management allotted land of 25 hectares (61.775 acres) to M/s. Pakistan International Bulk Terminal Limited (PIBTL) on 05th of June, 2011 for establishment of Coal and Clinker/Cement Terminal on BOT basis at back-up area of PQA. The terminal operator carried out construction without prior permission and submission of drawing to the PQA/P&D department. Joint Survey/inspection, team of PQA visit report dated 11-01-2023 on the plot No.NW-LL/02 (measuring 61.78 acres) reported that the PIBT deviated/ unauthorizedly constructed against the drawing submitted to PSP department of PQA. Accordingly, IM department of PQA issued notice for unauthorized construction to the PIBT on 17-04-2023 (stating deviations/illegal/unauthorized constructions i.e. Storage Shed, New Mess, 02 rooms and Guard room) and also imposed penalty of Rs 12,000,503. Further, the file reflected that all the terminals at PQA have not submitted the drawings for approval.

Audit is of the view that construction without approval and non-provision of drawings for establishment by terminal operators was unjustified.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed that PQA imposed and recovered penalty of Rs.12.000 million. DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

14.4.4.45 Irregular creation of post of Data Entry Operator - Rs.11.916 million

PQA Employees Service Regulations, 2011 entails that the Basic Pay Scale (BPS) assigned to the position of computer operator is officially recognized as BPS-12.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that contrary to above following employees occupied position of Data Entry Operator (BPS-17). And received the pays and allowances corresponding to the Pay-scale/BPS-17. The detail is given as under:

(Amount in Rs)				
S#	Name	Designation	Pay Per Month	Pay per year 2021-22
01	Syed Moin Ahmed	Data Entry Operator (BPS-17)	344,164	4,129,968
02	Mr. Fawad Fateh	Data Entry Operator (BPS-17)	321,086	3,853,032
03	Mr. Muhammad Qayyym Khan	Data Entry Operator (BPS-17)	327,753	3,933,036
Total				11,916,036

Audit is of the view that the appropriate grade for the Data Entry Operator (DEO) position is BPS-12 as per PQA Regulations. Thus, the hiring and the payments are held irregular in Audit.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management stated that the posts were upgraded to pay scale 17 by the Board. DAC directed the management to obtain approval of the Federal Government.

Audit recommends implementation of the DAC directives.

14.4.4.46 Irregular procurement without tendering – Rs.10.000 million

Rule 20 of PPRA Rules, 2004 states that the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that the management procured mooring / towing rope services under an agreement from PNSC for vessel, M.T. Mohna, amounting to Rs.10.00 million without competitive bidding.

Audit is of the view that the management extended undue favour to PNSC and made direct procurement without tendering and deprived the authority from obtaining competitive rates.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management stated that the mooring rope was purchased from PNSC under the running contract with PNSC. DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

14.4.4.47 Expenditure on tug beyond economic repair - Rs.6.679 million

Rule 5 of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that the management declared a tug, Sachal, as beyond economic repair (BER) on 18.11.2022, but during 2021-22, an expenditure amounting to Rs.6.679 million was incurred on account of its repair and maintenance.

Audit is of the view that the management incurred unjustified expenditure of Rs.6.679 million on the tug which was declared beyond economic repair.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed the DAC that the expenditure was incurred before declaring the vessel as beyond economic repair to keep it operational. DAC directed the management to provide relevant record to Audit for verification.

Audit recommends implementation of the DAC directives.

14.4.4.48 Loss due to extension in hiring of pilot boat contract – Rs.5.040 million

Rule 5 of Public Sector Companies (Corporate Governance) Rules, 2013 states that the Board shall exercise its powers and carry out its fiduciary duties with a sense of objective judgment and independence in the best interest of the company.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that Pilot boat Lahoot was under dry docking at shipyard Karachi and was expected to be operational in January, 2022. However, PB Lahoot un-docked in the month of April, 2022 and caused delay 88 days in scheduled dry docking due to fault and mishandling of the shipyard staff. During the period management hired a pilot boat, Ocean Prince on Rs.84,000/ per day for the period of three month on 16.10.2021 for Rs.5.04 million (84,000*60 days).

Audit is of the view that due to delay in dry docking by Karachi shipyard, PQA paid an extra cost of Rs.5.040 million which was un-justified and may be calimed from shipyard.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. Management stated that extension of contract was given due to delayed repair of PQA lahoot vessel to keep smooth operation. DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

14.4.4.49 Loss due to waiver of charges against the encroached area - Rs.4.564 million

As per article 7.5(e) of Implementation Agreement (IA) between PQA and PIBTL, PQA IM department will provide/allocate an area for establishing of temporary site office, outside the boundary of PIBTL Site (i.e. 61.775 acres).

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that the management waived dues of Rs.4.564 million against the encroached area by M/s Pakistan International Bulk Terminal Limited (PIBTL). However, it was observed that contractor, M/s. China Harbour Engineering & Construction Company (CHEC) of Pakistan International Bulk Terminal Limited (PIBTL), encroached an area of 4.529 acres for the period from August, 2014 to January, 2015 (06 months). The management issued letter on 21st January, 2015 to the PIBTL to deposit the rental charges of Rs 4,564,295 against occupied area, but PIBTL did not pay the same.

Audit is of the view that management waived-off the charges irregularly.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

14.4.4.50 Loss on account of stolen vehicles - Rs.4.000 million

Rule 23 of GFR states that every government officer should realize fully and clearly that he will be held responsible for any loss sustained by government through fraud and negligence on his part.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that following vehicles of PQA were stolen.

S #	Vehicle No.	Make	Model	Est: Cost
1	AZF 071	Toyota Corolla	2013	2,000,000
2	ARQ-472	Toyota Corolla	2009	1,500,000
3	GA-5272	Suzuki Bolan	2006	500,000
Total				4,000,000

Audit is of the view that due to weak internal controls, three vehicles were stolen. Neither the insurance claims were lodged nor were efforts for the recovery of the assets made by the management.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed the DAC that all three vehicles were stolen from outside of PQA area and FIR were lodged in the nearest police station. However, internal

inquiry of two vehicles were carried out. DAC directed the management to pursue the case for recovery of vehicles and directed to ensure all the vehicles insured from NICL.

Audit recommends implementation of the DAC directives.

14.4.4.51 Non-imposition of Liquidity Damages charges - Rs.3.050 million

Clause 17(b) of MoU dated 16.12.2021 provides that delay in docking as per schedule provided by KS&EW will entitle PQA to liquidated damages @ Rs 50,000 per day (after 07 days grace period) for delay in completion of repair /works within the completion deadline agreed between the parties.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that M.T Mohna, vessel of PQA, was dry-docked at KS&EW on 16.09.2021 for repair of oil leakage and un-docked on 09.02.2022 with delay of 68 days. However, it was observed that the management did not impose LD charges amounting to Rs.3.050 million on account of delay in completion of work on M/s KS&EW.

No. of Days (due)	No. of Days (actual)	Delay period (68-7)
75	143	61

Audit is of the view that the management extended undue favour to the contractor and did not impose LD charges amounting to Rs.3.050 million on account of delay.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed the DAC that the work was completed within stipulated time. DAC directed the management to provide the record for verification.

Audit recommends implementation of the DAC directives.

14.4.4.52 Non-allotment of cancelled plots

According to Land Allotment Policy, 2005;

- The allottee shall complete / commission the proposed unit within the time specified in PQA's Land Allotment Policy, 2000. In case of failure, the allotment of plot shall be cancelled and 25% of total Peripheral Development Charges shall be forfeited.
- The allotment of plot shall be cancelled and 10% of total PDCs of whole plot area shall be forfeited against PQA administrative charges and also annual land rent will be charged for the period the plot is retained by you.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that since cancellation, the management did not make re-allotment of 193 plots which compromised revenue amounting to Rs.8,200.000 million on account of potential PDC income. The details are as under;

S#	Zone Name	No. of Cancelled Plots	Total Acres/Area	PDC Rate /Acre	Amount in Rs.
01	NWIZ	5	15	60,000,000	900,000,000
02	EIZ	171	181	40,000,000	7,240,000,000
03	SWIZ	1	1	60,000,000	60,000,000

04	SWIZ/OSP	16	04	60,000,000	240,000,000
		193	201	Total	8,440,000,000

Furthermore, the management transferred most of cancelled plots merely on the payment of cancellation charges instead of allotting a plot on current PDC charges.

Audit is of the view that the management failed to cancel the allotment of plots which reflects negligence and ill-planning.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed that the plots have been cancelled and would be re-allotted through advertisement. DAC directed the management to allot the plots as per policy and on the current PDC rates.

Audit recommends implementation of the DAC directives.

14.4.4.53 Non-appointment of Chief Financial Officer, Company Secretary and Chief Internal Auditor

Rule 13 of Public Sector Companies (Corporate Governance) Rules, 2013, provides that the Board shall appoint a chief financial officer (CFO), a company secretary and a chief internal auditor (CIA).

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that contrary to above the management did not appoint the mandatory officers of the company. The functions of the CFO were carried out by the PQA employee having post of Director General. The post of the CIA was held by Director Mr. Tipu Sultan whose qualification was M.A and was also serving as Company Secretary.

Audit is of the view that non-appointment on the crucial posts and getting services of the non-qualified employees on such key posts was in violation of rules and affected performance of the Board.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed that Code of Corporate Governance is not applicable on PQA. DAC directed the management to seek clarification on the matter from SECP.

Audit recommends implementation of the DAC directives.

14.4.4.54 *Nomination of Board Members in violation of PQA Act*

Section 6 (1) of PQA Act 1973, states that the Board shall consist of not less than three and not more than seven members, including the Chairman, to be appointed by the Federal Government.

The Honorable Supreme Court of Pakistan defined the Federal Government, which is reproduced as under:

- "The Federal Government is the collective entity described as the Cabinet constituting the Prime Minister and Federal Ministers."
- Neither a Secretary, nor a Minister and nor the Prime Minister are the Federal Government and the exercise, or purported exercise, of a statutory power exercisable by the Federal Government by any of the, especially, in relation to fiscal matters, is constitutionally invalid and a nullity in the eyes of the law. Similarly, budgetary expenditure or discretionary governmental expenditure can only be authority by the Federal Government i.e. the Cabinet, and not the Prime Minister on his own."

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that the Board Members required to be appointed by the Federal Government were appointed by the Ministry of Maritime Affairs on the approval of the Prime Minister instead of approval of the Federal Government.

Hence, the nomination of the Members of the Board of Directors is not in line with relevant provision of the PQA Act 1973.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed that Code of Corporate Governance is not applicable on PQA. DAC directed the management to seek clarification on the matter from SECP.

Audit recommends implementation of the DAC directives.

14.4.4.55 *Appointment of Board Member without considering the element of conflict of interest*

Rule 5 (5B) (i) of Public Sector Companies (Corporate Governance) Rules, 2013 states that the directors and executives of a Public Sector Company do not allow a conflict of interest to undermine their objectivity in any of their activities, both professional and private and that they do not use their position in the Public Sector Company to further their private gains in a social or business relationship outside the Public Sector Company. If a situation arises where an actual or potential conflict of interest exists, there shall be appropriate identification, disclosure and management of such conflict of interest;

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that management appointed Mr. Mahmood Baqi Moulvi as Board member, Chairman of both Board's Planning & Infrastructure Technical Committee and Marine Ops Committee during 2021-22 without taking into account his personal and family business (Ghee and Oil Mills, Flour Mills, Rice Mills, Commodity Ventures and Warehouses) within premises of the Authority.

Audit is of the view that appointment of Board Member and Chairman of the Committees of the Board with personal and family stakes in the Authority was in violation of Corporate Governance Rules.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed that Code of Corporate

Governance is not applicable on PQA. DAC directed the management to seek clarification on the matter from SECP.

Audit recommends implementation of the DAC directives.

14.4.4.56 *Non-preparation of annual accounts*

According to Section 233 of the Companies Act, 2017, the company should finalize its annual accounts within four months after closing date of accounts for the year.

During the audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that contrary to above, the annual accounts were not prepared / audited by the Chartered Accountant for the year under review.

Audit is of the view that non-finalization of audited annual accounts reflected weak internal controls and violation of rules.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed that PQA finalized the audited accounts till 2016 and accounts for the years 2017 - 2021 will be completed in January, 2024. DAC directed the management to complete the reports within 02 months and submit to Audit for verification.

Audit recommends implementation of the DAC directives.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year 2022-23 vide para(s) number 14.4.4.35. Recurrence of same irregularity is a matter of serious concern.

14.4.4.57 *Non-implementation of Board decision causing significant increase in estimated cost of capital dredging*

Board vide Br # 16/2020 dated 21.02.2020 approved following three (3) courses of actions regarding capital dredging & maintenance of dredging;

- a) That the dredging may be arranged through M/s QICT/third party financing.
- b) That the dredging may be financed by PQA, if no financing is arranged through M/s QICT/Third party.
- c) That the dredging may be financed by PQA

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was noted that consultant M/s HR Wallingford & M/s Techno-Consultant International Pvt. Ltd (Joint Venture), submitted its feasibility report amounting to US\$ 268.07 million (reflecting cost of dredging on a to c options) in February, 2020, for deepening, widening & straightening of the existing navigational channel, commissioning of alternate inner navigation channel and supervision of capital dredging work. The feasibility study was submitted to the Ministry for Federal Government approval in March, 2020.

However, it was observed from a brief of PQA dated 16 May, 2022 submitted to the Ministry that there was an increase of about 33% over and above the estimated cost (recorded in feasibility study) US\$ 268.07 million. The details is hereunder;

(Amount in USD million)

Estimated cost	Current estimated cost	Increased cost	% increase
268.07	356.3	88.23	33%
Rs.23,822 million (88.23*270)			

Audit is of the view that significant increase in estimated cost of capital dredging reflected due to ill-planning and lack of co-ordination.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed that the implementation of dredging project is dependent upon approval from MOMA/Federal Government. DAC directed the management to pursue the case for early approval of Federal Government.

Audit recommends implementation of the DAC directives.

14.4.4.58 Non-formulation of Service Rules

Notification F.No.6/4/96-R-3 dated 02 Nov, 2021 of Establishment Division, Government of Pakistan, states that soon after an organization is established, it is mandatory to frame service rules in order to run the organization in a legal manner. All Autonomous Bodies/Corporations need to submit its draft Rules for approval to the Competent Authority as specified in their respective Act/Ordinance. However, these Rules are required to be submitted to Establishment Division for vetting /concurrence.

During audit of Port Qasim Authority (PQA) for the year 2021-22, it was observed that contrary to above, the management did not formulate Service Rules. The organization was established under PQA Act, 1973 and service matters were being dealt through PQA Employees Regulations, 2003 (Draft), PQA Employees Service Regulations, 2011 and PQA Employees Service Regulations, 2013.

Besides, PQA Board through its resolutions (BRs) has amended / revised the terms and conditions of the service [BR. No 39/2019 dated 26.11.2019 (future appointments be made on contract basis) and BR No 40/2019 dated 26.11.2019 (changes in qualification, age and experience)] without approval of Establishment Division.

Audit is of the view that non-formulation of Service Rules since establishment of the organization in 1973 reflected negligence.

The matter was reported to the management on June 06, 2023. The irregularity was discussed in the DAC meeting held on December 29, 2023. The management informed the DAC that, PQA Service Regulations are formulated and implemented in the PQA. DAC directed the management to get the record verified from Audit.

Audit recommends implementation of the DAC directives.

Chapter-15

Ministry of National Food Security and Research

Overview

The Ministry of National Food Security & Research is mainly responsible for policy formulation, economic coordination and planning in respect of food grain and agriculture. It also includes procurement of food grains, fertilizer, import price stabilization of agriculture produce, international liaison, and economic studies for framing agricultural policies.

Aims & Objectives

A Food Secure Pakistan. To ensure a modern and efficient food production and distribution system that can best contribute towards food security and nutrition, in terms of availability, access, utilization and stability.

Governing Laws and Policies

- Rules of Business

Audit Profile of Ministry of National Food Security and Research

(Rs in million)

S. No.	Description	Total	Audited	Expenditure audited FY 2022-23	Revenue /Receipts audited FY 2022-23
1	Formations	3	1	1,985.475	-
2	Assignment Accounts (excluding FAP)				-
3	Authorities /Autonomous Bodies etc. under the PAO	3	1	-	-
4	Foreign Aided Projects (FAP)	-	-	-	-

Classified Summary of Audit Observations

Audit observations amounting to Rs 17548.691 million were raised as a result of this audit. This amount also includes recoverable of Rs 1,505.139 million as pointed out by the audit. Summary of the audit observation classified by nature is as under:

Overview of the Audit Observations

Sr. No.	Classification	Amount (Rs in million)
1	Non-Production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities:	
A	HR/Employees related irregularities	42.010
B	Procurement related irregularities	266.849
C	Management of accounts with Commercial Banks	-
4	Value for money and services delivery issues	13,318.000
5	Others	3,921.832

15.1 Pakistan Agricultural Storage and Services Corporation Limited

15.1.1 Introduction

Pakistan Agricultural Storage and Services Corporation Limited (PASSCO) was incorporated on August 31, 1973 as a non-listed public limited company. It is involved in the implementation of the Federal Government's policy of support price program of food grains, equitable distribution of food commodities and maintenance of their reserve stock.

The objectives of the Corporation are to purchase, acquire, sell, supply, market, distribute, exchange, and dispose of, import, export and store agricultural commodities. The Corporation is under the administrative control of Ministry of National Food Security and Research.

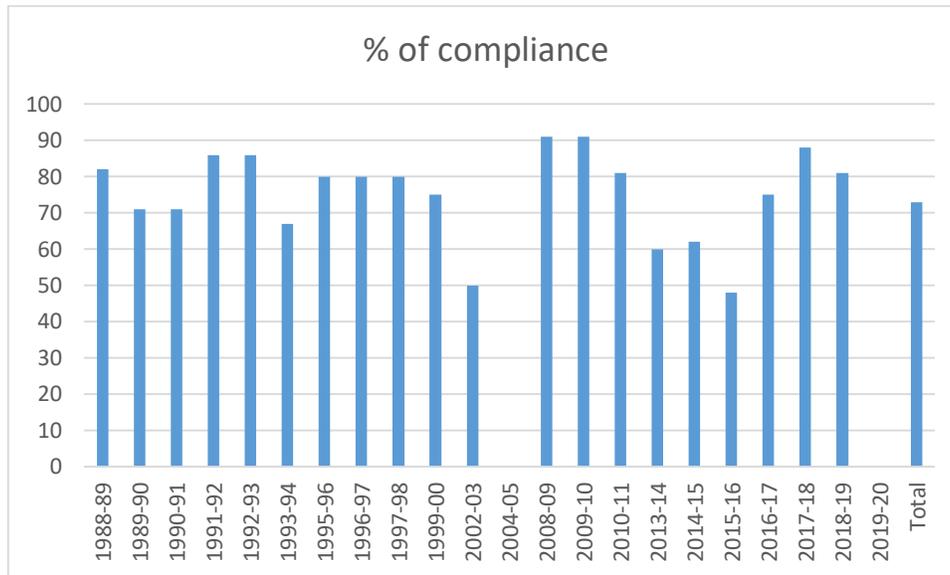
15.1.2 Comments on Audited Accounts

15.1.2.1 The annual audited accounts are required to be provided to Audit for review each year. Contrary to this, the management failed to provide audited annual accounts of the organization for the year 2022-23 till December 31, 2023.

Audit recommends that the annual audited accounts of 2022-23 be provided immediately and timely submission be ensured in future besides fixing responsibility for non-submission of annual audited accounts (*refer Annex-2*).

15.1.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
1988-89	11	09	02	297, 300	82
1989-90	07	05	02	318, 319	71
1990-91	07	05	02	233, 237	71
1991-92	07	06	01	222	86
1992-93	14	12	02	121, 122	86
1993-94	06	04	02	100, 102	67
1995-96	15	12	03	105, 106, 108	80
1996-97	15	12	03	118, 122, 123	80
1997-98	05	04	01	98	80
1999-00	04	03	01	141	75
2002-03	04	02	02	82.1, 82.3	50
2004-05	03	00	03	53, 54, 55	0
2008-09	23	21	02	86, 87	91
2009-10	12	11	01	82	91
2010-11	16	13	03	8.1.2.7, 8.1.4.1, 8.1.4.2	81
2013-14	05	03	02	11.1.4.1, 11.1.4.4	60
2014-15	37	23	14	13.1.2.3, 13.1.2.12, 13.1.2.14, 13.1.2.15, 13.1.3, 13.1.4.4, 13.1.4.5, 13.1.4.6, 13.1.4.8, 13.1.4.12, 13.1.4.13, 13.1.4.14, 13.1.4.15, 13.1.4.18	62
2015-16	27	13	14	12.1.2.3, 12.1.2.6, 12.1.3, 12.1.4.1, 12.1.4.2, 12.1.4.3, 12.1.4.4, 12.1.4.7, 12.1.4.9, 12.1.4.10, 12.1.4.11, 12.1.4.13, 12.1.4.15, 12.1.4.17	48
2016-17	12	09	03	11.1.4.3, 11.1.4.4, 11.1.4.5	75
2017-18	17	15	02	16.1.3, 16.1.4.11	88
2018-19	11	09	02	13.1.2.3, 13.1.4.1,	81
2019-20	02	00	02	12.1.4.2, 12.4.4.3	0
Total	260	191	69		73



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

15.1.4 Audit Paras

15.1.4.1 Non-withholding of Punjab Sales Tax (PST) from M/s National Logistic Cell - Rs 1,071.500 million

According to clause 14(2) of the Punjab sales tax on services Act 2012, the authority may require any person or class of persons whether registered or not for the purpose of this Act to withhold full or part of the tax charged from such person or class of persons on the provision of any taxable service or class of taxable services and to deposit the tax so withheld, with the government within such time and in such manner as it may, by notification in the official Gazette.

During audit of PASSCO Lahore for the year 2022-23, it was observed that the management made an agreement with M/s National Logistic Cell (NLC) for shifting of 500,000 M. Tons imported wheat from Karachi Port Trust to PASSCO designated zones on September 05, 2022 and did not withhold Punjab Sales Tax of Rs 1,071.500 million (Rs 7,145,000,000 x 15%).

Weak financial control was the cause of non-deduction of PST.

Audit is of the view that management was required to withhold PST at the time of payment to said company.

The matter was reported to the management and PAO on December 22, 2023. The management replied that according to PST rule 3(1) being a company no withholding of PST was required. The reply was not convincing as management was required to withhold the PST.

DAC in its meeting held on February 09, 2024 directed the management to seek clarification from PRA whether sales tax on services was required to be deducted while making payment to NLC.

Audit recommends compliance of DAC directives.

15.1.4.2 Non deduction of general sales tax from jute mills - Rs 396.741 million

According to Section 3(7) of Sales Tax Act 1990, the tax shall be withheld at the rate as specified in the eleventh schedule by any person or class of persons being purchasers of goods, as withholding agents for the purpose of depositing the same. As per eleventh schedule 1/5th of Sales Tax as shown on invoice is to be deducted.

During audit of PASSCO Lahore for the year 2022-23, it was observed that jute bales of 100 Kg each bag valuing Rs 11,668.852 million were purchased from various mills during April 01, 2022 to March 31, 2023. The management did not withhold GST of Rs 396.741 million (11,668.852 million x 1/5) from suppliers in violation of rules. Detail is given at Annex-91.

Non-compliance of tax rules caused non-deduction of general sales tax.

Audit is of the view that the management was required to withhold the General Sales Tax amount of Rs 396.741 million at source before making payment but the same was not done.

The matter was reported to the management and PAO on December 22, 2023. The management replied that as per Sales Tax Special Procedure (Withholding Rules) 2007 allows the supplier to charge a certain amount of tax and the rule-5, a new clause-xii of the same clearly states that “supplies made by an active payer as defined in the Sales Tax Act, 1990 to another registered person” is exempted. The reply was not convincing as sales tax @1/5th was applicable to withhold as per schedule-11 inserted in Finance Act 2019.

DAC in its meeting held on February 09, 2024 directed the management to seek clarification from FBR whether 1/5th of sales tax was required to be deducted while making payments.

Audit recommends compliance of DAC directives.

Para-40 (PASSCO- 2022-23)

15.1.4.3 Excess charging of incidentals against supply of imported wheat – Rs 195.049 million

According to Finance Division OM dated June 18, 2020 regarding fixation of wheat incidentals of PASSCO, the following are to be charged alongwith support price of wheat:

Rs in million

Sr. No.	Components of Incidentals	Amount
1.	Gunny Bags	1162.74
2.	Delivery Charges (Payable to Growers)	82.45
3.	Market Fee etc.	13.09
4.	Transportation Cost	115.84
5.	Handling Charges/Labour	28.28
6.	Storage Cost	842.72
7.	Departmental Charges	911.86
8.	Financial Charges	3665.72
Total		6822.7

During audit of PASSCO Lahore for the year 2022-23, it was observed that imported wheat of 399,999.771 M. Ton and 522,741.534 M. Ton was lifted by Sindh and Khyber Pakhtunkhwa Governments respectively. The management claimed support price and incidentals charges @ Rs 6,822.730 per M. Ton and did not exclude delivery charges, market fee, and transportation charges of Rs 211.38 per M. Ton which were not applicable on imported wheat. Thus, a sum of Rs 195.049 million (922741.30 M Ton x 211.38) was excess claimed which was held irregular.

Weak financial controls were the cause of excess charging of incidentals.

Audit is of the view that incidentals charges were required to be claimed against imported wheat after excluding delivery charges, market fee, and transportation charges.

The matter was reported to the management and PAO on December 22, 2023. The management replied that PASSCO procured and sold wheat on the instructions of Federal Government and accordingly bills are issued to wheat recipient agencies. The reply was not convincing as the incidentals of imported wheat were not approved by the Finance Division.

DAC in its meeting held on February 09, 2024, directed the management to seek clarification from Finance Division whether the incidental charges for local and important wheat would be the same or otherwise.

Audit recommends compliance of DAC directives.

Para-2 (PASSCO- 2022-23)

15.1.4.4 Loss due to damage of wheat – Rs 2,423.704 million

According to BoD direction in its 146th meeting held on March 14, 2023 to dispose of fully damaged wheat in the first phase (unfit for human consumption, as confirmed through Lab Tests), other than to flour mills/grain dealers. The sorting of damaged wheat was to be completed at the earliest and process of its sale/auction was to be taken up on top priority.

During audit of PASSCO Lahore for the year 2022-23, it was observed that 345,791 M. Ton wheat was kept in three (3) zones to meet requirements of strategic reserve, out of which 44,067.340 M. Ton was found damaged due to flood in 2022. The BoD directed to auction the damaged wheat. Approval of the Federal Cabinet was also to be obtained prior to auction of the damaged stocks. Further, probe into the matter revealed that neither the matter had been reported to Federal Cabinet for obtaining approval nor wheat had so far been disposed of. Consequently, the Corporation sustained a loss of Rs 2,423.704 million (Rs 55,000 x 44,067.340 M. Ton) due to damage of wheat. Detail is as under:

Sr. No.	Name of Zone	Stock Position as on 31.03.2023	Quantity Damaged (M.Ton) as on 31.03.2023
1	Khairpur	184,463	7,959.678
2	Hyderabad	53,445	693
3	Dera Allah Yar	107,883	35,414.620
Total		345,791	44,067.340

Non-compliance of directives of BoD resulted into loss.

Audit is of the view that had the management followed instructions of BoD as well as committee constituted by Ministry of NFS&R, the damaged wheat would have been disposed off.

The matter was reported to the management and PAO on December 22, 2023. The management replied that loss was occurred due to an unprecedented rainfall/flood in Sindh and Baluchistan. The auction of damaged wheat is under process. The reply was not convincing as a considerable time has passed but damaged wheat was not auctioned.

DAC in its meeting held on February 09, 2024 directed the management to share the inquiry report on the subject conducted by Ministry of NFS&R and implement the decision of BoD to dispose of the damage wheat at the earliest.

Audit recommends compliance of DAC directives.

Para-1 (PASSCO- 2022-23)

15.1.4.5 Loss due to shortage of 89.344 metric ton wheat - Rs 9.827 million

According to clause 32 of Wheat Procurement Policy 2021, the incharge PC-cum-RV/Godowns/Silos and his Assistant will be responsible in person and ZH/PM in administrative role will

be responsible for the security of wheat purchased/stacked at the store point. They will make proper measures to guard against the pilferage, theft, robbery and dacoity of wheat/dead stock.

During audit of PASSCO Lahore for the year 2022-23, it was observed that shortage of 89.344 M. Ton wheat amounting to Rs 9.827 million was reported by Zonal Head, Okara vide letter dated March 27, 2023 to DGM (Field). The concerned authority issued a show cause notice to Mr. Sami Ullah Jamil (PT No.19179) on March 29, 2023 for submission of a reply about the shortages as detailed below:

Sr. No.	Detail	Qty. in M. ton
1.	Imported Quantity	7739.198
2.	Dispatched	7141.316
3.	Balance as per ledger	122.752
4.	Available	33.408
5.	Shortage of wheat	89.344

Further, it was revealed that the DGM (Field) being the authorized officer later on decided to postpone the inquiry proceeding till the clearance of imported wheat stock 2021 & 2022 in order to find out actual shortage.

Weak internal controls and negligence on the part of employees caused a loss to the Corporation.

Audit is of the view that the management was required to sort out the matter at the earliest to recover the loss.

The matter was reported to the management and PAO on December 22, 2023. The management replied that an inquiry committee has been constituted to probe into the matter. Exact shortages will be determined till the disposal of whole stock. The reply was not convincing as inquiry proceeding did not start even a lapse of considerable time.

DAC in its meeting held on February 09, 2024 directed the management to recover the amount at the earliest as the management apprised that subject inquiry has been finalized.

Audit recommends compliance of DAC directives.

Para-6 (PASSCO- 2022-23)

15.1.4.6 Irregular purchase of vehicles during ban period - Rs 71.800 million

According to clause 1(i), Finance Division vide letter dated July 07, 2022, there will be complete ban on the purchase of all types of vehicles from current and development budget except utility vehicles such as ambulances, buses for educational institutions, solid waste vehicles, etc.

During audit of PASSCO Lahore for the year 2022-23, it was observed that twenty (20) new vehicles valuing Rs 71.800 million were purchased from M/s Pak Suzuki Motors Company Limited March 06, 2023 without the concurrence of Finance Division. Thus, purchase of vehicles during ban period was held irregular.

Non-compliance of Finance Division instructions caused of the irregularity.

Audit is of the view that the management was required to refer the matter to Finance Division for seeking concurrence before procurement.

The matter was reported to the management on December 30, 2023. The management replied that Cabinet Division has declared PASSCO as Autonomous Body and in the light of Memorandum and Articles of Association, the BoD was fully empowered. The reply is not convincing as Finance Division notification was applicable to all Ministries/Divisions, including autonomous bodies.

DAC in its meeting held on February 09, 2024 directed the management to get clarification from the Finance Division.

Audit recommends compliance of DAC directives.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2014-15 and 2016-17 vide paras number 13.1.4.3 and 9.1.4.14 having financial impact of Rs 18.88 million and Rs 4.989 million. Recurrence of same irregularity is a matter of serious concern.

Para-16 (PASSCO- 2022-23)

15.1.4.7 Unauthorized regularization of work charge employees – Rs 22.800 million

According to order of Supreme Court of Pakistan passed on in Human Rights Case No.104 of 1992 on December 26, 1992, the Court observed that Federal Government, Provincial Governments, Statutory bodies and Public Authorities are making initial appointments, both adhoc/regular without publicity and properly advertising the vacancies and at times by converting adhoc appointments into regular appointments. This practice is prima facie violation of Fundamental Rights (Article-18 of the Constitution) guaranteeing every citizen's freedom of profession.

During audit of PASSCO Lahore for the year 2022-23, it was observed that 76 work charge employees were regularized as Assistant Purchase Inspector (API) BPS-07 w.e.f. November 01, 2022, without the approval of Board of Directors. These employees were recruited on work charge and regularized without provision in HR Policy. Thus, the payment on account of pay and allowances of Rs 22.800 million (average pay of Rs 50,000 x 76 employees x 6 months) to these employees was irregular.

Weak internal controls and managerial failure caused the irregularity.

Audit is of the view that the management was required to make appointments after fulfilling codal formalities.

The matter was reported to the management and PAO on December 22, 2023. The management replied that Cabinet Division has declared PASSCO as an Autonomous Body. Therefore, PASSCO has formulated its own rules and regulations in shape of HR Policy duly approved by BoD. The reply is not convincing as contingent paid staff was regularized without advertisement.

DAC in its meeting held on February 09, 2024 directed the management to seek clarification from the Law and Justice Division whether the Daily Paid Labour employees eligible for regularization/induction against permanent posts without advertisement/

Audit recommends compliance of DAC directives.

Para-8 (PASSCO- 2022-23)

15.1.4.8 Loss due to shortage of Wheat at Hyderabad - Rs 11.376 million

According to para -32 of Wheat Procurement Policy 2022, the incharge PC-cum-RV/Godowns/Silos and his Assistant will be responsible in person and ZH/PM in administrative role will be responsible for the security of wheat purchased/stacked at the store point. They will make proper measures to guard against the pilferage, theft, robbery and dacoity of wheat/dead stock. They will exercise proper control and check over the functioning of Chowkidar, laborers and other personnel working at the points.

During audit of PASSCO Lahore for the year 2022-23, it was observed that a quantity of 193.059 M. Tons Wheat (Local and Imported) was found short at Hyderabad (former Sakrand project) which has not so far been recovered although recovery orders were issued on October 01, 2023. Hence, the Corporation sustained a loss of Rs 11.376 million. Detail is as under:

Sr. No.	Crop	Qty.	Rate (Rs)	Total Rs
1.	Imported 2021	68.918	61,823	4,260,717
2.	Imported 2021	42.141	61,823	2,605,283
3.	Local 2022	82.000	55,000	4,510,000
Total		193.059		11,376,000

Slackness of management resulted non recovery of loss.

Audit is of the view that the management was required to make concrete efforts for early recovery of shortage.

The matter was reported to the management and PAO on December 22, 2023. The management replied that while dispatching the damaged wheat the shortage was found. The inquiry committee was constituted to inquire the shortages. The reply was not convincing as corrective measures were not taken up.

DAC in its meeting held on February 09, 2024 directed the management to effect the recovery at the earliest.

Audit recommends compliance of DAC directives.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2014-15, 2015-16, 2017-18, 2019-20 and 2022-23 vide paras number 13.1.4.8, 12.1.4.1, 16.1.4.1, 12.1.4.3 and 15.1.4.3 having financial impact of Rs 35.10 million, Rs 23.152 million, Rs 2.448 million, Rs 12.539 million and Rs 4.190 million. Recurrence of same irregularity is a matter of serious concern.

Para-28 (PASSCO- 2022-23)

15.1.4.9 Irregular appointment of Deputy General Manager – Rs 8.973 million

According to clause (10) (a) of HR Policy of PASSCO, the joining report of newly inducted shall be accepted subject to the prior provision of academic credential duly verified by the Board/University.

During audit of PASSCO Lahore for the year 2022-23, it was observed that Mr. Shahid Ibrahim was appointed as Deputy General Manager (Accounts) (BPS-19) on July 04, 2006, without verifying his credentials. Further, it was revealed that his date of birth as per Secondary School certificate was February 18, 1966, whereas on CNIC was June 06, 1967. It was concluded that his credentials were not verified at the time of the appointment. Thus, appointment and payment of Rs 8.973 million (Rs 747,718 x 12 month) was held irregular.

Due to weak internal control, the said appointment was made in violation of rules.

Audit is of the view that the management was required to get verified the credentials completely at the time of appointment.

The matter was reported to the management and PAO on December 22, 2023. The management replied that the date of birth once recorded at the time of entry into service shall be final. The reply was not convincing as date of birth should be matched with Secondary School certificate as well as CNIC.

DAC in its meeting held on February 09, 2024 directed the management to get the date of birth rectify in record as per matriculation certificate.

Audit recommends compliance of DAC directives

Para-26 (PASSCO- 2022-23)

15.1.4.10 Excess payment of Leave Encashment to ex-Managing Director – Rs 6.373 million

According to rule – 6 of Leave Encashment Rule 2012, leave pay for the purpose of encashment of LPR shall be computed on the basis of pay and allowances reckonable towards pension as shown in the last pay certificate of a civil servant.

During audit of PASSCO Lahore for the year 2022-23, it was observed that Capt.(R) Saeed Ahmad Nawaz (BPS-21) was posted as Managing Director vide notification dated July 13, 2022. The officer retired on attaining age of superannuation vide notification dated July 20, 2023. The officer was paid leave encashment on gross pay & allowances instead of basic pay. Thus, excess payment of leave encashment of Rs 6.373 million was made to the officer which was held irregular. Detail is as under:

Leave Encashment to be paid			
Pay & Allowances	Amount (Rs)	No. of Months	Total Payable (Rs)
Basic Pay	262,190		
Qualification Pay	3,000		
Total Pay	265,190	12	3,182,280
Actual Paid			
Pay & Allowances	796,233	12	9,554,796
Excess Paid			6,372,516

Due to weak financial and managerial controls, the officer was paid excess amount of leave encashment.

Audit is of the view that the management was required to pay leave encashment as per Civil Servant Rules.

The matter was reported to the management and PAO on December 22, 2023. The management replied that the officer was eligible for encashment of LPR as per PASSCO rules and amount was paid. The reply was not convincing as the ex-MD was not an employee of PASSCO and was not eligible to withdraw leave encashment more than entitlement.

DAC in its meeting held on February 09, 2024 directed the management to recover the amount of Rs 6.373 million immediately from the person concerned and deposit into the PASSCO account within 30 days.

Audit recommends compliance of DAC directives.

Para-22 (PASSCO- 2022-23)

15.1.4.11 Loss due to shortage of wheat during annual stock taking - Rs 5.458 million

According to clause 32 of Wheat Procurement Policy 2022, the incharge PC-cum-RV/Godowns/Silos and his Assistant will be responsible in person and ZH/PM in administrative role will be responsible for the security of wheat purchased/stacked at the store point. They will make proper measures to guard against the pilferage, theft, robbery and dacoity of wheat/dead stock.

During audit of PASSCO Lahore for the year 2022-23, it was observed that 99.229 M. Ton wheat valuing Rs 5.458 million was found short as a result of physical stock taking as on March 31, 2023.

Weak internal controls were the cause of irregularity.

Audit is of the view that the management was required to recover loss on account of shortage.

The matter was reported to the management and PAO on December 22, 2023. The management replied that an inquiry committee has been constituted to probe into the matter. Exact shortages will be determined till the disposal of whole stock. The reply was not convincing as inquiry proceeding did not start even a lapse of considerable time.

DAC in its meeting held on February 09, 2024 directed the management to recover the amount at the earliest.

Audit recommends compliance of DAC directives.

Para-3 (PASSCO- 2022-23)

15.1.4.12 Irregular payment of executive allowance to ex-Managing Director – Rs 3.864 million

According to clause (iii) of Finance Division memo dated July 19, 2022 regarding grant to executive allowance, those officers posted on deputation against posts identified in (i) and (ii) above shall not be entitled to draw deputation allowance as well as any other allowance or emoluments, by whatever name called, specific to their cadre or organization. Further, according to clause (v) this allowance shall be discontinued upon officer's transfer/posting outside the posts identified in (i) and (ii) above.

During audit of PASSCO Lahore for the year 2022-23, it was observed that Capt. (Rtd) Saeed Ahmad Nawaz (BPS-21) was posted as Managing Director, vide Establishment Division notification dated July 13, 2022. The officer was not drawing executive allowance as per his LPC but the management paid this allowance in violation of Finance Division rule as the said allowance was not applicable to the employees of the organization. Resultantly, a sum of Rs 3.864 million (Rs 257,580 x 15 months) paid to the officer as executive allowance which was held irregular.

Weak internal control was the cause of irregular payment as executive allowance.

Audit is of the view that the management was required to make payment of pay& allowances according to rules and regulations.

The matter was reported to the management on December 30, 2023. The management replied that the ex-MD, had only drawn Executive Allowance instead of deputation allowance according to the notification. The reply was not convincing as Executive Allowance is only allowed in Federal Secretariat, Islamabad as mentioned in the Finance Division notification.

DAC in its meeting held on February 09, 2024 directed the management to recover the amount of Rs 3.864 million immediately from the person concerned and deposit into the PASSCO account within 30 days.

Audit recommends compliance of DAC directives.

Para-18 (PASSCO- 2022-23)

15.1.4.13 Loss to due to non-replacement of damaged Gunji Kits – Rs 3.226 million

According to para – 8 of agreement between PASSCO and M/s KSF Trizone Industries, Lahore dated February 23, 2022, the buyer shall indicate from time to time to the supplier the destinations wherein new Woven High Density Polyethylene Stack Packages (Gunji Kits) are to be delivered and quantity of Woven High Density Polyethylene Stack Packages (Gunji Kits) to be supplied at each such destination. The supplier shall be responsible where so intimated to deliver the required quantity of Woven High Density Polyethylene Stack Packages (Gunji Kits) at the destinations within Pakistan. The supplier will be responsible for safe delivery, (both quality and quantity) of new/approved Woven High density Polyethylene Stack packages (Gunji Kits) till their receipt at PASSCO destinations. The supplier will be responsible for repair/replacement of torn-out or defective Gunji Kits for a period of two years i.e. during usage.

During audit of PASSCO Lahore for the year 2022-23, it was observed that the management purchased 3,500 Gunji Kits @ Rs 189,786 each for the Wheat Crop 2022, from M/s KSF Trizone Industries Lahore vide agreement dated February 23, 2022. Out of that purchase, 939 Gunji Kits were found deteriorated during their use and vendor was asked on February 18, 2023 to replace the same. The vendor replaced 905 Gunji Kits, while 17 Gunji Kits are still pending for replacement. Consequently, the Corporation has to sustain a loss of Rs 3.226 million (17 x Rs 189,786).

Loose internal controls and not timely action taken by the management was cause of loss.

Audit is of the view that the management should replace all deteriorated Gunji Kits from supplier according to agreement but the same was not done and obliged the vendor.

The matter was reported to the management on December 30, 2023 but no reply was received.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to explain the reasons of non-replacement of 17 Gunji Kits. Fix responsibility on the person(s) at fault.

Para-48 (PASSCO- 2022-23)

15.1.4.14 Non finalization of pending inquiries

According to para – 5(ii) major penalties, Efficiency & Discipline Rules – 2016, the minor and major penalties to be imposed, after holding a Regular Inquiry on the PASSCO serving accused employees:

During audit of PASSCO Lahore for the year 2022-23, it was observed that an inquiry committee was constituted vide office order dated November 05, 2021 to probe the difference of quantity regarding construction of plinths, supply of dunnage material & sale of bhoosa between Works Wing and Zonal

Offices for the period April 01, 2020 to March 31, 2021. The inquiry committee recommended to impose major penalties to various Zonal Heads but no action was taken till to date.

Due to weak internal controls, the management did not impose penalties.

Audit is of the view that the management was required to take action immediately in the light of the inquiry report.

The matter was reported to the management on December 30, 2023. The management replied that a regular inquiry committee was constituted on November 05, 2021 and the committee submitted report on December 08, 2021 and recommended for major penalties to be imposed. The reply is not convincing as imposed penalties were required to be recovered.

DAC in its meeting held on February 09, 2024, pended the para till finalization of inquiry decision by the MD PASSCO.

Audit recommends to take action in the light of the inquiry report.

Para-44 (PASSCO- 2022-23)

15.1.4.15 Irregular dispatch of wheat without signing of MOU with Government of Sindh – Rs 13,318.00 million

According to para-33 of Wheat Procurement Policy 2022, imported and fair average quality (FAQ) wheat in sound bardanda, correct in quality and quantity, will be handed over to authorized representative of Food Department / Agencies after proper documentation strictly in accordance with the instructions of Field Wing.

During audit of PASSCO Lahore for the year 2022-23, it was observed that Ministry of National Food Security & Research directed to provide 200,000 M. Ton imported wheat to Sindh Food Department vide letter dated April 14, 2023, subject to the fulfillment of standard terms and conditions. Further, it was revealed that 99,781.062 M. Ton imported wheat amounting to Rs 13,318.00 million was provided without signing of MOU in violation of Ministry's direction.

Non-compliance of Ministry's instruction was the cause of irregularity.

Audit is of the view that the management was required to provide imported wheat in compliance of Ministry's instruction after fulfillment of codal formalities.

The matter was reported to the management and PAO on December 22, 2023. The management replied that wheat was provided to the Government of Sindh on the direction of the Ministry of NFS&R. PASSCO tried its efforts to get signed MOU with the Food Department, Government of Sindh. The reply was not convincing as wheat was provided without the fulfillment of codal formalities.

DAC in its meeting held on February 09, 2024 directed the management to place the matter before BOD in upcoming meeting to apprise the BOD about sensitivity of the matter to avoid recurrence of such practice in future. DAC further directed to pursue Sindh Govt. for earliest realization of outstanding receivables of Rs 13.318 billion.

Audit recommends compliance of DAC directives.

Para-4 (PASSCO- 2022-23)

15.2 Pakistan Tobacco Board

14.2.1 Introduction

Pakistan Tobacco Board Peshawar came into existence in 1968 as a semi-autonomous body under the control of Ministry of Commerce. The principal activities of the Board are to regulate, control and promote the export of tobacco and related produce and to the grading standards, to undertake and assist research connected with tobacco industry, impart training in tobacco testing and generally to take measures in the interest of tobacco industry. It renders assistance for the development of new tobacco growing areas and establishment of model farms, to organize and assist special research connected with tobacco cultivation and generally to render assistance for improving tobacco production and to collect statistics on any matter relating to tobacco and tobacco industry.

14.2.2 Comments on Audited Accounts

14.2.2.1 The working results of the Company for the year 2022-23 as compared to the preceding years were tabulated below:

(Rs in millions)

Particulars	2022-23	%Inc/ (Dec)	2021-22	%Inc/ (Dec)	2020-21
INCOME					
Tobacco Cess	407.96	(1.28)	413.25	38.13	299.17
Farm produce	12.10	24.87	9.69	81.98	5.33
Profit on short term investments	317.84	78.47	178.09	-	-
Export Development Fund Income	0.17	(15.00)	0.20	(13.04)	0.23
Misc. Income	3.72	(9.49)	4.11	(32.73)	6.11
Total	741.80	22.54	605.34	27.01	476.61
EXPENDITURE					
Administrative Expenses	106.60	4.62	101.89	(41.35)	173.73
Research and Development	154.85	6.52	145.37	25.33	115.99
Marketing Expenses	22.68	34.28	16.89	1.26	16.68
Finance Expenses	18.05	19.30	15.13	0.07	15.12
Provision for expected credit loss	40.36	188.90	13.97	-	-
Provision for Staff Retirement benefits	-	-	1,354.68	-	-

Total	342.53	(79.21)	1,647.93	412.53	321.53
Surplus / (Deficit) for the year before tax	399.26	(138.30)	(1,042.59)	(772.29)	155.08
Taxation	-	-	-	-	-
Surplus / (Deficit) for the year	399.26	138.30	(1,042.59)	(772.29)	155.08

(Source: Annual Audited Accounts 2022-23)

Total income of the Board was increased by 22.54% to Rs 741.80 million during the year 2022-23 (2021-22: Rs 605.34 million). The increase was mainly due to increase in profit on Short Term Investment, which increased by 78.47% to Rs 317.84 million in 2022-23 (2021-22: Rs 178.09 million). Revenue collected from operational activities shows increase in income from Farm Produce by 24.87% to Rs 12.10 million (2021-22: Rs 9.69 million). On the other hand, there was decrease in income from Tobacco Cess by 1.28% to Rs 407.96 million in 2022-23 (2021-22: Rs 413.25 million). The management is stressed for strengthening its core activities to earn revenue. Reasons due to which, the income from Cess was decreased needs to be justified.

14.2.2.2 Other receivables increased by 94% to Rs 275.16 million as on June 30, 2023 (2021-22: Rs 142.00 million). A provision was made against doubtful debts of Rs 51.017 million in 2022-23 (2021-22: Rs 13.97 million), figures were silent by means of notes. Abnormal increase in doubtful debts during the year needs clarification along with reasons of non-recovery.

14.2.2.3 Other receivables included an amount of Rs 9.10 million due from ex-employees on account of embezzlement and Rs 4.88 million from contractor. The NAB has decided the case in favour of PTB for recovery from ex-employee. However, the ex-employees filed an appeal against that decision in Peshawar High Court, which is still pending. The management is stressed to pursue these cases and expedite the matter for early recovery. The outstanding amount against contractor needs clarification as the figure is silent by means of notes.

14.2.2.4 According to Note-11, management revalued the land and building of the Board on 25th February, 2022. The revaluation appraisal resulted in surplus of Rs 3,209.44 million and Rs 55.64 million over the book value of land and building respectively. The Board was unable to value the land situated at Jampur as the land is in occupation of illegal occupants. The Board approached to Ministry of National Food Security & Research via its letter dated 25.10.2021 to De-Notify the land and refund the amount paid to acquire the same. As the matter is still un-resolved after lapse of two years, management is stressed to expedite the case for early settlement.

14.2.2.5 Current Liabilities included accrued expenses of Rs 4.741 million as on June 30, 2023 against accrued expenses of Rs 2.143 million in 2021-22 registering an increase of more than 121%. Abnormal increase under the head needs clarification along early settlement of liability.

14.2.2.6 Contingencies and Commitment showed that the PTB is involved in three major cases which have material effect on financial position as well as the performance of the Board. The management is stressed to pursue the cases and expedite the recovery; in addition to that the financial effect needs to be evaluated and reflected in financial statements under relevant head of accounts, in case the management has sufficient claims against said cases.

14.2.2.7 Management carried out an independent revaluation of lands and buildings situated at different stations of the country through M/s SMASCO on February 25, 2022; however, expenditure booked against said activity are not appearing in the accounts, position needs clarification.

14.2.2.8 Administrative Expenses increased by 4.6% to Rs 106.599 million in 2022-23 (2021-22 – Rs 101.886 million. The figure included legal & consultant fee of Rs 2.232 million showing increasing by 107% over previous year i.e. Rs 1.078 million. The figure is silent by means of notes, abnormal increase under the head need justification.

14.2.2.9 Finance Expenses increased by 57.51% to Rs 18.047 million in 2022-23 (2021-22 – Rs 15.134 million). The figure included consultation fee of Rs 236,256 in 2022-23 (2021-22 – Rs Nil). Payment needs to be justified as the figure is silent by means of notes.

14.2.2.10 The External Auditors issued qualified opinion on the accounts of the Board during the year under review on the basis of following points:

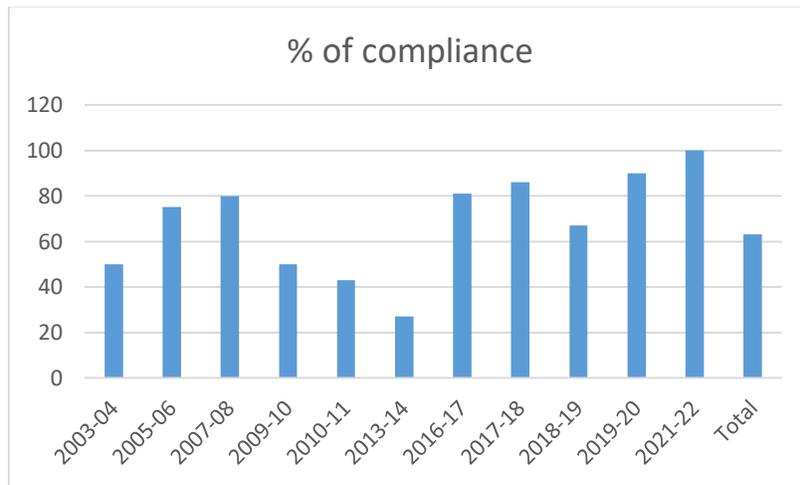
- i. Staff Retirement Benefits have been recorded as per Actuarial Valuation Report carried out as on June 30, 2022. However, no Actuarial Valuation has been carried out for staff retirement benefits as on June 30, 2023 as per IAS-19 Employee Benefits (Note-12) as a result, unable to determine any adjustment required thereon.
- ii. The Board has maintained General Provident Fund for its employees under the General Provident Fund as per Federal Government rules, while the same has not been inserted in the accompanying financial statements of 2022-23.

The management is stressed for early removal of said qualifications.

14.2.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No	% of compliance
2003-04	04	02	02	18 & 18.1, 18.2	50
2005-06	04	03	01	26	75
2007-08	05	04	01	17	80
2009-10	08	04	04	27, 28, 30, 33	50
2010-11	16	07	09	2.5.2.2, 2.5.2.3, 2.5.2.6, 2.5.2.8, 2.5.2.9, 2.5.2.10, 2.5.2.11, 2.5.2.12,	43

				2.5.4.1	
2013-14	11	03	08	4.6.2.1, 4.6.3, 4.6.4.1, 4.6.4.2, 4.6.4.3, 4.6.4.5, 4.6.4.7, 4.6.4.8	27
2016-17	16	13	03	3.6.3, 3.6.4.8, 3.6.4.1	81
2017-18	07	06	01	4.5.3	86
2018-19	09	06	03	4.6.3, 4.6.4.2, 4.6.4.3	67
2019-20	10	09	1	12.2.4.7	90
2021-22	01	01	0	-	100
Total	91	58	33		63



Overall compliance of PAC directives was very poor which needs immediate attention of PAO.

Chapter-16

Ministry of Science and Technology

Overview

The Ministry of Science and Technology concerned with Pakistan and in general, Pakistan's science policy, planning, co-ordination and directing of efforts to initiate and launch scientific and technological programs as well as projects aimed at economic development.

Aims & Objectives

The ministry is established has a sanctioned strength of 176 personnel and 17 on development side. The work is divided amongst Administration & Finance Wings and five technical wings; namely, (i) Policy & Coordination, (ii) the Planning & Development, (iii) the Technology, (iv) the International Liaison, and (v) the Electronics Wing. Efforts to consolidate achievements in the priority areas included: Human-Resource Development; Transfer of Technology from R&D Institutions and Universities to Industry; Food & Agriculture; Analytical Centers for Industrial Analysis, Industrialization, Health, Electronics, Ocean Resources, New Materials, Biotechnology, Textiles, and Pharmaceuticals.

Governing Laws and Policies

- Rule of Business 1973

Audit Profile of Ministry of Science and Technology

(Rs in million)

S. No.	Description	Total	Audited	Expenditure audited FY 2022-23	Revenue /Receipts audited FY 2022-23
1	Formations	2	1	519.00	-
2	Assignment Accounts (excluding FAP)	-	-	-	-
3	Authorities /Autonomous Bodies etc. under the PAO	2	1	-	-
4	Foreign Aided Projects (FAP)	-	-	-	-

Classified Summary of Audit Observations

Audit observations amounting to Rs 588.084 million were raised as a result of this audit. This amount also includes recoverable of Rs 71.65 million as pointed out by the audit. Summary of the audit observation classified by nature is as under:

Sr. No.	Classification	Amount (Rs in million)
1	Non Production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities	
A	HR/Employees related irregularities	2.750
B	Procurement related irregularities	81.750
C	Management of accounts with Commercial Banks	3.045
4	Value for money and services delivery issues	-
5	Others	500.539

16.1 Pakistan Science Foundation

16.1.1 Introduction

Pakistan Science Foundation was established on February 02, 1973 under PSF Act. It is working under the Ministry of Science and Technology. The organization has no share capital and it receives development and non- development grants from the Government of Pakistan. Its office is situated at G-5/1, opposite Supreme Court Building, Constitution Avenue, Islamabad.

The Foundation is functioning as a financing agency for:

- The establishment of comprehensive scientific and technological information and dissemination Centre;
- The promotion of basic and fundamental research in the universities and other institutions on scientific problems relevant to the economic development of the country;
- The utilization of the results of scientific and technological research including pilot plant studies to prove the technical and economic feasibility of processes found to be promising on a laboratory scale;
- The grant of awards, prizes and fellowships to individuals engaged in developing processes, products and inventions of consequence to the economy of the country.

16.1.2 Comments on Audited Accounts

16.1.2.1 The working results of the Foundation for the year 2021-22 as compared to previous years are as under:

(Rs in million)

	2021-22	%Inc / (Dec)	2020-21	%Inc / (Dec)	2019-20
Income					
Grant from Fed Government	342.497	27.75	268.085	32.05	203.015
Expenditure					
Statutory Scientific function	84.240	38.55	60.799	26.66	48.000
Administrative expenses	258.099	25.42	205.782	12.77	182.471
Total expenses	342.339	28.31	266.581	31.01	203.471
Prior year adjustment	-		-		
Surplus / (Deficit) for the year	0.158	(89.48)	1.503	-	(0.456)

(Source: Annual Audited Accounts)

16.1.2.2 Management received development grant of Rs 342.497 million during the year 2021-22 as against Rs 268.085 million during the year 2020-21. However, the management utilized development grant of Rs 342.339 million that is 99.95% of whole grant. The reasons of utilization of development grant may be intimated to audit.

16.1.2.3 The management incurred Administration Expenses of Rs 258.099 million during the year 2021-22 as against Rs 205.782 million during the year 2020-21, which is increased 25.42 % during the year. The reason of abnormal increase in Administrative expenses needed justification.

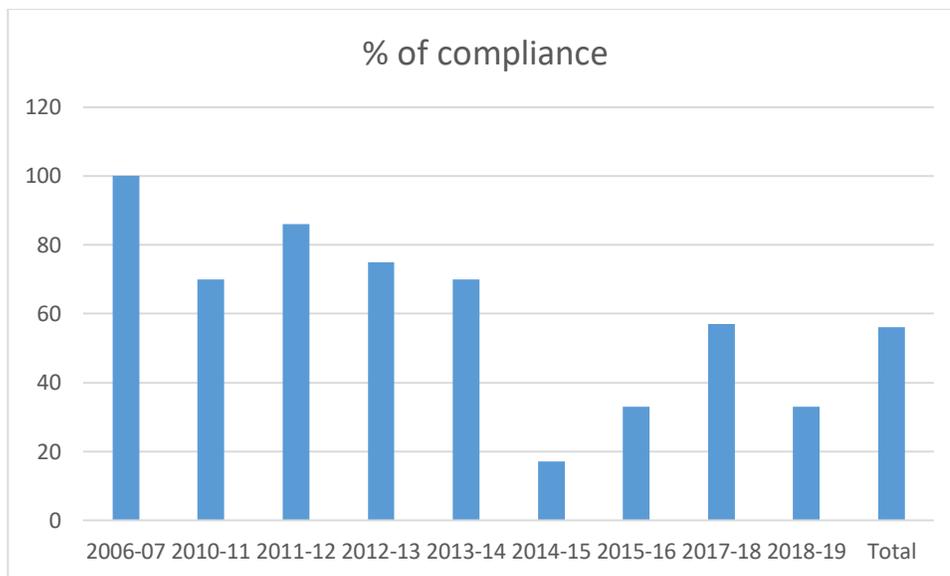
16.1.2.4 At Sr. 13 the management paid Rs 44.550 million as Rent for Residential Building during 2021-22 as against Rs 26.1880 million in previous year 2020-21 which increased 70.16 %. This increased may be needed justification.

16.1.2.5 As Sr. 4.3 the management incurred an expenses of Rs 107.452 million in Talent Framing Scheme during the year 2021-22, as against Rs 56.285 million during the year 2020-21, which is increased 90.90 %. The abnormal increased in this head may be needed explanation to audit.

16.1.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
2006-07	04	04	0	-	100
2010-11	10	07	03	22.1.2.3, 22.1.4.1, 22.1.2.4,	70

2011-12	07	06	01	23.1.2.2	86
2012-13	04	03	01	23.1.2.2	75
2013-14	10	07	03	15.1.2.2, 15.1.4.4, 15.1.4.5	70
2014-15	06	01	05	17.1.2.1, 17.1.2.2, 17.1.2.3, 17.1.3, 17.1.4.1,	17
2015-16	12	04	08	18.1.2.2, 18.1.2.3, 18.1.2.4, 18.1.2.5, 18.1.2.6, 18.1.4.2, 18.1.4.3, 18.1.4.4,	33
2017-18	07	04	03	19.1.2.3, 19.1.2.4, 19.1.2.5	57
2018-19	09	03	06	17.1.2.1, 17.1.2.2, 17.1.3, 17.1.4.1, 17.1.4.2, 17.1.4.5	33
Total	69	39	30		56



Overall compliance of PAC directives was not satisfactory which needs immediate attention of PAO.

16.1.4 Audit Paras

16.1.4.1 Irregular award of Project in violation of PC-1 - Rs 19.943 million

According to PC-I for Competitive Research Programme, each proposal received by PSF shall be pre-screened by PSF staff for compliance with some basic parameters of the funding programme. The proposal shall be sent to at least 02 anonymous peer reviewers for their initial scientific and commercial evaluation. Once a proposal has been passed by peer reviewers, it will be put before Technical Committee

for collective judgment of whether it should be funded by PSF or not. The proposal recommended by the Technical Committee, will be submitted to the Award Committee for a final decision/recommendation for approval. All funding decisions above Rs 8.00 million shall be finally approved by the Project Steering Committee by taking into consideration the recommendation of the Award Committee.

During the audit of Pakistan Science Foundation (PSF) for the year 2021-22, it was observed that Dr. Muhammad Yasir, Assistant Professor, Institute of Space Technology, Islamabad was awarded a Project “Development of a Novel Anti-corrosive and Anti-Fouling Amorphous Coating for Service in high Humidity and Hot Marine Environment” under the CRP 18th protocol through Institute of Space Technology, Islamabad at cost of Rs 19.943 million with completion period of 3 years on 03.06.2021.

As per record, the proposal was neither submitted for peer review nor recommended by the Technical Committee in its meeting held on 05.10.2020. The Project Award Committee approved the project budget of Rs 10.493 million on 28.01.2021 whereas, the Project Steering Committee in its meeting held on 08 & 15 March, 2021 approved the project with total cost of Rs 20 million with completion period of 3 years.

Audit is of the view that the award of project without review of 02 anonymous peer reviewers and without recommendation of the Technical Committee was against the prescribed procedure and tantamount to undue favour to Principal Investigator (PI) and award of project was irregular.

The matter was pointed out to the management on 07.06.2023. The management in its reply dated 13.07.2023 stated that in Steering Committee, the PI explained that anti corrosive and anti-fungal coating would be developed in collaboration with Chinese professors and requested to enhance the project budget to Rs 24.00 million. However, the committee unanimously increased the project cost upto 20.00 million.

The reply is not convincing as the project was processed in violation of prescribed procedure. Further, the project rejected by Technical Committee on 05.10.2020 was approved in violation of the laid down procedure.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter and fixing responsibility.

Para-1 (PSF – 2021-22)

16.1.4.2 Extra expenditure due to irregular award of work without considering the observations of peer reviewers – Rs 8.715 million

According to PC-I for Competitive Research Programme, each proposal received by PSF shall be pre-screened by PSF staff for compliance with some basic parameters of the funding programme. The proposal shall be sent to at least 02 anonymous peer reviewers for their initial scientific and commercial evaluation. Once a proposal has been passed by peer reviewers, it will be put before Technical Committee for collective judgment of whether it should be funded by PSF or not. The proposal recommended by the Technical Committee, will be submitted to the Award Committee for a final decision/recommendation for approval. All funding decisions above Rs 8.00 million shall be finally approved by the Project Steering Committee by taking into consideration the recommendation of the Award Committee.

During audit of PSF for the year 2021-22, it was observed that two projects “Upscaling and Pilot Production of Life-Saving Portable Ventilator Device” and “Molecular Mapping and Map-Based Cloning of Disease Resistance Genes and Developing New Disease-Resistant Wheat Germ Plasm” were awarded to Dr. Murtaza Najabat Ali, Associate Professor, National University of Science & Technology (NUST), Islamabad and Dr. Awais Rasheed, Assistant Professor, Quaid e Azam University, Islamabad at a total cost of Rs 14.242 million and Rs 11.181 million respectively. The projects were reviewed for technical merit, timelines, and suitability for financial assistance by Dr. Ahmed Shuja Syed, Advisor to Rector, International Islamic University, Islamabad and Mr. Muhammad Nauman Aftab, on 05.05.2020 and 26.06.2019 respectively.

Dr. Ahmed Shuja Syed advised to rationalize the budget by reducing expenses of Rs 4.00 million required for Machine Up-gradation and Software Development as dedicated machines were available in the parent institution at more than one place. Similarly, Mr. Muhammad Nauman Aftab suggested that instead of procurement of multi-mode plate reader for SNP genotyping valuing Rs 4.715 million, the samples could be to China sent for analysis and budget should be revised extensively and reduced considerably.

Audit observed that the remarks of the experts were neither pointed out on the file nor brought into the notice of any competent forum i.e. Technical Committee, Project Award Committee and Project Steering Committee and projects were awarded at the cost proposed/ demanded by P.Is.

Thus, by non-considering the review remarks of the technical expert, projects were awarded in excess of Rs 8.715 million (Rs 4.00 million + Rs 4.715 million).

The matter was pointed out to the management on 07.06.2023. The management in its reply dated 13.07.2023 stated that due to acute shortage of ventilators during COVID-19 pandemic, the main objective of the project was to develop ventilators. The project underwent several stages of review, including presentations to the Technical Committee, Project Award Committee, and Steering Committee. As regards 2nd project, the Project Award Committee endorsed CRP scrutiny committee’s recommendations to reduce the project budget from Rs 18.74 million to Rs 13.73 million. However, after final rationalization, the budget was further decreased to Rs 11.181 million by the Project Award Committee.

The reply is not convincing as observations of the experts were neither pointed out on the file nor brought into the notice of any competent forum and projects were awarded at the cost proposed/ demanded by P.Is.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter and complete record pertaining to agenda items of Technical Committee, Project Award Committee and Project Steering Committee meetings be provided to Audit for verification.

Para-2 (PSF – 2021-22)

16.1.4.3 Irregular procurement of permanent equipment for project in violation of PPRA rules - Rs 6.488 million

According to PPRA Rule – 38 (B)(1)(d), the procuring agency shall consider single bid in goods, works and services if it has financial conformance in terms of rate reasonability provided that except unsolicited proposal, in case of pre-qualification proceedings single bid shall not be entertained.

During audit of PSF for the year 2021-22, it was observed that a project “Evaluation of Key Technologies ETHANOL-FUELED SOFCs Power System of Extended Sailing-Range UAV” was awarded to Dr. Majid Khan, Abdul Wali Khan University, Mardan at a cost of Rs 9.695 million on 18.06.2021 with completion period of three years and first installment of Rs 7.420 million was released on 04.06.2021.

Audit observed that in response to advertisement for procurement of Lab equipment / permanent equipment dated 09.02.2022, two bidders participated in the bid. The Technical Evaluation Committee disqualified M/s Lab Care Enterprises for not meeting technical requirements and supply order was awarded to M/s Continental World Wide Trading Company Karachi without assessing financial conformance in terms of rate reasonability. Despite successful installation on 21.06.2022, the equipment faced operational issues due to high voltage. Further, first Fiscal Report for the period 31.08.2021 to 28.02.2022, total grant received during the period was Rs 7.420 million out of which Rs 6.963 million were utilized which included Rs 6.488 million for procurement of equipment. As per fiscal report, the equipment was procured upto 28.02.2022 whereas the procurement of said equipment was initiated in February 2022 and payment was made in the month of October, 2022.

Audit is of the view that the procurement was made without observing financial conformance in terms of rate reasonability as per rules hence procurement was held irregular.

The matter was pointed out to the management on 07.06.2023. The management in its reply dated 13.07.2023 stated that the financial proposal of M/s Continental Worldwide Trading Company Karachi was less than the estimated / budgeted price despite inflation and local currency devaluation. The delay in payment was due to administrative official processes of the grantee institute.

The reply is not convincing. As per PPRA, financial conformance in terms of rate reasonability was required to be ascertained. Further, as per advertisement, opening of bid date was 01.03.2022 whereas the first fiscal report for the period from 31.08.2021 to 28.02.2022 indicated expenditure of Rs 6.488 million for the procurement of permanent equipment prior to the opening of the bids. Nothing was intimated as regards application issues due to high voltage.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to investigate the matter and fix responsibility for non-observance of PPRA rules, intimate the exact date of receipt of equipment duly supported with documentary evidence and the status regarding application issue and certificate regarding functioning of the equipment be produced to Audit for verification.

Para-3 (PSF – 2021-22)

16.1.4.4 Non-execution of project and non-surrendering of funds – Rs 19.389 million

According to Para 4.6 (Chapter 4) of Guideline for Project Management issued by Planning Commission, all unspent balances/ funds should be surrendered finally by the 15th May of the financial year.

During audit of PSF for the year 2021-22, it was observed that a Project “STEM Education through Establishment of Space Museum / Planetarium / Moon Sighting Observatory in Islamabad” was awarded to Dr. Azmat Hayat Khan, Chief Meteorologist, Pakistan Meteorological Department, Islamabad on 22.02.2021 with a budget of Rs 19.603 million and a one-year completion period. However, due to Dr. Azmat Hayat Khan's impending retirement, Dr. Khalid Mehmood, Curator of PMNH, was nominated as the Principal Investigator. Contrary to the clauses of contract agreement and award letter, funds of Rs 19.389 million released vide Cheque dated 22.06.2021 were deposited in current account No. 1376010007000 of PMNH; maintained in UBL bank instead of the designated account.

Audit observed that the project was initially approved and funds released but in 6th Steering Committee meeting held on 06.09.2022, the Committee directed to drop the research grant. However, the un-spent funds remained in PMNH current account since 22.06.2021 whereas the same should have been surrendered to the government before 31st May, 2022.

Audit is of the view that non-utilization and non-surrender of funds was a serious lapse on the part of the management. Further, keeping the funds in current account was loss to the public exchequer.

The matter was pointed out to the management on 07.06.2023. The management in its reply dated 13.07.2023 stated that the project status was on-going on 22.06.2022. Following the 6th Steering Committee directives, the project fiscal scrutiny is in progress and project will be closed on adjustment of expenditures and depositing of unutilized amount to Government treasury as soon as possible.

The reply is not convincing as the 6th Steering Committee held on 6th September 2022 directed to drop this research grant from CRP but the project was still not closed. Further, no dedicated bank account for the said project was opened.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating why funds have not been surrendered despite a year passing since the 6th Steering Committee meeting, fixing responsibility for this delay. Further, the reason for not opening of dedicated project account be intimated and the funds be deposited into Government treasury without further loss of time.

Para-4 (PSF – 2021-22)

16.1.4.5 Irregular award of project in violation of PC-1 - Rs 19.00 million

According to PC-1, grant for individual scientists/technologist working in the R&D/S&T organizations and Universities will not exceed Rs 8 million and Consortium Research Grants for addressing National Challenges and Issues awarded to joint ventures of the public sector organizations with each other or with private organizations, the limit of funding will be upto Rs 20 million.

According to Clause 4 of the contract agreement, the party shall spend funds strictly in accordance with detail shown in project budget attached as annexure A to the agreement. Any deviation in this regard

would require prior approval of the Foundation without which all un-authorized expenditure will be disallowed.

During audit of PSF for the year 2021-22, it was observed that a project “Development of Artificial Intelligence Based CADx system for Rapid Diagnosis of COVID-19 patients using Chest-X (CXR) and Computer Tomography (CT) Scans” was awarded to Dr. Ayesha Isani Majeed, Associate Professor/ Head of Department of Radiology, Pakistan Institute of Medical Sciences Hospital (PIMS)/SZABMU, Islamabad as Principal Investigator (PI) at a cost of Rs 19.00 million on 23.06.2020 with stipulated completion period of one(01) year.

Audit observed that the project was awarded to an individual as a consortium for Rs 19 million. Audit also observed that the PI published tender for procurement of X-ray Films, Hard Drive and CPU with Graphical Processing Unit for the project. M/s Medequip quoted lowest rates of Rs 15,000 for X-ray films per packet and Rs 60,000 for hard drive whereas M/s Cloud Enterprises quoted the lowest rates of Rs 410,000 for CPU with GPU. The PI issued supply order for X-ray films to M/s Medequip but did not issue supply order for hard drive. M/s Cloud Enterprises also refused to supply the CPU with GPU. The PI by floating a new tender procured hard drive and CPU with GPU from M/s Islamabad Medical Engineering at a cost of Rs 154,000 and Rs 1,496,000 respectively which resulted into loss of Rs 1,180,000 {(i.e. Rs 154,000 - Rs 60,000) + (Rs 1,496,000 - Rs 410,000)}.

It was also observed that the PI procured the equipment in May and July 2022 after the project's intended completion date of 22.06.2021. The Principal Investigator informed the Foundation that final technical and fiscal report was submitted to subject expert on 20.05.2022 whereas procurement was made in May and July 2022 which created doubt about the project's completion.

Audit is of the view that the award of project of Rs 19 million to an individual above the limit of Rs 8 million was irregular due to violation of PC-1 provisions. Further, procurement was made after submission of final technical and fiscal reports, revealing delays in project completion and failure to meet objectives within the specified timeframe.

The matter was pointed out to the management on 09.06.2022. The management in its reply dated 13.07.2023 stated that the said project involved two Co-PIs from different organizations which meet the requirements of consortium research grant. The bids received in response to earlier tender for CPU were not as per required technical requirements, therefore, new tender was floated by observing the PPRA Rules and M/s Islamabad Medical Engineering were awarded the contract being technical qualified lowest bidder. The final technical report was received and sent for evaluation to subject expert in September 2022. Therefore, the procurement of permanent equipment was done before the submission of final Technical Report and report was adopted by 30th Technical Committee held on 20.02.2023 as satisfactory.

The reply is not convincing as the project was not a consortium as functions to be performed by Co PI had not been defined in the project proposal. Further, as per technical evaluation report, M/s Cloud Enterprises had qualified for CPU with GPU but the purchase order was not given and due to delay in procurement, the project delayed.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to investigate the matter to ascertain the reasons for award of project as a consortium and why supply order for the procurement of hard drive was not issued to M/s Mediequip and CPU with GPU to M/s Cloud Enterprises at lower rates which resulted into loss of Rs 1,180,000 and fix responsibility on the person(s) at fault.

Para-5 (PSF – 2021-22)

16.1.4.6 Irregular payment of honorarium from development fund to PSF regular staff - Rs 2.75 million

According to approved PC-1 of Development Project “Science Talent Farming Scheme (STFS)” honorarium will be paid to its project staff, university mentors and Science Teachers.

As per S. No. 17 of Annex-I to Finance Division OM No. F.3(2) Exp.III/ 2006 dated 13.09.2006, the amount of honoraria should not exceed one month’s pay of the government servant concerned on each occasion. In the case of recurring honoraria, this limit applies to the total of recurring payments made to an individual in a financial year.

During audit of PSF for the year 2021-22, it was observed that PSF management paid honorarium of Rs 2.75 million from development project “Science Talent Farming Scheme (STFS)” to its regular staff in violation of the approved PC-1 of the project. The said staff was also paid honorarium from the regular budget of PSF.

Honorarium paid to the regular staff of PSF was held as irregular in Audit.

The matter was pointed out to the management on 07.06.2023. The management in its reply dated 13.07.2023 stated that as per approved PC-I, 14 posts were allocated in the STFS project. There were only two officers hired whereas the remaining 12 posts were vacant. Due to shortage of project staff, services of regular officers/officials of PSF were obtained for smooth execution of the project activities.

The reply is not convincing as honorarium was paid to 141 officers and staff whereas the total sanctioned posts of the project were 14. Further, payment of honorarium was also made to the staff from the regular budget of PSF.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends fixing responsibility on the person(s) at fault for grant of honorarium to irrelevant staff and recovering the amount from the employees concerned or the person(s) held responsible.

Para-6 (PSF – 2021-22)

16.1.4.7 Non-execution of project activities as per approved revised PC-I– Rs 82.940 million

According to activity plan of Revised PC-1 of the Development Project “Science Talent Farming Scheme (STFS)” section 6(xiv) “For developing research aptitude, STFS students will be attached with university faculty for undertaking research in science subjects viz. Physics, Chemistry, Biology/ Computer Sciences and Mathematics. Furthermore, science teachers will be selected from/nearby colleges to supplement their formal education.”

According to (Annexure VIII-A) “The selected students for STFS will be attached from very beginning i.e. from the 1st year of their selection. Each student will complete a research project in one academic year, no matter in which class or grade he/she might be. The expenditure on the research projects by the students will be borne out of the STFS funds. The students will use the laboratories of the research organizations/ academic institutions as well as expertise of the teachers and researchers”.

During audit of PSF for the year 2021-22, it was observed that as per activity plan of the development Project “Science Talent Farming Scheme (STFS)” all the 300 students of 4th batch and 300 students of 5th batch (Total 600) would participate in research projects from the 1st year of their selection supervised by the mentors/Science teacher, and PSF management.

The record revealed that only 166 and 115 students completed their research projects in 4th and 5th batch respectively while 319 students of both batches did not respond. As per activity plan of the revised PC-I, PSF management paid Rs 260,000 (@ Rs 130,000 for 1st and 2nd year) to each student. Total amount paid by PSF management to all 600 students was Rs 156.00 million.

Audit is of the view that PSF should not have paid to those students who did not participate in their research projects in the first year. Thus, an amount of Rs 82.940 million (319 students x Rs 260,000 per student) paid to the students who did not complete their research projects in both batches was held irregular in Audit.

The matter was pointed out to the management on 07.06.2023. The management in its reply dated 13.07.2023 stated that in accordance with approved PC-I, all the students of STFS 4th & 5th batch were on individual basis. Most of the students undertook research work in groups of 2-5 students per group and submitted the research report to PSF. However, some of them did not submit their research work/posters to PSF and the remaining students were being pursued to complete their research work and submit reports.

The reply is not convincing as the task had already been delayed but the research work of the students was still awaited which indicated that the students were not pursued properly from the 1st year and payments were also made to them despite the fact that they were not involved in research work.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends recovery either from the students concerned or the person(s) responsible for making payment to the students who did not start research work from the 1st year of their studies.

Para-7 (PSF – 2021-22)

16.1.4.8 Irregular payment to the failed students of the STFS project - Rs 68.9 million

According to S. No. IV of terms & conditions of bond of scholarship given at Annex-V of Revised PC-1 of the Development Project “Science Talent Farming Scheme (STFS)” in case the Student fails to qualify the course for which he/she was awarded Scholarship, the PSF/STFS reserves the right to recover all the payment received and or a penalty equal to total Scholarship amount from the Party-II. According to S. No. XIII of terms & conditions of bond of scholarship, in case the Student “fail” or obtain below satisfactory score in 1st year or 2nd year, the STFS facilities shall be withdrawn immediately.

During audit of PSF for the year 2021-22, it was observed that as per activity plan of the revised PC-1 of “Science Talent Farming Scheme (STFS)”, monetary benefits @ Rs 10,000 per month (for books/note books and some personal allowances) along with tuition fees @ Rs 10,000 per year to each student of batch-IV & V, i.e. Rs 130,000 had to be paid to each student.

The record revealed that management paid Rs 156 million (@ Rs 130,000 per student x 300 students for batch-IV& V including passed and failed). Audit observed that 247 students passed in 4th batch and the remaining 53 students’ results were not found. In 5th batch, only 88 students passed while the remaining 212 students’ results were also not found. Total number of 335 students in both batches completed their HSSC degrees while 265 students’ results were not provided by the management.

Audit is of the view that PSF should recover Rs 68.9 million (156.00 – 87.1) from 265 students in both batches who failed to complete their studies in batch-IV and V.

The matter was pointed out to the management on 07.06.2023. The management in its reply dated 13.07.2023 stated that no one of STFS students failed in F.Sc. However, some students had not submitted their result cards and STFS-PMU was pursuing the remaining students to submit result cards at the earliest.

The reply is not convincing as the results cards should have been obtained immediately after the announcement of results.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to provide the result cards of all the students to Audit otherwise recovery be made from the students who failed or did not provide their result cards without further loss of time.

Para-8 (PSF – 2021-22)

16.1.4.9 Poor execution of projects and non-appointment of project staff resulting into surrender of funds - Rs 281.652 million

According to Project Management Guideline 3.3 after the opening of Project Account, the next step should be the hiring of office space and appointment of key project staff. The appointment of project staff under the project should be made through open competition and in transparent manner. In this connection,

a recruitment committee for the selection of Project Director chaired by the Principal Accounting Officer along with members from Planning Division, Finance Division and Establishment Division already notified by the Planning Commission should be considered. Approval for the recruitment of project staff is the responsibility of Project Director. No approval is required from any forum if the TORs are provided in the approved PC-I.

During audit of PSF for the year 2021-22, it was observed that DDWP approved a project “National Technology Innovation Through Industry Research Centers and other Stakeholders Collaboration” on 10.12.2020 at cost of 1,959.496 million to be executed within 60 months. During the FY 2021-22, an amount of Rs 200 million was released on 06.11.2021 out of which an amount of Rs5.834 million could only be utilized and balance amount of Rs 194.166 million was surrendered.

Similarly, another project “Launching of STEM in Pakistan Phase-I” was approved by DDWP on 04.08.2021 at a cost of Rs 993.784 million. The budget for the FY 2021-22 was approved as Rs 180.00 million out of which an amount of Rs 90.00 million was released on 10.01.2022. However, only Rs 2.514 million were spent, leading to the surrender of the remaining balance of Rs 87.486 million.

Audit is of the view that due to failure of management to hire the services of essential staff, projects’ execution was hindered which resulted into non-achievement of projects’ objectives. Consequently, a total amount of Rs 281.652 million (Rs 194.166 million + Rs 87.486 million) was surrendered for both projects respectively.

The matter was pointed out to the management on 07.06.2023. The management in its reply dated 13.07.2023 stated that on 11.11.2021, a recruitment advertisement was released for project staff, followed by shortlisting and tests for applicants. However, the Ministry of Science and Technology stopped the process of appointment due to the non-observance of quota. Subsequently, a new recruitment case was initiated and quota was observed and the recruitment process for the said projects was completed in 2022-23.

The reply of the management is not convincing because as per standing instructions of the Government, provincial quota had to be observed which was not done which resulted into delay in recruitment, non-execution of projects and surrender of funds.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter besides fixing responsibility on the person(s) at fault.

Para-9 (PSF – 2021-22)

16.1.4.10 Irregular procurement of Projects’ equipment in violation of PPRA rules - Rs 56.357 million

According to rule 12 (1) of PPRA rules 2004, procurements over five hundred thousand Pakistani Rupees and up to the limit of three million Pakistani Rupees shall be advertised on the Authority’s website in the manner and format specified by regulation by the Authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency. According to rule 12 (2), all procurement opportunities over three million Pakistani Rupees should be

advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

According to the annexure-A of project budget, all procurement over Rs 100,000 and up to the limit of Rs 2 million shall be advertised on PPRA's website in the manner and format specified by the regulation, by the Authority from time to time while that over Rs 2 million shall also be advertised in print media or Newspapers.

During audit of PSF for the year 2021-22, it was observed that the management released financial assistance for procurement of equipment for "Research Projects under International Liaison" and "Research Support Program" to different Universities/ Principal Investigators. The Universities/ Principal Investigators did not share the procurement process / record with Foundation which depicts that the procurements were made without observing Public Procurement Rules and in violation of clauses of contract agreements. Hence, the procurement of permanent equipment of Rs 56.357 million (Annex-92) made for the projects was held irregular in Audit.

Audit is of the view that the procurement of Rs 56.357 million made in violation of clauses of contract agreements was irregular.

The matter was pointed out to the management on 07.06.2023. The management in its reply dated 13.07.2023 stated that the matter of procurement was dealt in the respective grantee organization (Public Sector University or R&D institution), which were also liable to follow the GoP rules/PPRA rules in accordance with their own rules. In this connection, the fiscal reports duly vetted by their own concerned departments/officials were shared with PSF.

The reply is not convincing as the documents provided with the reply did not indicate that the procurements were made observing PPRA rules.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter for procurement of equipment in violation of procurement rules and fixing responsibility thereof.

Para-12 (PSF – 2021-22)

16.1.4.11 Irregular procurement of Projects' equipment in violation of PPRA rules - Rs 14.125 million

According to rule 13 of PPRA, the procuring agency may decide the response time for receipt of bids or proposals (including proposals for pre-qualification) from the date of publication of an advertisement or notice, keeping in view the individual procurement's complexity, availability and urgency. However, under no circumstances the response time shall be less than fifteen days for national competitive bidding and thirty days for international competitive bidding from the date of publication of advertisement or notice.

According to rule 38B (1)(d) of PPRA, the procuring agency shall consider single bid in goods, works and services if it has financial conformance in terms of rate reasonability.

During audit of PSF for the year 2021-22, it was observed that the management released financial assistance for procurement of equipment to different Universities/ Principal Investigators. The record pertaining to the following projects revealed the discrepancies as mentioned there-against:

S. No.	University	Project	Date of approval	Item	Cost (Rs in million)	Remarks
1	University of Engineering & Technology, Peshawar	Design & Structure modulation of Nano-Composite Membrane with Bi-Intersection for juice concentration. {PSF/NSFC-II/Eng/KP-UET (09)}	01.03.2018	Design and Fabrication / purchase of FO system for testing ceramic membranes	2.477 (approx.)	- Only single bidder participated who was awarded the supply order without assessment of rate reasonability as per PPRA rules. - Only fifteen days' response time was allowed for international bidding.
2	University of the Punjab, Lahore	Solar-Light-Driven Simultaneous Hydrogen Generation and Water Purification by Synergetic Adsorption and Photo catalysis {PSF/NSFC-IV/Phys/P-PU (31)}	01.12.2021	Solar Simulator and Gas Chromatograph	11.648	- LC was opened by the University.

Audit holds the view that procurement of Rs 14.125 million made in violation of procurement rules was irregular.

The matter was pointed out to the management on 07.06.2023. The management in its reply dated 13.07.2023 stated that in compliance of PPRA Rule 38B (1) (d), the fair price certificate was obtained from the concerned bidder on legal paper. Further, the advertisement was given in the daily Jang Lahore on February 20, 2022. In this case, 24 days were given for bidding due to Punjab University Central Purchase

Committee fixed dates of meeting during covid-19, the dates were slightly shifted and to put the maximum cases into early meetings.

The reply is not convincing as the rate reasonability was to be determined by the Universities concerned in the case of single bidders which was not done. Further, the response time was also in violation of the PPRA rules.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter for procurement in violation of PPRA rules and fixing responsibility thereof.

Para-13 (PSF – 2021-22)

16.1.4.12 Irregular procurement on quotation basis by splitting the demand - Rs 2.53 million

According to Rule (9) of PPRA rules, a procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly without any splitting or regrouping of the procurements so planned. The annual requirements thus determined would be advertised in advance on the Authority's website as well as on the website of the procuring agency in case the procuring agency has its own website.

During audit of Pakistan Museum of Natural History (PMNH) for the year 2021-22 it was observed that different items valuing Rs 2.53 million (Annex-93) were procured on quotation basis by splitting the demand.

Audit is of the view that irregular procurement made was by splitting the demand in violation of the rules.

The matter was pointed out to the management on 07.06.2023. The management in its reply dated 13.07.2023 stated that the material was procured from local market on demand by the various Research Divisions of PMNH time to time on competitive rates by observing the PPRA rules from different vendors/suppliers and properly installed under the supervision of PMNH scientists.

The reply is not convincing as the procurement was made in piece meal by splitting the demand in violation of PPRA rules.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter for procurements made in violation of PPRA and fixing responsibility on the person(s) at fault.

Para-14 (PSF – 2021-22)

16.1.4.13 Irregular procurement of permanent equipment for project in violation of PPRA rules - Rs 2.250 million

According to Rule-12 (1) of PPRA 2004, procurements over five hundred thousand Pakistani Rupees and up to the limit of three million Pakistani Rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the Authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency. According to rule-20 of PPRA-2004, procuring agencies shall use open competitive bidding process as the principal method of procurement for goods, services and works.

During audit of PSF for the year 2021-22, it was observed that a project "Development of Inhibitors Targeting the Viral as well as Host Factors of Severe Acute Respiratory Syndrome Corona Virus-2 (SARS-CoV-2): A way forward to Develop a High Potency Treatment Therapy" was awarded to Dr. Mazhar Iqbal, TI, Professor and Deputy Chief Scientist Health Biotechnology Division, NIBGE-College PIEAS, Faisalabad at cost of Rs 9.840 million with completion period of one year.

The record revealed that Principal Investigator procured Chemistry High Vacuum System from M/s ATIS MAKINA IC VE DIS TICRET LTD STI vide supply order dated 23.07.2021 and payment of Rs 2.250 million was made to M/s Intra Link Incorporated, Islamabad from DGTP account No. 38-2 maintained with NBP Pakistan Atomic Energy Commission. The record related to procurement process of said equipment was not available in project file which showed that procurement was made without observing procurement rules. Further, there was no evidence of a separate project bank account being maintained as stipulated in the contract agreement and award letter.

Audit is of the view that the procurement was made without observing open competitive bidding process as the principal method of procurement. Thus, procurement of equipment of Rs 2.250 million was held irregular.

The matter was pointed out to the management on 07.06.2023. The management in its reply dated 13.07.2023 stated that purchase of Chemistry High Vacuum System was made through a limited tender basis. Furthermore, M/s Intra Link Incorporated, Islamabad was sole agent for Pakistan of M/s ATIS MAKINA IC VE DIS TICRET LTD STI. The receiving and disbursement of funds of PSF Project was done through a dedicated account (A/C No. 3139237376, NBP AARI Branch, Faisalabad) for PSF Projects awarded to NIBGE.

The reply is not convincing as procurement of Chemistry High Vacuum System was not made through open tender in violation of PPRA rules. Further, the bank statement showed that the dedicated account for the project was not opened.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter regarding procurement without open advertisement and fixing responsibility thereof.

Para-15 (PSF – 2021-22)

16.1.4.14 Non-appointment of a regular incumbent against the post of Director General, PMNH

Estt. Division O.M.No.1/21/76-AR. I/R-II, dated 18.06.1980, as amended vide O.M. of even number dated 10.04.1981 states the conditions for appointment on current charge basis as follow:

- (i) the arrangement should not be made for a period of less than one month and should not exceed three months. However, it may be extended by another three months with the approval of the next higher authority;
- (ii) as soon as the current charge is given, a proposal for regular appointment should be initiated and referred to DPC/CSB within a month; and
- (iii) in making current charge arrangement, the senior most officer available in the organization and present at the place where the vacancy may have occurred, if he is otherwise fit and eligible for promotion, should be considered.

According to Cabinet Division letter dated 12.07.2019, the Cabinet in its meeting held on 09.07.2019 under case No. 627/28/2019 reiterated its earlier decision whereby it had been desired that the existing practice to entrust additional charge to officers be discontinued and process to fill the vacant position in Federal Government be completed at the earliest.

During audit of PMNH for the year 2021-22, it was observed that no regular incumbent was posted against the post of Director General, PMNH since 29.04.2013 to date. The management filled the post on current charge basis from 29.04.2013 to 01.04.2017 continuously and since 02.04.2017 to date on look after basis to different officers. It was further observed that Dr. Saima Huma Tanveer was promoted in BS-20 against PASTIC promotion quota on 10.06.2021 and assigned her charge of the post of Director General PMNH on look after basis w.e.f. 26.08.2022 to date. This showed that the management failed to fill the key post on permanent basis.

Audit is of the view that filling of key post of Director General, PMNH on current & additional charge basis was contrary to the instructions of Cabinet and Establishment Division.

The matter was pointed out to the management on 07.06.2023. The management in its reply dated 13.07.2023 stated that multiple attempts were made to fill the post through advertisement in 2012, 2015, 2016 and 2021. The last advertisement was made on 13.04.2023 and selection process was in progress at PSF. The appointment of a regular incumbent against the vacant post of Director General PMNH would be made shortly.

The reply is not convincing as the post was advertised time and again but not filled since September 2012.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends justifying the reasons / grounds due to which the appointment of the regular incumbent could not be made and the appointment of regular incumbent be made without further loss of time.

16.1.4.15 Irregular transfer of funds from non-development funds to pay off the liability of development fund – Rs 2.496 million and exchange loss of Rs 0.549 million due to delay in payment

As per general instructions given at S. No. 5 of Annex-I to Delegation of Financial Powers issued vide Finance Division OM No. F.3(2) Exp.III/ 2006 dated 13.09.2006 no re-appropriation may be made: (i) from Development to Current Expenditure and vice-versa.

During the audit of PASTIC for the year 2021-22, it was observed that SAARC Development Fund Board in its 26th meeting held in Colombo, Sri Lanka from February 10-11, 2017 approved a revised project proposal “Networking and Capacity Building of Women Entrepreneurs from SAARC Countries” including Afghanistan and Bhutan. Accordingly, a total sum of US\$ 179,369 equivalent to Rs 27,437,322 {Rs 4,155,639 equivalent to US \$ 30,000 (@ Rs 138.5213 per US\$) and Rs 23,281,683 equivalent to US\$ 149,369 (@ Rs 155.8669 per US\$)} was received on 21.03.2019 and 25.10.2019 respectively. A sum of US\$ 163,538 (equivalent to Rs 25,490,227) was spent upto 31.03.2020 leaving a balance of US\$ 12,492 (equivalent to Rs 1,947,095). The unspent funds of US \$ 12,492.04 (Rs 2,495,910) were transferred to SDF, Bhutan on 02.06.2022.

Audit observed that the unspent funds were transferred from the regular non-development budget of PASTIC for the year 2021-22.

Audit is of the view that instead of transferring the funds from the regular non-development budget, the unspent foreign exchange amount (US\$ 12,492) available in the respective account of the project should have been transferred to SDF immediately after the closure of the project which was not done which resulted into payment of unspent amount from the regular non-development budget of PASTIC in violation of Government instructions. Further, exchange loss of Rs 548,815 was also sustained by the organization.

The complete record pertaining to the Project was demanded but the same was not produced for verification.

The matter was pointed out to the management on 07.06.2023. The management in its reply dated 13.07.2023 stated that after the arrangement of Foreign Exchange Budget, equivalent to Rs 2.300 million (Non-Development) for the F.Y 2021-2022 vide MoST letter dated 16.02.2022, the payment of Rs 2,495,910 was made on 02.06.2022 after completing the procedural and codal formalities with NBP, SBP and Finance Division. Due to gradual increase in dollar rates, exchange loss of Rs 548,815 was incurred.

The reply is not convincing because instead of returning the balance available amount, the payment was made from the regular non-development budget of PASTIC.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends explaining the reasons due to which the balance amount available in the assignment account could not be returned to the donor agency.

Para-17 (PSF – 2021-22)

16.2 Pakistan Scientific and Technological Information Centre

16.2.1 Introduction

Pakistan Scientific and Technological Information Centre (PASTIC) is the premier organization established under the Pakistan Science Foundation Act, 1973 with the objectives of dissemination of scientific and technological information to the scientists, researchers, engineers, entrepreneurs, industries and citizens of Pakistan.

The organization is operating the following accounts through three funds.

1. Non Development Fund which is used for administrative expenses.
2. Reprographic and Documentation in which major source of income is reprography and documentation.
3. Development fund for strengthening and enhancement of reprographic service of PASTIC.

16.2.2 Comments on Audited Accounts

16.2.2.1 The working results of the Centre for the year 2021-22 as compared to previous years are given hereunder:

(Rs in million)

	2021-22	% Inc /(Dec)	2020-21	% Inc /(Dec)	2019-20
Income					
Government Grants- Non Development Account	209.383	12.39	186.297	6.39	175.100
Reprographic and Documentation and others	8.203	95.54	4.195	(46.27)	7.809
Total Income	217.586	14.22	190.492	4.14	182.909
Expenditure					
Non Development Account	209.106	12.24	186.297	7.07	173.980
Reprographic and Documentation	4.259	104.34	1.772	(63.98)	4.920
Depreciation	2.987	(10.84)	3.387	(7.61)	3.666
Total Expenditure	216.352		191.456	4.86	182.566
Surplus/ (Deficit) for the year	1.122		(1.102)		0.170

(Source: Annual Audited Accounts)

16.2.2.2 The management incurred expenditure of Rs 209.106 million during the year 2021-22

on employee related expenses out of total non-development expenditure of Rs 209.383 million incurred during the year, which was 99.86% of the total non-development expenditure, huge expenditure incurred during year, which needed clarification.

16.2.2.3 Total Expenses on Reprographic and Documentation of Rs 4.259 million during the year 2021-22 that is 51.92 % of total Rs 8.203 million. The management explained the utilization of reaming amount of Reprographic and Documentation, which needed justification.

16.2.2.4 An amount of Rs 0.426 million was added in intangible assets during the year 2021-22. The details of such assets may be provided.

16.2.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
2013-14	02	0	02	15.2.1&15.2.2.1,15.2.2.2,	0
Total	02	0	02		0

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

16.3 Pakistan Museum of Natural History

16.3.1 Introduction

Pakistan Museum of Natural History (PMNH) is a science center of Pakistan Science Foundation established in 1976 under the patronage of Pakistan Science Foundation, Ministry of Science and Technology (Government of Pakistan). It has four principal divisions namely Botanical Sciences Division, Zoological Sciences Division, Earth Sciences Division and Public Services Division. The first three divisions are engaged in the collection, identification and research activities pertaining to plants, animals and mineral resources of Pakistan respectively, while the latter is responsible for mass education and popularization of natural history through various displays, exhibits and dioramas. In addition, various projects such as Virtual Orientation Gallery (VOG), Biodiversity Database and Global Networking (BGN) and Focus Baluchistan have also been initiated.

Organization's main activity is to research in the field of Natural History. Material collected from field is examined in laboratory and displayed for public in museum. Organization is operating accounts through two funds i.e. Development Fund and Non-Development Fund. Development Fund is used in collection, identification and research activities pertaining to plants, animals and mineral resources, while non-development fund is used only to meet the administrative expenses.

16.3.2 Comments on Audited Accounts

16.3.2.1 The working results for the year 2021-22 as compared to previous years are given below:

(Rs in million)

	2021-22	% Inc/ (Dec)	2020-21	% Inc/ (Dec)	2019-20
Income					
Grant from the Government – Non Development	178.678	11.94	159.619	12.48	141.448
Miscellaneous Receipts	6.992	(68.22)	22.003	344.77	4.947
Total Income	185.670	2.22	181.622	2.062	146.395
Expenditure					
Non-Development expenditure	183.715	13.40	162.002	8.49	149.313
Development expenditure	3.808	(7.86)	4.133	(11.25)	4.657
Miscellaneous payments	10.039	260.59	2.784	(13.08)	3.203
Total Expenditure	197.563	16.95	168.920	7.47	157.173
Surplus/(deficit) of income over expenditure	(8.084)		16.836		(6.115)

(Source: Annual Audited Accounts)

16.3.2.2 The management incurred expenditure of Rs 197.563 million during the year 2021-22 as against of Rs 168.920 million during the year 2020-21. This increased 16.95 % which needed justification.

16.3.2.3 An amount of Rs 178.678 million during the year 2021-22 appeared in non-development increased from Rs 159.619 million from previous year. The reasons of this abnormal increase needs to be ascertained and explained.

16.3.2.4 According to Note 11 an amount of Rs 110.235 million in Pay, Overtime and other allowance during the year 2021-22 as against Rs 82.555 million in 2020-21, which increased 33.52 % needs to be explained. On the other hand the organization in loss. Hence, overtime allowance and pay of every contingent staff may be segregated in the financial statements.

16.3.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras #	% of compliance
2013-14	02	0	02	15.3.1&15.3.2.1, 15.3.2.2	-
Total	02	0	02		-

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

Chapter-17

Ministry of Planning, Development and Special Initiatives

Overview

To manage Pakistan's socio-economic development in a strategic and sustainable manner.

Aims & Objectives

Designing and implementing methodology for leadership for planning social and economic development. Development economic programmes designed to achieve competitiveness and leadership for national economy.

Establishing and implementing an approach to strengthen partnership with public agencies private sector and other stakeholder. Coordinating efforts to formulate and achieve development objectives plan and objective to ensure efficiency in performance.

Developing the planning and implementation capabilities of public entities, to facilitate their roles in formulating and implementing plans and strategies.

Governing Laws and Policies

- Rule of Business 1973
- Economic Development Policy of Federal Govt.

Audit Profile of Ministry of Planning, Development and Special Initiatives

(Rs in million)

S. No.	Description	Total	Audited	Expenditure audited FY 2022-23	Revenue /Receipts audited FY 2022-23
1	Formations	2	1	102,832.063	113,948.921
2	Assignment Accounts (excluding FAP)	-	-	-	-
3	Authorities /Autonomous Bodies etc. under the PAO	1	1	-	-
4	Foreign Aided Projects (FAP)	-	-	-	-

Classified Summary of Audit Observations

Audit observations amounting to Rs 98,085.410 million were raised as a result of this audit. This amount also includes recoverable of Rs 834.998 million as pointed out by the audit. Summary of the audit observation classified by nature is as under:

Overview of the Audit Observations

Sr. No.	Classification	Amount (Rs in million)
1	Non-Production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities:	
A	HR/Employees related irregularities	29.294
B	Procurement related irregularities	6,710.47
C	Management of accounts with Commercial Banks	-
4	Value for money and services delivery issues	2,706.270
5	Others	88,639.376

17.1 National Logistics Cell

17.1.1 Introduction

National Logistic Cell (NLC) was established by the Government of Pakistan vide Notification No. 120/19/78-Min dated August 12, 1978 with main objective of providing uninterrupted logistic facilities in the country. NLC is also engaged in construction activities, infrastructure rehabilitation, and development sector, Management of Dry Ports & Border Terminals, Technical Institutes and Express Freight Train Service, toll collection and other engineering related activities. It is an attached department of Ministry of Planning, Development & Reform of Government of Pakistan.

The main objectives are as under:

- Transportation of commodities from one location to other by all available means.
- Hiring/maintenance of storage facilities.
- Carrying out construction of roads and other engineering projects
- Building of truck bodies and chassis of various makes.
- Revenue generation through toll collection.
- Management of Dry Ports and Border Terminals.
- Express Freight Train Service.

17.1.2 Comments on Audited Accounts:

17.1.2.1 The working results of the NLC for the year 2021-22 & 2022-23 as compared to the previous year are as follows:

(Rs in million)

	2022-23	% Inc/ (Dec)	2021-22	%Inc /(Dec)	2020-21
Revenue	113,948.92	81.401	62,816.10	32.554	47,389.08
Operating Costs	102,832.06	80.257	57,047.54	36.600	41,762.37
Gross Profit	11,116.86	92.715	5,768.56	2.521	5,626.71
Administrative expenses	2,125.80	26.488	1,680.63	24.905	1,345.53
Other operating Income	1,857.20	7.741	1,723.78	(67.111)	5,241.15
Operating profit	10,500.33	88.942	5,557.45	(40.114)	9,279.99
Finance costs	152.921	321.084	36.316	85.532	19.574
Net Profit	10,347.34	87.075	5,531.13	(40.271)	9,260.42
Reserves	59,347.05	20.781	49,136.25	12.725	43,589.46
Current Assets	63,146.26		53,007.12		49,104,740
Current Liabilities	41,491.90		36,186.53		29,637,896
Current Ratio	1.52		1.46		1.65

(Source: - Annual Audited Accounts)

The organization's revenue experienced a remarkable 81.401% increase in the fiscal year 2022-23. However, revenue from two specific sources witnessed a decline: rental income from freight trains decreased by 5.851%, and income from dry ports decreased by 14.251% compared to the previous financial year (2021-22). Additionally, tolling revenue showed a substantial decrease of 80.394% during the year 2021-22 as compared to the preceding year. The management is required to provide an explanation for the downward trend in revenue from the mentioned sources.

17.1.2.2 The operating cost of the NLC increase by 80.857% (Rs 102,832.06 for the year 2022-23) in comparison to the preceding year, with figures of Rs 7,047.54 for 2021-22 and Rs 41,762.37 for 2020-21. This extraordinary increase is attributed to the escalation in specific categories, namely: Cost of Construction Project (Rs 62,998.414 million), Hired mechanical transport charges (Rs 22,829.682 million), Salaries, wages, and benefits (Rs 4,632.568 million), and Vehicles and plant running expenses (Rs 7,291.859 million) during the financial year 2022-23. The substantial increase needs to be justified.

17.1.2.3 The net profit witnessed a decline of 40.271%, with figures of Rs 5,531.13 million for the year 2021-22 and Rs 9,260.42 million for the year 2020-21. The decrease in net profit during the financial year 2021-22 needs to be justified.

17.1.2.4 Retention money amounting to Rs 8,525.562 million is receivable for projects completed but not yet technically and financially closed as of June 30, 2023. The prolonged blockade of significant funds is a result of the poor execution of civil works. The management is urged to prioritize the early recovery of retention money and provide justification for the substantial amount blocked.

17.1.2.5 Trade debts stood Rs 16,525.7999 million as on 30th June, 2023 and Rs 11,574.067 million as on 30th June, 2022. The management is strongly encouraged to prioritize the early recovery of trade debts and detailed breakdown of trade debts, including aging be provided to audit.

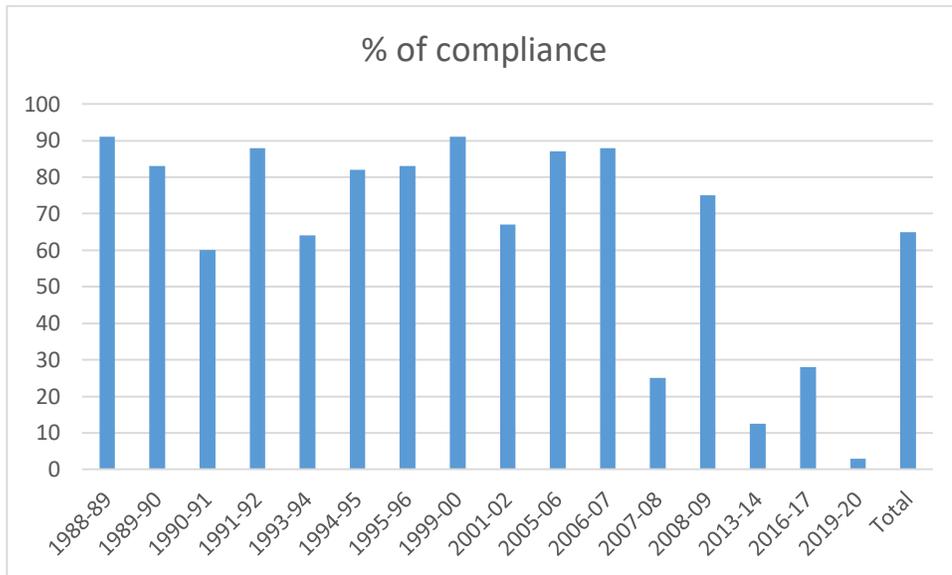
17.1.2.6 Advances, Deposits, Prepayment and other Receivables includes Rs 491.118 million as on 30th June, 2023 and Rs 251.401 million as on 30th June, 2022. The abnormal increase in other receivables requires justification, and the management is strongly urged to prioritize early recovery measures.

17.1.2.7 In the fiscal year 2022-23, the management invested Rs 482.220 million in Pakistan Investment Bonds and Rs 500 million in TDRs during the financial year 2021-22. Additionally, NLC holds cash in hand in the current account, amounting to Rs 12.278 million, and Rs 8,256.342 million in deposit accounts as of June 30, 2023. To ensure transparency in the investment process and prudence in treasury management, a complete record of investments made in each year, along with the determination of working capital balance, be provided to the audit.

17.1.2.8 Long Term Loan to wholly-owned subsidiary NLC Developer (Pvt.) Ltd stood at Rs 1,386.745 million as of June 30, 2023, as compared to Rs 1,379.358 million on June 30, 2022, and have been outstanding since February 2008. Additionally, the timing of the loan recovery is uncertain. Audit recommends expediting the early recovery of the loan from NLC Developer (Pvt.) Ltd and justifying the reasons for the long outstanding loan.

17.1.3 Compliance of PAC Directives:

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
1988-89	11	10	01	541	91
1989-90	23	19	04	635,640,648,650	83
1990-91	05	03	02	491,494	60
1991-92	08	07	01	458	88
1993-94	14	09	05	234,235,238,240,243	64
1994-95	11	09	02	257,264	82
1995-96	06	05	01	232	83
1999-00	11	10	01	235	91
2001-02	03	02	01	213	67
2005-06	15	13	02	212,214	87
2006-07	08	07	01	178	88
2007-08	04	01	03	154.2,154.3,155	25
2008-09	08	06	02	202, 207	75
2013-14	08	01	07	14.1.1 & 14.1.2.1, 14.1.4.1, 14.1.4.2, 14.1.4.3,14.1.3, 14.1.4.4	12.5
2016-17	25	07	18	14.1.3, 14.1.4.1, 14.1.4.2, 14.1.4.3, 14.1.4.5, 14.1.4.7, 14.1.4.8, 14.1.4.11, 14.1.4.12, 14.1.4.13, 14.1.4.14, 14.1.4.15, 14.1.4.16, 14.1.4.17, 14.1.4.18, 14.1.4.19, 14.1.4.20, 14.1.4.21	28
2019-20	10	03	07	13.1.2.8, 13.1.4.1, 13.1.4.2, 13.1.4.4, 13.1.4.6, 13.1.4.7, 13.1.4.10,	3
Total	170	112	58		65



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

17.1.4 Audit Paras

17.1.4.1 Irregular procurement of steel and enhancement of rates in violation of procurement rules - Rs 3,265.951 million

According to PPRA (Public Procurement Regulatory Authority) Rule 16A, procurement of recurrent or common use items, services, and commodities through framework agreements is allowed for a maximum period of three years. The procuring agency is required to prepare provisional annual estimates, initiate prequalification proceedings, and select suppliers based on rational demand estimates. The agency can also pre-qualify new suppliers during the continuity of framework agreements. Rule 16B allows for price adjustments during contract execution in case of above-normal price volatility. The procuring agency can accept requests for price adjustment, compare prices against national or international indicators, and determine the factor or percentage for adjustment, subject to approval by the Principal Accounting Officer (PAO). The Authority is authorized to establish regulations, regulatory guides, guidelines, or templates for procurement through framework agreements.

During the audit of NLC HQ for the year 2022-23, irregularities in the procurement process of deformed steel included:

1. The management did not prepare provisional annual estimates, including description, specifications, statement of requirements, and quantities based on rational demand estimates, as required under the rules.
2. The management increased the rates of deformed steel procured from M/s Faizan Steel Mills by 175%, from Rs 108,000 to Rs 298,000 per metric ton, with the approval of the Price Variation Committee, without seeking approval for price adjustment from the Principal Accounting Officer (PAO) as required by the rules.

3. The management granted an extension in the contract with steel mills without obtaining approval from the competent forum the Officer in Charge (OIC).

Audit is of the view that the procurement through the Rule-16A Rate Running Contract, the rate enhancement, and the extension in the contract period were irregular and did not follow the necessary procedures outlined in Rule 16B of the PPRA rules.

The management replied that annual estimates were assessed by HQ Engineers, and open framework contracts undergo periodic adjustments based on market rates. The management argues that despite steel rate increases, they monitor market rates continuously and secure extensions through the DG NLC under delegated powers. The audit deems the management's explanation unacceptable, highlighting the increase in rates without considering Rule 16B and granting extensions without approval from the competent authority.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends an investigation at the administrative department level, fixing responsibility against the individuals held responsible, and regularizing the expenditure through the competent forum.

Para 16(NLC – 2022-23)

17.1.4.2 Loss due to execution of work over and above the BOQ - Rs 2,474.443 million

According to clause 51.1 of particular condition of Contract Agreement with Client (CDA), the word "qualify" is deleted in the first line and substituted with the word "quality", Para (a) is deleted and other paragraphs remarked from (a) to (e) and the word "design and" is added at the start of para (e) now para (d).

According to Engineers SOP para 35, "in case of variation between BoQs and construction drawings, the quantities will be pointed out and besides initiating Variation Orders / Deviation Order (VOs/DOs), a written consent of client be ensured if construction activity is continued".

During audit of National Logistic Cell for the year 2022-23, it was noted that the project construction of Barakahu Bypass, Islamabad acquired on design and built basis at quoted cost of Rs 6,515.078 million from Capital Development Authority.

Audit observed that the said project was executed by NLC and NESPAK being JV partner. It is pertinent to mention here that the Design and Drawing was prepared by the JV partner. On the basis of that design and drawing, BoQ was prepared of Rs 6,515.078 million. Later on, during execution the quantities of items of work increased and scope of the work enhanced to Rs 8,827.395 million. CDA vide its letter dated 22.12.2022 communicated that there was no provision of variation in contract agreement being Design & Build contract. The management of NLC issued Vo-1 dated 19.06.2023 to CDA for approval which was declined by CDA, resultantly management sustained loss of Rs 2,474.443 million

Audit is of the view that the management of NLC failed to include variation clause in the contract agreement and therefore sustained a loss of Rs 2,474.443 million.

The management, upon reporting of the issue on January 1, 2024, explained in their response dated January 10, 2024, that variation orders were communicated to the client during construction, as per the contract's Conditions. A variation order of Rs 3,257.00 million submitted on June 19, 2023 was under review by the supervising consultant and ECSP for third-party review. However, their reply was deemed unacceptable as the contract lacked clauses on variations, and no written consent from the client was obtained for these changes.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to investigate the matter regarding execution of quantities over and above BoQ, case of variation in scope of work be taken up with client through administrative ministry for approval of variations.

Para-17 (NLC – 2022-23)

17.1.4.3 Irregular procurement of tyres through splitting amounting to Rs 647.122 million resulting in a loss of - Rs 18.00 million due to purchases at a higher rate

Irregular procurement of tyres amounting to Rs 356.935 resulted in a loss of - Rs 130.00 million

Rule 178 (i) of GFR Vol – I states that except in cases covered by any special rules or orders of Government, no work should be commenced or liability incurred in connection with until Administrative approval has been obtained from the authority appropriate in each case.

According to rule-29 of PPRA 2004, procuring agencies shall formulate an appropriate evaluation criterion listing all the relevant information against which a bid is to be evaluated. Such evaluation criteria shall form an integral part of the bidding documents. Failure to provide for unambiguous evaluation criteria in the bidding documents shall amount to mis-procurement.

According to PPRA rule-9, save as otherwise provided and subject to the regulation made by the Authority, with the prior approval of the Federal Government, a procuring agency shall announce in an appropriate manner all proposed procurement for each financial year and shall proceed accordingly without any splitting or regrouping of the procurement so planned.

During the audit of NLC HQ for the year 2022-23 it was observed that management procured 10,000 tyres through three tenders, raising several concerns. Administrative approval was obtained for the purchase of 8,000 tyres, but procurement was made for 10,000 tyres. The procurement amounting to Rs 647.122 million was split into three parts to avoid the higher authority's sanction, contrary to delegation of powers. The second and third tenders, awarded to the same contractor within two months, resulted in a loss of Rs 18.00 million due to higher rates in the third tender. Disqualification of certain bidders lacked a scoring/marketing scheme, violating rules and deeming the action irregular as a vendor with no previous business record was subsequently given preference. The financial bid of an absent bidder was opened and declared the lowest, contrary to the requirement of all representatives being present, causing a loss of Rs 130 million.

Audit is of the view that the tenders were advertised without administrative approval, work was split to stay within financial limits, and a loss of Rs 18.00 million occurred due to the higher rates in the third tender. Moreover, work had to be completed in Rs 225 million. By not clear defining technical evaluation criteria in bidding documents the management deprived the organization of healthy competition and sustained a loss of Rs 130.00 million.

The management replied that a strategic approach was used in acquiring 13,000 tyres in two phases, aligning with fund availability and warranty periods. However, the audit deems the explanation untenable, emphasizing the loss sustained.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends an investigation into the matter and fixing responsibility for the alleged irregularities at the administrative level.

Para 6 & 9 (NLC – 2022-23)

17.1.4.4 Loss incurred due to the waiver of liquidated damages and payment of additional freight charges - Rs 592.30 million

According to Contract Agreement clause 20.1, if supplier fails to deliver any or all of the goods or perform the services within the time period (s) specified in the Contract after the lapse of grace period as mentioned in the clause 4.1, Purchaser/ consignee shall without prejudice to its other remedies under the Contract, shall have the right to claim liquidated damages and the Supplier shall pay to Purchaser liquidated damages with respect to those delayed goods an amount equal to 2% of the value of the goods delayed for each month of delay or part thereof until actual delivery or performance up to a maximum deduction of 10% of the Contract Cost.

According to Rule 10 (i) of GFR every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

During the audit of NLC HQ for the year 2022-23, irregularities in the procurement process of 462 vehicles of CYZ 390 HP for Logistics Services by the National Logistics Cell (NLC) from M/s Ghandhra Industries Limited were highlighted. The observations include:

1. Direct contracting with M/s Ghandhra Industries Limited for the procurement of vehicles from October 2019 to March 2022 through six different contracts, totaling 7,713.98 million.
2. The agreements on Freight on Road (FOR) basis included a provision allowing the supplier to be reimbursed for freight charges exceeding Rs 500,000, resulting in additional freight charges of Rs 300 million, providing an advantage to the contractor.
3. The vehicles were not delivered within the stipulated time, and liquidated damage charges amounting to Rs 40 million were waived off by the Director General NLC, resulting in a loss to the organization.
4. A 50% advance payment of Rs 550.5 million made to the supplier during the financial year 2022-23 remained under the use of the contractor for almost one year.

Audit is of the view that the contractor benefited from the payment of additional freight charges and the waiver of liquidated damages, resulting in a loss of Rs 592.30 million.

The management replied that the procurement of ISUZU CYZ51 390 HP was based on a comprehensive 2018-19 test and trial for future needs on motorways, CPEC routes, and cross-border TIR operations. They defended the choice of M/s GIL, the local assembler of ISUZU Japan, citing adherence to PPRA Rule 42c (vii) to promote local assembly. Excess payments for freight charges over Rs 500,000 per PM were explained as part of the contract agreement. COVID-19-related delays led to the waiver of LD charges by DG NLC, and a 50% advance payment was negotiated due to trade practices for vehicles. The audit found the management's response untenable, emphasizing that the initial agreement was on a freight on road (FOR) basis, and the clause for additional freight charges was added later. Moreover, despite supply delays, DG NLC waived the liquidated damages (LD), raising concerns about adherence to contractual terms.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends an investigation into the matter and fixing responsibility for the alleged violation of PPRA rules.

**17.1.4.5 Loss to public exchequer due to less recovery of income tax -
Rs 384.195 million**

According to section 153(1)(b) of the Income Tax Ordinance 2001, the rate of income tax deduction on specific services is 3%. While under second schedule (Exemptions & Tax Concessions) Part II (Reduction in Tax Rates) vide rule (28F), the rate of tax under clause (b) of sub-section (1) of section 153 in case of oil tanker contractor services shall be 2% for the year 2022-23.

During the audit of NLC HQ Logistics, Karachi for the year 2022-23, it was noted that the management entered into agreements with various departments for services related to freight for dry cargo, liquid cargo, and water. The management sub-let these works to 112 sub-contractors and made payments amounting to Rs 33,512.947 million during the year.

However, it was observed that the management while making payments did not deduct / less deducted the income tax of Rs 384.195 million.

Audit is of the view that income tax amounting to Rs 384.195 million at the prescribed rate of 3% on dry and 2% on liquid cargo was required to be withheld. Thus, due to less/non-deduction of income tax, the government exchequer was put to a loss of Rs 384.195 million.

The management replied that variations in tax deductions occurred due to payments including items related to Hired Mechanical Transport (HMT) contracts and timing differences were caused by funding shortages.

Reply is not acceptable because as per Income Tax Ordinance, 2001 the management was bound to deduct tax at the time of payment.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the matter and effecting recovery from contractors or person(s) held responsible.

Para-48 (NLC – 2022-23)

17.1.4.6 Loss to public exchequer due to non-deduction of taxes – Rs 264.362 million

According to the Balochistan Finance Act (Act No. v of 2019). “Explanation - Notwithstanding the rate of 15% fixed in column 3 (rate of tax), the following reduced rate of 6%, will be applicable, for all services specified at tariff heading 9814.2000, contractor of roads and building, bridges etc. and tariff heading 9815.5000 engineering consultant.” Further, as per Rules 2(2) and (3) of the Sales Tax Special Procedure (Withholding) Rules, 2007 under S.R.O. 660(1)/2007, Islamabad, the 30th June, 2007, “A withholding agent shall deduct an amount equal to one fifth of the total Sales Tax shown in the Sales Tax invoice issued by the supplier and make payment of the balance amount to him.” Moreover, according to Article 4 (22 A) Schedule I to Stamp Act, 1899, as amended vide Balochistan Act, 1994, “Stamp duty @ 0.25% should be recovered/obtained in the shape of stamp duty on non-judicial stamp papers from contractors on the total cost of the contract at the time of award of the work.”

During the audit of NLC PD Balochistan for the year 2022-23, it was observed that the management failed to deduct BSTS @ 6% on civil works contracts, GST on supply items and stamp duty @ 0.25% in the shape of non-judicial stamp papers of the contract value which was not done. This resulted in non-realization of governmental taxes amounting to Rs 264.362 million, as detailed below.

(Rs in million)				
S. No.	Name of formation	BSTS Rs	GST	Stamp Duty Rs
1	32 Nos. of Sub-let Contracts at BCF Chaman	243.050	0	15.716
2	Payment made to suppliers for purchase of construction material.	0	5.596	0

Audit is of the view that non-deductions of sale tax at the time of payment and stamp duty at the time of agreement caused a loss of Rs 264.362 million to public exchequer.

The management replied that recent legislative amendments under the Baluchistan Finance Act 2023, effective from July 01, 2023, stipulate a reduced GST rate of 4% for construction services and a Zero Percent (0%) rate for specific government civil works contracts initiated during the financial year 2016-17 onwards. This amendment signifies a change in the tax landscape, applicable from July 2023 onwards. Importantly, this legislative change cannot be applied retrospectively to previous financial years. The reply is not acceptable because prior to 1st July 2023, the management was bound to deduct tax @ 6% and stamp duty 0.25% of contract value which was not done.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends that all government taxes may be recovered and deposited in government treasury under intimation to audit besides fixing responsibility.

Note: The issue of non-recovery of stamp duty was also reported earlier in the Audit Report for the year 2022-23 vide Para No. 16.1.4.9 having financial impact of Rs 16.469 million. Recurrence of same irregularity is a matter of serious concern.

Para-31 (NLC – 2022-23)

17.1.4.7 Loss due to issuance/ recovery of material below the purchase rate – Rs 231.827 million

According to Schedule B of contracts agreements with contractors, the rates for cement and steel were fixed @ Rs 575 per bag and @ Rs 109,000 per ton, respectively. According to Financial SoPs 7.1(b) Other Construction material including scaffolding will be purchased through board of officers including project manager who will fix the price of each item after obtaining quotations from suppliers in the vicinity of each project. The prices will be reviewed quarterly.

During the audit of NLC PD Baluchistan for the year 2022-23, it was noted that the contract for the construction of building and infrastructure for the Border Crossing Facility (BCF) at Chaman was initially signed between FBR and NLC on 20.08.2019, valued at Rs 12,576.501 million. Subsequently, NLC management sublet this work to 148 subcontractors with an amount of Rs 8,090.791 million. The audit observed that different types of construction materials were issued to 46 subcontractors.

It was found that the management fixed the rate of steel below the prevailing market rates in Schedule B of the contract with subcontractors and issued the material to them which is tantamount to under-invoicing, resulting in a loss of Rs 231.827 million.

Name of contractor	CA Date	Qty. issued (Ton)	Steel issued Rate Rs	Purchase Rate (Rs)	Recovery Rate (Rs)	Difference rate Rs	Loss of (Rs)
FK Builders	16.10.2021	1,163.03	109,000	184,000	109,000	75,000	87,227,250
Ayaz Khan & Builders	21.11.2021	290	109,000	184,000	109,000	75,000	21,750,000
Shahbaz Brothers & Co	11.02.2022	52.86	109,000	184,000	109,000	75,000	3,964,500
Geo Deep Rock	10.03.2022	267.68	109,000	184,000	109,000	75,000	20,076,000
Noor Builders	01.09.2022	544	109,000	184,000	109,000	75,000	40,800,000

Ayaz Khan & Builders	11.02.2022	327.05	109,000	184,000	109,000	75,000	24,528,750
Swabi Construction	11.02.2022	113.09	109,000	184,000	109,000	75,000	8,481,750
Al Sana Enterprises	20.04.2022	82	109,000	184,000	109,000	75,000	6,150,000
Shahbaz Brothers & Co	10.10.2023	251.32	109,000	184,000	109,000	75,000	18,849,000
Total							231,827,250

Audit is of the view that the rates fixed with contractors being below the purchase rates led to loss. Further, the material issuance/ recovery rates should be charged as per purchase rates of material to the organization.

The management replied that recovery rates for store items like cement and steel were fixed at Rs 575 per bag and Rs 109,000 per ton, in accordance with the Engineer SOP and BoO approved by Project Director Balochistan in 2021. The management highlighted that despite the pointed loss of Rs 231 million against 09 sublet contracts, NLC was entitled to escalation on certain items, covering purchase expenses and adding profit to NLC's account.

The reply is not tenable as according to the agreement, the rates had to be reviewed quarterly. More importantly, there should have been a rate escalation clause in the agreement.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigation to determine the exact loss to the organization, along with the recovery of the pointed amount from the contractors or persons held responsible.

Para-30 (NLC – 2022-23)

17.1.4.8 Loss due to de-scoping the contract agreement and award of work at higher rates to other contractors - Rs 91.649 million

According to clause 4.7 (a) (4) of Engineers SOP 2022, recoveries will also be made from the contractor bills before making payment to sub-contractors (4) penalties, in accordance with contract agreement, in case of delay/ poor quality work etc. Further, clause 34(a)(5) states that on the recommendations of board proceedings, left over work will be executed by NLC Engineers itself/ through subletting at the risk and cost of sub-contractors under the conditions of agreements and final bills of the sub-contractors will be processed accordingly.

During the audit of NLC PD Balochistan for the year 2022-23, the audit identified a discrepancy in the award of work at the Border Crossing Facility (BCF) Chaman Project, where certain works (Supply & Fixing of Doors, Windows, Kitchen Cabinets, HVAC work in Passenger Terminal & Admin Center, and Sub Base/Base Course) had initially been sublet to different contractors. However, these works were later

on deleted from the scope of the original contractors and awarded to M/s Buildana Builders, M/s Iceberg, and M/s True Line Builders at higher rates. This resulted in a loss of Rs 91.649 million to the organization.

Audit is of the view that the management should have completed the work through original contractors. Due to the award of deleted work at higher rates to other contractors caused loss of Rs 91.649 million.

The management replied that the exclusion of certain works from the building Bill of Quantities (BoQs) was in line with client specifications and these works were required to be executed by specialized firms. For HVAC works, M/s Iceberg emerged as the lowest bidder and approved vendor, securing a profit for NLC, approximately 30% higher than previous contracts. The reply is not acceptable because at the time of initial award of contract the management should execute work through specialized contractors as required by the client. Furthermore, award of work at higher rates caused loss to organization.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to complete the de-scoped work at risk & cost of sublet contractors and justify as to why the deleted work was awarded at higher rates besides fixing responsibility thereof.

Para-34 (NLC – 2022-23)

17.1.4.9 Loss due to award of de-scoped work at higher rates and non-imposing of penalty - Rs 56.76 million

According to clause 4.7(a)(4) of Engineers SOP 2022, following recoveries will also be made from the contractor bills before making payment to sub-contractors (4) penalties, in accordance with contract agreement, in case of delay/ poor quality work etc. Further, clause 34(a)(5) states that on the recommendations of board proceedings, left over work will be executed by NLC Engineers itself/ through subletting at the risk and cost of sub-contractors under the conditions of agreements and final bills of the sub-contractors will be processed accordingly.

During the audit of NLC PD Balochistan for the year 2022-23, the audit identified several irregularities in the execution of external electrical works which are as follows:

- i. M/s Electrix Traders initially quoted Rs 805 million, which was approved by the DG. The contractor requested a revision due to an increase in the dollar exchange rate, and a revised quotation of Rs 885 million was accepted. The initial lowest bidders were M/s Earth Enterprises (Rs 814.625 million) and M/s FK Builders (Rs 831.310 million). The award of the contract to M/s Electrix Traders is deemed irregular, causing a loss of Rs 70.375 million.
- ii. The contractor, M/s Electrix Traders, refused to provide generators and transformers, leading to the de-scoping of work valued at Rs 267.625 million. The de-scoped work was awarded to M/s Jaffer & Co and M/s Schneider at a higher rate of Rs 297.62 million. The management did not invoke the risk & cost clause nor imposed penalties on the contractor.

- iii. The management paid the contractor Rs 133.189 million on account of mobilization advance, exceeding the approved 10% of Rs 88.5 million. Granting excess mobilization advance of Rs 44.689 million was held unauthorized.
- iv. The contractor completed only 50% of the scope of work since 08.11.2021 to date. The management had not initiated any remedial actions against the contractor.

Audit is of the view that the refusal by Electrix to fulfill its contractual obligations resulted in a delay in the project execution and a subsequent financial loss of Rs 30.00 million. The management should have imposed a penalty of 10% of the de-scoped contract amount, Rs 26.762 million (Rs 267.625 million x 10%). Therefore, the organization sustained a total loss of Rs 56.762 million (Rs 30.00 million + Rs 26.762 million).

The management replied that the procurement of Generators & Transformers awarded to M/s Electrix Traders faced delays in LC opening due to state bank restrictions. To mitigate project risks, NLC directly approached vendors and as per Engineer SOP, de-scoped works via min sheet approved by DG NLC. De-scoping resulted in increased profit margin from 33% to 54%, with a net increment of 21% in the target profit. Direct LC opening by NLC reduced overall project timelines, preventing potential delays caused by M/s Electrix. Penalty of Rs 26.76 million imposed on M/s Electrix, with delay charges of 10% to be recovered from withheld liabilities. The reply is not acceptable because the management was required to execute de-scoped work at the risk & cost of M/s Electrix Traders besides recovery of L.D charges on failure of delivery of said items.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends completing the de-scoped work at the risk & cost of sublet contractors, justifying why the deleted work was awarded at higher rates, and recovering the penalty imposed on the contractor.

Para-36 (NLC – 2022-23)

17.1.4.10 Loss due to execution of additional work amounting to Rs 44.585 million

According to Rule 10 (i) of GFR every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

As per BoQ Vol – I, “infrastructure works” includes earth work, sub base & base course, surface course & pavement, retaining walls, drains, nullah works, bridges and box culverts, terminal parking area (rigid pavement) and ancillary works. Similarly, BoQ Vol – I & II, “Civil works” includes admin center, business center, passenger terminal, SPS/ Quarantine build, customs lab, office block, watch tower, canine main building, canine unit small, toll both (single), toll both (double), bomb disposal squad etc.

During audit of NLC Baluchistan, for the year 2022-23, it was observed that the EPC contract for Border Crossing Facilities at Chaman was signed between FBR and NLC on 20-08-2019 worth Rs 12,576.501 million the NLC management hired three consultants i.e. M/s. PID, Al-Imam and M/s. Cameos for design and supervision of the project.

During the scrutiny of record, it was observed that the management executed additional works “construction of NDA-MI building” for Rs 14.993 million and “construction of subway/underpass” for Rs 68.592 million in deviation from the original BoQ due to engineering fault/ project requirements. The absence of project compliant design from the consultant led to the execution of additional work amounting to Rs 83.585 million, which was not received from the client upto the last interim payment certificate (IPC).

Audit is of the view that consultants failed to prepare the design and BOQ in alignment with project requirements, hence the management executed additional work and sustained a loss of Rs 83.585 million.

The management replied that reported matter involved additional works not initially included in the project's Bill of Quantities (BOQs), including a subway and other buildings. The management explained that the client instructed these works on March 16, 2023, with subsequent cost proposals and principal approval obtained. The additional works commenced at the site following client instructions and financial approval was pending. The management claimed entitlement to compensation for the overlooked subway/underpass, citing standard EPC project practices and client directives. However, the audit found the reply unacceptable, noting that while the additional work was executed, required financial and technical approvals from the client were not obtained.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends that additional work amounting to Rs 83.285 million should be regularized and executed at the risk and cost of the consultant. Further a thorough investigation into the consultant's performance be conducted besides imposing a penalty.

Para-33 (NLC – 2022-23)

17.1.4.11 Irregular procurement of Solar Systems by splitting purchase - Rs 36.450 million and subsequent loss due to purchase at higher Rate - Rs 2.965 million

According to PPRA clause-9, Save as otherwise provided and subject to the regulation made by the Authority, with the prior approval of the Federal Government, a procuring agency shall announce in an appropriate manner all proposed procurement for each financial year and shall proceed accordingly without any splitting or regrouping of the procurement so planned. The annual requirements thus determined would be advertised in advance on the Authority's website as well as on the website of the procuring agency in case the procuring agency has its own website.

During the audit of the NLC HQ for the year 2022-23, it was observed that tenders for installing solar systems on four sites were awarded to M/s Pantera Energy, amounting to Rs 36.450 million, through a split procurement process. The audit identified following irregularities:

1. The purchase of four solar systems, amounting to Rs 36.450 million, occurred during a span of two months through the splitting of the procurement process.

2. All contracts were granted to M/s Pantera Energy at different costs for solar panels, net metering, and syncing of the generator set, resulting in a loss of Rs 2.965 million for NLC.

3. M/s Pantera Energy was the sole bidder, quoting financial bids in two contracts, leading to questions about the transparency of the entire procurement process.

Audit is of the view that the absence of an annual procurement plan contributed to the split procurement amounting to Rs 36.450 million, causing a loss of Rs 2.965 million to NLC.

The management replied that the project-specific nature of the procurement with distinct requirements for each of the four separate projects. The tenders were retendered due to previous issues, adhering to PPRA Rule 36d, ensuring transparency through wide circulation.

The audit finds this reply unacceptable, asserting that the procurement for the projects occurred in the head office through four tenders with a 25-day gap, resulting in increased rates.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends an explanation for not preparing an annual procurement plan, justification for the split procurement of solar systems, and an administrative-level inquiry. Additionally, it suggests assigning responsibility for the oversight to the person(s) at fault.

Para 3(NLC – 2022-23)

17.1.4.12 Irregular / unjustified escalation paid to the contractors - Rs 38.032 million

According to clause 1.9 of Engineers SoPs 2022 of NLC and Agreement, no escalation/de-escalation will be admitted for works of six months or less, however, if the same prevails over it and the client admits and makes payment against escalation claim to NLC, the sub-contractor would be permitted to claim the escalation against the works executed by them in the same proportion as that of quoted bid of sublet agreement and NLC's bid. Payment against escalation upto 70% will only be released upon receipt of funds from client with the approval of Dir Projects. Hand receipt for release of remaining 30% escalation will be processed with final bill to CFO through HQ Engineers NLC and payment will be made on issuance of payment authority by CFO.

During audit of NLC PD Balochistan for the year 2022-23, following irregularities in the payment of escalation claims were noticed:

- i. An amount of Rs 8.913 million was paid to M/s. Shahbaz & Brothers on account of escalation despite the absence of an escalation clause in contracts. The page carrying the escalation clause in the Contract Agreement seemed dubious due to a difference in signatures and stamps from the rest hence there was a possibility that this particular page was later replaced in the original contract agreement.
- ii. An amount of Rs 5.896 million was paid to six sub-contractors despite the absence of steel, cement, and bitumen-related work in their scope of work.
- iii. The organization received Rs 10.170 million against the escalation claim for steel and cement from the client. However, the management paid

Rs 23.222 million to sub-contractors for the same items. The management procured steel and cement itself, making the payment unjustified.

Audit is of the view that the payment of Rs 38.032 million made on account of escalation violated the terms of the contract agreement. The payment of escalation at a rate of 15% against the value of work is deemed non-adherence to the price adjustment factor outlined in the client agreement. Moreover, the payment of Rs 38.032 million was held irregular and unjustified.

The management replied that an amount of Rs 137.536 million received for escalation payment certificate (EPC) 11 followed 10 prior EPCs amounting to Rs 515.12p million. An amount of Rs 8.913 million to M/s Shahbaz & Brother and Rs 5.896 million to six subcontractors were disbursed with detailed deductions for steel, cement, bitumen, NLC profit, and 30%. A disbursement of Rs 23.222 million underwent similar deductions, all transparently documented for scrutiny. The management's reply is deemed untenable as it fails to justify the payment made to the contractor on account of escalation, especially considering the absence of an escalation clause in the agreement, the absence of relevant work in the subcontractors' scope, and excess payment for steel and cement.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends justifying the reason for the payment made to the contractor on account of escalation, expediting the recovery from the contractor, and fixing responsibility against the person(s) at fault.

Note: The issue was also reported earlier in the Audit Report for the year 2021-22 and 2022-23 vide Para No. 14.1.4.9 and 9.2.4.24 having financial impact of Rs 15.751 million and Rs 43.210 million respectively. Recurrence of same irregularity is a matter of serious concern.

Para-35 (NLC – 2022-23)

17.1.4.13 Undue favor to contractor during award of contracts in re-tendering - Rs 27.948 million and subsequent loss of - Rs 5.730 million

According to Rule-17 of Public Procurement Rules 2004, a procuring agency, at any stage of the procurement proceedings, having credible reasons for or prima facie evidence of any defect in supplier's or contractor's capacities, may require the suppliers or contractors to provide information concerning their professional, technical, financial, legal or managerial competence whether already pre-qualified or not: Provided that such qualification shall only be laid down after recording reasons in writing. They shall form part of the records of that procurement proceeding.

During audit of NLC HQ for the year 2022-23, it was observed that the management advertised two tenders for the procurement of ICT equipment. After the technical qualification and opening of financial bids, the management annulled the tendering process, citing that the rates quoted by firms were exorbitant. Subsequently, in the re-tendering process, the contracts were awarded to other firms at higher rates, as detailed below:

Description	Awarded to	Rates offered in 1 st tender	Contract awarded at rate in re-tendering	Loss in re-tendering Rs
Supply/ Installation of Video Conference Equipment's	M/s Commtel	20,561,618	25,498,272	4,936,654
Procurement of Walki Talkie Sets	M/s Spectrum 360	1,656,565	2,450,000	793,435
Total		22,218,183	27,948,272	5,730,089

It was further observed that NLC awarded contracts worth Rs 27.948 million to M/s Commtel and M/s Spectrum 360, neither of which had participated in the previous tendering process. The annulment of the initial tender due to high rates is questioned since the contracts were eventually awarded at even higher rates. This resulted in a loss of Rs 5.790 million.

Audit is of the view that the re-tendering of the works was arranged to undue favor certain firms, resulting in a loss of Rs 5.790 million.

The management replied that procurement for Video Conference Equipment was halted due to high rates and procurement of Walkie Talkie Sets was annulled due to brand issues. However, the audit deems the explanation unacceptable, emphasizing the loss of Rs 5.790 million due to rejecting lower rates and proceeding with retendering at higher rates.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends an explanation for the reasons behind the re-tendering, an investigation into the matter, and fixing responsibility for the alleged irregularities.

Para 7(NLC – 2022-23)

17.1.4.14 Irregular appointment of employees without advertisement – Rs 29.294 million

According to rule 1(a)(2) of the NLC Policy Letter # 2006/E2/HR/NLC-4GNLXS dated 04-03-2022, it is stated that “Publication of all advertisements against the positions will be initiated at HQ NLC according to PPRA Rules.”

The Supreme Court of Pakistan in its judgment dated January 19, 1993, in Human Rights Case No: 104 of 1992 stated that recruitments, both ad hoc and regular, without publicly and proper advertising the vacancies, are violation of fundamental rights. As such, no post could be filled without proper advertisement, even on ad hoc or contract basis.

During the audit of NLC PD North for the year 2022-23, it was observed that contract appointments of 52 employees for the Barakahu Bypass Project were made without advertising the job opportunities in newspapers, which was violation of prescribed criteria and Supreme Court's orders.

Audit is of the view that the management was required to get the advertising in the newspapers to fetch healthy competition. However, no advertisement in the newspapers was published which showed that individuals of personal choice were appointed. Thus, appointments of 52 employees and payment of Rs 29.294 million during 2022-23 was held irregular.

The management replied that the appointments were necessary for the swift execution of the Barakahu Bypass Project, which had a completion period of 120 days. Due to the urgency, advertisement of vacancies was deemed unfeasible within the time constraints. Candidates were selected from a pre-existing pool advertised centrally by HQ NLC, fulfilling the urgent project requirements. Audit finds the management's response unacceptable, emphasizing that the appointments were made without project-specific advertising, violating the instructions of the NLC and the judgment of the Honorable Court.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends that the management should explain the reasons for the irregular appointments without advertisement, conduct inquiry, fix responsibility, and take necessary action against the officers responsible for the violation.

Para-21 (NLC – 2022-23)

17.1.4.15 Loss due to damaged works executed by other contractors - Rs 28.135 million

According to clause 7 of Contract Agreement Nos. Bara Kahu/08/2023/PDN/NLC and Bara Kahu/28/2023/PDN/NLC, damage works during the construction/execution will be attributed to the sub-contractor who stands responsible for rectification. Further clause 6 states that the sub-contractor, awarded sensitive structure like bridges, multi stories building, electrical, mechanical and high value projects, would abide by the insurance of work as that is incorporated in the main contract of NLC as per desires of concerned Project Director. The insurance should cover all losses or damages from whatsoever cause arising from the start of work at site till the relevant taking over certificate is finalized.

During the audit of NLC PD North for the year 2022-23, concerns about subletting of work for the Barakahu Bypass Project were raised. The key observations are as follows:

1. The execution of work, specifically the pouring of concrete for 05 Nos. pre-stressed RCC Girders and transom on pier No. 10, collapsed during the process. This work was sublet to M/s Khilji Builders and M/s Haji Muhammad Latif & Co.
2. Payments amounting to Rs 57.935 million and Rs 10.306 million were made to M/s Khilji Builders and M/s Haji Muhammad Latif & Co, respectively, against the collapsed work through Running Account Receipts (RARs).
3. Re-work for the damaged portion was awarded to M/s Haji Muhammad Latif & Co and M/s Qutab Din Khan for Rs 20.781 million and Rs 7.353 million respectively, through a labor agreement with material. This re-work was executed by other contractors instead of the original contractors, resulting in a loss of Rs 28.135 million.

Audit is of the view that the management should have executed the damaged work at risk and cost of the already deployed contractors instead of awarding new contracts.

The management replied that the collapse occurred due to a truck incident after 95% of the concrete pouring was completed by M/s Khilji Builders. No payment was made for the rework as it was covered in the subcontractor's RAR. Insurance claims were finalized, and NICL is processing payment approval. Audit finds the management's response untenable, emphasizing that no documentary evidence supporting the reply was provided and the management's response does not address the contention raised by the audit.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends investigating the reasons for the non-completion of re-work through the same contractors, along with fixing responsibility for the incurred loss.

Para-23 (NLC – 2022-23)

17.1.4.16 Loss due to non-completion of scope of work by subcontractor amounting to - Rs 7.056 million

According to clause 2 (2.2) of subcontractor contract agreements states that NLC will not procure any material/stores/fixtures the timely procurement of material shall be ensured by subcontractor to avoid hamperage of work on this account. In this respect samples of all fitting/fixtures shall be got approved from the client/consultant through the Engineer-in-charge well in advance prior to incorporating in the work.

During the audit of NLC PD South for the year 2022-23, it was observed that a project for the construction of the “SIUT multi-organ transplant center & biotechnology at Kathore” was awarded by the Sindh Institute of Urology and Transplantation (SIUT). Further, it was observed that the management sublet the electrical works to M/s ZAK Associates for Rs 44.559 million and M/s R.I Associates for Rs 13.028 million, with a profit margin of 10%. Further, probe into the matter revealed that the management procured electric cables amounting to Rs 36.502 million for the said project from M/s FAST Cables Ltd due to which management sustained a loss of Rs 7.056 million as per details given below:

Item	Qty. Meter	Sub-contractor rate (Rs)	Purchase rate (Rs)	Difference (Rs)	Loss (Rs)
300 mm 2 4 core cu/pvc/swa/pvc cable	995	23,607.54	29,614	6,006.46	5,976,427
16mm ² 2 4 core cu/pvc/pvc/cable+1x10mm ² 1 core cu/pvc/cable with 50mm dia pvc class d-pipe	520	2,034.25	2,110.55	76.3	155,213
25mm ² 4 core cu/pvc/pvc/cable+1x16sqmm 1 core cable with 50mm dia pvc class-d	520	2,735.05	3,073.20	338.15	924,857
Total					7,056,497

Audit is of the view that management was required to execute the work as per the contract agreement and due to non-implementation of the contract clause the organization sustained a loss of Rs 7.056 million.

The management replied that initial cost of the cable was already included in the rates specified for the subcontractor. However, to expedite work progress on-site, the NLC decided to procure the cable, which would subsequently be deducted from the subcontractor's running account receipts (RARs) at the purchase rate of the cable. Reply of the management is not acceptable because the management was required to execute work from already deployed contractors instead of making a purchase of cable at higher rates.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends a thorough inquiry into the self-procurement of electric cables, which were originally part of the subcontractor's scope, and emphasizes the need to identify and hold responsible parties accountable for the incurred loss.

Para-45 (NLC – 2022-23)

17.1.4.17 Irregular procurement made without approved Annual Procurement Plan - Rs 85,907.122 million

Rule-8 of PPRA states that, within one year of commencement of these rules, all procuring agencies shall devise a mechanism, for planning in detail for all proposed procurements with the object of realistically determining the requirements of the procuring agency, within its available resources, delivery time or completion date and benefits that are likely to accrue to the procuring agency in future. Further, rule-9 of PPRA states that, the annual requirements thus determined would be advertised in advance on the Authority's website as well as on the website of the procuring agency in case the procuring agency has its own website.

During the audit of NLC HQ for the year 2022-23, it was observed that the management of NLC procured various items amounting to Rs 85,907.122 million for the year 2022-23 and did not upload the annual procurement plan on the authority's as well as the agency's own website.

Audit is of the view that, the management should have uploaded the annual procurement plan on the agency's own website as well as the authority's website as required under above referred rules.

The matter was reported to the management and management stated that annual requirements are based on projects and business opportunities, not directed by the Government of Pakistan (GoP). Further management highlighted the emergence of unplanned needs throughout the fiscal year, requiring immediate attention to meet urgent project demands. Procurements are contingent on project progress, with potential impacts on planned Annual Procurement Plans if projects do not materialize. The FY 2022/23 budget was approved by the NLB on August 26, 2022, and project shortlisting followed. The introduction of EPAD by PPRA is pending staff training, and future procurement plans will be uploaded through EPAD. However, the reply is deemed unacceptable due to non-compliance with the rule requiring the preparation and uploading of the annual procurement plan on the Authority's and agency's website.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to explain the reasons of non-uploading annual procurement plan on PPRA website as well as NLC's own website, besides fixing responsibility on the person(s) at fault and ensure all types of procurements must be properly planned and uploaded on site.

Para-2 (NLC – 2022-23)

17.1.4.18 Irregular procurement of steel and cement in violation of PPRA rules - Rs 2,219.369 million

According to rule-12 (2) of PPRA, all procurement opportunities over three million Pakistani Rupees should be advertised on the Authority's website as well as in other print media or newspapers having

wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

According to rule – 20 of PPRA, save as otherwise provided hereinafter, the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

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

During audit of NLC PD North (Bharakahu Project) and PD South, Karachi for the 2022-23, it was observed that the management of NLC has procured steel and cement amounting to Rs 2,219,369,046 on quotation basis in violation of above referred rule.

Audit is of the view that procurement of steel and cement on quotation basis instead of open competitive bidding, deprived the organization of the benefits of competitive rates and value for money.

The matter was reported to the management and management stated that the nationally significant project, executed under emergency status, faced supply challenges necessitating local steel purchase for the Bhara Kahu Bypass. No centralized contract for steel was available, compelling the local purchase approval. The 'Execution Methodology' allowed expedited local purchases, with a board overseeing the process, actively soliciting quotes through a proper calling process for transparency. Reply is not acceptable because procurement was made through quotation in violation of the PPRA rules. Furthermore, the management could procure the steel and cement from centralized engaged firms.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends to investigate the reasons for procurement on quotation basis instead of open competitive bidding process besides regularizing the matter from competent forum.

Para-22 (NLC – 2022-23)

17.1.4.19 Irregular execution of work without administrative approval and technical sanction of estimates of Rs 1,225.18 million

According to para-16 (a) of MES Regulation, 1998, no works/service will be executed without administrative and technical sanction having first been obtained from the authority appropriate in each case and without funds being available to meet expenditure on it.

According to Para-178 of GFR Vol-I, except in cases covered by any special rules or orders of the Government, no work should be commenced or liability incurred in connection with in until, administrative approval has been obtained from the authority appropriate in each case; sanction, either special or general, of competent authority has been obtained authorizing the expenditure; a properly detailed design and estimate has been sanctioned.

During audit of NLC PD (South) Karachi for the year 2022-23, it was observed that the management executed the work of “Development of Landhi Terminal” through different sub-let contractors

on market based rate. The award of contract Development of Landhi Terminal worth Rs 1,225.18 million without administrative approval and technical sanction from competent forum, in violation of above referred rules was held irregular.

Further, it was observed that DG NLC approved the said work in three phases, i.e. Phase-I amounting to Rs 478.72 million on 08.07.2022, phase-II amounting to Rs 384.04 million on 18.07.2022 and phase-III amounting to Rs 362.42 million on 20.07.2022. It is pertinent to mention here that the work was awarded and executed through sublet contractors which comes to Rs 1,225.18 million. This state of affair raised concerns about management attempting to circumvent higher authority approval which held against the rules.

Audit is of the view that the management should have taken administrative approval and technical sanction prior to execution which was not done in instance case thus execution of work without administrative approval and technical sanction was held irregular.

The matter was reported to the management and management stated that the work for the subject project was executed in separate stages, with funds, technical sanctions, and execution for each phase obtained periodically. Administrative approval and corresponding technical sanctions were secured for each phase in alignment with the progressing work. The reply is not acceptable because approval of the work sought after completing the work and no technical sanction was obtained prior to the execution of work.

No DAC meeting could be arranged by the PAO till finalization of this report.

Audit recommends that execution of work without administrative approval and technical sanction be investigated at administrative department level, besides fixing responsibility on the persons at fault.

Para-38 (NLC – 2022-23)

17.2 Pakistan Institute of Development Economics

17.2.1 Introduction

Pakistan Institute of Development Economics (PIDE) was established in 1957 by the Government of Pakistan and initially was registered under Societies Registration Act XXI of 1860.

In 1964 it was re-established as Pakistan Institute of Development Economics under the administrative control of Ministry of Education and Information vide S.R.O. 370 (K) 64 dated May 01, 1964.

Pakistan Institute of Development Economics (PIDE) has been contributing towards research and teaching in the field of development economics and its associated fields. In 2010 PIDE was declared as body corporate and degree awarding status was given through PIDE Act -2010.

Main objectives of the Institute are:

- i. To function as an agency for conducting and promoting research, surveys, seminars, conferences, experiments and demonstrations in the field of Development Economics, Islamic Economics, Economic demography and related social disciplines.
- ii. To provide facilities for training in economics and economic demographic analysis and research techniques.
- iii. Arrange to publish papers studies and such other works as are completed at the Institute or are prepared in collaboration with it or which are otherwise of substantial value to the work of the Institute.
- iv. To disseminate information and extend advice to the government and other agencies based on original research in economics and related disciplines.

17.2.2 Comments on Audited Accounts:

17.2.2.1 The working results of the Board for the year 2022-23 as compared to previous years are as under:

(Rs in million)

	2022-23	% Inc/ (Dec)	2021-22	% Inc/ (Dec)	2020-21
Revenue:					
Restricted					
Grant for PhD	5.00	0.00	5.00	0.00	5.00
Grant of COVID-19	2.258	185.101	0.792	319.05	0.189
Grant for HEC need based scholarship	8.905	611.830	1.251	(60.44)	3.162
Amortization of deferred grant	5.009	36.114	3.668	80.60	2.031
	21.172		10.711	3.16	10.383
General					
Government grants	593.742	1.484	585.067	75.75	332.897
Student fee	32.257	(29.223)	45.576	24.32	36.660
Other income and recoveries	29.811	(49.096)	58.564	381.41	12.165
			689.207	80.55	381.722
Less saving to be refunded to GoP	-		50.00	-	-
Total income	676.983	4.164	649.919	78.50	392.106
Expenditure:					
Restricted expenditure	21.172	97.647	10.712	3.17	10.383
General					
Employee related expenses	343.419	6.562	322.270	44.03	223.745
Project Pre-investment analysis	18.605	(46.847)	35.003	222.07	10.868
Operating Expenses	76.125	10.216	69.069	123.16	30.950

Employee retirement benefits	139.846	(20.041)	174.898	55.04	112.809
Total expenditures	606.329	(2.577)	622.370	56.78	390.323
Surplus of income over expenditure	70.654	156.466	27.549	4,833.60	1.783

Source: Annual Audited Accounts

17.2.2.2 Property & equipment-operating increased by Rs 11.201 million i.e. from 43.056 million (2021-22) to Rs 54.258 million (2022-23). An addition of Rs 1.007 million in “Furniture and fixture”, Rs 7.904 million in “Office equipment” and Rs 22.755 million in computer equipment was made during the year under review. However, Government of Pakistan vide Finance Division (Expenditure Wing) letter No. F.7(1)Exp.IV/2016-340 dated 7th July, 2022 imposed complete ban on purchase of furniture & fixture, Office and Computer equipment under austerity measures. Thus the addition in these non-current assets of Rs 11.201 million was made in violation of the of the austerity measures of Government of Pakistan, thus held irregular and needs justification.

17.2.2.3 The income from “Student fee” was decreased by 29.22% i.e. from Rs 45.576 million (2021-22) to Rs 32.257 million (2022-23). This shows that number of less students were enrolled during the year under review. The reason for decrease in enrolment of students needs to be explained.

17.2.2.4 An amount of Rs 6.220 million was shown as “Salary recoveries” against “Other income”. These recoveries were made from those employees who went for higher studies by providing a surety bond, but they did not join their duties after completion of their studies or expiry of study leaves. A complete data showing the number of such employees, total amount recoverable from them and total amount of recovery made so far from such employees may be provided for audit review.

17.2.2.5 An amount of Rs 111.898 million showing under the head of Cash at Bank as on 30.06.2023, this amount includes Rs 16.925 million kept in current account and Rs 94.972 million in saving accounts. The management did not determine the working balance limit as required vide Finance Division letter No. F.4(1)/2002-BR. II dated 02.07.2003 which states that “the working balance limit of each organization should be determined with the approval of the administrative ministry in consultation with Finance Division. The account of this working balance may be maintained in a current or saving bank account” {para-3(e)}. Resultantly, management sustained loss against the surplus funds over the required working capital which needs to be justified.

17.2.2.6 Accrued and other liabilities are showing closing balance of Rs 13.613 million as on 30.06.2023, this amount includes Rs 6.414 million as Scholarship payable (Merit bases and Bait-ul-Mal). Non-payment of huge liability to deserving students’ needs justification.

17.2.2.7 Accrued and other liabilities are showing closing balance of Rs 1.937 million against other payable as on 30.06.2023. Complete breakup along with reasons for non-payment may be elaborated for audit review.

17.2.2.8 An amount of Rs 17.260 million has been paid on account of honorarium to employees during the year under review. The complete detail along with justification of additional/ laborious work performed by the beneficiary employees which is laid down criteria for payment of honorarium, may be provided for audit review.

17.2.3 Compliance of PAC Directives

Audit Year	Total Paras	Full Compliance	Partial Compliance	Pending Paras No.	% of compliance
2013-14	08	05	03	14.2.2.2, 14.2.4.1, 14.2.4.3	63
Total	08	05	03		63

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

Chapter-18

1. Thematic Audit - POF's Inventory Management System

1.1 Introduction

Thematic Audit on the Inventory Management System (IMS) of Pakistan Ordnance Factories (POFs) for the year upto 2022-23 was planned in the 1st phase of the Audit Plan for the year 2023-24. Accordingly, a thematic audit on the subject matter was carried out by the audit team of the Directorate General, Commercial Audit & Evaluation (North), Islamabad and its results have been incorporated in this chapter.

1.2 Corporate Information

POFs Board, Wah Cantt was established under the provisions of POFs Board Ordinance, 1961. POFs are governed by the Board of Directors. POF's Board consists of four members including the Chairman. Other members are Financial Advisor Ordnance Factories (FAOF), Director Industrial & Commercial Relations (DICR) and Member Production Co-ordination (MPC).

The objective of POFs is to meet the Arms and Ammunition requirements of Pakistan Armed Forces during peace and war.

POFs main source of funding is allocation of budgetary grant by Ministry of Defence Production. In addition to this, POFs also earn revenue from export and local sales of Arms and Ammunitions and related products. For receipts from local and export's sales, POFs are operating two public accounts funds:

1. Revenue, Debt and Remittance Fund (RD&R) for Civil Sales through WIL
2. Special Deposit Fund (SDF), for Export Sales

1.3 Establishing the Audit Theme

1.3.1 Reasons of selection

During the audit of previous years of POFs, a lot of Paras pertaining to the inventory management were developed and discussed in the DAC meetings. During a meeting, DAC directed to conduct audit of inventory management system of POFs.

Accordingly, the theme of “POFs Inventory Management System” was selected for thematic audit.

The following criteria were observed while selecting the subject audit topic:

- Areas of governmental priorities
- Issues of public importance
- Audit impact

1.3.2 Purpose /Objectives

- To ascertain effectiveness of Inventory Management System in POFs
- To check whether the System is functional at all levels i.e. at each factory and other services unit level
- To physically verify the stores with the financial records
- To examine the accuracy of the inventory counting system
- To check whether procurement of store is according to actual requirement
- To determine whether the inventory recorded by the formation is actually owned by POF
- To check whether the inventory is recorded at the correct / realizable values in the Store Ledger
- To check implementation of store purchase agreements

1.3.3 Scope of Thematic Audit

The scope of this audit was to ascertain the effectiveness of Inventory Management System (IMS) in the organization.

2. Legal framework governing the Theme

The Auditor-General conducts audit subject to Article 169 and 170 of the Constitution of Islamic Republic of Pakistan, 1973, read with Sections 8 and 12 of the Auditor-General’s (Functions, Powers and Terms and condition of Service) Ordinance, 2001. The thematic audit of POF’s Inventory Management System was carried out accordingly.

Under the directions of Director General, Commercial Audit & Evaluation, Islamabad, thematic audit of POF’s Inventory Management System(IMS) was conducted during November to December, 2023 with a view to assess the effectiveness of IMS in the organization.

3. Stakeholders and governmental organization identified as directly /indirectly involved

Stakeholders directly or indirectly involved are as under:

1. Ministry of Defence Production
2. Defence Organizations (DOs) and Law Enforcement Agencies (LEAs)
3. Local and International Vendors

4. Role of Important Organizations

Ministry of Defence

MoDP is the parent ministry of POFs and the Secretary MoDP is the Principal Accounting Officer of the organizations.

Defence Organizations (DOs) and Law Enforcement Agencies (LEAs)

DOS and LEAs are the major purchasers of the products of POFs

Local and International Vendors

In addition to meeting the demands of Pakistan Armed Forces, POFs products are in services with many countries.

5. Organization's financials

Description	2022-23	% Inc/(Dec)	2021-22	% Inc/(Dec)	2020-21
Annual output /Production	30,435.58	14.10	26,675.55	30.34	20,466.05
Direct material cost	12,604.82	23.42	10,213.25	36.83	7,464.31
Direct Labor cost	5,740.94	10.54	5,193.42	18.17	4,394.92
Direct/Prime Cost	18,345.76	19.08	15,406.67	29.91	11,859.23
Overheads	29,582.91	20.98	24,453.54	4.97	23,296.71
Supplied to Army	13,833.93	(7.81)	15,006.34	10.10	13,629.63
Sales of Civil Products	12,826.41	204.67	4,209.92	(3.18)	4,348.01
Sale of store & machinery	581.75	(27.26)	799.75	30.22	614.13
Export sales	8,017.70	16.96	6,854.84	64.22	4,174.11
Finished goods stock as on 30 th June	5,697.47	1.78	5,597.67	96.28	2,851.81
Store inventory	37,992.08	(0.28)	38,100.46	9.42	34,821.06
Net capital employed	135,646.75	12.28	120,815.95	16.64	103,577.96

Net profit (Consolidated).	4,491.18	140.16	1,870.05	(22.77)	2,421.55
----------------------------	----------	--------	----------	---------	----------

Source: Annual Audit Accounts

6. Field Audit Activity

6.1 Methodology

The Thematic Audit taken up during 2023-24 with intensive application of desk audit techniques, which included examining of purchase files for inventory rates, computer generated data of inventories, Material Control (MC) Ledgers, Bin Cards and physical stocktaking. Risk assessment was carried out by performing analytical procedures and reviewing internal controls.

After collecting all relevant data, it was statistically analyzed to assess the effectiveness of the Inventory Management System (IMS) of the organization.

6.2 Audit Analysis

6.2.1 Review of Inventory Management System

Inventory Management System consists of Computerized Inventory System (CIS), Material Control (MC) Ledgers, Bin Cards, Demand Notes, Return Notes, Rate Cards, Material Abstracts and Cost cards which facilitates effective operation of the organization.

The audit team extensively studied and evaluated the components of IMS to obtain an adequate understanding of the systems. The objective was to evaluate the system and report to management with an overall purpose of improvement.

Realizing the importance of effective Inventory Management System for better visibility of material stock, quick disposal of surplus & slow moving items and ultimately effective procurement of bare minimum material. POF has gradually improved the existing inventory management system which is an extensive software application. Although, a lot of refinement is still required yet this software has helped a lot in managing stock material through effective tracking from requirement planning to receipt, usage, costing and dispatch. This software covers following modules:

- i. Provisioning
- ii. Purchase
- iii. Supplier
- iv. Stock management
- v. Accounts
- vi. Contract billing

This report mainly focuses on POFs Inventory Management System up to the year 2022-23, supported by System Generated Reports. Although, the system is at its nascent stage, after completing its two years of implementation, it started reaping multiple benefits as elaborated below;

- i. Flow of Procurement

- ii. Stock Position
- iii. Queries
- iv. Controls

i. Flow of Procurement

Process of e-procurement starts with the preparation of indent and after passing through various stages of e-bidding culminates at e-procurement by procuring LOI/Contract.

ii. Stock Position

This software is capable of providing complete layout of stock position by its name, item and aging reports etc.

iii. Queries

Software has capability to generate multiple queries e.g. overall stock status, factory-wise stock status, category-wise stock status, yearly average consumption rate and gaining reports etc.

iv. Controls

In order to address various data security challenges, multiple layers of control mechanism have been incorporated at each step in the Software. Every user at different tiers of the organization has been provided different passwords and nobody, even the official of the IT Department can infiltrate into the security domain once the user has modified its own password. Data once entered cannot be modified.

6.3 Significant Audit Observations

6.3.1 Functional status of Inventory Management System (IMS)

- In order to check functional status of IMS, Factory-wise list of all inventories (category-wise) with stock code, nomenclature, quantity, unit price and total amount were demanded.
- Detail of factories and services units/ groups not linked with IMS was also demanded.

6.3.1.1 Non-inclusion of inventory data of Services group in Inventory Management System

As per para-13 of GFR, every controlling officer must satisfy himself not only that adequate provisions exist within the departmental organization or systematic internal checks calculated to prevent and detect errors and irregularities in the financial proceedings of its subordinate officer and to guard against waste and loss of public money and store but also that the prescribed checks are effectively applied.

During Thematic Audit of POF Inventory Management System (IMS) upto the year 2022-23, it was noticed that management included POF units in Central Information system (CIS) whereas inventory status of Services Group Units such as Hospital, POFIT, Director Civil Works (DCW) and Station Engineer, showed that they were not linked with the Central Inventory Management System.

The non-inclusion/linking of inventory items of above-said service groups in IMS leads to multiple deficiencies. These include status of inventories of said units with reference to available inventory, requirement for future, obsolete items and slow moving items etc.

Audit is of the view that non-inclusion/linking of inventory of services groups of POF resulted in un-authentic figures of inventories appearing in system. Due to this flaw the comparison of inventories appearing in system and as portrayed in annual accounts was not possible.

Audit recommends updation of Inventory Management System (IMS) by including all the units of the POF maintaining its inventory in the system so that fair position of inventory of POFs could be assessed.

6.3.1.2 Un-justified by-passing/omitting the role of administrative tier

Federal Government (Ministry of Defense) vide Gazette Notification dated May 17, 2019 directed the POF Board for establishing the post of Director General- Commercial (DG-C) to work under the command of Chairman POF Board for an initial period of two years for performing the following functions:

- a. All matters related to Companies including but not limited to procurement, purchase, store, marketing, sales, human resources management and other commercial activities.
- b. All matters related to export.
- c. All matters pointed to Finance, Accounts, Budget, Audit of Companies established and owned by POFs/Government and matters ancillary thereof.
- d. Any other matter assigned by the Government.
- e. Any task specifically assigned by Chairman POF Board.

During Thematic Audit of POF Inventory Management System (IMS) up to the year 2022-23, it was noticed that Federal Government vide Gazette Notification dated May 17, 2019 established the post of Director General-Commercial (DG-C) to perform above said functions including the matters of POF stores. Record revealed that Chairman POF Board vide letter dated June 5, 2020 withdrawn/ limited the functions of DG (C) w.r.t subsidiaries companies i.e. all matters of Wah Nobel (Pvt.) Ltd, functions of accounts, HR and sale of WIL, all functions of other subsidiaries such as WBM, WCL, WCFL, Clothing, HTP, SSPPL and Export Division.

The irregularity was occurred due to non- implementation of Government directives.

Audit is of the view that the Federal Government created the post of DG (C) and notified the functions, thus, any change in approved functions by the Chairman POF Board without the approval of Government is termed as un-justified. The act affected the matters of Inventory Management.

Audit recommends to investigate the matter at ministry level beside fixing responsibility.

6.3.2 Physical existence of financial record with physical counts

- In order to compare the inventory balances appearing in system and actually available, five units (POF Filling, Fy. SAA, Fy. MAA, Fy. Sanjwal Fy. and Weapons Fy.) were selected.
- Copies of stock taking reports of CMA were also demanded.

6.3.2.1 Huge shortage/excess of inventory on spot stock taking due to inefficient store management system - Rs 85.59 million

According to Para 22 (1&4) of Factory Accounting Rules, the price store ledger is balanced daily and the balances there in are systematically agreed by the accounts office with those on Bin cards maintained by the factory so that every item is agreed twice a year. The management will be referred to where discrepancies are found and will be responsible for their adjustment. Further the balances in Bin Card must at should all time agree with actual stock and ledger balances. To ensure that ledger balances do not

fall out of line with bin cards balances. The factory management must ensure that where the physical receipt is different from the quantity shown on the vouchers, an adjustment voucher is prepared.

During physical stock count of inventories of Filling Factory with inventory appearing in system, it was noticed that seven items valuing Rs 59.22 million were found short and five items valuing Rs 26.38 million were found in excess.

The shortage and excess of inventory showed underutilization of IMS which needs up-dation with actual inventory available in stores.

The irregularity occurred due to non-conduct of physical counter check of inventories appearing in Inventory Management System (IMS) and those lying in stores.

Audit recommends linking of inventories appearing in Inventory Management System (IMS) and those lying in stores by the management for the accuracy of the system.

6.3.3 Procurement of store based on actual requirement

Following record was demanded;

- Complete break up of regular inventories, which could not be utilized during last three (3) years.
- List of obsolete/slow moving inventories with complete break up.
- List of inventories proposed for disposal with complete breakup.
- Complete breakup of inventories disposed of during last two years.
- Detail of generic (common) inventories lying in stores of different factories.
- Detail of inventories procured during last two years.

6.3.3.1 Non-identification of un-necessary procurement of store - Rs 14.38 million

The Chairman POF Board vide letter No. POF/59/CH dated 04.01.1971 issued certain policy instructions on provisioning and procurement of material/store to avoid un-necessary purchase of store. As per Clause-6 of the policy the following general guidelines are required to be considered while raising demand and/or submitting/approving purchase proposal that:

- a. the demand raised is based on approved factors and is reasonable and justified,
- b. due economy and care is exercised in formulating requirements and all available and usable assets are taken into account before placing new demands, and
- c. In demanding/purchase store some vigilance in respect of expenditure incurred is exercised as a person of ordinary prudence would exercise in respect of the expenditure of his own.

During Thematic Audit of POF Inventory Management System (IMS) upto the year 2022-23, it was observed that POF Filling Factory procured some Brass Link Single Eye valuing Rs 14.385 million through Inter Factory Demand (IFD) from 2014 to 2017 but were lying in store without utilization since procurement. Management failed to enter the procurement and utilization dates into the IMS.

Audit is of the view that the non-appearing of such type of inventory items in the system showed lack of data entry into IMS.

Audit recommends addressing of said flaw in managing data entry.

6.3.4 Accuracy of inventory counting system

Following record was demanded;

- Recording of store in cost / bin card as per purchased/ received quantity.
- Issuance and receipt of store as per demand and return notes.
- Proper addition /deletion of store on bin card and MC ledger.

6.3.4.1 Unverified inventory prices in IMS - Rs 135.06 million

According to Factory Accounting Rules, Chapter 2 - Para 25, “The receipts in the Priced Store Cum Provision Ledger will be entered from the receipt vouchers or M.I. Slips (if the receipt vouchers are not available).”

During Thematic Audit of POF Inventory Management System (IMS) up to the year 2022-23, it was noticed from the Rate Cards of Brass Mill (SAA Fy) that the management priced 13 items of inventories valuing Rs 135.06 million in its system without any source document such as Receipt Voucher, MI Slips or Contracts. In the absence of relevant supporting record/evidence, the authenticity of price, mentioned in the system, could not be considered as authentic.

The irregularity occurred due to non-availability of source documents for counter check of the prices of inventories appearing in Inventory Management System (IMS).

Audit is of the view that valuation of inventory without any basis is a serious lapse on the part of the management.

Audit recommends provision of evidence for verification of prices of inventory in IMS.

6.3.5 Ownership rights of the inventories

- Factory-wise list of inventories received but their payment still not made was demanded.
- Status of brought on charge inventories and their entry in MC ledger and bin card was checked.

6.3.5.1 Non-identification of expiry period and shelf life of inventories in Inventory Management System

Rule 4(3) of the Corporate Governance Rules, 2013 states that the chief executive is responsible for implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently and effectively and in accordance with all statutory obligations.

During Thematic Audit of POF Inventory Management System (IMS) upto the year 2022-23, it was observed that IMS had a flaw of non-reporting of the shelf life or expiry period of inventory items having limited shelf life such as chemicals, oil & lubricants, paint, cement etc.

Audit is of the view that non-identification of expiry period or shelf life of inventories having limited life leads to imperfection in the Inventory Management System (IMS) which might cause loss to the formation.

Audit recommends updation of Inventory Management System (IMS) by addressing the said flaw.

6.3.6 Evaluation of reliable/correct value of inventories recorded in the General Ledger/Annual Accounts

- Purchase prices of inventories were checked.
- Issuance of inventories for production on weighted average was verified.
- Rate cards of inventories were checked.

6.3.6.1 Non-authenticity of value of inventory reported in annual accounts of POF – Rs 2,525.27 million

Rule 89 (4) (viii) of GFR states that the head of the department and the accounts office will be jointly responsible for the reconciliation of the figures given in the accounts maintained by the head of the department with those that appear in the accounts books.

During Thematic Audit of POF Inventory Management System (IMS) upto the year 2022-23, it was observed that CMA reported inventory valuing Rs 13,951.98 million in the annual accounts against Filling Factory, SAA Factory and Brass Mill, whereas, IMS reported value of said inventory items Rs 11.673.83 million with a difference of Rs 2,525.27 million. Detail is as under:

(Rs in million)

S. No.	Name of Factory	Value of Inventories as per CMA as on 30.6.2023	Value of Inventories as per IMS as on 30.6.2023	Difference
1	Filling Factory	4,781.71	4,905.27	123.56
2	SAA Factory	5,320.74	5,313.21	7.53

3	Brass Mill	3,849.53	1,455.35	2,394.18
	Total	13,951.98	11,673.83	2,525.27

The difference in inventory items appearing in annual accounts and recorded in IMS showed lack of coordination between CMA and POF.

Audit is of the view that huge difference of Rs 2,525.27 million in inventory items record of CMA and IMS created doubt about the Inventory Management System (IMS).

Audit recommends reconciliation of record between CMA and IMS of POFs.

6.3.7 Actual deliverables fulfill the terms and condition of promised deliverables

- In order to check if inventories were utilized for the purpose purchased, relevant record was demanded.

6.3.7.1 Unjustified conversion of strategic reserves into normal reserves - Rs 4,000 million

As per Para-3 of SOPs framed for utilization of Strategic Reserves, following guidelines / parameters are laid down:

- Revolving Funds will only be utilized for procurement of raw material which will be maintained as Working (strategic) Reserves.
- Raw material will be procured in advance to lessen the effect of inflation. Financial benefits thus accrued will be passed on to Armed Forces by regulating the cost of ammunition.
- Working Reserve of raw material will only be utilized for timely supply of ammunition to Armed Forces and usages will immediately be recouped.

During Thematic Audit of POF Inventory Management System (IMS) upto the year 2022-23, it was observed that the Ministry of Finance approved Rs 4,000 million as Revolving Fund for maintenance of strategic reserves in 2013. However, the POF management with the approval of Chairman vide circulation note dated November 26,2021 converted these strategic reserve into normal reserves and utilized the maximum store without approval of Finance Division which was not justified. Furthermore, the IMS did not identify the stock code of strategic reserves separately.

Audit is of the view that IMS should show strategic reserves for which separate fund was approved and allocated by the Finance Division.

Audit recommends maintaining a separate pool of inventory items being procured from the funds allocated for strategic reserves.

6.3.7.2 Non-utilization of slow moving inventories for intended purpose - Rs 94.98 million

The Chairman POF Board vide letter No. POF/59/CH dated 04.01.1971 issued certain policy instructions on provisioning and procurement of material/store to avoid un-necessary purchase of store. As

per Clause-6 of the policy the following general guidelines are required to be considered while raising demand and/or submitting/approving purchase proposal that:

- a. the demand raised is based on approved factors and is reasonable and justified,
- b. due economy and care is exercised in formulating requirements and all available and usable assets are taken into account before placing new demands, and
- c. in demanding/purchase store some vigilance in respect of expenditure incurred is exercised as a person of ordinary prudence would exercise in respect of the expenditure of his own.

During Thematic Audit of POF Inventory Management System (IMS) upto the year 2022-23, it was observed that POF SAA Factory and Filling Factory had declared inventory valuing Rs 72.12 million and Rs 22.86 million, respectively, as slow moving. The position showed that the inventory was procured without assessing the actual requirement or the reasons well known to the management. Unnecessary procurement of inventory resulted into blockage of funds to the tune of Rs 94.98 million.

The irregularity occurred due to non-vigilance of the system in observance of inventories lying since long.

Audit recommends that the system needs to be updated by addressing the flaw of store purchased un-necessarily.

7. Conclusion

The software has elaborated the user to make inventory system much more efficient as compared to the manual system. For instance, preparation of stock ledger balance at the end of financial year takes months in manual system, whereas, similar information from system generated reports takes few hours. Other benefits include data security and backup, workload measurement, tracking and visibility of progress to the management.

The benefit of the software especially in financial terms is that the software has helped POF management reduce redundant inventory.

However, efforts have been made to prepare comprehensive software by incorporating elaborated requirements of all stakeholders, CMA should also become a part of the digital inventory management system as they still require hard copies of different digitized transactions.

8. Department Response

Replies of the management are awaited.

9. Recommendations

After having covered limited record as an audit exercise and after a series of discussions held with representatives of POF following recommendations are offered:

- A serious effort needs to be undertaken in POF for sensitization on IMS.
- Inclusion of inventories data of services groups in IMS.
- Assuring accuracy in recording of inventories with authentic evidences.
- Identification of un-necessary inventories and obsolete items.
- Identification of expiry period of inventories having shelf life.
- Assuring that correct and reliable values are reported.
- Utilization of inventories purchased for the intended purpose.
- Assuring that inventories recorded in IMS and actual available in store are same.

Chapter-19

Up-gradation of Berthing Facility for Boats at Gwadar Port Authority

1. Introduction:

Gwadar is a port city on the southwestern coast of the Pakistani province of Balochistan. The city is located on the shores of the Arabian Sea, opposite Oman. Strategically placed at the entrance of the Persian Gulf, Gwadar emerged as a key player in regional geopolitics and economic development. It has the potential to become a major trading hub connecting South Asia, the Middle East, and Central Asia. Gwadar forms the southern endpoint of the China-Pakistan Economic Corridor (CPEC), and its deep-sea port is a focal point of the project.

Gwadar miniport also known as Gwadar fish harbor is a smaller port facility adjacent to the main Gwadar Port. It was constructed by M/s. BESIX, a Belgian civil works company from 1988 to 1992, to enhance the local fisheries industry. While not as large or developed as the main Gwadar Port, the Miniport serves as a hub for the local fishing community, providing a central location for the fishermen to bring their catch for sale and distribution, as 85% of Gwadar's population relies on fisheries as their main source of income. It has facilities for handling fish and seafood, including storage and processing facilities. However, efficiency of the port was reduced due to non-up gradation of berthing facility since long. Thus, it was inevitable and imperative to invest in up gradation of the berthing facility to extend support to traders and fishermen. In this background, the Government initiated the up gradation of berthing facility for boats at Gwadar Port Authority (GPA) amounting to Rs.131.975 million. The up gradation of the miniport began in 2020. The main objective of the project was to facilitate local fish industries by providing efficient berthing and auctioning facilities. The total land area of the harbor/mini port is 37 acres (excluding 8.0 acres of jetty area). The reinforced concrete jetty (416 meters long and 64.7 meters) is resting on 1,407 numbers of tubular steel piles driven up to 30-40 meters into the sea bed. The jetty is connected to the shore through 84-meter-long earthen embankment. The whole structure is seismic resistant. Impact Audit was undertaken to assess whether the project produced results that create impact to the masses.

2. Background:

Impact audit was started from the audit year 2023-24, by office of the Auditor General of Pakistan. The aim was to evaluate the effects of initiatives or programs, focusing on identifying the outcomes directly linked to a new initiative, program, or recent change to an existing program, while isolating other contributing factors or variables. Impact audit reports will help stakeholders understand the net results of programs and initiatives more systematically. Timely action based on these reports can improve service delivery, financial management, and governance.

The up-gradation of three berths at Gwadar Harbor cum Miniport was aimed at providing safe berthing space to fishing boats and enhancing fish harbor efficiency to make it at par with the other ports of the world, thereby addressing the major grievances of the local fishermen. The project started on July 01, 2020, and was completed on June 30, 2021. During the year 2022-23, Gwadar Fish Harbor/Miniport

generated an income of Rs.34.414 million from port operations, fish marketing and auctioning activities which was higher than the targeted income of Rs.17.945 million. The quantity of fish catch per boat increased by 5% to 10% per annum and fish catch increased to 4,622 tons in 2022 as compared to 1,889 tons in year 2021. The revenue from sale of fish also increased to Rs.629.391 million in 2022 as compared to Rs. 330.555 million in 2021. This resulted in reduction of poverty through increased trade activities.

Objectives:

As per PC-1, the Financial, Socio-Economics & Sectoral objectives of the projects were;

Financial objectives

- Increase the income and enhance the livelihoods of poor fishermen households in Gwadar
- Provision of safe berthing space for fishing boats
- Offers safety to fishermen
- Provision of facilities to make handling of fish catch safe
- Creation of business opportunities
- Safe berthing and uploading of fish catch 24/7
- Enhancement of commercial activities and income opportunities for local fishermen and Port Authorities.
- Delivery of improved handling & marketing facilities to the fishermen to increase their income
- Generation of employment opportunities and full operationalization of fish harbor

Socio-Economic objectives

- Social uplift of locals by creating employment opportunities
- Provision of better marketing facilities for the fish catch 24/7.
- Poverty alleviation through trade & commerce
- Socioeconomic integration of Gwadar to the rest of the country
- Growth in the export of fish and other seafood
- Make the port self-sufficient

Sectoral objectives

- To comply with International Maritime Organization (IMO) rules, which warrant the safety of life and property at sea
- To integrate the connectivity of Gwadar port with the other ports

3. Scope and Methodology

a. Scope:

The audit's focus was confined to the evaluation of impact of up-gradation of berthing facility for boats at Gwadar port which was launched at initial cost of Rs.128.050 million for 2020-21.

b. Methodology:

The methodology of impact audit consists of qualitative and quantitative approaches based on obtaining both primary and secondary data. Following techniques were used to gather the data;

- Understanding the audit entity
- Physical visit of the Gwadar port and mini fish harbor
- Questionnaires were served to the management and discussions were held with management and their responses were gathered.
- Interviews of fishermen were conducted and their responses were recorded.
- Apart from this, other secondary data sources like websites, PC-I & IV, tender files, correspondence files, financial statements and other miscellaneous resources were used.

4. Findings (Impact Analysis of the Project/ Actual Achievements)

The berthing up-gradation facility was based on its original design capacity which was planned and approved in 1988 – 1992. By restoring the facilities to their original design capacity, the project intended to bring back the original optimal functioning state of the harbor. However, since then (1988-92), the population of Gwadar and the number of boats has increased. According to the Directorate of Fisheries Balochistan, there were 2,021 registered fishing vessels in 2014 in Gwadar which increased to 3,291 in 2022. The project facilitated in the connectivity of Gwadar port with other local and regional ports.

During the field visits following findings were observed on up-gradation:

- 4.1 The feasibility study of the up-gradation of berthing facility design was not conducted before start of the project. The matter was reported to the management in November, 2023. The management replied that the requirement of feasibility study was not mandatory for rehabilitation work. The reply was not tenable as with the feasibility study more berthing capacity could have been achieved.
- 4.2 The new rubber wooden fenders and vertical ladders were installed at existing floating pontoon to further improve the safety and protection of boats. However, capacity to accommodate the maximum number of vessels remained the same 05 boats (120 tons each) at one time, whereas the frequency of docking of boats at miniport increased over time and there was a long queue of boats waiting for their turn. This unnecessary time lag was negatively impacting the earning capacity of the fishermen as they had to wait for longer duration. The matter was reported to the management in November, 2023. The management replied that 100 boats per day were docking at the port. The reply of management was not tenable as only 05 boats could dock at one time.
- 4.3 The design capacity of fenders was not tolerant enough to handle the boats safely, further reducing the impact of the project on the livelihood of the fishermen. During the visits, it was observed that the boats parked at the miniport were pressing hard against the rubber fenders. Due to this, many boats had suffered accidents and were broken while mooring. Fishermen tried to overcome this limitation by mounting tractor tires on their vessels. Simultaneously, truck tires were also mounted as additional buffers all over the berthing area for extra protection of the boats and to avoid friction/collision. The matter was reported to the management in November, 2023. The management replied that the rubber tires were mounted on boats for extra safety protection against the collision. The reply was not tenable as the mounted fenders should have been more strengthened.

- 4.4 The up-gradation included the replacement of 35 vertical stairs with fittings costing Rs. 5.950 million as against the budgeted amount of Rs.3.500 million. However, the new stairs were already started rusting due to a lack of proper maintenance and the low-quality substandard of the stairs. The matter was reported to the management in November, 2023 but no reply was received.
- 4.5 To ensure the quality and safety of fish catch proper storage facilities were essential. However, mini port did not have a proper cold storage facility due to this fish could not be stored for longer time. The matter was reported to the management in November, 2023 but no reply was received.
- 4.6 The project was awarded to M/s R.A.B Construction Company SMC- Private Ltd amounting to Rs.128.050 million. The company neither had a valid certificate from the Pakistan Engineering Council nor possessed relevant experience in similar nature of projects. It was also observed that management incurred excess expenditure against the approved PC-I cost under the various head of accounts as detailed below:

Rs in million				
S.No.	Description	Approved PC-I cost	Actual expenditure	Excess cost
1	Wood fenders	9.100	13.650	4.550
2	Vertical stairs/ ladder with fitting	3.500	5.950	2.450
3	Replacement of fenders of existing floating pontoon	3.500	9.000	5.500
Total		16.100	28.600	12.500

- 4.7 It was also observed that the management un-authorizedly utilized an amount of Rs. 2.996 million from the head of miscellaneous charges of Rs.3.925 million for rehabilitation of workshop, office stationery and other items which were not included in the project or approved in PC-I. The matter was reported to the management in November, 2023 but no reply was received.
- 4.8 Objectives of the up-gradation of berthing facility for Boats

Objectives	Description	Audit Findings
a. Financial objectives	1. Growth in the income and enhancement in livelihoods of poor fishermen households in Gwadar	Before the project, the mini port was not capable to accommodate the vessels for berthing to its original designed capacity. After rehabilitation, business growth has resulted in enhancing the revenue of the port and livelihood

		of fishermen. As the revenue from fish catch almost doubled from Rs.330.555million to Rs.629.391million in 2022, which resulted in betterment of living condition of fishermen.
	2. Provision of safe berthing space to fishing boats	After rehabilitation the safe berthing space to fishing boats has improved however, still fishermen themselves managed the safety of their boats by mounting the giant tractor tires around the boats and at the port side to avoid accidents and breakage of ships.
	3. Offers safety to fishermen	With installation of new rubber mounted wooden fenders the safety of fishermen has improved due to less chance of accidents. It was also reported that no accident occurred in recent times.
	4. Provision of facilitates to make handling of fish catch safe	The berthing facility has a maximum capacity of providing anchorage to 05 boats at one time, so the fishermen have to wait in queue for longer time and there was no proper arrangements for storage of fish catch.
	5. Creation of business opportunities	With improved berthing facility up to 100 boats per day and the fish catch was transported to auction hall with more ease and certainty, which was subsequently transported to other ports and cities for exports and local consumption. So, it generated direct and indirect employment.

	6. Safe berthing and uploading of fish catch 24/7	The port remained operational for 24/7 hours and no major incident was reported since long.
	7. Enhancement of commercial activities and income opportunities of locals and for Port Authorities.	As earlier mentioned the Gwadar Fish harbour/miniport generated an income of Rs.34.414 million from port operations and fish marketing and auctioning activities against target of Rs.17.945 million after completion of project.
	8. Delivery of improved handling & marketing facilities to the fishermen to increase their income	It was observed that the auction hall remained operational for 24 hours. However, it lacked basic facilities of clean drinking water, washroom, cold storage etc. which needed to be improved.
	9. Generation of employment opportunities by fully operationalization of fish harbour	Though port income has increased, but the impact on fishermen remained limited due to poor law and order, absence of facilities like cold storage and other related infrastructure.
b. Socio-economic objectives	Quantifiable and non-quantifiable factors	
	1. Social uplift of locals by creating employment opportunities	Gwadar port has the potential to transform Pakistan's economy by creating jobs, attracting foreign investment and promoting trade. Even after almost a decade of initiating the development of Gwadar, only three berths of the port are operational, the volume of shipping to and from the port is negligible, and the people of Gwadar feel little change in their socio-economic conditions. Local

		communities occasionally protest over the provision of clean drinking water, and electricity. Preventing the incursion of Chinese trawlers in the territorial waters of the province and facilitating fishing. Progress on the Eastbay Expressway remained in a deadlock for months due to the concern of fishermen to build bridges that allow passage to their fishing vessels.
	2. Provision of better marketing facilities of fish catch 24/7.	The marketing facilities and auction hall were available for 24/7 and fish was also transported to up country. However, due to poor law and order conditions the fish catch was not marketed timely.
	3. Poverty alleviation through trade & commerce	As reported by the GPA the quantity of fish catch per boat increased by 5% to 10% per annum and fish catch increased to 4,622 ton in 2022 as compared to 1,889 ton in year 2021. The revenue from sale of fish also increased to Rs.629.391 million in 2022 as compared to Rs.330.555 million in 2021. This also impacted in reduction of poverty through increased trade activities.
	4. Socioeconomic integration of Gwadar with the rest of country	Most of the catch from Balochistan is sent by road to Karachi by Makran Highway to be exported to international market and some fish goes directly to Iran. The Gwadar port

		is also connected with Jiwani, Pasni, Ormara and Sonmiani in Balochistan. This helps in socio-economic integration of the port with the rest of the country. However, the poor law and order situation is major handicap.
	5. Growth in the export of fish and other seafood	According to bureau of statistics Pakistan exported Fish and fish products of US dollars.500 million during 20203. Frozen flat fish, shrimps and prawns are mainly exported from Pakistan to rest of world. Though there has been substantial increase in fish catch at Gwadar port and exports from Karachi port but there is a serious problem of poaching in Balochistan’s territorial sea with trawlers from China using banned gill nets etc. Moreover, Baloch fishermen have limited access to credit facility, ship repair workshops and other modern facilities especially presence of cold storage facility at mini port.
c. Sectoral objectives	1. To comply with international Maritime organization (IMO) rules, which warrants safety of life and property at sea	The IMO standards entail the safe management and operation of ships and for managing pollution prevention and safety of life at sea. The GPA management informed that every effort was made for compliance of the IMO rules. However, The Project was unable to offer safety of life and property to fishermen at sea and spillage of oil was also observed at the port due to smuggling of Iranian oil in unsafe containers at the port.

	2. To integrate the connectivity of Gwadar port with the other ports	The project facilitated in the connectivity of Gwadar port with other local and regional ports for exports of fish catch through Makran coastal Highway and to Iran.
d. Environmental objectives	1. No environmental harm	It was observed that there was no proper waste management system at the miniport. Apart from boats with fish catch the Audit team also observed boats with smuggled Iranian oil at the mini port. There were also instances of oil spill at the mini port which were harming the marine environment. The big trawlers on Balochistan coast with banned gill nets were also harming the aquatic life along the Balochistan coast.

5. Conclusion

The project of up-gradation of the berthing facility for boats was taken up to improve the working conditions of fishermen and to ensure the safety & protection of the fishermen operating at the Gwadar coast. However, the effectiveness of the project was not maximized as it did not offer enough safe space to most of the vessels at one time. Moreover, there was dearth of basic facilities like cold storage, proper waste management system, workshop for repair and maintenance of boats, poor law and order were affecting overall performance of the port. Despite, all these issues the overall income and fish catch at the port has increased after the rehabilitation of berths which has positively impacted the lives of fishermen.

Recommendations

- Capacity of the miniport cum harbor needs to be enhanced ensuring safety of fishermen.
- The rubber and wooden fenders might be properly fixed as per the size of boats.
- Better marketing facilities and cold storage be provided on an emergency basis.
- Focus should be on the enhancement of the income of fishermen.
- Efforts should be taken to discourage the smuggling of Iranian oil affecting coastal environment.
- Provide adequate security for fishermen and traders with improved law and order situation.
- Procurement process needed to be fair and transparent.



**AUDIT REPORT
ON
THE ACCOUNTS OF
MINISTRY OF FOREIGN AFFAIRS
AUDIT YEAR 2023-24**

AUDITOR-GENERAL OF PAKISTAN

DIRECTORATE OF AUDIT (FOREIGN & INTERNATIONAL)

CHAPTER 1

MINISTRY OF FOREIGN AFFAIRS

1.1 Introduction

Ministry of Foreign Affairs, under the Rules of Business of the Federal Government, has been assigned to formulate, implement and monitor the foreign policy and deal with the matters listed below:

1. Relations and dealings with other countries;
2. Matters (other than those handled by other Divisions) relating to;
 - (a) International organizations and bodies and their decisions.
 - (b) Agreements and treaties with other countries.
3. Diplomatic, consular, trade and other representation abroad;
4. Declaration of war upon, and the making of peace with any country;
5. Offences against the laws of nations;
6. Foreign and extra-territorial jurisdiction;
7. Negotiations for settlement of Kashmir dispute and implementation of agreements reached;
8. Administration of;
 - (a) Foreign Service of Pakistan.
 - (b) Pakistan Missions abroad.
 - (c) Security and operation of cypher communications.
9. Visits of the Heads of States and foreign dignitaries to Pakistan and the Head of the Government of Pakistan to foreign countries;
10. Matters relating to;
 - (a) Protocol and foreign representatives in Pakistan.
 - (b) Federal Government Guest Houses.
11. Preparation of policies regarding;
 - (a) Extradition to and from other countries.
 - (b) Repatriation of Pakistan nationals from abroad.
12. Foreign awards to Pakistanis;
13. Pakistan Institute of International Affairs; and
14. Coordination of all works pertaining to Economic Cooperation Organization.

Table-1 Audit Profile-Ministry of Foreign Affairs*(Rupees in millions)*

Sl. No.	Description	Total Nos.	Audited	Amount held under observation FY2022-23
1	Ministry and its Formations	137	59	2,739.211
2	Assignments Accounts(excluding FAP)	01	01	-
3	Authorities / Autonomous Bodies etc. under the PAO	02	02	-

1.2 Sectoral Analysis

Ministry of Foreign Affairs is guided by the following foreign policy objectives:

- Promotion of Pakistan as a dynamic progressive, moderate and democratic Islamic country.
- Developing friendly relations with all countries of the world, especially major powers and immediate neighbours.
- Safeguarding national security and geo-strategic interests.
- Consolidating commercial and economic cooperation with international community
- Safeguarding the interests of Pakistani diaspora abroad.
- Ensuring optimal utilization of national resources for regional and international cooperation.

To achieve these goals, the Ministry was provided a budget of approximately Rs 32.355 billion during FY 2022-23 to cater to the needs of MOFA (HQ) and 123 Missions abroad.

Pension payments for officers and staff are released only after clearance of all audit objections and other recoveries. Some cheques, especially of tax deducted at source from vendors, remain outstanding till the end of the Financial Year. There needs to be coordination between administrative section, DDO and office of Chief Accounts Officer for timely submission of cheques in state treasury. This also demonstrates non-reconciliation between different wings of the Ministry. Monthly reconciliation between administrative wing and office of Chief Accounts Officer is required for appropriate adjustments. Monthly adjustments with other ministries for payments made in Missions abroad would allow for greater transparency in expenditure and accounting.

Pakistan Community Welfare and Education Fund (PCW&EF) and Fund for Improvement of Government Owned Buildings (FIGOB) are funded through 10% surcharge on consular fees collected in Missions abroad for each of the two funds. The funds at Headquarter i.e., Ministry of Foreign Affairs, are being kept in a single account, whereas the funds are required to be kept in

two separate accounts. The extended scope of PCW&EF approved by the Prime Minister of Pakistan includes certain services like maintenance of Foreign Office Dispensary, bus service for staff of Ministry of Foreign Affairs, etc. Such utilization of fund is inconsistent with the spirit of the fund whereby it is to be used for the welfare of Pakistani Diaspora in various countries.

There have been instances where security deposits on hiring of residence for officers / officials in Missions abroad were not refunded from the landlords. Similarly, VAT paid by Pakistan Missions abroad on purchases was also not refunded from the host government. TA/DA advances were also not being adjusted for long periods of time. There is a need to develop a coordination mechanism between administration wing and office of Chief Accounts Officer for timely resolution of these issues. Despite repeated observations of audit in previous audit reports, these issues have yet to be resolved by the Ministry.

Visa fee collected by NADRA on issuance of E-visa is being remitted to Ministry of Foreign Affairs on a monthly basis but there is no verification mechanism as to how much NADRA is collecting and remitting to the MOFA. Ministry needs to develop verification and reconciliation mechanism with NADRA regarding authenticity of visa fee collected and remitted.

1.3 Classified Summary of Audit Observations

Audit observations amounting to Rs 2,739.211 million were raised as a result of this audit. This amount also includes recoverable of Rs 145.449 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

(Rupees in millions)

Sl. No.	Classification	Amount
1	Non-production of record	34.200
2	Reported cases of fraud, embezzlement and misappropriation	0
3	Irregularities / Overpayments	0
	A- HR / Employees relates irregularities	192.365
	B- Procurement related irregularities	9.565
	C- Management of Accounts with Commercial Banks	32.066
4	Value for money and service delivery issues	27.901
5	Others	2442.777
	Total	2738.874

1.4 Brief comments on the status of compliance with PAC directives

Year of Audit Report	Total Paras	Compliance Received	Compliance not Received	Percentage of Compliance
1986-87	11	4	7	36
1987-88	5	3	2	30
1988-89	6	2	4	33
1985-86	3	1	2	33
1989-90	8	1	7	13
1990-91	13	7	6	54
1991-92	9	2	7	22
1992-93	11	8	3	73
1993-94	10	0	10	0
1994-95	9	1	8	11
1995-96	19	5	14	26
1996-97	30	11	19	37
1997-98	31	0	31	0
1998-99	65	25	40	38
OIC	7	5	2	71
SAR Mexico	28	0	28	0
1999-2000	19	0	19	0
2000-01	26	3	23	12
2001-02	25	20	5	80
2002-03	20	7	13	35
2003-04	25	8	17	32
2004-05	47	22	25	47
2005-06	34	3	31	9
2006-07	23	8	15	35
2007-08	17	6	11	35
2009-10	52	28	24	54
2010-11	47	14	33	30
2013-14	05	0	05	0
2015-16	25	1	24	4
2017-18	18	15	03	83
2018-19	45	12	33	27
2019-20	32	18	14	56
Total	725	240	485	33

The overall compliance in respect of Ministry of Foreign Affairs is low. Ministry needs to pursue vigorously to comply with PAC directives.

1.5 AUDIT PARAS

Non-Production of Record

1.5.1 Non-production of record

According to Section 14 of the Auditor-General's (Functions, Powers and Terms & Conditions of Service) Ordinance, 2001, the Auditor-General shall, in connection with the performance of his duties under this Ordinance, has the authority to require any accounts, books, papers and other documents which deal with or form the basis of or otherwise relevant to the transactions to which his duties in respect of audit extend, shall be sent to such place as he may direct for his inspection. Further, Section 14(3) of the said Ordinance states that any person or authority hindering the functions of the Auditor-General regarding inspection of accounts shall be subject to disciplinary action under relevant Efficiency and Discipline Rules, applicable to such person(s).

During audit of Embassy of Pakistan, Tehran for the FYs 2018-22, following record was not produced to Audit despite repeated requests;

S.N	Description	Period	Amount (US\$)	Amount (Rs)
1.	Grant to Pakistan Embassy International School & College Tehran	December, 2017	120,000	34,200,000

Audit is of the view that non-production of record was violation of section 14 of AGP Ordinance 2001 and raised suspicion regarding authenticity of expenditure / payments.

The matter was reported to the management in February 2023.

DAC, in its meeting held on 19.01.2024, directed for provision of record. **No further progress was reported till finalization of this report.**

Audit recommends to fix responsibility against the person(s) at fault besides provision of relevant record.

[Para-3 Tehran 2018-22]

Irregularities/ Overpayments

i) A- HR/ Employees related irregularities

1.5.2 Unauthorized payment of 10% share of Education Subsidy – Rs 60.813 million

According to Para 5.6.1 of FMMA Vol-II, Education Subsidy at Mission abroad will be admissible at 90% of actual cost of education.

During audit of Pakistan's Missions abroad for the FYs 2018-22, it was observed that various mission made 100% payment on account of Education Subsidy to the officers instead of 90% as stipulated under the rules. Hence, the missions made excess payment of Rs 60.813 for education subsidy. The detail is as under:

Sl. No.	Name of Mission	Period of AIR	AIR Para No	Amount (LC)	Amount (Rs)
1	Jakarta	2018-22	11	US\$ 6,947	1,945,160
2	Kathmandu	2018-22	07	US\$ 15,089.4	4,225,032
3	Kathmandu	2018-22	08	US\$ 21,530	6,028,400
4	Paris	2019-22	04	€ 10,350	3,156,750
5	Paris	2019-22	05	€ 149,043	45,458,115
				TOTAL	60,813,457

Audit is of the view that weak internal controls resulted in unauthorized payment of Rs 60.813 million on account of Education Subsidy.

The matter was reported to the management on April 2023.

DAC, in its meeting held on 20.12.2023, directed the management to get the record verified from Audit. No further progress was reported till finalization of this report.

Audit recommends to recover excess payments from the officers under intimation to Audit.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2017-18, 2018-19, 2019-20 & 2020-21 vide para number 2.4.13, 2.4.21, 1.1.4 & 1.1.4 respective having financial impact of Rs 47.307 million. Recurrence of same irregularity is a matter of serious concern.

1.5.3 Unauthorized expenditure on account of contingent paid staff – Rs 49.439 million

Para 11(A) (vi) of the Revised System of Financial Control and Budgeting, 2006 states that the Financial Adviser shall submit proposals for appointment of contingent paid staff to the Additional Finance Secretary (Expenditure) for approval.

During audit of Pakistan’s Missions abroad for the FY 2019-22, it was observed that the Missions appointed contingent paid staff and incurred expenditure of Rs 49.439 million on account of payment of salaries to contingent paid staff. However, appointment of such staff was unauthorized as approval was not obtained from the Finance Division. Detail is as under:

Sl. No.	Name of Mission	Period of AIR	AIR Para No	Amount (LC)	Amount (Rs)
1	London	2021-22	16	£ 104,256	38,474,064
2	Paris	2019-22	3	Rs 10,965,051	10,965,051
TOTAL					49,439,115

Audit is of the view that appointment of contingent paid staff without approval of the Finance Division was unauthorized.

The matter was reported to the management in November 2022. The management replied that the case for regularization of expenditure on contingent paid staff had already been taken up with the Ministry for approval from Finance Division.

DAC, in its meeting held on 19.01.2024, directed for regularization of unauthorised expenditure on account of contingent paid staff from Finance Division. **No further progress was reported till finalization of this report.**

Audit recommends to refer the matter to Finance Division for consideration.

1.5.4 Unauthorized inclusion of AC, heating and other allied charges in rent – Rs 13.616 million

According to Para 8.12.1 of FMMA Vol-II, it is a universal practice for landlords to assess rents of their buildings inclusive of all taxes levied by the local Government or authorities on the property. Such taxes, other than service taxes are, therefore, not payable by Missions on account of the buildings rented by them.

During audit of Embassy of Pakistan, Copenhagen for the FYs 2019-20, it was observed that mission paid rent of residential accommodation for the mission employees alongwith charges that were not admissible under the rules. Upon translation of some rental invoices in respect of Accountant, APS & Driver, it was noticed that the payments of rent were being made inclusive of AC, heating, kitchen appliances etc. The detail of inadmissible rent amounting to Rs 13.616 million is at **Annex-I**.

Audit is of the view that due to non-compliance of rule, unauthorized payment amounting to Rs 13.616 million was made on account of rent inclusive of AC, heating and other allied charges.

The matter was reported to the management in February 2023.

DAC, in its meeting held on 19.01.2024, directed the Ministry for verification of record. **No further progress was reported till finalization of this report.**

Audit recommends to recover unauthorized payment from the officials under intimation to Audit, besides provision of lease agreements.

[Para-22 Copenhagen 2019-22]

1.5.5 Inadmissible reimbursement of medical treatment charges – Rs 10.866 million

According to Para 6.31.1 (a)(b) of FMMA Vol-II, claims for reimbursement shall be submitted to the Head of Mission supported by a copy of prescription from the AMA, Bills/Cash Memos/Invoices, in original, referral letter and the list of medicines, drawn up by the official, as per revised Proforma-II.

Further, according to OM No. F3.6(1)R-10/2010-171-2011 dated 24.03.2011 issued by Ministry of Finance (Regulation Wing) in consultation with Ministry of Health, the list of chronic diseases for reimbursement of amount spent on medical treatment is provided.

During audit of Pakistan's Missions abroad for the FYs 2017-22, it was observed that various Missions incurred expenditure on account of reimbursement of inadmissible medical charges pertaining to consultation and treatment of officers. The detail is as under;

Sl. No.	Name of Mission	Period of AIR	AIR Para No	Amount (LC)	Amount (Rs)	Remarks
1	Canberra	2017-22	22	A\$ 15,450	2,827,350	treatment Stem Cell
2	Tehran	2018-22	07	US\$ 1,276	357,280	cosmetic surgery (Skin growth surgery)
3	Sydney	2017-22	06	A\$ 2,401	439,383	reimbursement cost of medical charges in respect of different officers /officials which not allowed under the rule
4	Bangkok	2018-22	08	BHT 660,252	2,295,574	Unauthorized drawl of medical examination and medicine charges
5	Berlin	2019-22	08	€ 15,536	4,738,480	irregular payment on account of medical charges
6	Berlin	2019-22	22	€684	208,197	Unauthorized payment of dental crowning
TOTAL					10,866,264	

Audit is of the view that non-compliance of rules resulted in unauthorized reimbursement of medical charges.

The matter was reported to the management in August 2023.

DAC, in its meetings held on 14.11.2023 & 19.01.2024, directed the Ministry to effect recovery of inadmissible items after verification of record. **No further progress was reported till finalization of this report.**

Audit recommends to recover inadmissible reimbursement from the officers under intimation to Audit.

1.5.6 Unauthorized payment on account of airfare – Rs 10.597 million

According to Para 10.24.1 of FMMA Vol-II, PIA service should be utilized in all cases where its services operate on part or whole of the route to the destination. In cases where travel

has to be performed by a foreign carrier for the sector not covered by PIA, the booking is required to be arranged through PIA.

According to Sl. No. 10.2.1 of FMMA Vol-II, the officers/officials will travel (i) in the case of journeys between Pakistan and foreign countries, the route approved for the particular journey (ii) In the case of journeys between one foreign country and another, the standard route for journeys between the two countries.

During audit of MOFA (HQ), Islamabad for the FY 2022-23, it was observed that Ministry/Missions paid an amount of Rs 10.597 million (Rs 6,381,851, CZK 229,249, A\$ 3,360 and US\$ 2,763) on account of airfares/cost of air tickets to various officers/officials upon their posting /transfers from MOFA (HQ) to Missions abroad and vice versa, who travelled on unapproved routes. Further, in cases where Finance Division issued conditional NOCs, the difference of airfare due to deviation of approved route and availing of non-carrier was also not recovered from the officers/officials. The details of unauthorized payment on account of cost of air tickets/airfare is at ***Annex-II***.

Audit is of the view that due to weak internal and financial controls, Ministry made excess payments on account of airfares/non-national carrier due to deviation from approved routes where NOC was granted by Finance Division.

The matter was reported to the management in December 2023.

DAC, in its meeting held on 24.01.2024, directed the Ministry to effect recovery of difference of airfare from the concerned. **No further progress was reported till finalization of this report.**

Audit recommends compliance of DAC directives.

(Para-28, 42, 45, 54, 62 & 67 MOFA (HQ), 2022-23)
(Para-14 Canberra 2017-22)

1.5.7 Excess payment of 06 days joining time DA to officers / officials – Rs 7.459 million

According to Para 10.20.7 FMMA Vol-II, only 50 percent Daily Allowance is admissible to the officials of the Mission where residential accommodation is available during joining time at the station of posting. The officials themselves are not authorized to vacate or occupy residential accommodation.

During audit of Pakistan's Missions abroad for the FYs 2017-22, it was observed that various Missions made excess payments of Rs 7.459 million (US\$ 26,543.89) to officers / officials upon their transfer from Missions to HQs. The detail is as under;

Sl. No.	Name of Mission	Period of AIR	Para No AIR	Amount (US\$)	Amount (Rs)
1	Manchester	2019-22	03	2,574	723,294.00
2	Manchester	2019-22	23	1,417.50	398,317.50
3	Sydney	2017-22	10	1,995	560,595.00
4	Dublin	2017-22	11	1,836	515,916.00
5	Dublin	2017-22	30	2,214	622,134.00
6	Khartoum	2019-22	10	8,857.39	2,488,926.59
7	Berlin	2019-22	19	5,925	1,664,925.00
8	UN New York	2020-22	21	1725	484,725.00
TOTAL				26,543.89	7,458,833.09

Audit is of the view that violation of the prescribed rules resulted into overpayment of DAs amounting to Rs 7.459 million.

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

DAC, during its meeting held on 20.12.2023, directed to provide relevant record for verification. No further progress was reported till finalization of this report.

Audit recommends to recover the overpayments from officers under intimation to Audit.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2017-18, 2018-19, 2019-20, 2021-22 & 2022-23 vide para number 2.4.11, 2.4.20, 1.1.3, 2.5.5 & 1.5.6 respectively having financial impact of Rs. 43.839 million. Recurrence of same irregularity is a matter of serious concern.

1.5.8 Non-recovery of security deposit – Rs 6.877 million

According to Para 8.6.1(a) of FMMA Vol-II, Pakistani Missions abroad are required to ensure recovery of the security deposits from the landlord at the time of vacation of accommodations occupied by the officers/officials.

During audit of Pakistan's Missions abroad for the FYs 2017-22, it was observed that various Missions made payment on account of security deposit for the rented accommodation for the officers. However, upon vacancy of the premises, the officers did not refund the security deposits as required under the above mentioned rule. The details are as under;

Sl. No.	Name of Mission	Period of AIR	AIR Para No	Amount (LC)	Amount (Rs)
1	Chicago	2018-22	10	US\$ 7,000	1,960,000
2	UN New York	2020-22	24	US\$2,200	616,000
3	Paris	2019-22	29	€ 14,100	4,300,500
				TOTAL	6,876,500

Audit is of the view that weak internal controls resulted in non-recovery of security deposit from the officers.

The matter was reported to the management in August 2023.

DAC, in its meetings held on 23.11.2023 & 19.01.2024, directed the management to effect recovery in case of Chicago and get the record verified by Audit in rest of the cases. **No further progress was reported till finalization of this report.**

Audit recommends to recover outstanding amount from the officer under intimation to Audit.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2018-19, 2019-20, 2021-22 & 2022-23 vide para number 2.4.26, 1.1.10, 2.5.8 & 1.5.2 respectively having financial impact of Rs 15.041 million. Recurrence of same irregularity is a matter of serious concern.

1.5.9 Inadmissible reimbursement of medical items – Rs 5.166 million

According to Para 6.31.1 b (c) of FMMA Vol-II, multivitamins, food supplements, soap for skin disease, Dettol/Dettol soap/Dettol cream Soap, Shampoo, Sliming tonic/sliming diet, Infertility treatment etc are not medical items.

During audit of Pakistan's Missions abroad for the FYs 2017-22, it was observed that various Missions incurred expenditure of Rs 5.166 million on account of reimbursement of inadmissible medical items. The detail is as under;

Sl. No.	Name of Mission	Period of AIR	AIR Para No	Amount (LC)	Amount (Rs)
1	Canberra	2017-22	27	A\$9,430.29	1,725,743
2	Brussels	2018-22	01	€ 2,630	802,150
3	Tehran	2018-22	8	IR 16,038,636	105,855

4	Wellington	2017-22	11	NZ\$ 5184.8	886,601
5	Jakarta	2018-22	12	IDR 22.982 million	410,459
6	London	2021-22	4	£ 3,479.95	1,235,382
TOTAL					5,166,190

Audit is of the view that non-compliance of rules resulted in unauthorized reimbursement of medical items.

The matter was reported to the management in August 2023.

DAC, in its meetings held on 11.01.2024 & 19.01.2024, directed the Ministry to effect recovery of inadmissible items after verification of record. **No further progress was reported till finalization of this report.**

Audit recommends to recover inadmissible reimbursement from the officers under intimation to Audit.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2017-18, 2018-19 & 2021-22 vide para number 2.4.17, 2.4.22 & 2.5.6 respectively having financial impact of Rs 39.651 million. Recurrence of same irregularity is a matter of serious concern.

1.5.10 Unauthorized payment on account of six days enroute joining time DA – Rs 6.180 million

As per Ministry’s circular No. Rules-5/11/2012 dated 28.05.2015, “the Prime Minister has approved 06 days joining time of Ambassador at a third station, en-route their place of posting”. According to Para 10.2.1 of FMMA Vol-II, the officers/officials will travel (i) in the case of journeys between Pakistan and foreign countries, the route approved for the particular journey (ii) In the case of journeys between one foreign country and another, the standard route for journeys between the two countries.

During audit of MOFA (HQ), Islamabad for the FY 2022-23, it was observed that Ministry/Missions paid an amount of Rs 6.180 million (US\$ 16,524, DH 6,134 and SRLs 12,543.75) to various Ambassadors on account of six day’s joining time DA for spending joining time at places other than places falling on approved routes. The details are at **Annex-III**.

Audit is of the view that due to weak internal and financial controls, Ministry made unauthorized payment of enroute joining time DA to various Ambassadors.

The matter was reported to the management in December, 2023. The management replied that in some cases, approval of Finance Division for deviation of route had been obtained, however, difference of airfare and DA would be recovered.

Dakin its meeting held on 24.01.2024, directed the Ministry to recover the overpayment. Audit recommends compliance of DAC directive.

(Para-27, 37, 41, 43, 53, 55, 65 & 80 MOFA (HQ), 2022-23)

1.5.11 Unauthorized double payment of pay and allowances at MOFA (HQ) – Rs 5.838 million

According to Rule 23 GFR Vol-I, every government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

During audit of MOFA (HQ), Islamabad for the FY 2022-23, it was observed that one officer and one official continued drawing their pay and allowances at MOFA (HQ) while they were posted abroad. Hence, they were drawing double payment of pay and allowances amounting to Rs 5.838 million as detailed below:

Sl. No	Particulars of payment	Amount (Rs)
1.	Mr. Mubasher Ahmed, Deputy Director posted to Parep Berlin. He relinquished the charge at MOFA (HQ) on 2.10.2020 and assumed the charge in Mission as First Secretary on 11.10.2020. He continued drawing pay & allowances from the Mission till his posting back to the HQ on 23.07.2023. His pay at Headquarters continued w.e.f. 02.10.2020 to 30.06.2023 (33 months)	4,523,505
2.	Mr. Shahid Shamoon, LDC who was posted to Embassy of Pakistan at Washington. He was relieved of his duties in the Ministry on 02.09.2021 and joined the Mission on 10.09.2021. His pay at Headquarters continued w.e.f 02.09.2021 to 30.06.2023 (27 months)	1,314,862
	TOTAL	5,838,367

Audit is of the view that payment of pay and allowances at headquarters during the posting abroad was double payment which reflected weak internal and financial controls.

The matter was reported to the management in December, 2023. The management accepted the recovery and committed to effect the same.

DAC, in its meeting held on 19.01.2024, directed the Ministry to recover the overpayment. No further progress was reported till finalization of this report.

Audit recommends compliance of DAC directives.

(Para-29 & 72, MOFA (HQ), 2022-23)

**1.5.12 Non-recovery from officer of TA/DA due to non-submission of TA bill –
Rs 4.135 million**

According to S. No. 66 of schedule of Financial Management and Powers of Principal Accounting Officers Regulations, 2021 (i) where no TA advance was drawn: PAO has full powers to condone time barred case of TA/DA bill submission. (ii) where TA advance was drawn: TA adjustment bill should be submitted within six months of the date of performance of journey by the government servant, failing which the advance will be recovered.

During the audit of the MOFA (HQ), Islamabad for the FY 2022-23 it was observed that Ministry/Mission paid TA/DA advances amounting to Rs 4.135 million to the Mr. Yasir Iqbal Butt, counselor upon his transfer from PAREP Bangkok to C.G Toronto but the officer did not submit the TA/DA adjustment bill within the prescribed time limit. The details of TA/DA advance paid are as under:

Sl. No	Vr. No. / Date	Description	Amount (LC)	Amount (Rs)
1	50 of 3/2023 (Toronto)	70% transportation charges	US\$ 7,245	1,885,873.50
2	34 of 9/2021 (Bangkok)	Air-Ticket	Baht 272,000	1,407,784.96
3	28 of 10/2021 (Toronto)	70% inland transportation charges	US\$1,322.87	226,144.63
4	28 of 10/2021 (Toronto)	06 days joining time DA	US\$3,135	535,928.25
5	28 of 10/2021 (Toronto)	30% transit DA	US\$156.75	26,795.95
6	34 of 9/2021 (Bangkok)	Transfer grant	US\$315.29	52,480.02
TOTAL				4,135,007.31

Moreover, Chief Accounts Officer vide letter No. Ad-III/3784-Vol-II/TR5242 dated 12.05.2023 informed the Ministry that the case was time barred.

Audit is of the view that due to weak internal and financial controls, Ministry failed to get the adjustment of TA/DA bill till the date of audit.

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

DAC, in its meeting held on 19.01.2024, directed the Ministry to effect recovery from the officer. No further progress was reported till finalization of this report.

Audit recommends compliance of DAC directives.

(Para-68, MOFA (HQ), 2022-23)

1.5.13 Unauthorized payment of Disparity Reduction Allowance – Rs 4.678 million

According to Finance Division letter No. F. No. 14(1)R-3/2021-90 dated 03.03.2021, Federal government grant of Disparity Reduction Allowance (DRA) @ 25% of the basic pay of basic pay scales 2017 w.e.f. 01.03.2021. This allowance shall be admissible to civil employees in BPS 1-19 of the Federal Government (including employees of the Federal Secretariat and attached departments). Further, according to Finance Division letter No. F. No. 14(1)R-3/2021-69 dated 23.02.2022, Federal government grant of DRA @ 25% of the basic pay of basic pay scales 2017 w.e.f. 01.03.2022. This allowance shall be admissible to civil employees in BPS 1-19 of the Federal Government, (including employees of the Federal Secretariat, attached departments and subordinate offices).

During audit of Institute of Regional Studies, Islamabad for the FYs 2020-22, it was observed that the management made payment of Rs 4.678 million on account of DRA, 2021 and 2022. However, the allowance was not admissible to the employees of IRS as it is an autonomous body and not covered under the FD policy. The detail is as under;

SL. No	Brief Particular	Amount (Rs)
1	Disparity Reduction Allowance, 2021	3,900,565
2	Disparity Reduction Allowance, 2022	777,284
TOTAL		4,677,849

Audit is of the view that payment of DRA in violation of rules resulted in loss of Rs 4.678 million to the national exchequer.

The matter was reported to the management in April, 2023. The management replied that Finance Secretary is member of Board of Governors (BOG) and payment was made with the approval of BOG. The reply is not tenable as according to clarification vide para 5 (i & iii) of Finance Division OM No. 4(3)R-4/2011 dated 23.01.2024, the presence of a representative of Finance Division on the Board of an autonomus / semi autonomus / corporate bodies does not constitute consultation with Finance Division. Such consultation is required to be undertaken as per prescribed procedure. Further, pays, allowances and their revision of all government employees including those employed in autonomous / semi autonomous / corporate bodies requies prior approval of Finance Division.

DAC, in its meeting held on December 07, 2023, directed the Institute/Ministry to get the matter clarified from Finance Division and effect recovery accordingly. No further progress was reported till finalization of this report.

Audit recommends compliance of DAC directives.

[Para-6 IRS 2020-22]

1.5.14 Unauthorized payment on account of Special Allowance – Rs 1.627 million

According to Finance Division Regulation Wing O. M. No. F. 10(2)R-3/2012 dated 06.03.2013, the federal government granted special allowance @ 20% to the employees working in the Federal Ministries/Divisions only.

During audit of Foreign Service Academy, Islamabad for the FYs 2020-22, it was observed that management made payment of Rs 1.627 million on account of 20% Special Allowance to its officials / officer. However, the allowance was not admissible to the employees of Foreign Service Academy as it is an autonomous body and not covered under the FD policy. The detail is at *Annex-IV*.

Audit is of the view that payment of Special Allowance in violation of rules resulted in unauthorized payment of Rs 1.627 million.

This reflects weak internal and financial controls.

The matter was reported to the management in February, 2023. The management in its reply stated that in accordance with the Service Rules of the Academy, which were adopted by the Board of Governors at its third meeting of BOG held on September 13, 1992, “the employees of the Foreign Service Academy are entitled to receive pay and allowances as admissible to the employees of Federal Government reviewed from time to time”.

DAC, in its meeting held on December 07, 2023, directed the Institute/Ministry to get the matter clarified from Finance Division and effect recovery accordingly. No further progress was reported till finalization of this report.

Audit recommends compliance of DAC directives.

(Para-4, FSA 2022-23)

1.5.15 Non-initiation of action for misappropriation – Rs 1.231 million

According to Rule 23 of GFR Vol-I, every Government officer should realize fully and clearly that he would be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

During the audit of MOFA (HQ), Islamabad for the FY 2022-23, it was observed that as per official's self-explanatory note dated 20.10.2021 Mr. Aamir Khan, Accountant, confessed the misappropriation of Rs 1.231 million (€ 3,945) against him. However, no action was taken against the official by the Ministry.

Audit is of the view that non-initiation of action for recovery of admitted misappropriated amount of Rs 1.231 million was negligence on part of the Ministry.

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

DAC in its meeting held on 19.01.2024 directed for recovery from the official.

Audit recommends compliance of DAC directives besides taking punitive action against the official.

(Para-86, MOFA (HQ), 2022-23)

1.5.16 Irregular excess payment of transportation charges – Rs 1.165 million

According to Annexure X of FMMA Vol-II, it has been decided that fresh quotations be called for from Pakistan Missions abroad for approval of the Ministry and concurrence of the CAO's office. In view of the above, the Missions are requested to send three quotations on the prescribed proforma. The Head of Mission will sign the proforma and record a certificate that the rates quoted by the firms are most economical, reasonable and conformity with the local market rates.

During audit of High Commission of Pakistan, Canberra for the FYs 2017-22, it was observed that the Mission made payment of A\$ 12,356 on account of transportation charges with the approval of HOM instead of the Ministry. Further, the approval accorded by the HOM was for an amount of A\$ 8,193, hence, the officer was made excess payment of Rs 1.165 million (A\$ 4,163).

Moreover, the officer was also paid A\$ 2,205 on account of transportation charges of personal effects from Karachi seaport to residence in Islamabad vide Vr. No. 75/July 2018. However, the amount for transportation charges from Karachi to Islamabad was already included in the previous bill, hence, resulting in overpayment of A\$ 2,205. Further as per FMMA-II 10.14.1(c), the inland transportation charges within Pakistan were required to be paid in Rs instead of foreign currency.

Audit is of the view that non-adherence to the provisions of FMMA resulted in irregular excess payment of Rs 1.165 million [A\$ 6,368 (A\$ 4,163+ A\$ 2,205) @ Rs 182.90].

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

DAC, in its meeting held on 19.01.2024, pended the para for want of officer's response. No further progress was reported till finalization of this report.

Audit recommends regularization of expenditure and recovery of overpaid amount from the concerned officer.

[Para-20 Canberra 2017-22]

1.5.17 Unauthorised payment of pay and allowances during leave period – Rs 1.094 million

According to Finance Division (Regulation Wing) U.O No.1(1)R-4/2017 dated 03.07.2020, during leave on half Pay, the personal availing leave will be allowed half pay and no Conveyance Allowance will be allowed. Rule 9 of Revised Leave Rules, 1980, stipulates that extraordinary leave is granted without pay.

During audit of MOFA (HQ), Islamabad for the FY 2022-23, it was observed that Ministry granted LFP, LHP, EOL and medical leave to its officers/officials and paid full pay and Conveyance Allowance during leave period. This resulted in excess and unauthorized payment of Rs 1.094 million. The details of excess and unauthorized payments are at **Annex-V**.

Audit is of the view that due to weak internal and financial controls, Ministry made payment of Rs 1.094 million on account of pay and Conveyance Allowance during leave period.

The matter was reported to the Management in Decmeber, 2023. The management admitted the irregularity and committed to effect recovery.

DAC, in its meeting held on 24.01.2024, directed the Ministry to effect recovery from the concerned officers / officials. No further progress was reported till finalization of this report.

Audit recommends compliance of DAC directives.

(Para-40, 57, 58, 63 & 69, MOFA (HQ), 2022-23)

B- Procurement Related Irregularities

1.5.18 Irregular purchase of gifts – Rs 7.286 million

According to Para XV of MOFA's letter No. Rules- 414 12017 dated 26.04.2017, where the gifts items are purchased in bulk and in advance for different occasions, either in Pakistan or abroad, itemized receipts of such purchases will be entered into a separate stock register maintained at the Mission. Such purchase of gift items in bulk should not exceed US\$4,000 in any case. This stock register should also indicate as to whom the gifts have been presented. Furthermore, PPRA Rule 9 specifies that a procuring agency shall announce in an appropriate manner all proposed procurements for each FY and shall proceed accordingly without any splitting or regrouping of the procurements so planned.

During audit of Embassy of Pakistan, Berlin for the FYs 2019-22, it was observed that the mission purchased various gift items worth Rs 7.286 million from Pakistan and Berlin through splitting. Further, the mission did not maintain stock register for receipt and distribution of gifts and there was no evidence of payment to the vendor. Moreover, in a number of cases, the payment was reimbursed to the Ambassador instead of direct payment to the vendors. The detail is at **Annex-VI**.

Audit is of the view that non-compliance of procurement rules along with other irregularities raised doubts regarding authenticity of payments as well as purchases.

The matter was reported to the management in November, 2022. The ministry in its reply stated that Mission purchased gift items individually or at times collectively on different occasions, for which the PPRA requirement was not mandatory due to the lesser amount incurred on purchase.

DAC, in its meeting held on 14.11.2023, directed the Ministry to provide copies of receipts of purchased items and copy of gift register. No further progress was reported till finalization of this report.

Audit recommends compliance of DAC directives.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2017-18, 2019-20, 2020-21 & 2022-23 vide para number 2.4.8, 1.1.14, 1.1.13, 2.5.7, 2.5.6 & 1.5.18 respectively having financial impact of Rs. 1,864.786 million. Recurrence of same irregularity is a matter of serious concern.

[Para- 36 Berlin 2019-22]

1.5.19 Doubtful expenditure on purchase of furniture – Rs 2.353 million

According to Para 2.38.4 of FMMA Vol-II, Cabinet Division vide its OM No. 4/1/2008/PPRA-RA-III dated 09.04.2008 fixed following financial limits for open tender(s) for Pakistan Missions abroad:

S. No.	Kind of Tender	Monetary Limits
1.	Open tender	US\$ 4,000 or € 3,000 & above
2.	Limited tender	Less than US\$ 4,000 or € 3,000 & above US\$ 2,000 & € 1,500
3.	Single tender	Up to US\$ 2,000 or € 1,500

During audit of Embassy of Pakistan, Berlin for the FYs 2019-22, it was observed that the mission incurred expenditure of Rs 2.353 million (€ 7,740.69) on purchase of furniture vide voucher no. 74 of June, 2020. Audit found following irregularities in the procurement process;

- i. The expenditure was made without observing procurement rules.
- ii. The payments were made without any supporting documents with the vouchers such as invoice, approval of competent authority, payees' acknowledgment etc.
- iii. In one case payment was credited to personal account No.DE58100500000630190259 of the driver, Mr. Abidullah, instead of payment to concerned firm.

The details are as under:

Sl. No	Particulars of Items Purchased	Amount (€)	Amount (Rs)	Remarks
1	Purchased office furniture items from M/S DAS ZWEITE BURO, for chancery	2,845	864,880	-No approval -No Tender called -No Invoice -No Acknowledgement of payee -No stock entry
2	Purchased office furniture items from M/S IKEA DEUTSCHL, for office use	2,095.69	637,090	-do-
3	Purchased new sofa set for Embassy residence from M/S BELLE ARTI.	2,800	851,200	This amount was credited/transferred to Bank Account No.DE58100500000630190259 maintained in the name of Mr.Abidullah, Driver of Embassy.
TOTAL		7,740.69	2,353,170	

Audit is of the view that irregularities in the procurement process rendered the authenticity of procurement doubtful.

The matter was reported to the management in November, 2022. The management in its reply stated that all the items were purchased as mentioned in the dead stock register and their photos were also attached. With regard to the account mentioned in S. No. 3 of the table, it may be noted that since the FY was about to end and the M/S BELLE ARTI was not willing to receive the amount through online transfer and the Embassy did not have a credit card, therefore, Mr. Abidullah, made the payment from his credit card and the amount was reimbursed to him.

DAC, in its meeting held on 14.11.2023, directed the Ministry to get the missing documents i.e., approval of expenditure, tender notice called, invoice, acknowledgement of payee and stock entry verified from Audit. No further progress was reported till finalization of this report.

Audit recommends compliance of DAC directives.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2017-18, 2019-20, 2020-21 & 2022-23 vide para number 2.4.8, 1.1.14, 1.1.13, 2.5.7, 2.5.6 & 1.5.18 respectively having financial impact of Rs 1,864.786 million. Recurrence of same irregularity is a matter of serious concern.

[Para- 44 Berlin 2019-22]

C- Management of Accounts with Banks

1.5.20 Discrepancies between the cashbook and bank statement – Rs 18.663 million

As per Para 5.10.1 of FMMA Vol-I, following returns and certificates should accompany monthly accounts: Bank reconciliation statement on the prescribed proforma drawn up in order to agree the bank balance as per bank's certificate with the bank balance as shown in the accounts duly signed by the head of the office.

During audit of Pakistan's Missions abroad for the FYs 2018-22, it was observed that the missions did not carry out reconciliation of cashbook with bank accounts of US\$ and € which resulted in difference of Rs 18.663 million (US\$ 24,013 & € 37,883.81). The detail is as under;

Sl. No.	Name of Mission / Period	AIR Para No	Period / Month	Balance As per		Difference (LC)	Amount (Rs)
				Cash Book (LC)	Bank Stat. (LC)		
1	Mashed 2018-22	16	Nov-2020	(US\$ 30,240)	US\$ 6,227	(US\$ 24,013)	6,843,705
2	Berlin 2019-22	2	Nov-2020	€ 46,857.44	€ 8,973.63	€ 37,883.81	11,819,496
						TOTAL	18,663,201

Audit is of the view that non-reconciliation of accounts and cashbooks demonstrated weak financial management and weak internal controls.

The matter was reported to the management in November, 2023. The management replied that concerned missions have been asked to provide reconciliation of accounts and the same will be provided to the Audit.

DAC, in its meetings held on 14.11.2023 & 20.12.2023, directed the Ministry to provide the reconciliation of accounts to Audit. No further progress was reported till finalization of this report.

Audit recommends compliance of DAC directives.

Value for Money and Service Delivery Issues

1.5.21 Loss due to unjustified retention of Ambassador's residence – Rs 18.76 million

As per Para 8.4.1 of FMMA Vol-II, the PAC has directed the Ministry that accommodation to be vacated immediately and in no case, due to exigency of service, this period exceed beyond three months.

During audit of Pakistan Embassy, Dakar for the FYs 2015-22, it was observed that mission hired an accommodation for Mr. Ali Ahmed Arrain, Ambassador @ Rs 1.87 million (CFA 4,000,000) per month through a lease agreement dated 29.07.2020. The officer retired from the service on July 09, 2021 and vacated the residence. However, the mission retained the said accommodation till May 27, 2022, and one month vacation notice was served on 28th April, 2022. Thus, the accommodation was irregularly retained for 10 months & 18 days in violation of PAC directives against which the mission made payment of Rs 18.76 million (CFA 40,197,260).

Audit is of the view that unnecessary retention of accommodation resulted in loss of Rs 18.76 million to the national exchequer.

The matter was reported to the management in January, 2023. The management in its reply stated that the mission retained the Embassy residence with the approval and instructions of Ministry of Foreign Affairs. Accordingly, as directed by the Ministry vide email message No. MS (I)-5/50/2016 dated 28 April 2022, one (01) month vacation notice for de-hiring of Embassy Residence was served on the same date to the landlord/company with effect from 28 April 2022.

DAC, in its meeting held on 20.12.2023, directed the Mission to seek justification from HOM. No further progress was reported till finalization of this report.

Audit recommends to fix responsibility on the person(s) at fault besides ensuring compliance of PAC directives in future.

[Para-1Dakar 2015-22]

1.5.22 Loss due to retention of vacant Embassy Residence – Rs 9.141 million

As per Para 8.4.1 of FMMA Vol-II, the PAC has directed the Ministry that accommodation to be vacated immediately and in no case, due to exigency of service, this period exceed beyond three months.

During audit of High Commission of Pakistan, Wellington for the FYs 2017-22, it was observed that the mission incurred expenditure of Rs 9.141 million (NZ\$ 53,456) on rent of embassy residence for 07 months which was vacated by the ex-ambassador on his retirement. During the period of seven months, the HOC remained the Charge D' Affaires / Acting High Commissioner and the accommodation of HC remained vacant but no action for vacating the premises was taken by the management.

Audit is of the view that violation of PAC directives resulted in loss of Rs 9.141 million to the national exchequer.

The matter was reported to the management in August, 2023. The management replied that as the Ministry was competent to accord sanction for retention of a hired residential building, its conveyed approval vide fax No. MS(I)-4/26/2006 dated 22 March 2018 for retaining the Embassy Residence.

DAC, in its meeting held on 11.01.2024, directed the Ministry to explain its position before PAC. No further progress was reported till finalization of this report.

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

[Para-1 Wellington 2017-22]

Others

1.5.23 Non-reconciliation of 20% surcharge of PCW&EF and FIGOB with NADRA – Rs 991.409 million

According to Para 10.1.1 of FMMA Vol-I, Pakistan Community Welfare and Education Fund (PCW&EF) is raised by levying 10% surcharge on the consular fees collected in Missions abroad. Similarly, according to Para 11.1.1 of FMMA Vol-I, the fund for Improvement of Government Owned Buildings (FIGOB) is collected as 10% surcharge on the Counselor Fees charged by our Missions for various services.

During audit of MOFA (HQ), Islamabad for the FY 2022-23, it was observed that the Ministry received Rs 991.409 million from NADRA as 20% share/surcharges on account of PCW&EF and FIGOB collected as Visa fee for Visa services provided online through POVS. The amounts so received, however, were un-reconciled, as Ministry had no record of the actual amount collected by NADRA on counselor services and the details of countries from where the collection of Counselor fees had been made. There was no mechanism of reconciliation with NADRA and Missions abroad regarding collection of Consular receipts through online and 10% share of surcharge each for PCW&EF and FIGOB. Detail is at *Annex-VII*.

Audit is of the view that in absence of the required record/details and reconciliation mechanism, the figures of the amounts being received from NADRA on account of 20% surcharges were unauthentic and could not be verified as actual amount.

The matter was reported to the management in December, 2023. The management replied that matter had been taken up with NADRA for reconciliation and same would be shared with Audit.

DAC, in its meeting held on 19.01.2024, directed the Ministry to take up the matter with NADRA to resolve the reconciliation issue. In case of non-cooperation of NADRA, the para would be shifted to NADRA (Ministry of Interior). No further progress was reported to this office till finalization of report.

Audit recommends compliance of DAC directive.

(Para-2, MOFA(HQ), 2022-23)

1.5.24 Non-refund of PCW&EF and FIGOB to Pakistan's Missions – Rs 991.409 million

According to PCW&EF Rules laid at Sl. No. 10.1.1 of FMMA Vol-I, PCW&EF was introduced vide MOFA's O.M. No. 4/11/81 Con-I, dated 08-10-1981. The fund is raised by levying 10% surcharge on the consular fees collected in Missions abroad for various community welfare activities. Similarly, according to Sl. No. 11.1.1 of FMMA Vol-I, FIGOB was introduced vide Ministry's O.M. No. 1978-AS(A) / 93 dated 18-04-1993. It is collected as 10% surcharge on the Counselor Fees charged by our Missions for various consular services. The surcharge thus

collected is accounted for separately. Its account has to be kept in a separate Bank Account. Expenditure from out of these funds can be made under the rules framed by the Ministry of Foreign Affairs.

During audit of MOFA (HQ), Islamabad for the FY 2022-23, it was observed that the Ministry received Rs 991.409 million from NADRA as 20% share on account of PCW&EF and FIGOB collected as Visa fee for Visa services provided online through POVS. However, Ministry was retaining this amount in the HQ instead of refunding the same to the missions as a result of which the missions could not utilize the funds for intended purposes.

Audit is of the view that retention of 20% surcharge of PCW&EF and FIGOB at MOFA(HQ) was irregular and unjustified.

The matter was reported to the management in December, 2023. The Ministry replied that matter had been taken up with NADRA authorities and progress would be shared with Audit when finalized.

DAC, meeting was convened on 19.01.2024, directed the management to explain its position before PAC. No further progress was reported till finalization of this report.

Audit recommends that the entire amount received from NADRA authorities on account of 20% surcharge may be remitted back to the concerned Missions.

(Para-8, MOFA (HQ), 2022-23)

1.5.25 Unjustified retention of consular receipts – Rs 97.168 million

According to Rule 7(1) of FTR, all moneys received by or tendered to Government officers on account of the revenues of the Federal Government shall without undue delay be paid in full into a treasury or into the Bank, and shall be included in the Federal Consolidated Fund of the Federal Government. Moneys received as aforesaid shall not be appropriated to meet departmental expenditure, nor otherwise kept apart from the Federal Consolidated Fund of the Federal Government. No department of the Government may require that any moneys received by it on account of the revenues of the Federal Government be kept out of the Federal Consolidated Fund of the Federal Government.

During audit of Embassy of Pakistan, Berlin, for the FYs 2019-22, it was observed that the mission deposited consular receipt amounting to Rs 97.168 million (€ 319,633) pertaining to July 2018 to June 2019 into its Imprest (Euro) Account on 08.07.2019. This was in violation of rules as the mission was required to deposit the consular receipt into the government exchequer at the earliest, instead of retaining the same for almost a year.

Audit is of the view that keeping government funds out of government account was a serious lapse and irregularity on part of the Mission authorities.

The matter was reported to the management in November, 2022. The management in its reply stated that consular receipt could not be submitted on time due to omission, resulting in the non-deposit of consular fee in the imprest account in a timely manner. However, at the end of the year the consular fee was submitted.

DAC, in its meeting held on 14.11.2023, directed the Ministry to furnish 01-year bank statement of consular receipts account of the Mission. DAC further directed that for future compliance of monthly transfer of consular receipt in imprest account be ensured. No further progress was reported till finalization of this report.

Audit recommends compliance of DAC directives.

[Para-13 Berlin 2019-22]

1.5.26 Non-refund of VAT from the host governments – Rs 64.695 million

According to Para 8.12.2 of FMMA Vol-II, Missions in Pakistan are exempted from all taxes other than service tax viz Conservancy and Water Taxes on reciprocal basis. Our Mission should also be exempted from such taxes.

During audit of Pakistan’s Missions abroad for the FYs 2017-22, it was observed that various missions made payment on account of various items / services and paid an amount of Rs 64.695 million on account of VAT but the same was not claimed from the host government. . Detail is as tabulated below:

Sl. No.	Name of Mission	Period of AIR	AIR Para No.	Amount (LC)	Amount (Rs)
1	Sydney	2017-22	5	A\$ 7,468.74	1,426,305
2	Sydney	2017-22	15	A\$ 3,267.47	623,997
3	Canberra	2017-22	6	A\$ 34,200	6,532,200
4	Kathmandu	2018-22	4	NR 4,074,761.90	8,557,000
5	Bangkok	2018-22	14	Bhat 1,019,416	8,155,329
6	Singapore	2019-22	19	S\$ 124,936.66	26,111,762
7	Berlin	2019-22	39	€ 43,568	13,288,240
TOTAL					64,694,833

Audit is of the view that due to non-adherence to the rules, no claim for refund of VAT amounting to Rs 64.695 million was made which resulted into loss of government exchequer.

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

DAC, in its meetings held on 20.12.2024& 19.01.2024, directed the Ministry to get the record of VAT refund verified from Audit. No further progress was reported till finalization of this report.

Audit recommends compliance of DAC directives.

1.5.27 Suspicious transaction from FIGOB fixed deposit account – Rs 26.440 million

According to Rule 13 of GFR Vol-I, in the discharge of his ultimate responsibilities for the administration of an appropriation or part of an appropriation placed at his disposal, every Controlling officer must satisfy himself not only that adequate provisions exist within the departmental organization for systematic internal checks calculated to prevent and detect errors and irregularities in the financial proceedings of its subordinate officers and to guard against waste and loss of public money and stores, but also that the prescribed checks are effectively applied. For this purpose, each Head of the Department will get the accounts of his office and those of the subordinate disbursing officers, if any, inspected at least once in every FY by a Senior Officer not connected with the account matters to see whether satisfactory arrangement exists for systematic and proper maintenance of Account Books and other ancillary records concerned with the Initial Accounts.

During audit of Embassy of Pakistan, Berlin for the FYs 2019-22, it was observed that an amount of Rs 26.440 million (€ 87,000) was appearing in the cashbook as invested in fixed deposit account. This amount was being regularly reflected in cash book and was being reconciled on monthly basis till December 2020. However, from January 2021 onward, the amount of fixed deposit neither was appearing in the cash book of FIGOB as fixed deposit nor on the receipt side of FIGOB as received back.

Audit is of the view that improper recording of funds raised suspicion of misappropriation of funds.

The matter was reported to the management in November, 2022. The mission in its reply stated that the said amount along with other funds arranged from PAREP Seoul was expended on the necessary repair/maintenance work at the Embassy Residence. From February 2016 till December 2020, the amount was being erroneously mentioned as fixed deposit account in Mission's Cashbook record of FIGOB Account which was later rectified in the Missions record.

DAC, in its meeting held on 14.11.2023, directed the Ministry to get the record verified from Audit. No further progress was reported till finalization of this report.

Audit recommends the compliance of DAC directives.

[Para-42 Berlin 2019-22]

1.5.28 Unjustified retention of surcharge on account of PCW&EF / FIGOB – Rs 19.43 million

As per Rule 7(1) of FTR, all moneys received by or tendered to Government officers on account of the revenues of the Federal Government shall without undue delay be paid in full into a treasury or into the Bank, and shall be included in the Federal Consolidated Fund of the Federal Government. Moneys received as aforesaid shall not be appropriated to meet departmental expenditure, nor otherwise kept apart from the Federal Consolidated Fund of the Federal Government. No department of the Government may require that any moneys received by it on account of the revenues of the Federal Government be kept out of the Federal Consolidated Fund of the Federal Government. Similarly, according to Para-4 of GFR Vol-I, all transactions to which any officer of Government is a party in his official capacity must be brought to account without delay.

During audit of Embassy of Pakistan, Berlin for the FYs 2019-22, it was observed that the mission deposited two identical amounts of Rs 9.710 million (€ 31,963.31) i.e. total of Rs 19.430 million pertaining to the period July 2018 to June 2019 to FIGOB and PCW&EF accounts respectively on 08.07.2019. The same amounts were credited / transferred to imprest account on 10.07.2019 and 12.07.2019, i.e. in the same month. Hence, collection of 10% surcharges each on FIGOB and PCW&EF for the period July 2018 to June 2019 was not transferred to the respective accounts at that time but after a period of one year.

Audit is of the view that keeping government funds out of government account was a serious lapse and irregularity on part of the Mission authorities.

The matter was reported to the management in November, 2022. The management in its reply stated that the 10% of each PCW&EF and FIGOB accounts were deposited at the end of June 2019, which were credited in July 2019 by the bank.

DAC, in its meeting held on 14.11.2023, directed the Ministry to furnish one year bank statement of consular receipt account of the mission. DAC further directed that future compliance of monthly transfer of consular receipts in Imprest account should be ensured. No further progress was reported till finalization of this report.

Audit recommends compliance of DAC directives.

[Para-14 Berlin 2019-22]

1.5.29 Non-refund of loan to FIGOB account – Rs 17.190 million

According to Para 11.4.1(ii) of the FMMA, Vol-I, the authority competent to approve any expenditure beyond the competency of the HOM from FIGOB / PCW & EF will continue to be the Foreign Secretary. Further, according to Para 11.3.5 of *ibid*, the surplus (FIGOB) should be invested in interest bearing fixed deposit.

During audit of Consulate General of Pakistan, Sydney for the FYs 2017-22, it was observed that the mission took a loan amounting to Rs 17.190 million (A\$ 90,000 @ Rs 191) from the FIGOB account during the FY 2021-22. The loan obtained from FIGOB was still outstanding at the close of audit. The detail is as under;

Withdrawal date	Description	Amount (A\$)	Amount (Rs)
17.11.2021	FIGOB	50,000	9,550,000
08.06.2022	FIGOB	40,000	7,640,000
TOTAL		90,000	17,190,000

Audit is of the view that non-adherence to the relevant rules resulted in irregular loan from FIGOB and loss in terms of profit on the fixed deposits.

The matter was reported to the management in August, 2023. No further progress was reported till finalization of this report.

DAC, in its meeting held on 19.01.2024, directed for refund of loan to FIGOB.

Audit recommends compliance of DAC directives.

[Para-17 Sydney 2017-22]

1.5.30 Unjustified expenditure on rent due to inordinate delay in construction of office / residential complex – Rs 181.17 million

As per Para 10(i) of GFR Vol-I, every officer incurring or authorizing expenditure from public funds should be guided by high standards of financial propriety. Every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.

During audit of Embassy of Pakistan, Kathmandu for the FYs 2018-22, it was observed that a 32 Kanal open plot was purchased by the Embassy of Pakistan, Kathmandu in 1984 for US\$ 458,496 with the approval of Government of Pakistan. In 2008, the Government of Pakistan approved the proposal for the construction of chancery and residence complex on the said land at a cost of US\$ 4.71 million. The Mission was provided Rs 30 million from FIGOB of PAREP Riyadh and Muscat (Rs 15 million from each). As per MOFA letter No Acct.Admn. 22/2022 dated 23 August 2012, there was shortfall of funds required for the project despite the fact that there were sufficient funds of US\$ 944,119.50 in the FIGOB account of the mission. However, no further progress was reported in this regard as the construction of the said complex was yet to start. Resultantly, the Mission made payment of Rs 181.17 million on rent of office as well as residential buildings since 2018 only which was held unjustified by the Audit. The details are as under:

Sl.	Year	A03402	A03403

No.		Rent of office Building	Rent Residence
1	2018-19	10,414,950	22,773,293
2	2019-20	14,567,910	30,120,079
3	2020-21	15,398,680	32,810,873
4	2021-22	16,432,395	38,651,551
TOTAL		56,813,935	124,355,796
GRAND TOTAL		181,169,731	

Audit is of the view that despite provision of sufficient funds, inordinate delay in construction of residential / official complex resulted in unjustified expenditure of Rs 181.17 million on rent.

The matter was reported to the management in April, 2023. The management in its reply stated that the matter is already under consideration with the Ministry. However, as per audit observation Mission will again take up the case with the concerned authorities in Ministry for construction of the Chancery and residential buildings.

DAC, in its meeting held on 20.12.2023, pended the para with the direction to construct building and take up the matter with Inter Ministerial Committee (IMC). No further progress was reported till finalization of this report.

Audit recommends compliance of DAC directives besides fixing responsibility for the slack performance in construction of residential / office complex.

[Para-20 Kathmandu 2018-22]

1.5.31 Non-deposit of collection on account of Prime Minister Flood Relief Fund 2022 – Rs 11.012 million

According to Para 3.6.1 & 2 of FMMA Vol. II, all funds lying with Pakistan Missions Abroad, which are not required to be disbursed within a period of one month, shall be promptly repatriated to Pakistan.

During audit of Pakistan High Commission, Nairobi for the FYs 2019-22, it was observed that the mission opened bank account bearing No.0365096005 for Prime Minister's Flood Relief Fund, 2022 and collected Rs 11.012 million for flood affectees. However, the amount collected for flood relief was retained in the mission instead of repatriating the same to Pakistan.

Audit is of the view that retention of funds amounting to Rs 11.012 million was in violation of rules and resulted in non-utilization of funds for the prescribed purpose.

The matter was reported to the management in March, 2023. The management replied that in Kenya transfer of charity money is not legal. As per policy, charity funds cannot be transferred without state's instructions. The mission is pursuing the matter with bank and other concerned departments. The amount will be transferred to the State bank of Pakistan accordingly.

DAC, in its meeting held on 19.01.204, directed the Ministry for verification of record. No further progress was reported till finalization of this report.

Audit recommends to transfer the subject funds at the earliest under intimation to Audit.

[Para-13 Nairobi 2019-22]

1.5.32 Irregular expenditure on transportation of dead bodies – Rs 10.509 million

As per Rule 205 of FTR Vol-I, a Government officer entrusted with the payment of money shall obtain for every payment he makes, including repayment of sums previously lodged with the Government, a voucher setting forth full and clear particulars of the claim and all information necessary for its proper classification and identification in the accounts. Every voucher must bear, or have attached to it, an acknowledgment of the payment signed by the person by whom, or in whose behalf, the claim is put forward. The acknowledgment shall be taken at the time of payment.

During audit of Embassy of Pakistan, Berlin for the FYs 2019-22, it was observed that the mission paid an amount of Rs 10.509 million (€ 34,568) on account of transportation and funereal charges for the dead bodies to various firms without obtaining necessary documents such as airway bills, original invoices, bifurcation of charges. The details of expenditure are at **Annex-VIII**.

Audit is of the view that payment without obtaining required documents/record rendered the authenticity of expenditure doubtful.

The matter was reported to the management in November, 2022. The management in its reply stated that in some cases, due to urgency of sending the dead body and our unique culture of ensuring early burial, all documents in original, may not have been acquired and copies placed in the record

DAC, in its meeting held on 14.11.2023, directed the Ministry to provide airway bill to Audit. No further progress was reported till finalization of this report.

Audit recommends compliance of DAC directives.

[Para-34 Berlin 2019-22]

1.5.33 Excess deductions of consular receipts – Rs 8.076 million

According to Para 11.1 of FMMA, Vol-II, "The Fund for Improvement of Government Owned Building (FIGOB) and Pakistan Community Welfare and Education Fund

(PCW&EF) are collected as 10% surcharges (for each fund) on the Counselor Fees charged by our Missions. Share of both funds in the gross counselor receipt can be calculated as per following formula:

$$\text{Gross receipt} * 20/120$$

During audit of Consulate General of Pakistan, New York for the FYs 2020-22, it was observed that the mission credited excess amounts of consular receipts to PCW&EF and FIGOB accounts than prescribed under the rules. The details of excess deductions are at ***Annex-IX***.

Audit is of the view that weak internal controls resulted in excess deduction from consular receipts in violation of rules.

The matter was reported to the management in March, 2023. The management in its reply stated that the amount shown under “gross receipt” was in fact net consular receipt. Furthermore, the gross consular receipt included NADRA processing charges that were divided evenly between PCW&EF and FIGOB Account.

DAC, in its meeting held on December 07, 2023, directed the Ministry to provide documentary evidence in support of Ministry’s stance for Audit verification. No further progress was reported till finalization of this report.

Audit recommends compliance of DAC directives.

[Para-01 CG New York 2020-22]

1.5.34 Doubtful drawl from the bank account – Rs 6.226 million

According to Para 2.19.1 of FMMA Vol-II, a government officer entrusted with the payments of money should obtain for every payment a voucher setting forth full and clear particulars of the claim, acknowledgement of the payee, and all information necessary for its proper classification and identification in the accounts.

During audit of Embassy of Pakistan, Tehran for the FYs 2018-22, it was observed that the mission debited Rs 6.266 million from Habib Bank, Dubai in July 2010 but the same was not reflected in cash books of the Embassy, rather it was reflecting in the bank reconciliation

statements. No action was taken by the mission to clear the disputed amount despite lapse of 13 years.

Audit is of the view that in the absence of supporting documents, the authenticity of expenditure could not be ascertained.

The matter was reported to the management in February, 2023. The management replied that the matter was 13 years old with no record available regarding the action to be taken to settle the disputed amount.

DAC, in its meeting held on 19.01.2024, directed the Ministry for reconciliation of accounts. No further progress was reported till finalization of this report.

Audit recommends to investigate the matter and share the result of reconciliation with Audit.

[Para-12 Tehran 2018-2022]

1.5.35 Irregular transfer of funds from imprest account to PCW&EF and FIGOB accounts – Rs 5.01 million

According to Para 10.1.1 of FMMA Vol-I, Pakistan Community Welfare and Education Fund (PCW&EF) was introduced 1981. The fund is raised by levying 10% surcharge on the consular fees collected in Missions aboard. The surcharge thus collected is accounted for separately. Its account has to be kept in a separate Bank Account. Expenditure from out of this fund can be made under the rules framed by the Ministry of Foreign Affairs.

During audit of Embassy of Pakistan, Berlin for the FYs 2019-22, it was observed that the mission transferred an amount of Rs 5.01 million (€ 16,500) from its imprest account to Mission's FIGOB and PCW&EF accounts i.e., € 8,250 in each account, on 02.07.2020 without any details and justification.

Audit is of the view that transfer of funds from mission's imprest account to mission's FIGOB and PCW&EF account without any details and justification was irregular.

The matter was reported to the management in November, 2022. The management in its reply stated that the amount was deposited from Mission's Imprest to the Mission's PCW&EF and FIGOB's accounts, as 10% surcharge on monthly consular fee at the end of June 2020. However, the amount was transferred by the bank on 02.07.2020.

DAC, in its meeting held on November 14, 2023, directed the Ministry to provide details of the reconciliation of the amount which resulted in payment of transfer of € 16,500 to PCW&EF and FIGOB accounts. No further progress was reported till finalization of this report.

Audit recommends compliance of DAC directives.

[Para- 45 Berlin 2019-22]

1.5.36 Irregular payment to law firm for translation of legal documents – Rs 4.133 million

According to Rule 9 of GFR Vol-I, as a general rule no authority may incur any expenditure or enter into any liability involving expenditure from public funds until the expenditure has been sanctioned by general or special orders of the President or by an authority to which power has been duly delegated in this behalf and the expenditure has been provided for in the authorized grants and appropriations for the year.

As per Sl. No. 31 of schedule of Financial powers delegated to the PAO under the Financial management regulations 2021, the PAO is vested with full powers in consultation with Law & Justice Division.

During audit of Embassy of Pakistan, Bangkok for the FYs 2018-22, it was observed that the mission hired a legal firm, Mr. Charoenrit Hardjiang, for translation of legal documents pertaining to prisoners and paid an amount of Rs 4.133 million (BHT 526,500). However, the mission did not obtain approval of MoFA for expenditure from PCW&EF and did not obtain concurrence from Law and Justice Division as required under the rules. The detail is as under:-

Sl. No.	Particulars	Vr. No	Amount BHT	Amount Rs
1	Thai version of prisoner's documents translated into English @ 500 BHT per page.	31 of October 2018	128,000	1,004,800
2	Thai version of prisoner's documents (797 pages) translated into English @. 500 BHT per page.	31 of June 2020	398,500	3,128,225
TOTAL			526,500	4,133,025

Audit is of the view that incurrence of expenditure without observing codal formalities rendered the expenditure irregular.

The matter was reported to the management in March, 2023, but no reply was received till finalization of this report.

The management was requested to convene DAC meeting on 06.04.2023 and subsequently reminders on 12.05.2023, 25.08.2023, 18.09.2023, 24.11.2023, 28.11.2023, 04.12.2023 and 14.12.2023. However, no response was received till finalization of this report.

Audit recommends to refer the matter to the competent forums for consideration.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2018-19, 2019-20, 2020-21, 2021-22 & 2022-23 vide para number 2.4.2, 2.4.1, 1.1.16, 3.2.10, 3.2.9, 2.5.32 & 1.5.25 respectively having financial impact of Rs. 196.510 million. Recurrence of same irregularity is a matter of serious concern.

[Para-11 Bangkok 2018-22]

1.5.37 Irregular expenditure on Pakistan day celebration from Sumptuary Allowance – Rs 3.560 million

According to Para 4.21.12 of FMMA Vol-II, holding of National Day Receptions and Large Lunches/Dinners or receptions of routine nature out of Sumptuary Allowance is not allowed.

During audit of Embassy of Pakistan, Kathmandu for the FYs 2018-22, it was observed that the mission utilized an amount of Rs 3.560 million (US\$ 12,704.72) on Pakistan day reception and UN day from sumptuary allowance head which was not admissible as per above referred rule. Details are at *Annex-X*.

Audit is of the view that incurrence of expenditure on Pakistan day reception and Eid-ul-Fitar reception from sumptuary allowance and entertainment allowance was violation of rules.

The matter was reported to the management in August, 2023. The management replied that the expenditure was incurred on the National day reception of Pakistan with the approval of Ministry. However, the expenditure incurred by the Head of Mission, on the eve of Eid-ul-Fitr was permissible under the limit/powers of the HOM.

DAC, in its meeting held on 20.12.2023, directed to provide Ministry's approval to Audit for verification. No further progress was reported till finalization of this report.

Audit recommends compliance of DAC directives.

[Para-19 Kathmandu 2018-22]

1.5.38 Irregular maintenance of welfare account – Rs 3.462 million

As per Para 5(4) of Chapter-IV of Cash Management and Treasury Single Account Rules 2020, Government offices that are fully funded through the Federal Government budget by using either local or foreign sources, including project and program loans and grants, shall operate their bank accounts through treasury single account system and no cash operation shall be allowed outside the treasury single account. Assignment accounts, sub-assignment accounts and revolving fund accounts shall be used in case of local currency or foreign currency funding requirements. Further as per Para(2) of chapter-IV of Cash Management and Treasury Single Account Rules 2020, Monies that have been appropriated through the Federal Government budget and have been transferred to scheduled bank accounts by Government offices shall be reverted to the non-food account No.1 of the Government by the 30th June 2020, as non-tax receipt of the Government.

During audit of Institute of Regional Studies, Islamabad for the FYs 2020-22, it was observed that the management was maintaining a welfare bank account with an unspent amount of Rs 3.462 millions on 30.6.2022. However, the account was being maintained without approval from Finance Division which rendered the maintenance of account irregular.

The matter was reported to the management in April, 2023. The management in its reply stated that the approval of the BoG for opening bank account was obtained and subsequently would be intimated to Finance Division for their approval.

DAC, in its meeting held on December 07, 2023, directed the Ministry to provide the authority and sources under which welfare fund was created. DAC further directed to provide evidence to the fact that IRS has furnished the approval of BOG to the Finance Division. No further progress was reported till finalization of this report.

Audit recommends compliance of DAC directives.

[Para-5 IRS 2020-22]

1.5.39 Irregular payment of honorarium to employees of private firms from PCW&EF and FIGOB – Rs 2.970 million.

As per rules laid at Chapter No. 10 and Chapter No.11 of FMMA Vol-I, the basic purpose of Pakistan Community Welfare and Education Fund (PCW&EF) is the Welfare of Pakistan Community abroad and those availing Consular services in Pakistan. There is no provision in rules for grant of honorarium to employees of private firms from PCW&EF funds.

Finance Division's O.M No F 2(9) R-3/85 dated 18th March, 1987 states that a competent authority may sanction the grant of the honorarium from the general revenues to a Government servant for doing certain work.

During the audit of MOFA (HQ), Islamabad for the FY 2022-23 it was observed that Ministry made payment of Rs2.970 million out of PCW&EF account as honorarium to 198 Security and Janitorial staff of the private firms/companies working in the Headquarters which was in violation of rules. The private companies/firms were hired for provision of security and janitorial services under separate contracts. Further, the amount was drawn in cash and acknowledgments for receipts of honorarium were also not available on record. The details are as under:

Sl. No.	Particulars	Company/firm	Amount Paid
1	Payment of honorarium to 98 Security Guards @ Rs. 15,000 per head	M/S Safety & Security Co Rawalpindi.	1,470,000
2	Payment of honorarium to 35 janitorial staff hired for Agha Shahi Block/building @ Rs.15,000	M/S Outriders	525,000
3	Payment of honorarium to 45 janitorial staff hired for SYK building @ Rs.15,000	M/S Baber and Umer Pvt Ltd	675,000
4	Payment of honorarium to 20 janitorial staff hired for PBFH @ Rs.15,000	M/S Best Mansol Services Pvt Ltd	300,000
TOTAL			2,970,000

Audit is of the view that payment of honorarium to the employees of private firms/companies without any rules provision was unauthorized.

The matter was reported to the management in December, 2023. The Ministry replied that as per PCW&EF rules, it could be used for comprehensive welfare activities of Ministry's staff. The security and janitorial staff was low paid and thus honorarium was paid.

DAC, meeting was held on 19.01.2024. DAC directed the Ministry to explain the position to the PAC. No further progress was reported till finalization of this report.

Audit recommends compliance of DAC directives.

(Para-12, MOFA (HQ), 2022-23)

CHAPTER 2 MINISTRY OF COMMERCE

2.1 Introduction

Under the Rules of Business of the Federal Government, Ministry of Commerce has been assigned the functions of trade and commerce between provinces and with other countries including trade agreements with other countries and promotion of International Trade. Commercial wings functioning in Pakistan Missions abroad play an important role in promoting international / bilateral trade and thus earning substantial foreign exchange. These trade wings fall under the audit jurisdiction of DG Audit (F&I). The major functions of the Ministry are as under;

- i. Commercial intelligence and statistics;
- ii. Trade marks;
- iii. Organization and control of Chambers and Associations of Commerce and Industry;
- iv. Tariff (protection) policy and its implementation;
- v. Law of insurance, regulation and control of Insurance Companies, actuarial work, insurance of war, riot and civil commotion risks and life insurance but excluding health and unemployment insurance for industrial labour and post office insurance.
- vi. Export promotion;
- vii. Anti-dumping duties, countervailing and safeguard laws;
- viii. Management of EDF / EMDF with representation of Textile Industry Division on their Boards; and
- ix. Management of Trade Development Authority of Pakistan (TDAP).

2.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 31.301 million were raised as a result of this audit. Summary of the audit observations classified by nature is as under:

(Rupees in millions)

Sl. No.	Classification	Amount
1	Non-production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities / Overpayments	
	A- HR / Employees relates irregularities	5.746
	B- Procurement related irregularities	-
	C- Management of Accounts with Commercial Banks	-
4	Value for money and service delivery issues	-
5	Others	25.555
	Total	31.301

ii)

2.3 Brief comments on the status of compliance with PAC directives

Name of Ministry	Year of Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
Ministry of Commerce	1990-91	2	0	2	0
	1992-93	1	1	0	100
	1994-95	1	0	1	0
	1995-96	3	0	3	0
	1996-97	6	2	4	33
	1998-99	6	4	2	67
	1999-00	3	3	0	100
	2000-01	3	1	2	33
	2001-02	10	5	5	50
	2002-03	1	1	0	100
	2004-05	1	0	1	0
	2005-06	9	3	6	33
	2006-07	6	4	2	67
	2009-10	21	2	19	10
	2010-11	4	2	2	50
	2013-14	1	1	0	100
	2015-16	2	-	2	0
	2017-18	2	-	2	0
	2018-19	1	-	1	0
TOTAL		83	29	54	35

The overall compliance in respect of Ministry of Commerce is comparatively low.

2.4 AUDIT PARAS

Irregularities / Overpayments

A- HR / Employees related irregularities

2.4.1 *Unauthorized payment of Overtime Allowance to local based driver – Rs 2.371 million*

According to Para 5.14.1, 2, 3, 4 of FMMA Vol-II, overtime Allowance and night duty allowance to Pak-based drivers and dispatch riders is admissible at US\$ 1 per hour subject to maximum of US\$ 6 per day. In addition, a certificates that officials claiming overtime allowance have actually earned it by working overtime, the period claimed in overtime bill has been checked and found correct and overtime allowance was added into gross pay for income deduction should be recorded on the overtime bill by the controlling officer.

Moreover, Rule 10(v) of GFR stipulates that the amount of allowances granted to meet expenditure of a particular type should be so regulated that the allowances are not on the whole a source of profit to the recipients.

During audit of Embassy of Pakistan Bangkok for the FYs 2018-22, it was observed that overtime allowance amounting to Rs 2.371 million (BHT 480,000) was paid to the Driver, Mr. Orachun Ketsup.

The official concerned invariably receiving overtime allowance for maximum possible hours on daily basis. Further, the drive was receiving BHT 10,000 per month on regular basis which showed that the Mission had compensated him by making this allowance a part of his monthly income. Overtime allowance was claimed almost for all Saturdays and some Sundays. No cogent reason/justification was provided by the controlling officer to substantiate his claims of overtime making this whole process suspicious. The details are at ***Annex-XI***.

Audit is of the view that the facility of overtime was misused and due diligence was not exercised which resulted in unjustified payment of overtime allowance to concerned official.

The matter was reported to the management in March, 2023 but no reply was received.

The management was requested to convene DAC on 04.01.2024 & 16.01.2024 but no response was received till finalization of this report.

Audit recommends recovery of unjustified overtime amount. Audit further, recommends that payment of overtime be rationalized on the basis of actual duty performed by the drivers.

[Para-04 Bangkok 2018-22]

2.4.2 *Non-adjustment of TA / DA on Transfer – Rs 1.404 million*

According to Para 10.7.2 of FMMA Volume-II, no advance shall in future be paid for travel expenses to any officials on transfer from headquarters to Missions abroad or Mission to headquarters or from Mission to Mission. As per Serial No. 66 of Financial Management and Powers of Principal Accounting Officers Regulations, 2021, where T.A advance was drawn, TA adjustment bill should be submitted within six months of the date of performance of journey by the government servant, failing which the advance will be recovered.

During audit of Embassy of Pakistan, Bangkok for the FYs 2018-22, it was observed that TA / DA advance on transfer was paid to Mr. Ghulam Nabi Kamboh, Counsellor (T&I) vide Vr. No. 49/10 of October, 2019 amounting to Rs 1.404 million (US\$ 1,563.85). However, certificates of adjustment from the office of Chief Accounts Office are still pending.

Audit is of the view that due to non-adjustment of TA/DA advances, authenticity of the claims / payment to the officer could not be ascertained.

The matter was reported to the management in March, 2023 but no reply was received.

The management was requested to convene DAC on 04.01.2024 & 16.01.2024 but no response was received till finalization of this report.

Audit recommends early adjustment or recovery of the amount of advances besides avoiding such instances in future.

[Para-19 Bangkok 2018-22]

2.4.3 Non-recovery of security deposit – Rs 1.989 million

According to Para 8.6.1(a) of FMMA Vol-II, Pakistani Missions abroad are required to ensure recovery of the security deposits from the landlord at the time of vacation of accommodations occupied by the officers/officials. Needless to say that the cost of the cleaning or breakage must be borne by the occupant and not by the state.

During audit of Pakistan’s Missions broad for the FYs 2018-22, it was observed that the mission made payment on account of security deposit for the rented accommodation for the officers. However, upon vacancy of the premises, the officers did not deposit the security deposits as required under the above mentioned rule. The details are as under;

Sl. No.	Name of Mission	Period of AIR	AIR Para No	Amount (LC)	Amount (Rs)
1	Chicago	2018-22	1	US\$ 4,700	1,339,500
2	Manchester	2019-20	5	£ 1,800	649,800
TOTAL					1,989,300

Audit is of the view that weak internal controls resulted in non-recovery of security deposit from the officers.

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

The management was requested to convene DAC meeting on 04.01.2024 & 16.01.2024 but no response was received till finalization of this report.

Audit recommends to recover outstanding amount from the officer under intimation to Audit.

Others

2.4.4 Non-repayment of loan obtained from other missions for construction of embassy residence – Rs 25.555 million

According to Para 11.4.1 (iii,iv,v,vi) of FMMA Vol-I, the following instructions of the Competent Authority regarding the utilization of funds under FIGOB / PCW & EF are issued for implementation in the Missions accordingly, the borrowing Mission will repay the actual amount, received on transfer from the lending Mission, without any mark up until and unless any such clear directions are given from the Ministry in this regard.

During Audit of Embassy of Pakistan Bangkok for the FYs 2018-22, it was observed that the commercial wing has not paid their due share of Rs 25.555 million (US\$ 89,669) to clear the loan obtained from different Pakistan's Missions abroad for the construction of Embassy of Pakistan, Bangkok. The loan was not fully repaid even after lapse of more than 12 years.

Audit is of the view that non-refund of loan resulted in poor financial management on part of the Mission.

The matter was reported to the management in March, 2023 but no reply was received.

The management was requested to convene DAC on 04.01.2024 & 16.01.2024 but no response was received till finalization of this report.

Audit recommends that outstanding loan be paid without any further delay.

[Para-23 Bangkok 2018-22]

3.1 Introduction

The Defence Division is responsible for policy and administrative matters pertaining to the Defence of the Federation and three Armed Forces. It also deals with administrative & financial matters pertaining to Survey of Pakistan. The responsibility in respect of international negotiations, agreements and purchases of defence equipment along with allied accessories are also being handled by this Division.

Functions of Defence Division as per Rules of Business, 1973 are:

1. Defence of the Federation or any part thereof in peace or war including:
 - a. Army, naval and air forces of the Federation and any other armed forces raised or maintained by the Federation; and armed forces which are not the forces of the Federation but are attached to or operating with any of the armed forces of the Federation;
 - b. Army, naval and air force works;
2. Civilian employees paid from the Defence estimates.
3. (i) Defence matters pertaining to treaties and agreements with other Governments except those relating to purchase of stores; and
(ii) Matters regarding military assistance to foreign countries.
4. Stores and stationery for the Defence Services, other than those dealt with by the Defence Production Division.
5. Administration of National Guards Act, 1973.
6. International Red Cross and Geneva Conventions in so far as they effect belligerents.
7. Military awards and decorations.
8. Welfare of ex-servicemen.
9. Cantonment areas including:
 - a. The delimitation of such areas;
 - b. Local Self-Government in such areas, the constitution of local authorities for such areas and the functions and powers of such authorities; and
 - c. The regulation of housing accommodation (including control of rent) in such areas.
10. Acquisition or requisitioning of property for Defence Services; imposition of restrictions upon the use of lands in the vicinity of such property and of works of Defence.
11. Pardons, reprieves and respites, etc. of all personnel belonging to the Armed Forces.

12. Survey of Pakistan.
13. Administrative and budgetary control of Federal Government Educational Institutions (Cantonments/Garrisons) Directorate and its Institutions.
14. Administration of Military Lands and Cantonments Group.
15. National Maritime policy.
16. (i) Matters relating to security of resources of the Maritime Zones of Pakistan including protection of human life and property.
(ii) Pakistan Maritime Security Agency.
17. (i) National coordination of maritime activities.
(ii) National Maritime Affairs Coordination Committee.
18. Marine surveys and elimination of dangers to navigation.
19. Promotion of maritime disciplines.
20. International aspects:
21. Matters arising out of the implementation of law of the Sea pertaining to Maritime Affairs.
22. International negotiations, agreements and treaties (excluding those handled by other Divisions).
23. Liaison with International Sea Bed Authorities and other International Agencies in the Maritime field.
24. Pakistan Space and Upper Atmosphere Research Commission.

3.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 6.672 million were raised as a result of this audit. Summary of the audit observations classified by nature is as under:

(Rupees in millions)

Sl. No.	Classification	Amount
1	Non-production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities / Overpayments	
	A- HR / Employees relates irregularities	-
	B- Procurement related irregularities	-
	C- Management of Accounts with Commercial Banks	-
4	Value for money and service delivery issues	-
5	Others	6.672
	Total	6.672

iii)

3.3 Brief comments on the status of compliance with PAC directives

Name of Ministry	Year of Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
Ministry of Defence	1985-86	1	0	1	0
	1986-87	3	0	3	0
	1989-90	2	2	0	100
	1990-91	2	1	1	50
	1994-95	1	0	1	0
	1998-99	2	0	2	0
	2000-01	1	0	1	0
	2001-02	6	4	2	67
	2004-05	2	0	2	0
	2005-06	5	4	1	80
	2006-07	6	5	1	83
	2009-10	7	6	1	86
	2017-18	2	1	1	50
	TOTAL	40	23	17	57.5

The overall compliance in respect of Ministry of Defence is not satisfactory.

3.4 AUDIT PARAS

Others

3.4.1 Non-refund of VAT from the host governments – Rs 4.697 million

According to Para 8.12.2 of FMMA Vol-II, Missions in Pakistan are exempted from all taxes other than service tax viz Conservancy and Water Taxes on reciprocal basis. Our Mission should also be exempted from such taxes.

During audit of Consulate General of Pakistan, Sydney for the FYs 2017-22, it was observed that various items / services were procured involving VAT of Rs 4.697 million which was not claimed from the host governments. Details are as under:

Sl. No.	Name of Mission	Period of AIR	AIR Para\ No	Amount (Rs)	Remarks
1	Sydney	2017-22	13	3.629 million	The detail is at <i>Annex- XII</i> .
2	Bangkok	2018-22	7	1.068 million	The detail is at <i>Annex- XIII</i> .
TOTAL				4.697 million	

Audit is of the view that due to non-adherence to the rules, no claim for refund of VAT amounting to Rs 4.697 million was made which resulted into loss of government exchequer.

The matter was reported to the management in August, 2023 but no reply was received.

The management was requested to convene DAC on 04.01.2024 & 16.01.2024 but no response was received till finalization of this report

Audit recommends to prepare detailed working of claimable amount of VAT and immediately recover the same from the tax authorities of the host country.

3.4.2 Unauthorized payment on account of repair of vehicle – Rs 1.146 million

According to Finance Division O.M. No. F.3(2)Exp-III/2006, dated 03.09.2006, the heads of Missions are authorized to incur expenditure US\$ 2,000 at any one time to one or any number of vehicles used by the Pakistan Missions abroad.

During the audit of Embassy of Pakistan, Berlin for the FYs 2019-22, it was observed that the mission incurred expenditure of Rs 1.146 million (€ 3,674.89 @ Rs 311.84) on repair of vehicle. However, the mission got the car repaired in excess of prescribed limit without approval of the Finance Division. Hence, the entire expenditure was held unauthorized.

Audit is of the view that due to weak internal and financial controls, mission incurred expenditure beyond the prescribed financial limits without approval of the Finance Division.

The matter was reported to the management in November, 2023 but no reply was received.

The management was requested to convene DAC on 04.01.2024 & 16.01.2024 but no response was received till finalization of this report.

Audit recommends to refer the matter to Finance Division for consideration.

[Para-1 Berlin 2019-22]

CHAPTER 4 MINISTRY OF INFORMATION, BROADCASTING AND NATIONAL HERITAGE

4.1 Introduction

Ministry of Information, Broadcasting and National Heritage comprises of the following divisions:

Information and Broadcasting Division

National Heritage Division

According to Rules of Business 1973 (Schedule – II) Section 16 & Section 25 the mandate of Ministry is as follows:

Information and Broadcasting Division

- i. Policy relating to internal publicity on national matters including the administration of the provisions of the Post Office, Act, 1898, and section 5 (1) (b) of the Telegraph Act, 1885, in so far as they relate to the Press.
- ii. Broadcasting including television.
- iii. Production of films on behalf of Government, its agencies, Government controlled Corporations, etc.
- iv. Press relations, including delegations of journalists and other information media.
- v. Provision of facilities for the development of newspapers industry.
- vi. (i) Policy regarding government advertisement; control of advertisement and placement; (ii) Audit of circulation of newspapers.
- vii. Administration of the Newsprint Control Ordinance, 1971.
- viii. National Anthem
- ix. Liaison and coordination with agencies and media on matters concerning Government policies and activities.
- x. Administration of the Information Group.
- xi. External Publicity.
- xii. Pakistan National Centres.
- xiii. (i) Administration of- (a) Pakistan Broadcasting Corporation Act, 1973; (b) Associated Press of Pakistan (Taking Over) Ordinance, 1961; and (c) Pakistan Electronic Media Regulatory Authority. (ii) Matters relating to- (a) The Pakistan Television Corporation; and (b) Omitted vide SRO No.48 (1)/2016 dated 26.1.2016. 2 (c) Shalimar Recording and Broadcasting Company.
- xiv. Training facilities for Radio and Television personnel.
- xv. Special Selection Board for selection of Press Officers for posting in Pakistan Missions abroad.
- xvi. Omitted vide SRO1088(I)/2011, (4-14/2011-Min-I) dated 09.12.2011.

- xvii. Establishment of tourists centers abroad.
- xviii. Administration of the Newspapers Employees (Conditions of Service) Act, 1973(LVIII of 1973).
- xix. (i) National Institute of Folk and Traditional Heritage of Pakistan (Lok Virsa). (ii) Pakistan National Council of Arts.
- xx. Cultural pacts and protocols with other countries.
- xxi. Omitted by SRO No.48(1)/2016 dated 26.1.2016
- xxii. Federal Land Commission.

National Heritage Division

- i. International agreements and assistance in the field of archaeology, national museums and historical monuments declared to be of national importance.
- ii. Quaid-e-Azam Papers Wing.
- iii. Pakistan Academy of Letters.
- iv. National Language Authority, Urdu Dictionary Board and Urdu Science Board.
- v. National and other languages used for official purposes.
- vi. Quaid-e-Azam Academy.
- vii. Aiwan-i-Iqbal and Iqbal Academy Pakistan.
- viii. Quaid-e-Azam Mazar Management Board (QMMB).
- ix. Quaid-e-Azam Memorial Fund.
- x. Omitted vide SRO 634(1)/2016 (F.No.4-2/2016-Min-I) dated 22.7.2016
- xi. Naming of institutions in the name of Quaid-e-Azam and other high and distinguished personages.
- xii. National Book Foundation.
- xiii. National Library of Pakistan.

4.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 15.743 million were raised as a result of this audit. Summary of the audit observations classified by nature is as under:

(Rupees in millions)

Sl. No.	Classification	Amount
1	Non-production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities / Overpayments	
	A- HR / Employees relates irregularities	-
	B- Procurement related irregularities	-
	C- Management of Accounts with Commercial Banks	-
4	Value for money and service delivery issues	-
5	Others	15.743
	Total	15.743

iv)

4.3 Brief comments on the status of compliance with PAC directives

Name of Ministry	Year of Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
Ministry of Information, Broadcasting and National Heritage	1986-87	2	0	2	0
	1989-90	3	2	1	67
	1996-97	2	0	2	0
	1998-99	3	0	3	0
	1999-00	2	2	0	100
	2001-02	7	3	4	43
	2003-04	4	2	2	50
	2004-05	4	2	2	50
	2005-06	3	0	3	0
	2006-07	3	0	3	0
	2009-10	6	2	4	33
	TOTAL	39	13	26	33.33

The overall compliance in respect of Ministry of Information and Broadcasting is unsatisfactory.

4.4 AUDIT PARAS

Others

4.4.1 *Non-refund of VAT from the host government – Rs 8.512 million*

According to Para 8.12.2 of FMMA Vol-II, Missions in Pakistan are exempted from all taxes other than service tax viz Conservancy and Water Taxes on reciprocal basis. Our Mission should also be exempted from such taxes. [MOFA No. HQ-46/67/57, dated 19-9-1957]

During audit of High Commission of Pakistan, Singapore for the FYs 2019-22, it was observed that the missions made payment on account of various items / services and paid an amount of Rs 8.512 million on account of VAT but the same was not claimed from the host government.

Audit is of the view that due to non-adherence to the rules, no claim for refund of VAT amounting to Rs 8.512 million was made which resulted in loss of government exchequer.

The matter was reported to the management in April, 2023 but no reply was received till finalization of this report.

The management was requested to convene DAC on 04.01.2024 & 16.01.2024 but no response was received till finalization of this report.

Audit recommends to take up the matter with host governments for refund of VAT.

[Para-06 Singapore 2019-22]

4.4.2 *Irregular excess payment of security deposit and brokerage charges – Rs 5.902 million*

According to Para 8.6.1(a) of FMMA Vol-II 2019, missions are advised to carefully examine all draft lease agreements and negotiate with landlords to soften such hard terms and conditions, if not exclude them altogether. In this regard, the following should serve as a guideline:

- a. Advance Rent Six Months
- b. Brokerage Charges 05% of Annual Rent.
- c. Security Deposit Equivalent of one month's rent.

Missions will, in future, seek Ministry's approval for inclusion of such clauses in lease agreements where the charges exceed the above limits.

During audit of High Commission of Pakistan, Singapore for the FYs 2019-22, it was observed that the mission paid security deposit equivalent to two months' rent instead of one month rent for the hiring of residential accommodation for various employees. Similarly, in one case, the mission made excess payment of brokerage charges, no approval for payment of excess security deposit and brokerage charges was sought from the Ministry. Detail is at *Annex-XIV*.

Audit is of the view that payment of security deposit over and above the allowed limit was in violation of rules.

The matter was reported to the management in April, 2023. No further progress was received till finalization of this report.

The management was requested to convene DAC on 04.01.2024 &16.01.2024 but no response was received till finalization of this report.

Audit recommends to refer the matter to competent forum for regularization besides avoiding such instances in future.

[Para-8 Singapore 2019-22]

4.4.3 Unauthorized excess expenditure on repair of official vehicle – Rs 1.329 million

According to Finance Division O.M. No. F 3(2)Exp-3/2006 dated 13.09.2006, the head of Mission is only authorized to repair maintenance of transport upto US\$ 2000 any one time or any number of vehicle used by Pakistan Mission Abroad.

During audit of Embassy of Pakistan, Berlin for the FYs 2019-22, it was observed that the mission incurred an expenditure of Rs 1.329 million (€ 4,261) on account of repair of staff car. However, the expenditure was in excess of permissible limit of US\$ 2,000.

Audit is of the view that weak internal controls resulted in excess expenditure on repair of vehicle.

The matter was reported to the management in November, 2022 but no reply was received till finalization of this report.

The management was requested to convene DAC on 04.01.2024 &16.01.2024 but no response was received till finalization of this report.

Audit recommends to refer the matter to Finance Division for consideration besides avoiding such instances in future.

[Para-1 Berlin 2019-22]

CHAPTER 5 MINISTRY OF INTERIOR

5.1 Introduction

The Ministry of Interior has been assigned the responsibility of maintaining law and order in the country. It also regulates the working of various security identity cards and passports. The Ministry of Interior consists of the one Division, i.e. Interior Division.

The departments attached with Ministry are;

- i. Central Jail Staff Training Institute
- ii. Civil Armed Forces
- iii. Directorate General Civil Defence
- iv. Federal Investigation Agency
- v. Immigration & Passports
- vi. Islamabad Capital Territory
- vii. National Police Foundation
- viii. National Response Centre for Cyber Crimes

The autonomous bodies of the Ministry of Interior are;

- i. National Alien Registration Authority
- ii. National Database and Registration Authority
- iii. National Police Academy

5.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 3.660 million were raised as a result of this audit. Summary of the audit observations classified by nature is as under:

(Rupees in millions)

Sl. No.	Classification	Amount
1	Non-production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities / Overpayments	
	A- HR / Employees relates irregularities	-
	B- Procurement related irregularities	3.660
	C- Management of Accounts with Commercial Banks	-
4	Value for money and service delivery issues	-
5	Others	-
	Total	3.660

v)

5.3 Brief comments on the status of compliance with PAC directives

Name of Ministry	Year of Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
Ministry of Interior	2006-07	1	0	1	0
	2015-16	1	0	1	0
	2017-18	1	0	1	0
	TOTAL	3	0	3	0

The overall compliance in respect of Ministry of Interior is Nil.

5.4 AUDIT PARAS

Irregularities / Overpayments

B- Procurement related irregularities

5.4.1 Irregular award of work due to splitting – Rs 2.277 million

As per PPRA Rule 20, the procuring agency shall use open competitive bidding as a principal method of procurement for the procurement of goods, services and works. Furthermore, PPRA Rule 9 specifies that a procuring agency shall announce in an appropriate manner all proposed procurements for each FY and shall proceed accordingly without any splitting or regrouping of the procurements so planned.

According to Para 2.38.4 of FMMA Vol-II, Cabinet Division vide its OM No. 4/1/2008/PPRA-RA-III dated 09.04.2008 fixed following financial limits for open tender(s) for Pakistan Missions abroad:

Sl. No.	Kind of Tender	Monetary Limits
1.	Open tender	US\$ 4,000 or Euro 3,000 & above
2.	Limited tender	Less than US\$ 4,000 or Euro 3,000 & above US\$ 2,000 & Euro 1,500
3.	Single tender	Up to US\$ 2,000 or Euro 1,500

During audit of Consulate General of Pakistan, Manchester for the FYs 2019-22, it was observed that the mission awarded repair and renovation contract of NADRA office to M/s Ali Interior for Rs 2.277 million (£ 6,415). However, the award of work was irregular as the management split the procurements to avoid open tender. The detail is as under;

Sl. No	Vr # & Date	Particular	Amount (£)	Amount (Rs)
1	15 of 09.03.2020	50% advance for renovation work	1,500	532,500
2	33 of 18.03.2020	Repair and renovation work	1,500	532,500
3	27 of 29.04.2020	Electrical & wood work	2,300	816,500
4	55 of 29.06.2020	Civil work done in NADRA office	880	312,400
5	47 of 25.06.2020	Door fitting & paint work	235.00	83,425
TOTAL			6,415	2,277,325

Audit is of the view that non-compliance of procurement rules along with other irregularities raised doubts regarding authenticity of payment as well as purchase.

The matter was reported to the management in February, 2023 but no reply was received till finalization of this report.

The management was requested to convene DAC on 04.01.2024 & 16.01.2024 but no response was received till finalization of this report.

Audit recommends to refer the matter to competent forum for consideration besides avoiding such instances in future.

[Para-1 Manchester 2019-22]

5.4.2 Irregular payments to officers instead of vendor / agency – Rs 1.380 million

According to Para 157 of FTR Vol-I, cheques drawn in favor of Government officers and departments in settlement of Government dues shall always be crossed 'A/c payee only – not negotiable. As per Para 2.9.1 of FMMA Vol-II, a Head of Mission shall be responsible to the Chief Accounts Officer for acceptance of the validity of a claim against which he has permitted withdrawal, and for evidence that the payee has actually received the sum withdrawn.

During audit of Consulate General of Pakistan, Manchester for the FYs 2018-22, it was observed that the mission made payments of Rs 1.380 million (£ 3,920.52) for procurement of items to Mr. Faisal Javed Manager NADRA instead of direct payments to the agency, company or vendor through crossed cheques in violation of rules. The detail is as below;

Sl. No.	Vr. No.& Month	Item	Amount (£)	Amount (Rs)
1	02 of 02.06.2020	Renovation materials	800.00	281,600.00
2	03 of 02.06.2020	Renovation materials	1631.52	574,295.04
3	07 of 10.06.2020	Renovation materials	645.34	227,159.68
4	60 of 29.06.2020	Purchase of office table	230.40	81,100.80
5	53 of 16.10.2020	Purchase of Laptop	613.26	215,867.52
TOTAL			3920.52	1,380,023.04

Audit is of the view that payment for procurement of items to the officers instead of vendors raised suspicion regarding authenticity of payment / purchases.

The matter was reported to the management in February, 2023 but no reply was received till finalization of this report.

The management was requested to convene DAC on 04.01.2024 & 16.01.2024 but no response was received till finalization of this report.

Audit recommends to refer the matter to Finance Division for consideration.

(Para-3, Manchester, 2018-22)

CHAPTER 6 MINISTRY OF RELIGIOUS AFFAIRS & INTERFAITH HARMONY

6.1 Introduction

The Ministry of Religious Affairs and Interfaith Harmony is responsible for Muslim pilgrims' visits to India for Ziarat and to Saudi Arabia for Umra & Hajj and the welfare and safety of pilgrims. The main activities also include research-based Islamic studies, holding of conferences, seminars, training, education of Ulema & Khateebis and exchange of visits of scholars of Islamic learning with foreign and international institutions. The Ministry also performs activities like Management of Ruet-e-Hilal, Dawah, and infants and minor adoption laws. There are six subordinate offices working as Directorates of Hajj of this Ministry and two autonomous bodies, i.e., Council of Islamic Ideology and Pakistan Madrassah Education Board.

Following functions have been assigned to the Ministry as per the Rules of Business, 1973:

- i. Pilgrimage beyond Pakistan; Muslim pilgrims' visits to India
- ii. Ziarat and Umra
- iii. Welfare and safety of pilgrims and zairines
- iv. Administrative control of the hajj Directorate at Jeddah and dispensaries in Makkah and Medina
- v. Islamic studies and research, including holding of seminars, conferences, etc on related subjects
- vi. Training and education of Ulema and Khatibs, etc.
- vii. Error-free and exact printing and publishing of the Holy Quran
- viii. Exchange of visits of scholars of Islamic learning and education, international conferences / seminars on Islamic subject and liaison with foreign and international bodies and institutions
- ix. Ruet-e-Hilal
- x. Tabligh
- xi. Council of Islamic Ideology
- xii. Observance of Islamic Moral Standards
- xiii. Donations for religious purposes and propagation of Islamic ideology abroad
- xiv. Development of policies, arrangement for the proper collection, disbursement and utilization of Zakat and Ushr funds and maintenance of their accounts

- xv. Maintenance of liaison with Pakistani Missions abroad for collection of Zakat and other voluntary contributions from Pakistan citizens and others residing outside Pakistan.

6.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 3,858.368 million were raised as a result of this audit. Summary of the audit observations classified by nature is as under:

(Rupees in millions)

Sl. No.	Classification	Amount
1	Non-production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	40.703
3	Irregularities / Overpayments	-
	A- HR / Employees relates irregularities	48.343
	B- Procurement related irregularities	694.959
	C- Management of Accounts with Commercial Banks	322.172
4	Value for money and service delivery issues	-
5	Others	2,752.191
	Total	3,858.368

vi)

6.3 Brief Comments on the Status of Compliance with PAC Directives

Brief comments on the status of compliance with PAC directives

Name of Ministry	Year of Audit Report	Total Paras	Compliance received	Compliance not received	Percentage of compliance
Ministry of Religious Affairs & Inter-faith Harmony	1986-87	4	1	3	25
	1987-88	1	0	1	0
	1988-89	1	0	1	0
	1989-90	3	0	3	0
	1994-95	1	1	0	100
	1996-97	7	1	6	14
	2000-01	7	2	5	29
	2002-03	9	6	3	67
	2003-04	13	12	1	92
	2004-05	3	3	0	100
	2005-06	2	1	1	50
	2006-07	4	4	0	100
	2015-16	3	0	3	0
	2017-18	3	1	2	33
	TOTAL	61	32	29	52

The overall compliance in respect of Ministry of Religious Affairs & Interfaith Harmony is moderate.

6.4 AUDIT PARAS

Fraud/Embezzlement & Misappropriation

6.4.1 *Embezzlement in remittances – Rs 12 million*

According to Para 23 of GFR, every Government officer should realize fully and clearly that he would be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

During audit of DG Hajj, Jeddah for the FYs 2018-21, it was observed that an amount of Rs 12 million (SRLs 271,508.88) was remitted by the office of Chief Accounts Officer, Ministry of Foreign Affairs, Islamabad on 24.08.2021 on account of regular monthly recoupment for the month of June, 2021. The remittances were credited in the bank account of the Directorate General, maintained with Bank Al Riyadh, on 28.08.2021. However, the said amount was not accounted for as receipt in the Cash Account for the month of August, 2021. Rather the amount was transferred by Mr. Muhammad Kaleem, AAO on 29.08.2021 to another Bank Account bearing No.163-138-862-9942 titled Madinah Income Account maintained with the same bank. There from the entire amount was transferred to the personal bank account of Mr. Muhammd Kaleem, AAO. Moreover, the officer tempered the bank statements of the Directorate General to conceal the embezzlement.

Audit is of the view that embezzlement of Rs 12 million in remittances resulted in loss to the government exchequer.

The matter was reported to the management in August, 2022. The management replied that disciplinary proceedings under E&D Rules had been initiated and an FIR had been lodged with FIA. Concerned Revenue Authorities had also been approached for attachment of property of Mr. Muhammad Kaleem, the then AAO.

DAC, in its meeting held on 30.11.2022, directed the Ministry to vigorously pursue the matter with concerned authorities for effecting recoveries from the person(s) responsible. DAC further directed DG Hajj, Jeddah to draft a well worded letter to bank in consultation with Director Audit (F&I), CAO and JS Hajj, to get answers of following questions: -

i) What instructions were issued from OPAP office to bank at the time of opening of account?

ii) What was the track of transactions through which Rs12 million were embezzled?

No further progress was reported till finalization of this report.

Audit recommends to pursue the case with the concerned authorities to ensure recovery of embezzled amount besides sharing the outcome of investigation with Audit.

(Para-1 SAR DG Hajj Jeddah 2018-21)

6.4.2 *Misappropriation in food charges deducted from Moavineen – Rs 21.141 million*

According to Rule 23 of GFR Vol-I, every Government officer should realize fully and clearly that he would be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from

fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

During audit of DG Hajj, Jeddah for the FYs 2018-21, it was observed that Office of Pilgrim Affairs of Pakistan (OPAP) decided during hajj 2019 that the moavineen and Seasonal Duty Staff of MORA&IH would be provided food against the payment of SRL 15 per day. As per the the procedure, the moavineen were to be paid full DA while they would deposit food charges to Accommodation &Transport team for onward payment to food supplier. Subsequently OPAP deducted SRL 15 per day at source from the payment of DA of moavineen. However, there was no evidence for payment of this amount to food suppliers or its deposit in any of the official accounts of the Directorate General Hajj Jeddah. The detail is as under:

Sl. No	Vr. No. & Month	DA for the period	Amount of DA Paid (SRLs)	Amount of Food charges deducted (@ (SRL 15 per day)	Amount of Food charges deducted (Rs)
1	PWF-30 of 8/2019	30 June 2019 to 15 July 2019	250,561	22,860	1,257,300
2	PWF-37of 8/2019	16 July 2019 to 31 July 2019	948,297	92,040	5,062,200
3	PWF-38 of 08/2019	1st August 2019 to 17 August 2019	1,610,786	141,495	7,782,225
4	PWF-39 of 08/2019	16 August 2019 to 31 August 2019	1,158,323	123,540	6,794,700
5	PWF-48 of 08/2019	1st Sep 2019 to 14 Sep, 2019	174,270	4,440	244,200
TOTAL				384,375	21,140,625

Audit is of the view that weak financial and managerial controls resulted in misappropriation of funds amounting to Rs 21.141 million.

The matter was reported to the management in August, 2022. The management replied that disciplinary proceedings under E&D Rules had been initiated, an FIR had been lodged with FIA and concerned Revenue Authorities had been approached for attachment of property of Mr. Muhammad Kaleem, the then AAO.

DAC in its meeting held on 30.11.2022 directed the Ministry to pursue and expedite the inquiry and other actions with FIA and other departments for effecting recovery from the officers/officials responsible. No progress reported till finalization of this report.

Audit recommends compliance of DAC decision.

(Para-2 SAR DG Hajj Jeddah 2018-21)

6.4.3 Embezzlement from Pilgrim Welfare Fund – Rs 7.820 million

According to Rules 23 of GFR Vol-I, every Government officer should realize fully and clearly that he would be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

During audit of DG Hajj, Jeddah for the FYs 2018-21, it was observed that M/s Al-MATBAKH AL-NOOR, a catering company, refunded an amount of Rs 7.820 million (SRLs 164,800) on account of less serving of meal to the Directorate General. The refunded amount was deposited by the caterer firm vide cheque No. 56 dated 12.11.2019, drawn on Al Rajih Bank, Ajyad Makkah Branch in PWF account of the Mission. The Assistant Accounts Officer utilized this amount for his own benefit by tempering supporting receipts of credit entry in the cash book to adjust the cash available with him as deposit of recovery from different sources as detailed below.

Sl. No.	Details	Amount (SRLs)	Amount (Rs)
1	Cash Received from MDC	149,000	7,070,268
2	Auction amount from Lost & Found Cell	1,013	48,068

3	Recovered from Shah Faisal	3,480	165,131
4	Wheel Chairs	1,400	66,432
5	Receipt of unidentified cash from Lost & Found cell	210.61	9,994
6	Cash in chest	9,696.39	460,108
TOTAL		164,800	7,820,001

Audit is of the view that embezzlement of Rs 7.82 million from Pilgrim Welfare fund resulted in loss to the public exchequer.

The matter was reported to the management in August, 2022. The management replied that disciplinary proceedings under E&D Rules had been initiated, an FIR had been lodged with FIA and concerned Revenue Authorities had been approached for attachment of property of Mr. Muhammad Kaleem, the then AAO.

DAC in its meeting held on 30.11.2022 directed the Ministry to pursue and expedite the inquiry and other actions with FIA and other departments for effecting recovery from the officers/officials responsible. DAC further directed that embezzlement pointed out by Audit in this para may also be included in inquiry already initiated with regard to Para-1 and 2 of this Audit Report. No progress reported till finalization of this report.

Audit recommends compliance of DAC decision.

(Para-3 SAR DG Hajj Jeddah 2018-21)

6.4.4 *Embezzlement in cash receipt – Rs 3.465 million*

According to Rule 23 of GFR Vol-I, every Government officer should realize fully and clearly that he would be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

During audit of DG Hajj, Jeddah for the FYs 2018-21, it was observed that the Directorate General received cash amounting to Rs 3.465 million (SRLs. 63,000) as refund from M/s Madina Accommodation Group and was taken on receipt side of the Cash book for the month of March, 2019. At the close of the month, the same amount was reflected as closing balance of cash in hand. However, this closing balance was not reflected as opening balance for next month i.e., April, 2019. Neither any proof of expenditure from the receipt nor deposit of the same in the bank was available.

Audit is of the view that embezzlement of Rs 3.465 million from the cash receipt resulted in loss to the government exchequer.

The matter was reported to the management in August, 2022. The management replied that the embezzlement had also been proposed to be included as a charge in ongoing disciplinary/criminal proceedings against the official.

DAC in its meeting held on 30.11.2022 directed the Ministry to pursue and expedite the inquiry and other actions with FIA and other departments for effecting recovery from the officers/officials responsible. DAC further, directed that embezzlement pointed out by audit in this para may also be included in inquiry already initiated with regard to para-1 and 2 of this Audit Report. No further progress was reported till finalization of this report.

Audit recommends compliance of DAC decision.

(Para-4 SAR DG Hajj Jeddah 2018-21)

Irregularities/Overpayments

A-HR/Employees Related Irregularities

6.4.5 Unjustified retention of cash in hand – Rs 27.173 million

According to Para 2.2.2 of FMMA Vol-II, no money shall be drawn from the bank unless it is required for immediate disbursement. It is not permissible to draw money from the bank in anticipation of demands or to prevent the lapse of Budget Grants.

During audit of DG Hajj, Jeddah for the FYs 2018-21, it was observed that the Directorate General drew cash ranging from SRLs 432,786.38 to SRL 494,055.06 from PWF Account. This amount was retained by the mission for a period of one year (November, 2019 to November 2020) without any requirement/justification. The detail is as under:

S. No	Period/Month	Expenditure during the month (SRLs)	Cash in Hand (SRLs)	Cash in Hand(Rs)
1	November, 2019	30,406.63	494,055.06	27,173,000.00
2	December, 2019	8,940.00	463,648.43	32,919,038.53
3	January, 2020	12,707.00	454,708.43	32,284,298.53
4	February, 2020	588.53	442,001.90	31,382,134.90
5	March, 2020	Nil	441,412.90	31,340,315.90
6	April, 2020	Nil	441,412.90	31,340,315.90
7	May, 2020	4,120.65	441,412.90	31,340,315.90
8	June, 2020	1,265.87	437,292.25	31,047,749.75
9	July, 2020	3,240.00	436,026.28	30,957,865.88
10	August, 2020	6,535.73	432,786.38+ 6,535.76	31,191,869.10
11	September, 2020	Nil	432,786.38	30,727,832.98
12	October, 2020	Nil	432,786.38	30,727,832.98
13	November, 2020	Nil	432,786.38	30,727,832.98

Audit is of the view that retention of PWF amounting to Rs 27.173 million for over a year was unjustified.

The matter was reported to the management in August, 2022. The management replied that Hajj Operation necessitated holding of sufficient cash in hand to meet urgent need during Hajj Season. However, the amount reflected as cash in hand was not in the knowledge of management. It was revealed only after the scrutiny process of the accounts was started by OPAP itself. The AAO, willfully, hide a huge amount of cash pertaining to Hajj 2019 and kept it with him.

DAC, in its meeting held on 30.11.2022, viewed the lapse is seriously and stated that it was responsibility of the management to see the retention of cash in hands of accountant throughout the year. DAC directed the Ministry to link the case with other cases of embezzlement to ascertain any misuse of funds and issue directions that in future no unnecessary cash would be drawn. No progress was reported till finalization of this report.

Audit recommends compliance of DAC decision.

(Para-9 SAR DG Hajj Jeddah 2018-21)

6.4.6 *Unauthorised payment to employees from PWF – Rs 17.466 million*

According to Pilgrim Welfare Fund Rules, 1990, the funds from PWF can only be utilized for direct and exclusive benefit of the pilgrims. There is no rule provision for payment of food charges to the employees of office of Pilgrim Affairs Pakistan, Jeddah.

During audit of DG Hajj, Jeddah for the FYs 2018-21, it was observed that the mission incurred an expenditure of Rs 17.466 million (SRL 246,000) on account of food charges to the employees of OPAP out of PWF. However, there was no provision in the rules to allow payment from this fund for the benefit of pilgrims. The expenditure was incurred during the months of October, 2018 and August, 2019, as detailed below:

Sl. No.	Vr & Period	Particulars	Amount (SRLs)	Amount (Rs)
1	PWF-4 of 10/2018	Paid food charges to 22 employees of Office of Pilgrim Affairs of Pakistan, Jeddah	99,000	7,029,000
2	PWF-18 of 8/2019	Paid food charges to 28 employees of Office of Pilgrim Affairs of Pakistan, Jeddah	147,000	10,437,000
TOTAL			246,000	17,466,000

Audit is of the view that payment of food charges to the employees of OPAP from PWF was in violation of rules, thus, unauthorised.

The matter was reported to the management in August, 2022. The management replied that the fund allocation was used to incentivize the OPAP staff in the wake of intense Hajj operation which demanded continuous extra duty hours even on holidays. Payment of Food charges was not a new phenomenon, rather, was being paid since last many years.

DAC, in its meeting held on 30.11.2022, directed that the amount may be got regularized from Finance Division as per Rule 4(xv) of PWF Rules 1990. DAC further directed that a proper mechanism under rules may be prepared for payments to employees of OPAP for overtime in future. No progress was reported till finalization of this report.

Audit recommends compliance of DAC decision besides halting the practice of payment of food charges to the staff of OPAP out of PWF forthwith.

(Para-5 SAR DG Hajj Jeddah 2018-21)

B-Procurement Related Irregularities

6.4.7 Procurement of assets and services in violation of procurement rules and payment in cash – Rs 148.728 million

According to Para 2.38.4 of FMMA Vol-II, Cabinet Division vide its OM No. 4/1/2008/PPRA-RA-III dated 09.04.2008 fixed following financial limits for open tender(s) for Pakistan Missions abroad:

S. No.	Kind of Tender	Monetary Limits
1.	Open tender	US\$ 4,000 or € 3,000 & above
2.	Limited tender	Less than US\$ 4,000 or € 3,000 & above US\$ 2,000 & € 1,500
3.	Single tender	Up to US\$ 2,000 or € 1,500

Further according to Para 157 of FTR provided that crossed cheque be issued to the vendor/third party rather than payment made in cash.

During audit of DG Hajj, Jeddah for the FYs 2018-21, it was observed that the mission made various procurements worth Rs 148.728 million (SRLs 2,704,144) in violation of procurement rules. Further, in most cases the payment to the vendor was made in cash instead of crossed cheques. The detail is at **Annex-XV**.

Audit is the view that procurement of assets without observing procurement rules raised suspicions on authenticity of procurements and payments made thereof.

The matter was reported to the management in August, 2022. The management replied that a proper tender was floated but no bid was received except for rent a car/vehicle. Further, there was a tendency in the Saudi market not to submit bids rather sell articles on cash/instant payment basis. However, best value for money principle was ensured even during these cash procurements.

DAC in its meeting held on 30.11.2022 directed the Ministry to provide (i) copies of tendering documents relating to procurement made for Hajj 2018 (ii) minutes of meeting of Purchase Committee. No further progress was reported till finalisation of this report.

Audit recommends compliance of DAC decision.

(Para-47 SAR DG Hajj Jeddah 2018-21)

6.4.8 Unauthorised cash payment on account of provision of tents – Rs 49.885 million

As per Rule 205 of Federal Treasury Rules, a Government officer entrusted with the payment of money shall obtain for every payment he makes, including repayment of sums previously lodged with the Government, a voucher setting forth full and clear particulars of the claim and all information necessary for its proper classification and identification in the accounts. Every voucher must bear, or have attached to it, an acknowledgment of the payment signed by the person by whom, or in whose behalf, the claim is put forward. The acknowledgment shall be taken at the time of payment. Further Para-157 of ibid provides that crossed cheque be issued to the vendor/third party rather than payment made in cash.

During audit of DG Hajj, Jeddah for the FYs 2018-21, it was observed that an amount of Rs 49.885 million (SRLs 907,000) was paid in cash to M/s DELALAT International vide voucher No.PWF-

04 of 08/2019 on account of provision of tents for welfare of staff of Pakistan Hajj Medical Mission (615 personnel) in Mina/Arafat without any invoice and supporting details. Moreover, bill was not signed by D.G Hajj Jeddah.

Audit is of the view that payment for services in cash without supporting documents was in violation of rules and raised suspicion regarding authenticity of payment.

The matter was reported to the management in August, 2022. The management replied that as a routine matter, space for establishment of Tents/Camps in Mina was provided a few days before commencement of Hajj. During these days the banks in the Kingdom remained closed and the bank transactions were not possible. Also the service providers, vendors and Makatab provided space, equipment, tents and services in Mashair on payment of cost/dues. The only option available was to perform these transactions through cash payments.

DAC, in its meeting held on 30.11.2022, directed that (i) expenditure may be got regularized from Finance Division (ii) documents/vouchers in support of payments and expenditure may be provided to audit. DAC further directed to discontinue this practice and to adopt alternative payment methods like payments through apps in future. No further progress was reported till finalization of this report

Audit recommends compliance of DAC decision.

(Para-15 SAR DG Hajj Jeddah 2018-21)

6.4.9 Excess payment on account of catering charges – Rs 39.466 million

As per Para 11 of GFR Vol-I, each head of a department is responsible for enforcing financial order and strict economy at every step. He is responsible for observance of all relevant financial rules and regulations both by his own office and by subordinate disbursing officers.

During audit of DG Hajj, Jeddah for the FYs 2018-21, it was observed that the mission entered into an agreement with M/S Najmat Al Olyan for provision of meal to 4,129 Hujjajj @ SRLs 7.7 per head for approximately 302,413 meals amounting to SRLs 2,328,580. The mission had already made an advance payment of SRLs 3,003,525, but still paid the whole amount to the suppliers thus paying an amount of Rs 39.466 million (SRLs 717,757) in excess of actual to the contractor.

Audit is of the view that due to weak financial and managerial controls, the overpayment of Rs 39.466 million was made to the contractor over and above his due payment which needs to be recovered.

The matter was reported to the management in August, 2022. The management replied that the amount is reported to have been deducted/recovered. The record is being obtained from MOH&U, KSA which would be provided for verification.

DAC, in its meeting held on 30.11.2022, directed the Ministry/Mission to effect recovery and get it verified from Audit. No further progress was reported till finalisation of this report.

Audit recommends compliance of DAC directives.

(Para-12 SAR DG Hajj Jeddah 2018-21)

6.4.10 Excess payment on account of accommodation – Rs 79.683 million

According to Rule 23 of GFR, Vol-I, every Government officer should realize fully and clearly that he would be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

During audit of DG Hajj, Jeddah for the FYs 2018-21, it was observed that according to Sl. No. 2 of Receipt and Payment Ledger (Payments side), accommodation charges amounting to SRLs 105,389,600 (100,000 @ SRL 914 and 23,316 @ SRLs 600) were required to be paid for 123,316 Hujjaj at Madinah, whereas Mission paid SRLs 106,511,892.15 resulting in excess payment of Rs 79.683 million (SRLs 1,122,292).

Audit is of the view that excess payment of Rs 79.683 million on account of accommodation charges resulted in loss to the government exchequer.

The matter was reported to the management in August, 2022. The management replied that due to limited accommodation availability near Masjid Nabawi and completion from other hajj missions, OPAP could initially manage accommodation of 100,000 Hujjaj in Markazia @ 914 SRLs per Haji whereas 23,316 Hujjaj were accommodated in Non-Markazia building @ 600 SRLs Per Haji. Later on, OPAP was able to manage further accommodation in Markazia by persuading/requesting various owners/lessees and finally 108,310 hujjaj stayed in Markazia instead of 100,000, therefore, an amount of SRLs 106,511,892 was correctly paid.

DAC in its meeting held on 30.11.2022 directed the Ministry to provide evidence/record to Audit for verification. No further progress was reported till finalisation of this report.

Audit recommends compliance of DAC decision.

(Para-29 SAR DG Hajj Jeddah 2018-21)

6.4.11 Overpayment on account of provision of arrival snacks to pilgrims – Rs 35.551 million

According to Rule 23 of GFR, Vol-I, every Government officer should realize fully and clearly that he would be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

During audit of DG Hajj, Jeddah for the FYs 2018-21, it was observed that mission paid an amount of SRLs 1,427,735 on account of arrival snacks for 200,000 pilgrims. However, the actual number of pilgrims under the Government Hajj Scheme for Hajj, 2019 was 117,000 (as per record of gifts i.e. prayer mat & floor mat). Hence, the mission paid excess amount of Rs 35.551 million (SRL 592,510) on provision of arrival snacks.

Audit is of the view that overpayment of Rs. 35.551 million on provision of arrival snacks to the pilgrims resulted in loss to public exchequers.

The matter was reported to the management in August, 2022. The management replied that mission had to cater for the needs of all the Hujjaj including the Private Hujjaj from Pakistan, hence, the payments pertains to the Private Hujjaj as well.

DAC, in its meeting held on 30.11.2022, directed the Ministry to provide evidence of recovery from Hajj Group Organizers to Audit for verification within three days. No further progress was reported till finalisation of this report.

Audit recommends compliance of DAC decision.

(Para-42 SAR DG Hajj Jeddah 2018-21)

6.4.12 Unjustified expenditure on account of Haji gifts – Rs 316.509 million

According to Para 37/N of file No. 01/ACC/Hajji Gift/Hajj-2019, the payments of Hajji gifts (prayer mat, floor mat) were to be made out of the deductions made from the payments of building owners as per agreement.

During audit of DG Hajj, Jeddah for the FYs 2018-21, it was observed that the mission got manufactured Hajji Gifts from M/s Riyadh Velvet Factory, KSA and incurred an expenditure of Rs 316.509 million (SRLs 4,457,873) out of the funds of Directorate General Hajj. However, no deduction was made from the payment to the building owners as stipulated in the agreement.

Audit is of the view that expenditure on account of Haji gifts was unjustified and resulted in loss to public exchequer.

The matter was reported to the management in August, 2022. The management replied that as per agreement with the building owners, the cost of Hajji gifts were recovered from them. Final payment was made after deduction of the said gift cost.

DAC, in its meeting held on 30.11.2022, directed the Ministry to get the record of recovery of at least 10% of buildings verified from Audit and get the remaining record verified from next audit team of Directorate of Audit (F&I). No further progress was reported till finalisation of this report.

Audit recommends compliance of DAC decision.

(Para-19 SAR DG Hajj Jeddah 2018-21)

6.4.13 Unjustified expenditure on printing – Rs 26.917 million

According to the minutes of Procurement Committee meeting held on 27.05.2018, the cost for sign boards for displaying on Hujjaj’s building were to be paid by the building owners.

During audit of DG Hajj, Jeddah for the FYs 2018-21, it was observed that the mission incurred an expenditure of Rs 26.917 million (SRLs. 379,106) from PWF on account of printing of sign boards, stickers etc which was the sole responsibility of building owners. The detail of expenditure is as under:

Sl. No.	Vr. No. & Date	Particulars	Amount (SRLs)	Amount (Rs)
---------	----------------	-------------	---------------	-------------

1	PWF-35 of 10/2018	Paid to M/S Sameer Printing and Artist, Makah Mukarramah for installing sign boards on the Hujjaj Buildings for displaying their numbers, sector wise and maktab wise for guidance of Hujjaj and Moavineen.	95,680	6,793,280
2	PWF-53 of 10/2019	Paid on 07.10.2019 to M/S Sameer Painter & Artist for advertising for printing posters, Maps, stickers, signboards to be affixed on buildings/offices and on transport for Hajj -2019. (Besides Mina/Arafat Maps, panaflex were also got printed).	283,426	20,123,246
TOTALS			379,106	26,916,526

Audit is of the view that the mission incurred unjustified expenditure on account of printing causing loss to the public exchequer.

The matter was reported to the management in August, 2022. The management replied that during Hajj 2018 and 2019, SRLs 102,000 and SRLs 116,000 were recovered from the building owners.

DAC, in its meeting held on 30.11.2022, directed the Ministry to provide evidence of recovery from the building owners of at least 10% of the total buildings hired during each Hajj. No further progress was reported by the Ministry till finalization of this report.

Audit recommends compliance of DAC directives.

(Para-14 SAR DG Hajj Jeddah 2018-21)

6.4.14 Excess payment on account of meals served to Hujjaj – Rs 5.533 million

As per Para 11 of GFR Vol-I, each head of a department is responsible for enforcing financial order and strict economy at every step. He is responsible for observance of all relevant financial rules and regulations both by his own office and by subordinate disbursing officers.

During audit of DG Hajj, Jeddah for the FYs 2018-21, it was observed that the mission entered into the agreements with three different contractors for provision of meal to Hujjaj during Hajj 2019 @ SRLs 7.7 per meal. However, the mission made excess payment to the contractor as detailed below:

Group	No of Meals	Amount Due (SRLs)	Amount Paid (SRLs)	Excess Payment (SRLs)	Excess Payment (Rs)
Al-Matabakh Al-Noor	6,681 Hujjaj for 30 days for 3 meals a day =601,290	4,629,933	4,668,210	38,277	2,717,667
Shirka Hassam Al-Muali	10,501 Hujjaj for 30 days for 3 meals a day =945,090	7,277,193	7,290,160	12,967	920,657

Turkish Al-Mazaq Restaurants	10,350 Hujjaj for 30 days for 3 meals a day =932,400	7,179,480	7,206,168	26,688	1,894,848
TOTAL				77,932	5,533,172

Audit is of the view that due to weak internal and financial controls, the mission made excess payment of Rs 5.533 million to the contractors.

The matter was reported to the management in August, 2022. The management replied that payments were made according to the meals served. No excess payment was made to the contractor.

DAC, in its meeting held on 30.11.2022, directed the Ministry to provide justification for payment of excess meals and the record be got verified from next audit team of Directorate of Audit (F&I). No further progress was reported till finalization of this report.

Audit recommends compliance of DAC decision.

(Para-13 SAR DG Hajj Jeddah 2018-21)

C- Management of Accounts with Commercial Banks

6.4.15 Non-clearance of long outstanding cheques pertaining to Compulsory Hajj Dues – Rs 251.629 million

As per Para 11 of GFR Vol-I, each head of a department is responsible for enforcing financial order and strict economy at every step. He is responsible for observance of all relevant financial rules and regulations both by his own office and by subordinate disbursing officers.

During audit of DG Hajj, Jeddah for the FYs 2018-21, it was observed that the mission closed the account of Compulsory Hajj Dues (CHD) being maintained with Bank Al Jazira A/C No. 0021248455004 and new account No.1631596099941 was opened with Bank Al Riyadh in April, 2020. The closing balance of SRLs 15,027,877.94 in Al Jazira Bank account was transferred to new account on 09.04.2020. It was, however, noticed that cheques amounting to Rs 251.629 million (SRLs 4,556,850.50) issued in favour of various parties from time to time during the period from August 2017 to October 2019 were still being outstanding despite lapse of 3 to 5 years. After the closure of the account with bank Al-Jazera, all these cheques lost validity, hence, were required to be cancelled and amount taken into accounts as receipt which was not done by the management. The details of outstanding cheques are as under:

S. No	Cheque No & date	Amount (SRL)	Amount (Rs)
1	806421 dated 02.08.2017	316,000	17,452,617
2	806521 dated 03.10.2017	61,183	3,379,125
3	67786978 dated 08.10.2018	1,862,141	102,845,675
4	67786977 dated 08.10.2018	86,667	4,786,601
5	67786991 dated 08.10.2018	330,240	18,239,089
6	67786995 dated 09.10.2018	600,000	33,137,880
7	67786996 dated 09.10.2018	116,628	6,441,341
8	67787022 dated 01.08.2019	580,650	32,069,183
9	67787058 dated 23.09.2019	542,501	29,962,222
10	67787064 dated 01.10.2019	60,040.50	3,316,025
TOTAL		4,556,050.50	251,629,758

Audit is of the view that non-clearance of long outstanding cheques showed lack of financial controls and created doubt about the genuineness of the claims against which those cheques were issued.

The matter was reported to the management in August, 2022. The management replied that the vendors/companies were issued cheques against their verified claims, however, those cheques were neither presented to the said bank nor the OPAP was approached for payment even after shifting of account to the new bank. The said amount could be claimed by the vendors as these were reflected as liabilities in the OPAP account as per verified bills.

DAC, in its meeting held on 30.11.2022, directed the Ministry to contact the concerned vendors and resolve the issue. Further, the bills/claims against which those cheques were issued may be shared with audit. No further progress was reported by the Ministry till finalization of this

report.

Audit recommends compliance of DAC decision besides.

(Para-44 SAR DG Hajj Jeddah 2018-21)

6.4.16 Non-reconciliation of regular bank account – Rs 74.427 million.

As per Rule 89(4) (viii) of GFR Vol-I, the head of the department and the Accountant General will be jointly responsible for the reconciliation of the figures given in the accounts maintained by the head of the department with those that appear in the Accountant General's books. Unless in any case there are special rules or orders to the contrary, the reconciliations should be made monthly the initial responsibility resting with the Accountant General.

During audit of DG Hajj, Jeddah for the FYs 2018-21, it was observed that reconciliation of cash book with the bank account for regular budget was being carried out in doubtful manner which may lead to embezzlement. The detail of shortcomings noticed during close examination of Cash Accounts is at ***Annex-XVI***.

Audit is of the view that non-reconciliation gives rise to the chances of misappropriation of funds. Audit is of further view that in the absence of bank reconciliation, the authenticity of expenditure could not be ascertained.

The matter was reported to the management in August 2022. The management replied that there had been a practice to prepare bank reconciliation statement, however, it might not be as per prescribed format.

DAC, in its meeting held on 30.11.2022, directed the Ministry to provide relevant documents in support of reply to audit. No further progress was reported till finalisation of this report.

Audit recommends compliance of DAC directives.

(Para-27 SAR DG Hajj Jeddah 2018-21)

6.4.17 Irregular opening of various bank accounts

As per Rule 7 of GFR Vol-I, unless otherwise expressly authorized by any law or rule of order having force of law, moneys may not be removed from the Public Account for investment or deposit elsewhere without consent of the Ministry of Finance. As per Para 2(a) of Pilgrim Welfare Fund Rules, 1990, account for PWF funds were required to be opened with National Bank of Pakistan.

During audit of DG Hajj, Jeddah for the FYs 2018-21, it was observed that Mission was maintaining fifteen (15) bank accounts with Bank Al-Jazira and Bank Al-Riyadh instead of

National Bank of Pakistan as required under Para2(a) of Pilgrim Welfare Fund Rules, 1990. The details of Bank Accounts is at *Annex-XVII*.

Audit is of the view that opening and maintenance of bank account in violation of rules was irregular.

The matter was reported to the management in August, 2022. The management replied that opening of account with Riyadh Bank was approved by the M/o Finance in the light of requirements of Saudi Taleemat. PWF was maintained separately since it was not being accounted for by the CAO MOFA or CGA Office. Also the rules of Kingdom of Saudi Arabia and separate treatment of the receipts and payments of Hajj mandated opening the relevant accounts separately.

DAC, in its meeting held on 30.11.2022, directed the Ministry that all bank accounts may be got regularized from Finance Division and retain only those Bank accounts which are approved by the Finance Division. No further progress was reported by the Ministry till finalization of this report.

Audit recommends to refer the matter to Finance Division for consideration.

(Para-26 SAR DG Hajj Jeddah 2018-21)

Others

6.4.18 *Doubtful transfer of funds – Rs 825 million*

According to Para 23 of GFR, every Government officer should realize fully and clearly that he would be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

During audit of DG Hajj, Jeddah for the FYs 2018-21, it was observed that the mission transferred an amount of Rs 825 million (SRLs 15,000,000) to M/s United Agent Account from Compulsory Hajj Dues account on 26.09.2019. However, the amount was transferred from Bank account No.0021248455004 (CHD Account) on 25.09.2019 to Bank account No.0021248455001 (Accommodation Account). Further, the abstract/page of CHD cash Book containing the correction provided by the Mission was unsigned and without any date, hence, could not be accepted as authentic.

Audit is of the view that transfer of funds to Accommodation Account instead of contractor account made the transfer of funds doubtful.

The matter was reported to the management in August, 2022. The management replied that cash book entry regarding the above indication of audit was corrected in the CHD account.

DAC, in its meeting held on 30.11.2022, directed the Ministry for provision of bank statements of CHD and Accommodation Account for the month of September, 2019 and correction made in Cash Book may be attested and a copy thereof be provided to audit. No further progress was reported till finalization of this report.

Audit recommends compliance of DAC directives.

(Para-16 SAR DG Hajj Jeddah 2018-21)

6.4.19 Irregular borrowing from Pilgrim Welfare Fund – Rs 135.000 million

Pilgrim Welfare Fund Rules 1990 amended up to 2001, there is no rules provision for giving loan out of PWF to any other department/Account for any purpose other than welfare of pilgrims.

During audit of DG Hajj, Jeddah for the FYs 2018-21, it was observed that the mission borrowed an amount of Rs 135 million (SRLs 2.5 million) from PWF to meet operational expenses. The detail of loans taken from PWF is as under:

Sl. No.	Month	Amount of Loan (SR)	Amount of Loan (Rs)
1	July-2019	300,000	18,411,000
2	August 2019	300,000	18,411,000
3	Sept 2019	400,000	24,548,000
4	Oct 2019	400,000	24,548,000
5	Nov 2019	500,000	30,685,000
6	Nov 2020	300,000	18,411,000
TOTAL		2,500,000	135,014,000

Audit is of the view that taking of loans from PWF to meet the expenditure of regular account, was irregular and clear violation of PWF Rules. 1990.

The matter was reported to the management in August, 2022. The management replied that in order to meet the inevitable expenditure like salary of staff and other hajj related expenses and delay of remittance of regular budget, loan was taken from PWF Account.

DAC, in its meeting held on 30.11.2022, directed the Ministry to provide record of taking loans and its refund to audit for verification. No further progress was reported till finalization of this report.

Audit recommends that the matter may be referred to Finance Division for consideration.

(Para-34 SAR DG Hajj Jeddah 2018-21)

6.4.20 Variation in monthly account of the mission – Rs 61.401 million

As per Para 11 of GFR Vol-I, each head of a department is responsible for enforcing financial order and strict economy at every step. He is responsible for observance of all relevant financial rules and regulations both by his own office and by subordinate disbursing officers.

During audit of DG Hajj, Jeddah for the FYs 2018-21, it was observed that opening balance of cash in bank for February 2020 was SRLs 1,435,142.14, whereas during the month, payments/expenditure of SRLs 297,079.80 was made, hence, remaining/closing balance of cash in bank should have been SRLs 1,138,062. However, the closing balance of cash in bank was appearing as SRLs 137,560.07. Thus, there was a difference of Rs 61.401 million (SRLs 1,000,502) in the monthly account.

Audit is of the view that variation in monthly accounts of the mission showed poor accounting practices and raised suspicions regarding expenditures.

The matter was reported to the management in August, 2022. The management replied that an amount of SAR 1,000,000 was transferred from Regular Account to the PWF Account as repayment of loans which could be verified from the Bank Statements.

DAC, in its meeting held on 30.11.2022, directed the Ministry that documentary evidence for drawl of loan, refund of loan and recording of loan recoupment on the expenditure/payment side of the main statement of that month i.e February, 2020 may be provided to Audit. No further progress was reported till finalization of this report.

Audit recommends compliance of DAC decision.

(Para-11 SAR DG Hajj Jeddah 2018-21)

6.4.21 *Non-refund of amount from accommodation account into DG Hajj Regular Account – Rs 38.210 million*

As per Para 11 of GFR Vol-I, each head of a department is responsible for enforcing financial order and strict economy at every step. He is responsible for observance of all relevant financial rules and regulations both by his own office and by subordinate disbursing officers.

During audit of DG Hajj, Jeddah for the FYs 2018-21, it was observed that the mission issued a cheque amounting to Rs 38.210 million (SRL 694,720) for hiring of an accommodation in Madinah during Hajj 2018. However, due to dispute between the mission and building owner, bank was directed to stop the payment to the party. However, the party approached Saudi Arabia Monetary Authority (SAMA) and got the payment released from Regular Account bearing Bank Account No. 002124855002 of the Directorate General maintained with Al-Jazira Bank. Later on, the cheque issued from accommodation account was cancelled and taken in cash book of accommodation account as receipt in October, 2018. However, the amount withdrawn from the Regular Account was not refunded to the D.G Hajj Jeddah official account.

Audit is of the view that due to weak financial and managerial controls mission made payment out of regular account instead of accommodation account.

The matter was reported to the management in August, 2022. The management replied that the reconciliation exercise was in process to check inter-account transfers for the period under review. On completion of the exercise, the amount would be transferred to the Account to which it was due. On the other hand, budget was released yearly in the Regular Account, thus any payment due would have to be authorized afresh in each case with the release being made by the MORA & IH or Finance Division.

DAC, in its meeting held on 30.11.2022, directed the Ministry to transfer the amount of SRLs 694,720 to the regular budget account. No further progress was reported till finalization of this report.

Audit recommends compliance of DAC directives.

(Para-21 SAR DG Hajj Jeddah 2018-21)

6.4.22 *Irregular credit to regular account instead of PWF – Rs 28.607 million*

As per Para 11 of GFR Vol-I, each head of a department is responsible for enforcing financial order and strict economy at every step. He is responsible for observance of all relevant financial rules and regulations both by his own office and by subordinate disbursing officers.

During audit of DG Hajj, Jeddah for the FYs 2018-21, it was observed that the procurement committee initially allocated 10,000 Hujjaj to M/s Zoqi and Zoqi for provision of food and full payment

was made to the caterer electronically. However, after formation of sectors, the caterer was allocated sector 3 having 8573 Hujjaj for provision of food, which resulted in excess payment of Rs 28.607 million (SRLs 520,132). On the Mission's request for refund of excess payment, the caterer refunded the excess amount through cheque No.00000293 dated 17.10.2018. However, the said amount was deposited into Regular Account No. 1631388629940 instead of PWF account on the contention that OPAP was suspended like all other Missions for two months.

Audit is of the view that credit of refunded amount into regular account instead of PWF was irregular.

The matter was reported to the management in August, 2022. The management replied that the reconciliation exercise was in process to check inter-account transfers for the period under review. On completion of the exercise, the amount would be transferred to the Account to which it was due. On the other hand budget was released yearly in the Regular Account. Thus any payment due would have to be authorized afresh in each case with the release being made by the MORA & IH or Finance Division.

DAC, in its meeting held on 30.11.2022, directed the Ministry to transfer the amount of SRLs 520,132 to the PWF account. No further progress was reported till finalization of this report.

Audit recommends compliance of DAC decision besides avoiding such instances in future.

(Para-31 SAR DG Hajj Jeddah 2018-21)

**6.4.23 Irregular payment to the contractors in cash instead of crossed cheque –
Rs 1,644.247 million**

According to Rule 2.2.2 of FMMA Vol-II, no money shall be drawn from the bank unless it is required for immediate disbursement. It is not permissible to draw money from the bank in anticipation of demands or to prevent the lapse of Budget Grants. As per Rules 157 & 158 of FTR, payments to corporate or local bodies, firms & private persons should be made through crossed cheques/bank orders.

During audit of DG Hajj, Jeddah for the FYs 2018-21, it was observed that the mission made payments of Rs 1,644.247 million (SRLs 26,792,358) in cash in violation of Federal Government Treasury Rules. There was no proper record maintained by the D.G Hajj Jeddah regarding cash withdrawn and its disbursement as well as no receipt adjustment was found on record against such cash withdrawal. The detail of cash withdrawals is at ***Annex-XVIII***.

Audit is of the view that payment to the contractor in cash instead of crossed cheque was in violation of rules, thus, irregular. Such payments also raised doubts regarding authenticity of payments.

The matter was reported to the management in August, 2022. The management replied that cash management issues were systemic for the PWF, Accommodation and Compulsory Hajj Dues Accounts. These accounts could not be treated like regular budget account on which FMMA, Treasury Rules, GFR etc were applicable.

DAC, in its meeting held on 30.11.2022, directed the Ministry to get the cash payments regularized from the Finance Division and relevant documents in support of expenditure and receipts may be provided to audit. No further progress was reported till finalization of this report.

Audit recommends compliance of DAC decision besides halting the practice of cash payment forthwith.

6.4.24 *Doubtful transfer of funds from regular account to Pakistan House Madinah account – Rs 13.607 million*

According to Para 15 of GFR Vol-I, every one whose duty it is to prepare and render any accounts or returns in respect of public money or stores is personally responsible for their completeness and strict accuracy and their dispatch within the prescribed date.

During audit of DG Hajj, Jeddah for the FYs 2018-21, it was observed that as per bank statement of regular account for January 2019, an amount of Rs 13.607 million (SRLs 221,722) was transferred to bank account No. 1631388629942 (Pakistan House Madinah) on 26.06.2019. The details and purpose of transferring the amount was not mentioned.

Audit is of the view that insufficient reporting of transfer of funds raised doubt regarding authenticity of such transfer.

The matter was reported to the management in August, 2022. The management replied that the amount of SRLs 221,722 was transferred to Pakistan House Madinah Income Account as payment on account of rent of office buildings since OPAP used the space of Pakistan House during Hajj season.

DAC, in its meeting held on 30.11.2022, directed the Ministry to provide the following information and record to Audit: -

- i) A statement showing expenditure incurred from rental amount.
- ii) Detail of signatories of the Pakistan House Madinah Account.
- iii) Delegation of power for maintenance of Account, from Ambassador.

No further progress was reported till finalization of this report.

Audit recommends compliance of DAC directives.

6.4.25 *Variation in balances in cash in hand and cash at bank – Rs 6.119 million*

According to Para 15 of GFR Vol-I, every one whose duty it is to prepare and render any accounts or returns in respect of public money or stores is personally responsible for their completeness and strict accuracy and their dispatch within the prescribed date.

During audit of DG Hajj, Jeddah for the FYs 2018-21, following discrepancies in balances of Ferbruary, 2019 were noticed:

- i. The main statement of January 2019 was showing closing balance of cash in hand as SRLs 99,720.05 whereas main statement of February, 2019 showed that opening balance of cash in hand was SRLs 50,019.60. Hence there was a difference of Rs 3.050 million (SRLs 49,701) in both the statements.
- ii. The main statement of January 2019 was showing closing balance of cash at bank as SRLs 1,862,941.60 whereas main statement of February, 2019 showed that opening balance of cash at bank was SRLs 1,912,941.60. Hence there was a difference of Rs 3.069 million (SRLs 50,000) in both the statements.

Audit is of the view that variation in balances showed weak accounting practices and raised suspicion regarding authenticity of accounts / payments.

The matter was reported to the management in August, 2022. The management replied that the closing balance of January, 2019 was same as opening balance of February, 2019 in the relevant cash accounts.

DAC, in its meeting held on 30.11.2022, directed the Ministry to provide detailed reply with all relevant supporting documents i.e cash deposit slips, bank reconciliation statements etc. No further progress was reported till finalization of this report.

Audit recommends compliance of DAC directives.

(Para-37 SAR DG Hajj Jeddah 2018-21)

6.4.26 Discrepancies in Pilgrim Welfare Fund account

As per Para 11 of GFR Vol-I, each head of a department is responsible for enforcing financial order and strict economy at every step. He is responsible for observance of all relevant financial rules and regulations both by his own office and by subordinate disbursing officers.

During audit of DG Hajj, Jeddah for the FYs 2018-21, Audit observed following discrepancies in PWF account;

1. A cheque bearing No. 67304913 dated 11.10.2018 valuing SRL 113,018 on account of payment for balance amount of building hired for welfare staff Madinah was being shown as outstanding in bank reconciliation statement from October, 2018 to September, 2019. This was neither shown as outstanding in reconciliation statement nor shown as paid/cleared in the bank statements.
2. In June, 2019, an amount of SRLs 20,000 vide cheque No. 13 dated 24.06.2019 was granted as advance for airport to Mr. Baidar Bakhat but adjustment was not available.
3. Bank reconciliation statement for July 2019 showed that an amount of SRLs 530,437 was wrongly credited by the bank whereas according to bank statements, no such amount was credited by both banks.
4. According to bank reconciliation statement of August 2019, an amount of SRLs 2,667,631 was added in bank balance as amount wrongly deducted by the bank. As per bank statements no such amount was found.
5. According to bank reconciliation statement of September, 2019, an amount of SRLs 1,577,852 was added in bank balance as amount wrongly deducted by the bank. As per bank statements no such amount was found.
6. In September 2018, expenditure in bank column of cash book was recorded as SRLs 6,256,567.76 whereas actually it calculated to SRLs 6,109,492.76, thus, there was over booking of expenditure to the tune of SRLs 147,075.
7. Cash book for March 2019, revealed that an amount SRLs 500,000 was drawn vide cheque No. 67304920 dated 14.03.2019 from Bank Al Jazira. The record i.e cash book showed that out of that an amount of SRLs 50,000 was taken as cash on receipt side of

the cash book during March, 2019 and the balance cash of SRLs 450,000 was deposited in Bank al Riyadh No. 1631464579940 (PWF Account). This deposit needed confirmation from the bank. However, this amount could not be verified from the Bank statements.

Audit is of the view that weak internal and financial controls resulted into discrepancies in PWF account.

The matter was reported to the management in August, 2022. The management replied that:

- i. The amount was credited back to PWF Account in October-2019. The Cheque was neither paid, nor cashed or replaced.
- ii. Previously the adjustments were not being approved in the name of individuals rather their individual adjustments were watched over by the AAO and adjustments were made on the basis of account heads and period concerned without reference to the incurring personnel; therefore, specific record against each money issue to personnel, was not available.
- iii. The bank statement when matched with the cash book reveals that multiple entries in the bank, representing proper transfers to companies etc. for concerned service/ provision, were not entered in the Cash Book and at the end by the then AAO, who wrote the Cash Book, just fictitiously made the wrong credit by bank entry to make the Closing Balances of the Bank and Cash Books to match.
- iv. As regards the Para 3, 4, 5, 6, 7 that a scrutiny committee was previously formed that checked the bank entries, however, these situations required the remaking of cash books for the months pointed out by the Audit which was akin to substantive audit requiring a lot of effort and time. The exercise for the pointed out months would be undertaken and final results would be intimated to audit in due course of time.
- v. The Cash was deposited in the Riyadh Bank on 14-03-2019.

DAC, in its meeting held on 30.11.2022, directed the Ministry to get the record verified in case of Sl.No.1 & 2 and directed to investigate the matter in case of Sl. Nos 3 to 7 and share the outcome with Audit. No further progress was reported till finalization of this report.

Audit recommends compliance of DAC decision.

(Para-23 SAR DG Hajj Jeddah 2018-21)

6.4.27 Discrepancies in accommodation account

As per Para 11 of GFR Vol-I, each head of a department is responsible for enforcing financial order and strict economy at every step. He is responsible for observance of all relevant financial rules and regulations both by his own office and by subordinate disbursing officers.

During audit of DG Hajj, Jeddah for the FYs 2018-21, following discrepancies in accommodation account were observed;

1. An amount of SRLs 441,595 was credited on 26.06.2020 to accommodation account maintained with Bank Al Riyadh but the amount was not taken as receipt in the cash book.

2. Another amount of SRLs 4,905,281.47 was credited on 09.04.2020 to accommodation account in Bank Al Riyadh but the amount was not taken as receipt in the cash book.
3. Cash book was showing negative balance from September, 2019 to March, 2020 (-SRLs 415,176.20).

Audit is of the view that weak internal and financial controls resulted in discrepancies in accommodation account.

The matter was reported to the management in August, 2022. The management replied that:

1. No entry in the Bank Statement for Jun/2020 was available for SRLs 441,595. However, an amount of the equal value was transferred through cheque from Regular Account to Accommodation Account in June/2021, and was not recorded in cash book by the then AAO.
2. At the time of transfer of Bank Account, the balance amount of SRLs 4,905,281.47 was transferred from Bank, Al Jazeera to Riyad Bank. Since, the same cashbook was continued, therefore, the amount was not taken on credit side.
3. The actual corresponding bank balance was not negative. However, due to the separation of accounts sometimes the payments of one account are paid from the other bank account but were reflected in the actual cash book which were then cleared after inter-account transfer.

DAC in its meeting held on 30.11.2022 directed the Ministry to:

Provide Bank reconciliation statement of accommodation account for the month of June, 2021.

Provide Bank reconciliation statement of accommodation account for the months of April and May, 2020 (Al-Riyad and Aljazera Banks)

Proper justification for negative balances in cash book may be shared with Audit.

No further progress was reported till finalization of this report.

Audit recommends compliance of DAC decision.

(Para-24 SAR DG Hajj Jeddah 2018-21)

6.4.28 *Non-framing of accounting procedures and non-vetting of PWF Rules*

According to Para 5 (d & e) of the Controller General of Accounts Ordinance, 2001, the Controller General shall lay down the principles governing the internal financial control for Government departments in consultation with the Ministry of Finance and the Provincial Finance departments as the case may be and render advice on accounting Procedure for new schemes, programs or activities undertaken by the Government concerned. As per Para 25 of GFR Vol-I, all Departmental regulations in so far as they embody orders or instructions of a financial character or have important financial bearing should be made by or with the approval of the Ministry of Finance.

During audit of DG Hajj, Jeddah for the FYs 2018-21, it was observed that Ministry of Religious Affairs and Interfaith Harmony created a Pilgrim Welfare Fund in 1980. However, the Accounting Procedures for the fund was not prepared contrary to above mentioned rules provision. Further, the Pilgrim Welfare Funds Rules 1990 have also not been vetted by the Finance Division.

Audit is of the view that in the absence of approved Accounting Procedures and vetting of Pilgrim Welfare Funds Rules by the Finance Division, the maintenance of record and incurrance of expenditure from PWF was irregular.

The matter was reported to the management in August, 2022. The management replied that the case would be taken up with CGA and M/o Finance for vetting of PWF Rules.

DAC in its meeting held on 30.11.2022 directed the Ministry to expedite the vetting of PWF rules from Finance Division and framing of accounting procedure in consultation with the CGA. No further progress was reported finalization of this report.

Audit recommends compliance of DAC decision.

(Para-25 SAR DG Hajj Jeddah 2018-21)

6.4.29 *Non-reconciliation of remittances to the mission*

As per Rule 89(4) (viii) of GFR Vol-I, the head of the department and the Accountant General will be jointly responsible for the reconciliation of the figures given in the accounts maintained by the head of the department with those that appear in the Accountant General's books. Unless in any case there are special rules or orders to the contrary such as those contained in paragraph 90, the reconciliations should be made monthly the initial responsibility resting with the Accountant General.

During audit of DG Hajj, Jeddah for the FYs 2018-21, it was observed that the figures of remittances sent by MORA to DG Hajj Jeddah during the period 2018-2021 and those recorded by the Mission did not match with each other. The details of amounts remitted and received are as under:

Remittance sent by MORA			Remittances accounted for by DG Hajj, Jeddah		Difference (SRL)	Difference (Rs)
Sl. No.	Period	Amount Remitted (SRLs)	Period	Amount Remitted (SRLs)		
1	Hajj 2018	738,019,655	Hajj 2018	772,064,882	34,045,227	1,872,487,485
2	Hajj 2019	689,626,158	Hajj 2019	914,237,540	224,611,382	12,353,626,010

3	Hajj 2020	151,222,616	Hajj 2020	205,434,440	54,211,824	2,981,650,320
---	-----------	-------------	-----------	-------------	------------	---------------

Audit is of the view that due to weak internal and financial controls the figures of remittances sent by MORA, there was variation in the amount sent by MORA and received by the mission.

The matter was reported to the management in August, 2022. The management replied that during Hajj the MORA & IH sends remittances but the left over balance from previous years is also authorized to be used for Hajj, when both are taken into account the total balance exceeds the amounts accounted for in the expenditure statements.

DAC in its meeting held on 30.11.2022 directed the Ministry for reconciliation of remittance between Ministry and D.G Hajj, Jeddah within 06 days. No further progress was reported till finalization of this report.

Audit recommends compliance of DAC decision.

(Para-41 SAR DG Hajj Jeddah 2018-21)



**AUDIT REPORT
ON
THE ACCOUNTS OF
SOCIAL SAFETY NETS
(FEDERAL GOVERNMENT)
AUDIT YEAR 2023-24**

AUDITOR-GENERAL OF PAKISTAN

DIRECTORATE GENERAL AUDIT (SOCIAL SAETY NETS)

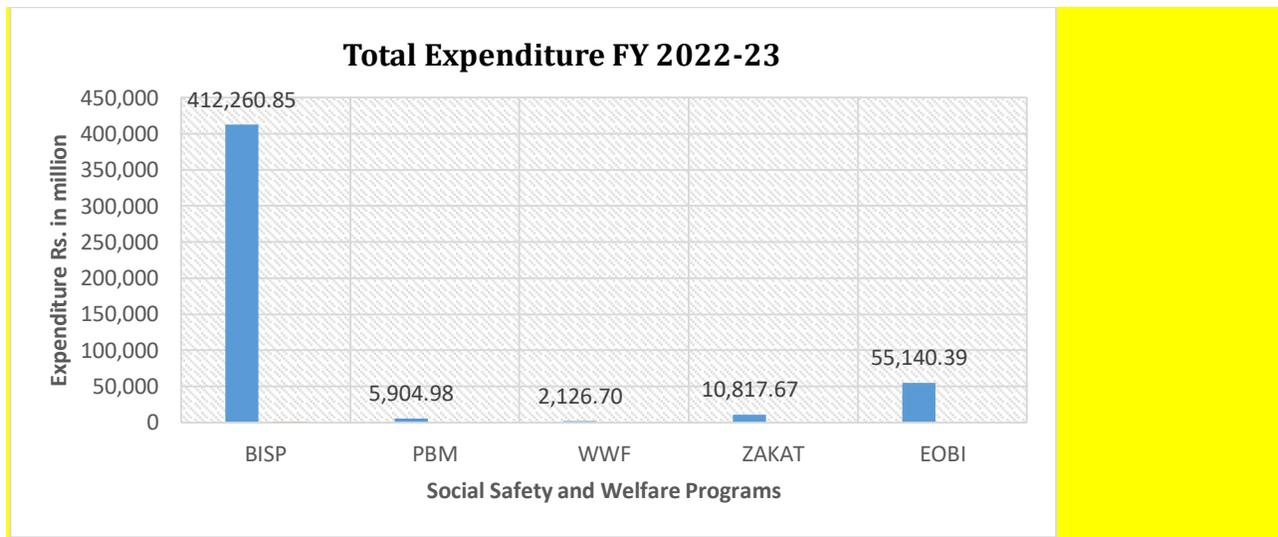
CHAPTER 1

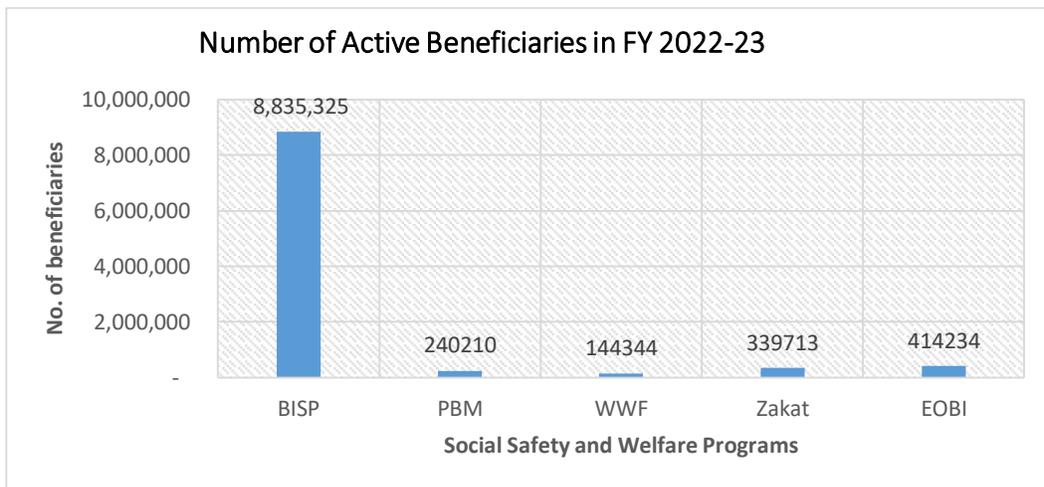
SOCIAL PROTECTION SECTOR ANALYSIS

1.1 Introduction

Social Protection sector is the emerging sector of the state, with increased budgetary allocations over the years. Universal access of the poor and marginalized sector to the basic necessities of life including proper food, clothes and housing facilities is the basic goal of this sector. Various federal and provincial governments have introduced Social Safety programs. Starting from 1967, the Provincial Employees Social Security Scheme was introduced as first social protection measure in Pakistan. Currently, Benazir Income Support Programme (BISP), Pakistan Poverty Alleviation Fund, Workers Welfare Fund (WWF), Employee Old Age Benefit Institution (EOBI), Pakistan Bait-ul-Mal (PBM) and Central/Provincial/District Zakat Funds are the main social protection institutions/funds catering both chronic and transient poor population for reducing poverty. The beneficiaries registered with these programs are increasing gradually.

The total expenditure of these programs in FY 2022-23 was Rs. 486,250.59 million. Details of expenditure and number of beneficiaries registered with these social protection programs are given in the graphs below:





In order to enhance the coverage of Social Protection programmes, so as to reduce the poverty in all its forms the current government has streamlined the Conditional Cash Transfers and established appropriate graduation programs. For this purpose, Poverty Alleviation Coordination Council was created with the following aims i) to synergize the efforts of various organizations working for poverty alleviation in public and private sector, ii) to develop a framework for improving the implementation plans for capacity building and performance enhancement of subject organizations. Poverty Alleviation and Social Safety Division has also been established to effectively administer all Social Protection Programs throughout the country, through one window operation. Moreover, *Ehsaas* Program has been initiated which implies a multi-dimensional approach to reduce poverty effectively. The major initiatives under *Ehsaas* Program include *Kafalat* program, Under-graduate Scholarships, *Ehsaas Nashonuma* and establishment of *Sehat Insaf* Card for free medical treatment to around eight million families all over the country.

1.2 Sectoral Analysis

Following are the organizations under Social Protection Programs to counter poverty by graduating the poor out of poverty and making them self-sufficient.

1.2.1 Benazir Income Support Programme

BISP is a flagship federal cash transfer Social Safety Net initiative of Government of Pakistan. Its long-term objectives include meeting the targets set by Sustainable Development Goals (SDGs) to eradicate extreme & chronic poverty and empowerment of women through establishment of comprehensive social protection. BISP has a nationwide presence with headquarter in federal capital and six zonal/regional offices at provincial capitals, Azad Jammu & Kashmir and Gilgit-Baltistan. There are also 34 divisional and 385 District offices all across the country. Since inception of this program till 30.06.2023, Rs. 1,671,797 million was disbursed under different cash transfer programs and total number of beneficiaries now stands at Rs. 8.83 million. BISP uses Poverty Score Card under NSER, where a score of PMT 32 (New Survey) makes the beneficiary eligible for this cash transfer program. BISP has following programs:

- ▶ **Unconditional Cash Transfers (UCT)** provides minimum income support package (Rs. 2,000 monthly) to those rated poor on Poverty Score Card.
- ▶ **Conditional Cash Transfer Programs** which include *Waseela-e-Taleem* to facilitate primary education.
- ▶ **Nutrition Nashonuma Program** provides women cash stipends, specialized nutritious food, immunizations, antenatal and postnatal checkups, health awareness sessions and tackling stunting in children across 15 most stunted districts in the country.
- ▶ **Under-graduate Scholarships Program** started in 2019 provides a total number of **200,000 scholarships** with 70,000 scholarships each year with a 50% scholarships quota is reserved only for girls.

BISP started in 2008 with the aim to reduce poverty and making beneficiaries self-sufficient to prevent them from falling below the poverty line. In FY 2022-2023, Rs. 274,096 million was disbursed as Unconditional Cash Transfer, Rs. 40,575 million was disbursed for Conditional Cash Transfer Program i.e., *Waseela-e-Taleem* and Rs. 20,661 million and Rs. 8,615 million were disbursed for *Ehsaas Nashonuma* and Under-graduate scholarships program, respectively.

BISP has developed the database of its beneficiaries in Management Information System through multiple surveys by participation of both public and private sector. To track down the financial status of the beneficiaries being covered by the BISP programs over the long period of time, it is very important to update the beneficiaries' data after shorter periods to check the economy, efficiency and effectiveness of the program. Latest Survey report (National Socio-economic Registry) was completed during the financial year 2021-22. Moreover, data integration across the multiple social safety organizations remains an issue because auditors have reported deficiencies in beneficiaries' record in these MIS.

To become a productive and robust vehicle to deliver services to the poorest, BISP still has to plug the identified gaps as reported in the recent audit report. Though efforts have been made to improve the payment mechanism and currently Biometric Verification System is operational, still instances of fraud and embezzlement have been reported from different regions of the country. This speaks for inadequate inbuilt controls in the payment mechanism. That is why the Complaint Monitoring System needs to be more effective for timely remedial measures to address recipients' concerns. Delayed and incomplete reconciliation process among BISP, Banks and Post Offices are potential grey areas. In addition to this, retention of undisbursed funds by the banks is against the terms of agreements.

1.2.2 Pakistan Bait-ul-Mal

Pakistan *Bait-ul-Mal* (a welfare fund) established in 1992 by PBM Act, 1991. PBM is significantly contributing towards poverty alleviation through its various poorest of the poor focused services and providing assistance to the poor and needy persons, as per eligibility criteria approved by *Bait-ul-Mal* Board irrespective of their gender, cast, creed and religion through its establishment at the district level. A person to be eligible for PBM program should have monthly

household income less than Rs. 17,000. During FY 2022-23, PBM has disbursed an amount of Rs. 5,905 million through its following core projects/schemes:

- **Individual Financial Assistance** caters poor, widows, and orphans for medical treatment, education and general assistance.
- **School for Rehabilitation of Child Labour (SRCLs)** are working for the rehabilitation of the bonded child labour and provide them primary education. PBM has established 159 National Centre's for Rehabilitation of Child Labour countrywide since 1995.
- **Women Empowerment Centers (WEC)** works for the skill-development i.e. cutting, sewing, knitting, computers and embroidery along with other trades to women and provide free training to widows, orphans and poor girls in different skills. There are 160 WECs operating across the country.
- **Pakistan Sweet Homes/Dar-ul-Ehsaas** are for the orphan children where they get free food, medical treatment, boarding and lodging and free education. There are 51 Sweet Homes now called *Dar-ul-Ehsaas* across the country.
- **Orphan Widow Support Program** for families having orphan child, preferably girls, launched in four districts Abbottabad, Peshawar, Gujrat and Okara. This program has launched in replacement of 4 closed *Dar-ul-Ehsas* 247 children in those districts.
- **Panagahs** Under the vision of Prime Minister, PBM launched the program of *Panagahs* (5 in Islamabad, 1 in Mardan, 1 in Abbottabad, 5 in Karachi, 1 in Quetta, 1 in Gawadar, 1 in Qilla Abdullah, 1 in Lasbella and 1 in Skardu) during the FY 2022-23.
- **Ehsas Koe Bokha na Soay** Under the vision of Prime Minister, PBM launched the Program of 12 *Ehsas Koe Bokha na Soay* food vehicle (4 in Peshawar, 4 in Lahore, 2 in Islamabad and 2 in Faisalabad)

1.2.3 Workers Welfare Fund

Workers Welfare Fund (WWF) was established under Workers Welfare Fund Ordinance, 1971 for providing low cost housing and other welfare amenities to the industrial labour. Initial contribution of Rs. 100 million was made by the Federal Government and further resources were to be raised by the private sector. The main objective of WWF is to finance housing schemes for the industrial workers which include construction of houses, flats and development of plots, establishment of health facilities like hospitals, wards and dispensaries and education facilities like secondary and higher secondary schools, technical institutes and industrial homes in all major industrial cities. Provision of death grant to the widow/legal heir of the deceased workers and marriage grant for the marriage of daughters of workers is also provided. Total budget for the FY 2022-2023 was Rs. 2,126.701 million.

During audit of financial year 2022-23, significant number of irregularities were reported. There were cases of payments of fees to un-registered schools, provision of allowances to the

employees of WWF without approval of Finance, non-deduction of Income Tax at source on account of fee paid directly to the Institutions and payment of gratuity in addition to Contributory Provident Fund. In addition to this, in WWB, Punjab and Khyber Pakhtunkhwa there was cases of mis-procurement, non-deposit of tax timely to taxation authorities, non-obtaining of utilization reports from schools and losses due to non-letting out properties of Board.

1.2.4 Zakat

Zakat plays an important role in poverty alleviation. Apart from support to the poor and needy, it helps in re-distribution of wealth which curtails unemployment and reduces chances of economic recession. Zakat funds are utilized for assistance to the needy, indigent, poor, orphans, widows, handicapped and disabled for their subsistence or rehabilitation. These poor segments of society are provided Zakat funds either directly through respective Local Zakat Committee or indirectly through institutions i.e. educational, vocational, social institutions and hospitals, etc.

The subject of Zakat stands devolved to the provinces and federal areas. Poverty Alleviation and Social Safety Division (Zakat Cell) has been assigned the task of collection and disbursement of Zakat funds to the Provinces/Federal Areas till next NFC Award under the Council of Common Interests approved formula. *Mustahiqeen* should have income less than Rs. 670 per head in a household. A total amount of Rs. 10,817.666 million was collected during FY 2022-23 and distributed in lump sum amongst the Provinces/Federal Areas.

Auditors during the Audit of FY 2022-2023 found the issues of exemptions granted without declarations/on invalid declarations and non-distribution of Zakat on revised population census 2017.

1.2.5 Employees' Old-age Benefits Institution

EOBI Act, 1976 was enforced w.e.f. 01.04.1976. The statute intends to provide security and benefits to the old-age employees of industries, commercial or other organizations covered under it. EOBI provides an Old-Age Pension, Invalidity Pension, Old-Age Grant and Survivor's Pension to eligible beneficiaries. The purpose of EOBI is to achieve the objective of Article 38(C) of the Constitution, by providing compulsory social insurance.

In provision of pension grant, significant number of incidences of payments on dubious/wrong date of births, wrong de-credit, double re-credit of pensions, multiple pensions on one link claim number and pension awarded at excess rates have been noticed. Moreover, there are instances of non-recovery of contributions from defaulting employers and cases of mis-procurement. Total expenditure on pension payments during financial year 2022-23 was Rs. 51,000 million.

1.3 Conclusion

Social Protection Programs are often fragmented and duplicated, because each program has been working on its own and under different ministries, whereas inter-ministerial coordination is weak. The Social Safety Nets Institutions do not have clear division of responsibilities in terms of target groups and have their own eligibility criteria for rating an individual as poor so they have their own database. Due to lack of data sharing and correspondence among different programs and ministries, beneficiaries are being covered by multiple programs which lead to decrease in overall efficiency and effectiveness of Social protection Sector in achieving the targets of poverty alleviation and self-sustainability in beneficiaries. Poverty Alleviation and Social Safety Division is acting as the administrative head of these programs. Still, EOBI is under Ministry of Overseas Pakistanis and Human Resource Development. To make the Social Safety nets result oriented it is very important to use a single criterion of poverty measurement in line with the national definition of poverty and develop a single database for all programs which should be re-evaluated after appropriate number of years to track down the progress made by each program. Cash transfer programs may be time barred to reduce the dependency syndrome in beneficiaries while the core program should include Poverty Graduation Schemes through skill enhancement and subsequent asset transfer and micro-financing to make the beneficiaries self-sufficient. It is also desired that there may be segregation of duties among social protection sector and development of key performance indicators along with the proper monitoring and evaluation mechanism. Moreover, there is a need for early establishment of financial rules and autonomous funds of formations/commissions under administrative control of Ministry of Human Rights and Ministry of Overseas Pakistanis and Human Resource Development. Additionally, policies must be designed and approved from competent authority for disbursement of cash transfers and other benefits to be provided in disasters/emergencies such as earth-quake, flood etc.,

In short term, there may be a policy level intervention to resolve the issues of cumbersome delivery mechanism, limited funding, ineffective targeting and low coverage to create the time value of money and make the social protection sector efficient and effective in-service delivery.

CHAPTER 2

BENAZIR INCOME SUPPORT PROGRAMME

2.1 Introduction

A. The Government of Pakistan launched BISP in July 2008 with an immediate objective to eradicate poverty and to evaluate the status of marginalized and under privileged sections of society, especially women, through establishment of comprehensive Social Protection Net. Accordingly, the Benazir Income Support Programme Act, 2010 was passed by the parliament to provide a basis for regulation and establishment of an autonomous Social Safety Net Authority to coordinate the design and implementation of targeted programs for the poor. The purpose of the program is to:

- Enhance financial capacity of the poor and their dependent family members;
- Formulate and implement comprehensive policies and targeted programs;
- Reduce poverty and promote equitable distribution of wealth, especially for the low-income groups.

The President of Pakistan is Chief Patron and the Prime Minister is Executive Patron of BISP, while a Special Assistant on Poverty Alleviation and Social Safety to the Prime Minister of Pakistan, with the status of Federal Minister, manages its operations as Chairperson with the help of a Board constituted by the President on the advice of the Prime Minister.

Key powers and functions of the Board are as under:

- To approve the budget of the program prepared by the management;
- To take decisions on the financial aspects of the program;
- To monitor the program in a transparent manner;
- To make regulations and approve policies and manuals in order to carry out the purposes of the Ordinance;
- To approve criteria of eligible families for financial assistance under the program;
- To present annual progress reports to the Council and consider recommendations.

B. Comments on Budget & Accounts (Variance Analysis)

Budget allocated to the Benazir Income Support Program for the Financial year 2022-23 was Rs. 412,633 million, out of which the Program incurred an expenditure of Rs. 412,261 million resulting in savings of Rs. 372.146 million which is 0.1% of the Final Budget.

(Rs. in millions)

Grant No	Grant Type	Original Grant/ Appropriation	Supplementary Grant/ Appropriation	Final Grant/ Appropriation	Actual Expenditure	Excess/ (Savings)	% age Excess/ (Saving)
26	Current	412,633,000	-	412,633,000	412,260,854	(372,146)	(0.10)

C. Sectoral analysis on the achievements against targets under MTBF

The performance indicators, targets and achievements for the FY 2022-23 by BISP is tabulated below:

Outputs	Selected Performance Indicators	Targets	Achievements
Unconditional cash transfer	Number of beneficiaries (In thousand)	9,000	8,835
Waseela-e-Taleem program	Number of beneficiaries (In thousand)	9,115	7,775
NSER	Number of Households (In thousand)	32,500	36,763
Under-graduate Scholarship	Number of students (In thousand)	102	102

Table 1: Audit Profile of Benazir Income Support Program

(Rs. in millions)

Sr. No.	Description	Total Nos	Audited	Expenditure audited (FY 2022-23)
1	Formations	40	09	412,260.854
2	Assignment Accounts (excluding FAP)	01	01	412,260.854
3	Foreign Aided Projects (FAP)	06	06	187,452.160

2.2 Classified Summary of Audit Observations

Audit observations amounting to Rs. 11,564.177 million were raised as a result of audit. This amount also includes recoverable of Rs. 1,980.479 million as pointed out by the audit.

Table 2: Overview of the Audit observations

(Rs. in millions)

Sr. No.	Classification	Amount
1	Reported cases of fraud, embezzlement and misappropriation	47.840

2	Irregularities	5,631.587
A	HR/ Employees related irregularities	226.372
B	Procurement related irregularities	48.842
C	Management of accounts with commercial banks	5,076.098
D	Financial Management	280.275
3	Value for money and service delivery issue	1,029.188
4	Others	4,855.562

2.3 Brief comments on the status of compliance with PAC Directives

Year of AR	PAC Status	No. of Actionable points	Compliance	Non-compliance	% Compliance
2011-12	Held	3	2	1	66.67
2012-13	Held	8	-	8	-
2013-14	Held	18	6	12	33.33
2014-15	Held	9	-	9	-
2015-16	Held	2	-	2	-
2016-17	Held	5	-	5	-
2018-19	Held	14	-	14	-
2019-20	Held	10	-	10	-
2020-21	Not Held	-	-	-	-
2021-22	Not Held	-	-	-	-
2022-23	Not Held	-	-	-	-

2.4 AUDIT PARAS

Fraud and Embezzlement

2.4.1 Fraudulent withdrawals on account of Tirah IDPs program by unauthorized / ineligible persons – Rs. 30.040 million

Regulation No. 12(i) of BISP Financial Regulations 2017, states that every officer incurring or authorizing expenditure from public funds should be guided by high standards of financial propriety among the principles on which emphasis is generally laid. Every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as person of ordinary prudence would exercise in respect of expenditure of his own money.

BISP Board approved to pay one-time relief to ever married woman of Internally Displaced Persons (IDPs) of Tirah Valley.

Audit observed that 1,502 unauthorized and ineligible persons were allowed to withdraw an amount of Rs. 30.040 million @ Rs. 20,000 per person through fraudulent enrollment which was otherwise approved for IDPs of Tirah Valley. These 1,502 persons were not in the Tirah 'one-off enrollment' list of BISP, however, upon reviewing the data, these unauthorized names were found in the payment list shared by bank with BISP during the period March 2022 to September 2022.

Details of 1,502 transactions were provided to the BISP management in digital form. However, a list of CNICs is attached at **Annexure-II**.

Audit held that the wrong withdrawals of Rs. 30.040 million were made due to negligence on the part of BISP management and the bank which needs to be recovered.

The initial audit observation was issued on August 30, 2023. The management replied that the data of eligible beneficiaries of Tirah IDPs program was shared with the bank with the instruction to enroll/disburse only these beneficiaries @ Rs. 20,000 per beneficiary. However, it seems that the bank has also enrolled beneficiaries of Phase-2 of Covid program @ Rs. 20,000. The matter is being further investigated as well as taken up with the bank for clarification. Detailed response on the matter will be shared with audit later.

The matter was discussed in the DAC meeting held on 06.12.2023. The forum directed BISP management that recovery be made from the bank and responsibility be fixed.

Audit recommends that the matter be investigated to fix the responsibility and to find out reasons for such lapses, besides recovery of objected amount within 30 days.

{Para No.37 of AIR of BISP HQrs for the Audit Year 2023-24}

Irregularity and non-compliance

2.4.2 Irregular refund of Rs. 2,854.87 million by HBL to government of Sindh without any acknowledgement and reconciliation of difference amount - Rs. 4,210.58 million

A per decision of Sindh Cabinet in its meeting held on 21.03.2023, cash transfer of Rs. 2000 each under the Flour Relief Scheme shall be paid to 7.8 million families approx. of Sindh Province with BISP's PMT score in the range upto 60.

Accountant General Sindh Karachi released an amount of Rs. 12,072 million directly into BISP Shock Responsiveness Account C-3 maintained at HBL, CDA Civic Centre, G-6 Markaz, Islamabad on account of Wheat Flour Subsidy vide authority dated March 31, 2023.

Audit observed that HBL vide letter dated June 27, 2023 authorized Chief Manager, Banking Service Corporation, State Bank of Pakistan to debit its current account number 020211000620034 maintained with SBP as a contra credit to Finance Department, Govt. of Sindh (Non-food Account No.1) an amount of Rs. 2,855 million in lieu of unutilized amount of Wheat Flour Subsidy. Audit further observed as under:

- i. Confirmation/ acknowledgement of credit of such amount in Government of Sindh Exchequer was not found on record.
- ii. The amount was refunded without proper reconciliation of accounts. Difference of Rs. 4,210.58 million (upto May 2023) was yet to be reconciled as detailed below:

(Rs. in millions)

A	Total amount of Wheat flour subsidy credited by GoS	13,581.00
B	Total Bank charges approved by BISP upto May 2023	41.44
C	Services charges rate (inclusive of 13% FED) = 0.006441	
D=B/C	Total withdrawals as per approved service charges	6,434.11
E=B+D	Total amount utilized	6,475.55
F=A-E	Remaining amount unutilized	7,105.45
G	Amount credited to the Govt. of Sindh	2,854.87
H=F-G	Difference amount yet to reconciled	4,210.58

The initial audit observation was issued on 30.08.2023. The management replied that the audit of Sindh Wheat Flour Subsidy program does not come under the purview of Federal Audit as the cash assistance under the program was disbursed through funds provided by Government of Sindh and that too were directly transferred in the main account of BISP maintained by HBL for Cluster-3, without involving Federal Treasury.

The reply was not acceptable as funds were disbursed from the account operated by BISP and closing balances were refunded after the approval of BISP management.

The matter was discussed in the DAC meeting held on 29.11.2023. The forum directed BISP management that reconciled accounts alongwith verified proof of amount credited into Sindh Government Treasury be provided to audit authorities.

Audit recommends early compliance of DAC directive.

{Para No.11 of AIR of BISP HQrs for the Audit Year 2023-24}

2.4.3 Anomalies in targeting/eligibility related data of seed subsidy shared by NITB and identified by Government of Sindh – Rs. 2,773.86 million

Para 5 of the approved summary of ECC of Cabinet vide case no.ECC-30/04/2023 dated 25.01.2023 regarding “Subsidy of Wheat Seed (Rabi 2022-23)” provides that targeting/eligibility related grievances to be dealt by Government of Sindh at every forum, whereas, payments related grievances will be dealt by the BISP as per relevant provisions of the contract signed with partner bank.

The Crisis Management Cell of Agriculture Supply & Prices Department, Government of Sindh vide letter dated 10.02.2023 conveyed the decision of Sindh Government to BISP that “the amount will be reimbursed @ 5000/acre of verified wheat area sown 2022-23. Accordingly, the office of Accountant General Pakistan Revenues authorized an amount of Rs. 839 million for placement in the assignment account of BISP vide Authority dated 23.03.2023 as additional budget ceiling through Technical Supplementary Grant approved by ECC of the Cabinet.

Audit observed anomalies in targeting/eligibility related data of seed subsidy shared by NITB / identified by government of Sindh as listed below:

- i. In 1,469 cases, the master sheet did not provide the GPS location of the land against which payment of Rs. 29.55 million was made.
- ii. 115,807 farmers were paid an amount of Rs. 2,675 million against only 16,459 GPS locations despite accuracy of upto 6 decimals (4 decimals are accurate upto 15 meter).
- iii. *Payment of Rs. 55.690 million was made to 2,706 farmers from 1300 households (as per NSER data) and in 412 cases payment was made to both spouses*
- iv. Seed subsidy payments amounting to Rs. 13.615 million were made to 486 farmers from districts out of Sindh Province as per NSER survey.

- v. Age of 21 farmers, as per BISP database, was from 4-17 years.

Details were provided by the audit team to BISP management in digital form.

Audit held that the above anomalies can only be confirmed by detailed audit of land holding record which was the basis of targeting/eligibility for cash transfers of seed subsidy, which cannot be dealt with during BISP audit.

The initial audit observation was issued on 30.08.2023. The management replied that as per decision of ECC of the Cabinet vide case no.ECC-30.04.2023 dated 25.01.2023, BISP was assigned the task to make disbursements to affected farmers identified and verified by Government of Sindh and shared with BISP by NITB. BISP was not involved in identification/targeting of the beneficiaries and it was clearly mentioned in the said decision of ECC that targeting/eligibility related grievances will be dealt by Government of Sindh at every forum.

The reply was not acceptable as BISP, being a payment authority, was required to perform necessary pre-audit checks before releasing payments to beneficiaries.

The matter was discussed in the DAC meeting held on 06.12.2023. The BISP apprised the DAC forum that BISP was not involved in the process of development of Application Programming Interface (API) with National Information Technology Board (NITB). Moreover, the BISP was only assigned the task by Cabinet to make disbursements to affected farmers identified and verified by Government of Sindh and shared with BISP through NITB. Audit, however, stressed that as per approved summary, BISP was asked to help develop an API for collecting data of the affected farmers by NITB. Audit further emphasized that BISP, as payment authority, was required to complete all codal formalities/necessary pre-audit checks before releasing payments. DAC directed that the observation be referred to the government of Sindh for corrective action and outcome be reviewed in next DAC meeting.

Audit recommends that a detailed verification of the land holding records be carried out besides rectification of anomalies pointed out by audit.

{Para No.8 of AIR of BISP HQrs for the Audit Year 2023-24}

2.4.4 Unauthentic withdrawals of Cash Transfers from out of districts/province from ATMs located at remote districts – Rs. 839.719 million

Clause 2(g)(vi) of Appendix-C Payment solutions to the contract states that onus of any fraudulent activity either due to low quality BVS hardware, saving of biometric images, or any fraudulent activity relating to BVS will squarely rest with the Financial Institution (FI).

BISP disbursed an amount of Rs. 274,096 million, Rs. 40,575 million and Rs. 50,419 million as Unconditional Cash Transfers, Conditional Cash Transfers and Emergency Flood Relief Cash Transfers respectively amongst 10.430 million beneficiaries during the financial year 2022-23.

Audit observed that 19 Automated Teller Machines (ATMs) located in remote districts across the country were used for withdrawals of Cash Transfers of beneficiaries belonging to 22-72 other districts per

ATM. Details of 80,000 transactions have been provided to BISP management by the audit team in digital form, whereas summary of transactions is as under:

(Rs. in millions)

Sr. no.	ATM ID	ATM District	Number of other districts	Out of district beneficiaries' amount
1	5057	Shaheed Benazirabad	72	186.506
2	1669	Jamshoro	67	69.0985
3	0071	Jacobabad	66	30.0575
4	0095	Jacobabad	58	16.9795
5	0076	Mirpur Khas	56	59.8515
6	0093	Bhakkar	56	108.833
7	1674	Rahim Yar Khan	55	7.626
8	0433	Sanghar	54	67.949
9	1648	Zhob	52	45.725
10	0285	Jaffarabad	50	10.4445
11	0101	Muzaffargarh	49	44.725
12	0091	Dadu	46	50.26
13	0068	Bhakkar	44	30.2405
14	0141	Lodhran	42	36.6845
15	0079	Kambar Shahdad Kot	40	5.6435
16	0160	Rahim Yar Khan	34	4.751
17	0203	Charsadda	30	16.7715
18	0066	Umer Kot	22	37.498
19	0698	Shikarpur	22	10.0745
Total				839.719

Audit held that out of district withdrawals of Cash Transfers from BVS devices/ATMs of beneficiaries belonging to 22 to 72 districts created serious doubts about withdrawals made by actual beneficiaries.

The initial audit observation was issued on 30.08.2023. The management replied that ATM withdrawals for payment represent a common occurrence, primarily designed to assist beneficiaries who have migrated. It is important to note that there are no district-check restrictions or controls placed on ATM withdrawals.

The matter was discussed in the DAC meeting held on 06.12.2023. The forum directed BISP management to probe the matter and conduct field verification of 2% cases on sample basis amounting in total to Rs. 839.719 million and recover the amount as pointed out.

Audit recommends implementation of DAC directives.

{Para No.43 of AIR of BISP HQrs for the Audit Year 2023-24}

Note: The issue was reported earlier also in the Audit Report for the Audit Year 2022-23 vide para no. 2.4.7 having financial impact of Rs. 107.406 million. Recurrence of same irregularity is a matter of serious concern.

2.4.5 Delay in de-crediting of funds from beneficiaries Accounts and interest earned by banks thereon on government funds – Rs. 793.518 million

Clause 6.4.1(a) of the Contracts with Banks states that if a BISP beneficiary does not perform any activity i.e. withdrawal from LMA or transferred to linked BB saving account for six months or any other period as subsequently approved by the BISP Board, the bank shall block his/her LMA and de-credit amount available in the LMA. Clause 8.1(a)(i) of the Contracts with Bank Alfalah and HBL further states that the Bank shall make it a routine to regularly deposit all de-credited Funds including forced de-credited funds in the Government Treasury in accordance with Clause 6.4.1(c) on weekly basis, i.e., on every Monday, if not a holiday, without any failure or delays (next working day in case of holiday). In case, the Bank fails to transfer de-credited Funds in the Government Treasury in accordance with above, the Bank shall be liable to penalty on the retained de-credited Funds in BISP main account @ one-year KIBOR Offer Rate per day. Such amount shall be adjustable out of services charges claim of the Bank.

Bank Alfalah and HBL de-credited an amount of Rs. 4,155.217 million during the financial year 2022-23.

Audit observed that the banks had not blocked the accounts of 119,000 beneficiaries despite no activity occurring in these accounts for six months. The de-credited activity involving an amount of Rs. 3,506 million was delayed upto 967 days after the date of last withdrawal from the beneficiaries' accounts. The interest earned on average KIBOR comes to Rs. 793.518 million. Details showing date of decredit, last withdrawal and calculation of interest amount based on average KIBOR were provided to the BISP management by the audit team in digital form.

Audit held that non-de-crediting of beneficiaries' accounts and subsequent non-deposit of de-credited amount into Government Treasury was a loss to the exchequer which also enhanced the risk of fraudulent withdrawals.

The initial audit observation was issued on 30.08.2023. The management replied that automated de-crediting service used earlier by the banks only considered last withdrawal activity for calculating de-crediting period, and the period in which account balance was nil was also counted in the de-crediting period. Banks were, therefore, asked to update de-crediting service so that the de-crediting period may be calculated correctly. The Audit has also calculated the de-crediting period and interest amount on the basis of last withdrawal activity without considering the date of next deposit.

The reply was not acceptable as audit had pointed out cases with delays of more than one year.

The matter was discussed in the DAC meeting held on 06.12.2023. The forum directed BISP management to internally review the reasons for late de-credit of funds by banks, to recover the financial cost in respect of the period in which the amount was retained by Bank and not de-credited and share progress to audit in the next DAC. DAC further directed the BISP management to bound the banks for automated de-credit of funds in future.

Audit recommends early implementation of DAC directive.

{Para No.32 of AIR of BISP HQrs for the Audit Year 2023-24}

Note: The issue was reported earlier also in the Audit Reports for the Audit Year 2019-20, 2021-22 and 2022-23 vide para no. 2.5.10, 2.4.3 and 2.4.3 respectively having financial impact of Rs. 3,638.5 million. Recurrence of same irregularity is a matter of serious concern.

2.4.6 Irregular transfer of Emergency Cash Disbursement to both spouses instead of one benefit per family – Rs. 681.650 million

Para 4(a) of the summary no. NDMA's U.O No. 3(2)/2022-Summary-NDMA/Fin dated 15.08.2022 duly approved by the Prime Minister of Pakistan and Economic Coordination Committee (ECC) of the Cabinet dated 18.08.2022 and 30.04.2022 respectively provides that one benefit per family amounting to Rs. 25,000 will be provided to ever married women of the family. In case of ever married women is not available, the preference will be given to ever married men of the family.

Moreover, Clause 4.1 of the agreement for data validation of the National Socio-Economic Registry was executed between BISP and NADRA on 11.12.2019 for a minimum contract price of Rs. 225 million states that NADRA shall provide the services to BISP in accordance with Appendix A to the Agreement. Para 3(a&c) of Appendix A defining scope of the agreement provides that NADRA shall carry out validation of 6 x fields i.e. (CNIC Number, Name, Father/Husband Name, Gender, Date of Birth, Marital Status) of NSER data with national Database using its own resources and infrastructure. Moreover, NADRA will provide, CNIC number of spouse/Father name and present addresses for only sample household heads having PMT score required to declare them as beneficiaries for ground verification.

BISP disbursed an amount of Rs. 69,221.650 million amongst 2,768,866 beneficiaries under the initiative-Emergency Cash Disbursement to Affectees of Flash Floods-2022 during the financial year 2022-23.

Scrutiny of 2/3rd available spouse relationship available in NSER database (in most of cases NADRA validated the family relation) revealed that in 27,266 cases, both spouses of the family were accommodated through release of emergency cash disbursement to them. Details were provided to the BISP management in soft form.

Audit held that an excess amount of Rs. 681.650 million was disbursed in violation of Cabinet decision.

The initial audit observation was issued on 30.08.2023. The management replied that the BISP never use Spouse relationship in NSER Roster, as these relationships are not up to mark, that's why BISP shared complete list of CNICs to NADRA for eligibility ranking for single benefit after checking spouse and other validation checks. Moreover, NADRA never provide Spouse CNIC during any ranking.

The reply was not acceptable as BISP management did not take measures to block payment to both spouses, as validated spousal information of BISP beneficiaries was already available with BISP in NSER dataset which constituted a violation of directives of Cabinet. Moreover, no evidence of sharing of list of CNICs by BISP to NADRA for eligibility ranking for single benefit after checking spouse and other validation checks was produced to audit.

The matter was discussed in the DAC meeting held on 06.12.2023. The BISP apprised the DAC that NADRA was approached and requested to provide information regarding spouse relationship of flood beneficiaries so that benefit could be extended as per policy, however, NADRA did not respond. DAC directed BISP management to produce the record of correspondence with NADRA to audit authorities. DAC further directed that responsibility for non-compliance of Cabinet decision be fixed.

Audit recommends that record of correspondence with NADRA be produced, responsibility for non-compliance of Cabinet decision be fixed besides recovery of amount from person(s) at fault.

{Para No.1 of AIR of BISP HQrs for the Audit Year 2023-24}

2.4.7 Doubtful registration of pregnant women due to low child-birth registration ratio – Rs. 424.90 million

Para 5 of agreement between BISP and WFP regarding “implementation of Health & nutrition Conditional Cash Transfer Program to prevent stunting” signed on 16.12.2021 states that the funds earmarked as ‘Benefits’ are to be transferred to eligible beneficiaries as per their entitlements, either in-kind or services. Upon project closure, WFP will return any unutilized funds earmarked as ‘Benefits’ to BISP along with associated operational costs.

World Food Programme (WFP) registered 123,884 pregnant women overall during the period from 24.07.2020 to 31.10.2022 in Nashunuma Nutrition Program.

Audit observed as under:

- i. No child baby registration against 26,328 registered pregnant women (21% of total) was found in the record of Nashunuma Nutrition Program provided by BISP upto 30.06.2023.

- ii. An amount of Rs. 82.636 million was disbursed as cash transfers amongst such 26,328 pregnant women on an average basis upto 30.06.2023. Whereas the total cost of SNF charged by WFP against such beneficiaries on an average basis was Rs. 324.264 million.

Audit held that non-reporting of child against registered pregnant women despite lapse of considerable time makes the early registration of pregnant women as doubtful. Moreover, an expenditure of Rs.424.90 million incurred on such beneficiaries was held as doubtful.

The initial audit observation was issued on 30.08.2023. The management replied that out of the total shared data of 26,368 pregnant women, only 6,803 cases of pregnant and lactating women were enrolled in FY 2022-23. Among 26,368 total enrolled pregnant women, status of 14,232 pregnancies was marked, like 7,620 pregnancies were not successful (abortion, death, miscarriage etc) and 6,612 were marked delivered successfully. Further follow up of 1,549 cases was with field officials and updated regularly.

The reply was not acceptable as the complete status of 26,368 enrolled pregnant women with respect to their pregnancy status along-with documentary evidence has not been provided to audit despite lapse of more than 2 months after 30.06.2023.

The matter was discussed in the DAC meeting held on 06.12.2023. The forum directed BISP management to provide a revised reply and verify updated reasons of 14,232 pregnancies on sample basis from Audit authorities. DAC further directed to get the status of the remaining 12,136 pregnant women verified and intimate the results to Audit authorities and recovery be effected from beneficiaries where registration of Pregnant women were made on the basis of fake pregnancies.

Audit recommends implementation of DAC decision.

{Para No.20 of AIR of BISP HQrs for the Audit Year 2023-24}

2.4.8 Irregular opening of BB Wallet Saving Accounts and dubious withdrawals of Cash Transfers from beneficiaries' accounts – Rs. 355.698 million

Clause 6.2.1(i) of the contract with banks states that each beneficiary shall be required to bring her own SIM registered and verified in her name/CNIC, at the time of opening of linked BB Savings account of that beneficiary. The HBL shall be responsible to confirm that the SIM is biometrically verified in the name/CNIC of the beneficiary. The mobile number so confirmed/ verified shall be shared with BISP.

The management of BISP provided a list of 128,911 beneficiaries whom BB Saving/wallet accounts were opened by HBL with the mobile number of beneficiaries. An amount of Rs. 355,698,024 through 28,521 transactions was withdrawn from beneficiaries accounts through Branchless Banking during the financial year 2022-23.

Audit observed the following irregularities:

- i. Correct mobile numbers used for opening of BB Saving accounts of beneficiaries were not provided during audit.
- ii. An amount of Rs. 21.1 million was withdrawn from the accounts of 1,976 beneficiaries of Balochistan province during the financial year 2022-23 through Branchless Banking/transfer to BB Saving accounts. During Field verification of audit of Regional Office Balochistan Quetta, on sample basis, beneficiaries confirmed to Audit that neither they had opened their BB saving accounts nor they received their due financial assistance/Cash transfers. Details are provided in **Annexure-III A**.
- iii. Complaints from 2271 beneficiaries involving an amount of Rs. 25.208 million were received in BISP Central Zonal Office Sindh regarding fraudulent withdrawals of BISP Cash transfers from their accounts through Branchless Banking/BB Saving Accounts. Details are provided in **Annexure-III B**.

Audit held that BB saving accounts were opened and withdrawals of Rs. 355.698 million made during the financial year 2022-23 without the knowledge of the beneficiaries which makes the entire list of withdrawals dubious.

Initial audit observations were issued to the management of BISP HQs, Regional Office Balochistan Quetta and BISP Central Zonal Office Sindh on 30.08.2023, 21.09.2023 and 03.11.2023 respectively. The BISP HQs replied that the data of saving accounts provided through MIS indicated that the cell/phone numbers given against each saving account were unique and no duplication found. The management added that cases of 9337 saving accounts received from Audit were also cross verified with MIS record.

The management of Regional Office Balochistan Quetta replied that BISP had not received any complaint from any beneficiary with respect to non-opening of their BB saving account with HBL.

The management of BISP Central Zonal Office Sindh replied that the issue pertained to BISP HQ Islamabad for implementation in case of non-compliance by the partner bank as per contract.

The reply was not acceptable as physical verification on sample basis was carried out in the presence of Assistant Director, BISP.

The matter was discussed in the DAC meeting held on 06.12.2023. The forum was apprised that all saving accounts are opened against unique phone/cell numbers. Management also shared the data with Audit authorities for necessary verification. However, Audit authorities raised concerns that wrong mobile phone numbers were provided by the management of BISP during audit. DAC directed that the revised mobile numbers of all 128,911 beneficiaries be provided to audit authorities. Moreover, sample field verification be conducted on sample basis (2% of the population) and recovery of amount be made on the basis of sample field verification.

Audit recommends that the matter be referred to FIA for strict action against culprits and recovery of misappropriated amount.

2.4.9 Expected loss to Government exchequer due to change in Indirect Support Cost (ISC) rate for BISP contribution after signing of contracts with WFP – Rs. 264.986 million

Article IV(4) of the expansion agreement between the World Food Programme and Benazir Income Support Programme executed on 16.11.2021 provides that the operational cost to WFP will be comprised of (i) WFP's operational cost and (ii) its partners' cost who will be involved in the Project implementation. To ensure Full-Cost Recovery, WFP will retain a percentage, as Indirect Support Costs (as defined in WFP Rules and Regulations), as detailed in the Budget attached hereto as Annex II. Annex-II further provides ISC as 2.85% of total cost (whereas ISC was 6% in pilot project as per agreement dated 28.02.2020).

Article III (6) was added through addendum no. 2 to the expansion and pilot agreement dated 01.06.2023 which states that Indirect Support Cost (ISC) rate is calculated at 4.0 percent of the total BISP contribution for both pilot and expansion phase grants in line with WFP's Rules and Regulations.

Audit observed as under:

- i. The total ISC of both pilot and expansion agreements as per original contract was Rs. 1,291.259 million.
- ii. The total ISC of both pilot and expansion agreements after change by an addendum comes to Rs. 1,556.246 million.

Audit held that change in the ISC rate (through addendum no. 2) 27 months and 17 months after signing of agreements of pilot and expansion phase respectively has resulted in expected loss of Rs.264,986,061 (Rs.1,556,245,537– Rs.1,291,259,476) to Government exchequer.

The initial audit observation was issued on 30.08.2023. The management replied that the assertion that the rate of ISC had been increased was not correct. In-fact the rate of ISC was decreased by fixing it @ 4% in the Addendum. The ISC rate was 4% for all the government contributions as per WFP's universal principle. However, the ISC was calculated mistakenly @ 6% in the initial budget with BISP but was charged, again mistakenly, @ 2.8%. The correction was made in the addendum by fixing it @ 4%. If BISP and WFP would go as per initial approved budget, BISP/ GoP would sustain much more loss to the public exchequer.

The reply is not acceptable as change in ISC (full cost recovery) through addendum had increased the ISC by Rs.264.986 million.

The matter was discussed in the DAC meeting held on 06.12.2023. The forum was apprised that the WFP had a standard method of calculating ISC and there was no difference in ISC mentioned in amount in pilot and expansion agreement and 4% ISC rate agreed upon with WFP through an addendum. DAC directed BISP management to verify the calculations of ISC from audit authorities to the extent that there was no difference in financial impact after revision of ISC rate @ 4% through an addendum.

Audit recommends that the contract may be executed as per its original terms and conditions agreed upon by both the parties.

2.4.10 Failure to maintain POS-Beneficiary ratio and non-imposition of Penalty – Rs. 254.950 million

Section 6.6 of the contract between Banks and BISP provides that Bank shall disburse cash grant through more than one distribution channels in each district of a cluster. At least one BVS touch point (BVS ATM, sub-agent/agent BVS enabled branch etc.) shall be provided for each 500 beneficiaries per Tehsil and at least one BVS touch point shall be provided in each Union Council”.

Clause 8.1(e) of the contract further states that penalty of PKR 25,000 (Rupees Twenty Five Thousand) per deficient BVS Touch Point per tehsil as per Clause 6.6(i) shall be deducted from service charges at any point.

BISP had more than 9 million of beneficiaries all over Pakistan during FY 2022-23, for which 8,408 POS were required to be in place for smooth and speedy disbursement of funds.

Audit observed that out of 16,914 POS required for the following Zone/Regions of BISP, only 6,716 POS were active or functional during the financial year 2022-23 resulting into a deficiency of 10,198 POS. Details are as follows:

Region	Qtr / Year	Para No. of AIR	No. of POS required	No. of POS Provided (functional)	Deficiency
BISP Central Zone, Lahore	Third	4	8408	3027	5381
BISP Central Zone, Karachi	Fourth	5	4294	1284	3010
BISP Regional / Central Zonal Office, Muzaffarabad	2022-23	7	206	180	26
BISP Central Zone, Quetta	2022-23	3	903	390	513
BISP Regional Office KPK	Fourth	1	2573	1385	1188
Central Zonal Office Gilgit	2022-23	12	530	450	80
Total			16914	6716	10198

Audit held that BISP did not deduct penalty from service charges of bank which resulted loss to Government exchequer Rs. 254.950 million (10,198 x 25,000).

The initial audit observation was issued to the managements of above mentioned BISP Central/Regional/Divisional offices in the months of August and September 2023. The managements replied that imposition of penalty was a mandate of BISP HQ, therefore, Regional/Divisional offices had no capacity to take any action in that regard.

The reply was not satisfactory as the departments did not address the observations raised in the audit para.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends that management of BISP may deduct penalty from service charges of the bank by clearly communicating to banks the amount and type of penalty deducted by the BISP.

Note: The issue was reported earlier also in the Audit Reports for the Audit Year 2019-20 and 2020-21 vide para no. 2.5.11 and 2.5.6 respectively having financial impact of Rs. 344.625 million. Recurrence of same irregularity is a matter of serious concern.

2.4.11 Non-payment of second installment of assistance package to beneficiaries living along Line of Control (LoC) of Azad Jammu & Kashmir - Rs. 252 million

BISP Board in its 56th meeting held on 01.08.2022 vide agenda no. 13 decided that the Second installment of Rs 12,000 will be disbursed to those beneficiaries, who received 1st installment till 31st March, 2022. This installment will be disbursed from the budget of financial year 2022-23.

The management of BISP disbursed an amount of Rs 252 million among 21,000 families living on the LOC after verification as first installment during January to June 2020.

Audit observed, during audit of BISP Regional Office Muzaffarabad, that the management of BISP did not pay the second installment to the beneficiaries till date.

Audit held that non-payment of 2nd Installment to the beneficiaries of LoC was the violation of Board decision which deprived the beneficiaries living along Line of Control from financial assistance.

Initial audit observation was issued to the management of BISP Regional Office Muzaffarabad on 03.11.2023. The management replied that the matter had been taken up with quarter/Wing concerned of BISP HQ, for guidance and to resolve the issue as per approved policy. Once the response was received, it would be shared with Audit shortly.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends that responsibility for non-compliance be fixed and decision of BISP Board be implemented in letter and spirit.

{Para No.2 of AIR of BISP Central Zonal Office Muzaffarabad Audit Year 2023-24}

2.4.12 Inadmissible payment of honorarium to BISP employees – Rs. 224.39 million

According to Appendix 4 of GFR Vol-II, read with para 41 of GFR Vol-I, the amount of honorarium should not exceed one month pay of the government servant concerned on each occasion. In case of recurring honoraria, this limit applies to the total of recurring payments made to an individual in a financial year.

Benazir Income Support Program (BISP) paid an amount of Rs. 224.387 million as honorarium to BISP Employees during the Financial Year 2022-23. Details are provided in **Annexure-IV**.

Audit observed as under:

- i. All BISP employees were paid honoraria equal to two (02) month basic pay during the month of May, 2023.
- ii. Again, during the month of June, 2023, honorarium equal to One (01) month basic pay was paid to all employees of BISP.
- iii. F&A, CT, CCT and NSER Wings were again paid special honorarium equal to One (01) month basic pay in addition to the above honorarium during the same month i.e. June, 2023.

Audit held that honorarium paid to the employees beyond entitlement was unauthorized resulting in loss to the government.

The initial audit observation was issued on 30.08.2023. The management replied that Section 14(2) of BISP Act provides that "the Secretary shall have full powers to incur expenditure or re-appropriate funds, subject to any general or specific instructions of the Board". Moreover, Regulation No.46 of BISP Financial Regulations-2018 provides that "the Secretary may make such payments as are deemed to be necessary in the interest of program in accordance with Section 10(d) and Section 14(2) of the Act.

The reply was not acceptable as BISP Board approval for more than one month pay (upto five basic pays) as honoraria was not shown to audit.

The matter was discussed in the DAC meeting held on 29.11.2023. The forum was apprised that the payment was fully covered under the applicable regulatory and legal framework of BISP in terms of Section 10(d) and 14(2) of BISP Act 2010 and Regulation No.46 of BISP Financial Regulations-2018. However, Audit stressed that employee benefits should be defined in clear terms under BISP regulations and should be linked with performance and targets. The para involved a huge amount, so DAC pend the para for discussion in the next DAC meeting.

Audit recommends to recover the inadmissible payments made on account of honorarium to the BISP employees.

{Para No.68 of AIR of BISP HQrs for the Audit Year 2023-24}

2.4.13 Irregular payment of Tuition Fees and Scholarship to the students not in the original approved awardee list – Rs. 114.503 million

Para 3.11 of revised Operations and Payment Manual provides that if a Scholarship Awardee declines the award or otherwise becomes ineligible, the Financial Aid Office of the Higher Education Institution (HEI) may recommend the award of the scholarship to the next student placed on the waiting list (if a waiting list is available) in compliance with the following conditions:

- a. No scholarship payment (tuition or stipend) has been made to the student(s) who have declined or become ineligible. In cases, where such a payment has been made, the university will be responsible for obtaining the refund.

- b. The academic performance of the waiting list student(s) is satisfactory and the student(s) are eligible for promotion to next term / semester.

HEC finalized list of 10,000 students for Batch-III after selection of students by Institutional Scholarship Award Committee (ISAC) of the respective universities.

Audit observed that HEIs accommodated 922 students in total that were not in the original finalized list of 10,000 students of Batch-III as summarized below:

(Rs. in millions)

Reasons provided by HEC	No. of students	*Amount paid	Remarks
No reason provided	195	26.483	
CNIC Updated	117	8.727	Names not found in original awardee list
Updated	19	3.952	Awardee CNIC not found in original list
Waiting List	591	75.340	Reasons of change of students and waiting list showing names of such students duly approved by the respective ISAC was not provided
Total	922	114.503	

*on the basis of payment details of 4931 students provided

Audit held that the authenticity of selection of these 922 students could not be ascertained without production of minutes of ISAC of respective universities and completion of all missing information.

The initial audit observation was issued on 30.08.2023. The management replied that hard record of ISACs minutes and recommended awardees' list of HEIS are available, which may be verified on sample basis.

The reply was not satisfactory as no record in support of reply was provided.

The matter was discussed in the DAC meeting held on 29.11.2023. The forum directed the CI Wing of BISP to intimate reasons of inclusion of 195 students that were not included in original finalized list and to get the record verified from Audit in respect of the remaining 727 students. DAC further directed the management to ensure that no further release would be made without proper documentation.

Audit recommends implementation of DAC decision.

{Para No.28 of AIR of BISP HQrs for the Audit Year 2023-24}

2.4.14 Irregular payments of Unconditional Cash Transfers (UCT) to the spouses of government employees and pensioners– Rs. 89.890 million

The Federal Cabinet and BISP board approved various profiling checks for exclusion of beneficiaries from Regular BISP UCT Program. One of the approved profiling checks includes “Government employee (self)” & “Government employee (spouse).

BISP Board approved the pension policy and allowed payment of Cash Transfers to pensioners getting pension less than Rs. 30,000 per month.

Audit observed that 2235 Spouses of Government employees and 704 Spouses of Government Pensioners (that were drawing pension more than 30,000 per month) from Grade 1 to Grade 20 were drawing UCT payments during the FY 2022-23. A total amount of Rs. 83.554 million and Rs. 6.336 million was disbursed by BISP to spouses of Government employees and pensioners respectively. Summary is as follows:

(Rs. in millions)

Spouses of Govt. Employees benefiting from Cash Transfers			Spouses of Pensioners benefiting from Cash Transfers		
Grade	Count	Amount	Grade	Count	Amount
Contract Employee	1	0.032	-	-	-
Grade 01	152	5.167	Grade 01	4	0.036
Grade 02	407	16.277	Grade 02	3	0.027
Grade 03	128	4.504	Grade 03	1	0.009
Grade 04	79	2.787	Grade 04	4	0.036
Grade 05	366	13.619	Grade 05	33	0.297
Grade 06	38	1.452	Grade 06	7	0.063
Grade 07	198	7.329	Grade 07	66	0.594
Grade 08	12	0.525	Grade 08	12	0.108
Grade 09	95	3.329	Grade 09	46	0.414
Grade 10	36	1.442	Grade 10	19	0.171
Grade 11	63	2.456	Grade 11	44	0.396

Grade 12	27	0.932	Grade 12	63	0.567
Grade 13	8	0.284	Grade 13	23	0.207
Grade 14	98	3.432	Grade 14	122	1.098
Grade 15	263	9.578	Grade 15	71	0.639
Grade 16	42	1.551	Grade 16	56	0.504
Grade 16 Non Gazat.	161	6.879	Grade 16 Non-Gazat.	76	0.684
Grade 17	21	0.618	Grade 17	27	0.243
Grade 17 Non-Gazat.	13	0.527	Grade 17 Non-Gazat.	8	0.072
Grade 18	15	0.437	Grade 18	8	0.072
Grade 19	11	0.374	Grade 19	9	0.081
Grade 20	1	0.027	Grade 20	2	0.018
Total	2,235	83.554		704	6.336

Audit held that an amount of Rs. 89.890 million was disbursed amongst 2939 spouses of Government Employees and Pensioners, that were inadmissible and therefore recoverable.

The initial audit observation was issued on 30.08.2023. The management replied that the matter will be taken up with concerned departments/CGA for verifying the government employment status of these beneficiaries. All the beneficiaries mentioned have been blocked temporarily in BISP database.

The reply was not acceptable because proof of the temporary blockage of status of such beneficiaries was not provided to audit.

The matter was discussed in the DAC meeting held on 29.11.2023. The forum directed BISP management to constitute a Committee for devising a mechanism for identification of spouses and expedite efforts to recover the amount.

Audit recommends that responsibility for improper profiling be fixed besides recovery of amount.

{Para No.35 & 36 of AIR of BISP HQrs for the Audit Year 2023-24}

Note: The issue was reported earlier also in the Audit Reports for the Audit Year 2019-20, 2021-22 and 2022-23 vide para no. 2.5.1, 2.4.6, 2.4.26 and 2.4.9 respectively having financial impact of Rs. 23,689.497 million. Recurrence of same irregularity is a matter of serious concern.

2.4.15 Irregular withholding of service charges by HBL in advance without authorization of BISP – Rs. 72 million

Clause 6.2.1 (a) (i) of the contract between BISP and HBL provides that HBL shall open and maintain Accounts (current account) for BISP's cash initiative and BISP main accounts is meant only for receipt, transfer and disbursement of BISP funds and cannot be used for any other purpose whatsoever.

Only BISP related funds shall be deposited and transferred from this account(s). Even service charges paid to the HBL shall not be deposited in the BISP's main account(s).

Furthermore, Clause 17.1(a) of Special conditions of contract signed with HBL states that the rate of service charge is 0.57% (in Pak Rupees) of cash withdrawal per BISP beneficiary, including operational and admin costs and excluding all applicable indirect taxes for Cluster No.3. Clause 19.1 further states that BISP shall pay the service charges on withdrawal per BISP beneficiary on actual basis after deducting applicable taxes at source, as per actual.

Accountant General Sindh Karachi released an amount of Rs. 12,072 million directly into BISP Shock Responsiveness Account C-3 maintained at HBL, CDA Civic Centre, G-6 Markaz, Islamabad on account of Wheat Flour Subsidy 2013 vide authority dated 31.03.2023.

Audit observed that HBL withheld and transferred from the BISP main account Rs.72 million as advance service charges without the approval of BISP and also tax at source could not be deducted by BISP. Audit further observed that only service charges amounting to Rs. 41,442,118 was approved by BISP till 30.05.2023.

Audit held that advance deduction of service charges of Rs. 72 million by HBL was irregular because as per agreement with bank, BISP shall pay service charges on withdrawal of amount by beneficiary as per specified rate subject to deduction of sales tax.

The initial audit observation was issued on 30.08.2023. The management replied that the audit of Sindh Wheat Flour Subsidy program doesn't fall under the purview of Federal Audit as the cash assistance under the programme was disbursed through funds provided by the Government of Sindh and that too were directly transferred to the main account of BISP maintained by HBL for Cluster-3, without involving Federal Treasury.

The reply was not acceptable as funds were disbursed from the BISP account.

The matter was discussed in the DAC meeting held on 29.11.2023. The forum observed that by deduction of advance service charges, HBL committed violation of the contract signed with BISP. DAC directed BISP management to calculate the actual amount admissible on account of service charges and recover financial cost on the amount retained by HBL from its subsequent payments. The DAC directed the management to submit a compliance report in the next meeting of DAC.

Audit recommends implementation of DAC decision.

{Para No.11of AIR of BISP HQrs for the Audit Year 2023-24}

2.4.16 Mis-procurement of services for validation of Child Registration Certificate (CRC) under WeT Program - Rs. 48.842 million

Rule-42 (f) iv of PPRA regarding Direct Contracting with State-Owned Entities provides that a procuring agency may engage in direct contracting with state-owned entities subject to the condition that the procuring agency shall devise a mechanism for determining price reasonability to ensure that the prices offered by the state-owned entities are reasonable for the award of the contract.

BISP signed an extension of agreement for Data Validation of NSER data with NADRA on 15.01.2020 for the verification of the B-form fields for the purpose of WeT enrollments. As per extended agreement, the following fields shall be added to the table appearing in Clause 2: “Child Name, Child DOB, Gender and Mother CNIC against provided CNIC of CCT of Waseela-e-Taleem Program.”

Audit observed that the management of the BISP procured different services from NADRA without specifying any appropriate fora to determine the price reasonability. Audit further observed that in original contract the NADRA was required to verify 6 field of NESR Data for Rs. 9 per CNIC. Whereas in extended agreement dated 15.01.2020, the NADRA agreed to verify only 4 fields of Child CRC at the same rate of Rs. 9 per CNIC. A sum of Rs. 48,842,496 was paid to NADRA against Child CNIC Data Validation for BISP (April-22 to May-23).

Audit held procurement of services without specifying any appropriate fora to determine the price reasonability as mis-procurement.

The initial audit observation was issued on 30.08.2023. The management replied that the referred addendum was an extension of the existing contract, originally used for NSER data validation. It involved the addition of extra fields to the existing set, which naturally increased the total number of fields to be validated. The CCT Taleemi Wazaif Program specifically utilizes a subset of fields from the larger set validated by NADRA. The NSER and CCT Taleemi Wazaif Program share the same contract and CCT Taleemi Wazaif uses only certain fields needed for their beneficiary validation under the same contract. The child registration certificate verification service, under the Taleemi Wazaif Program works as a framework service and the same rate is charged for verification of one or all values.

The matter was discussed in the DAC meeting held on 06.12.2023. The forum directed that a fact-finding inquiry be carried out and outcome be shared in the next DAC.

Audit recommends that the matter may be probed.

{Para No.47 of AIR of BISP HQrs for the Audit Year 2023-24}

2.4.17 Overpayment to the farmers on account of re-imburement of Seed Subsidy in Sindh Province – Rs. 45.493 million

The ECC of the Cabinet vide case no.ECC-30/04/2023 dated 25.01.2023 considered the summary submitted by Ministry of Poverty Alleviation and Social Safety Division regarding “Subsidy of Wheat Seed (Rabi 2022-23) and approved the proposal as contained in para 5 of the summary. Furthermore, The Crisis Management Cell of Agriculture Supply & Prices Department, Government of Sindh vide its letter no.1(1)CMC/Flood/2022/54 dated 10.02.2023 convey the decision of Sindh Government to BISP that “the amount will be reimbursed @ 5000/acre of verified wheat area sown 2022-23.

The office of Accountant General Pakistan Revenues authorized an amount of Rs. 839 million for placement in the assignment account of BISP vide its authority dated 23.03.2023 as additional budget ceiling through Technical Supplementary grant approved by ECC of the Cabinet.

Audit observed that a sum of Rs. 45.487 million was overpaid to 2,896 farmers due to miscalculating payments at the rate of Rs. 5,000 per acre of owned land area instead of verified wheat area.

Audit held that overpayment to the farmers amounting to Rs. 45.487 million was a violation of Cabinet/ Govt. of Sindh decision.

The initial audit observation was issued on 30.08.2023. The management replied that the seed subsidy payments were initiated in Mar-2023 and at first all necessary controls were in place to process payments to farmers of Sindh, but due to shortage of time, one of the controls was not properly implemented. However, on identification and recommendations all the necessary controls were implemented along with other necessary actions being taken. Moreover, responsibility was fixed, and action was taken against the responsible individual. For recovery, BISP already requested the Govt. of Sindh to take necessary action to recover overpaid amount.

The reply was not satisfactory as no recovery had been made till the finalization of this audit report.

The matter was discussed in the DAC meeting held on 6.12.2023. The management informed the DAC that responsibility has already been fixed and the concerned employee of BISP has been suspended. Furthermore, the Government of Sindh has been approached for recovery of the overpaid amount. DAC directed BISP management that matter of recovery of overpaid amounts be expedited with the Government of Sindh.

Audit recommends that overpaid amount should be recovered besides fixing responsibility against person(s) at fault.

{Para No.6 of AIR of BISP HQrs for the Audit Year 2023-24}

2.4.18 Irregular payment against children of Nashonuma Nutrition Program after first quarter without provision of B-forms – Rs. 22.364 million

Para 5.1 of SOP for payment mechanism under Nashonuma Nutrition Program provides that the Target Population will be referred to the registration counter for verification of their eligibility status in the programme. In case of child registration, the child will be registered on the information provided by the mother in the first quarter. However, the mother will be required to provide the B-Form of child to be issued by NADRA for verification of child linked with enrolled family in the subsequent quarter. No further process will be initiated, in case of non-eligibility of the visitor.

BISP utilized an amount of Rs. 20,661 million on Nashonuma Nutrition Program during the financial year 2022-23.

Audit observed that 9,752 mothers got 2nd payment against a child amounting to Rs. 44,728,500 without provision of B-form of Child in subsequent quarter.

Audit held that an average amount of Rs. 22,364,250 (44,728,500/2) was paid to beneficiaries as 2nd payment without provision of B-forms of children which was a violation of SOP for payment mechanism under Nashonuma Nutrition Program.

Initial audit observation was issued on 30.08.2023. The management replied that 714 B-forms were obtained from the field and remaining were due in coming quarter. The check for 1st payment in the application was for 90 days, after which the next payment could be generated. Moreover, children cannot be facilitated without B-form in the second quarter, however, application gave relaxation for 2 quarters to children where parents had applied for the B-form.

The reply was not acceptable as the relaxation for two quarters was against the approved SOP for payment mechanism under Nashonuma Nutrition Program.

The matter was discussed in the DAC meeting held on 06.12.2023. The forum directed BISP management to provide a revised reply and recovery be effected from the beneficiaries where B-forms are not available after allowable time. The process of recovery be completed within one month time.

Audit recommends implementation of DAC decision besides production of B-forms to audit for verification.

{Para No.19 of AIR of BISP HQrs for the Audit Year 2023-24}

2.4.19 Non-recovery of embezzled amount – Rs. 17.800 million

Clause 6(xiii) of the banking agreement with Banks states that Bank shall be fully and solely responsible for any wrong doings of their super agents/agents/sub agents and their partners under agreement/ agency agreement including any attempt to force the beneficiary to select either of the option of cash withdrawal or fund transfer as well as denial of service; shall be subject to strict penalties, recoveries, compensations to aggrieved beneficiaries, agent permanent blockage, disciplinary action against the super agents/agents/sub agents or as per BISP instructions. Clause 6(xiv) further states that Bank shall be fully responsible for deduction or embezzlement by a BB agent and shall have to compensate the beneficiary or deposit the embezzled amount in the government treasury as per BISP's instructions, as well as backlist the BB Agent.

BISP disbursed an amount of Rs. 274,096 million, Rs. 40,575 million and Rs. 50,419 million as Unconditional Cash Transfers, Conditional Cash Transfers and Emergency Flood Relief Cash Transfers respectively amongst 10.430 million beneficiaries during the financial year 2022-23.

Audit observed that an amount of Rs. 17.800 million was embezzled through fake biometric/auto withdrawals during disbursement of Regular and Flood funds from 924 beneficiaries' LMA-2 accounts maintained at HBL and BAFL, which was not recovered till the close of audit.

Details are as follows:

(Rs. in millions)

Formation Name	FY	Para No. of AIR	No. of Cases / ATMs Involved	Fraudulent Amount not recovered	Remarks
BISP HO	2022-23(Flood Punjab)	40	458	11.450	ATM & POS
Zonal Office Karachi	2022-23 (Flood)	2	35	0.875	ATM
Zonal Office Karachi	2022-23 (Flood)	2	33	0.579	POS
Zonal Office Karachi	2022-23 (Regular)	6	82	1.483	ATM & POS
Zonal Office Lahore	Regular	6	24	0.301	POS
Zonal Office Lahore	Regular	6	24	0.274	ATM
Zonal Office Muzaffarabad	Regular	8&9	15	0.160	POS
RO Quetta	Regular	13	55	0.551	POS
Zonal Office Peshawar	Regular	3	36	0.295	ATM
Zonal Office Peshawar	Regular and Flood	4	146	1.649	POS
Zonal Office Gilgit Baltistan	Regular	5	16	0.186	POS
	Total		924	17.800	

The initial audit observation was issued to BISP HQs on 30.08.2023. The management replied that Regional Office, Punjab in liaison with relevant Bank/HBL took up the case to investigate the matter, ensure compliance on the part of the Bank as per Agreement, and recovery of all the embezzled amount. The Bank desired to ensure all complaints through PCMS. Through consistent follow-up, complaints have been uploaded by field formations in PCMS shared with the bank for further necessary action to effect recovery and rectification.

The Regional Offices replied that most of the cases were forwarded to BISP HQs, Islamabad for proper follow up and recovery, and remaining cases were under necessary preliminary inquiries, the outcome of which will be shared with Audit.

The matter was discussed in the DAC meeting held on 06.12.2023. The forum directed the management to expedite the process of recovery of the embezzled amount and share the updated status in the next meeting.

Audit recommends that fraudulent amount may be recovered from the culprits and be paid to the beneficiaries.

{Para No.40, of AIR of BISP HQrs for the Audit Year 2023-24}

Note: The issue was reported earlier also in the Audit Reports for the Audit Year 2019-20 and 2021-22 vide para no. 2.5.1 and 2.4.2 respectively having financial impact of Rs. 79.115 million. Recurrence of same irregularity is a matter of serious concern.

2.4.20 Late deposits of Rs. 282.073 million of Government receipts into Government treasury by HEC and earning of interest thereof – Rs. 15.289 million

Para 4.5(a) of revised Operations and Payment Manual regarding reconciliation processes states “payments reconciliation by Higher Education Commission (HEC) for funds received in sub-assignment account and onwards transferred to HEIs and Students. Disbursement by concerned Universities and withdrawal by the students. All undisbursed funds will be credited to Govt. Treasury, if not withdrawn within One Year”.

118 Higher Education Institutions (HEIs) refunded an amount of Rs. 282.073 million to HEC during the financial years 2021-23.

Audit observed that HEC retained such funds for upto 356 days before depositing them into Government treasury. The interest of Rs. 15.289 million was earned on these funds by HEC at the average KIBOR rate. Details are provided in **Annexure-V**.

Audit held that retention of unutilized funds by HEC to earn interest instead of its timely deposit into Government Treasury was irregular and the interest amount earned was recoverable.

The initial audit observation was issued on 30.08.2023. The management replied that refunds are received in small tranches from HEIs to HEC whereas, comprehensive reconciliation with the respective universities are carried out before surrendering the amount to the Government Treasury. Therefore, HEC bears responsibility of depositing the amount in the Treasury received from HEIS which is an agreed procedure with the BISP.

The reply was not acceptable as timely refund of government receipts and the reconciliation of amounts are two different activities, and government receipts cannot be withheld on the pretext of reconciliation of accounts.

The matter was discussed in the DAC meeting held on 29.11.2023. The DAC observed that according to the rules all the amounts refunded by HEIs to HEC were to be promptly deposited into government treasury. DAC directed that the matter of late deposit of Government receipts by HEC be dealt with as per applicable Federal Government rules.

Audit recommends that interest earned by HEC on government funds (similar to the cases of HEIs that have opened Saving Accounts) may be refunded into Government Treasury, besides timely deposit of refund amount in future.

{Para No.31 of AIR of BISP HQrs for the Audit Year 2023-24}

2.4.21 Irregular payments of WeT Cash transfers due to change in tagging of same Child ID with different mothers – Rs. 14.075 million

Section-III(C)(x) of the Operation Manual of Taleemi Wazaif provides that B-form will be verified through NADRA database and information available in NADRA's database will be replaced with the information provided by the beneficiary. When child B-Form is entered during enrolment, it should be verified and accepted through NADRA in real-time.

BISP disbursed an amount of Rs. 40,575 million as Taleemi Wazaif under WeT Conditional Cash Transfers program during the financial year 2022-23.

Audit observed changes in tagging of same Child ID with different mothers, in 2,312 cases, over the period of time. An amount of Rs. 12.855 million was released against such child IDs as Taleemi Wazaif under WeT Conditional Cash Transfers program. Audit further observed that against the same 435 Child IDs, funds of Rs.1.22 million were released to different mothers during the last two financial years despite verification of B-forms of these Children by NADRA.

Audit held that release of Taleemi Wazaif funds, amounting to Rs. 14.075 million, against incorrectly tagged Child IDs was irregular/doubtful.

The initial audit observation was issued on 30.08.2023. The management replied that children were enrolled in Taleemi Wazaif program on the basis of B-form duly verified by NADRA. Data provided by Audit was examined and found that all identified mothers' information was updated on their request and validated through NADRA.

The reply indicates that the management has accepted the audit observation to the extent that single child was tagged with more than one mother.

The matter was discussed in the DAC meeting held on 6.12.2023. The management informed that all identified mothers were updated on the request of children's mother and B-Form numbers of all children are duly verified by NADRA. DAC directed BISP management to take up the case with NADRA for clarification and outcome be shared with Audit authorities. DAC further directed BISP that 50 B-forms on sample basis be provided to audit authorities for verification.

Audit recommends implementing DAC decision besides recovery of incorrectly paid amounts to beneficiaries.

{Para No.14 of AIR of BISP HQrs for the Audit Year 2023-24}

2.4.22 Doubtful payment of Group Life Insurance claims to BISP beneficiaries - Rs.10 million

BISP provided Group Life Insurance (GLI) coverage to its beneficiaries under Group Life Insurance Agreement with State Life Insurance Corporation of Pakistan (SLICP) to cover the lives of

breadwinners of its beneficiaries' families since January, 2011. Under this scheme, the dependents (Widows / mothers/children) of deceased were compensated with Rs. 100,000 in case of natural or accidental death of breadwinner.

SLICP communicated to BISP that 19212 bread winners in total were paid compensation claims @ Rs 100,000 each over the contract period.

Audit observed that BISP HQ issued a reminder to the BISP Regional Office Quetta dated 22.06.2022 to expedite the verification process of GLI cases. It was noticed from the record that the BISP Regional Office Quetta verified only 155 cases who received these claims while 18 confirmed that they did not receive any claim and 82 are yet to be verified.

Details are at **Annexure-VI**.

Audit held that in the absence of verification, the authenticity of payments made could not be verified.

Initial audit observation was issued to the management of BISP Regional Office Quetta on 21.09.2023. The management replied that all concerned Deputy Directors/ Assistant Directors were directed to get verified all pending 82 Group Life Insurance (GLI) cases at the earliest. However, it would be difficult to trace them at a belated stage.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends that the pending cases should be verified at the earliest and disciplinary action should be taken against the person responsible for delay in verification process.

{Para No.10 of AIR of BISP Regional Office Quetta Audit Year 2023-24}

2.4.23 Irregular cash transfers of Wheat Flour Subsidy to both spouses – Rs. 5.648 million

The Government of Sindh Food Department vide letter dated 21.03.2023 conveyed the decision of Sindh Cabinet in its meeting held on 21.03.2023 as “it was decided that approximately 7,810,482 families (preferably through women or incase women are not available than through man) with PMT score in the range upto 60, shall be eligible for cash transfer of Rs. 2000/family under the relief scheme”.

Accountant General Sindh vide authority dated 31.03.2023 deposited an amount of Rs. 12,072 million directly into BISP Shock Responsiveness Account C-3 maintained at HBL, CDA Civic Centre, G-6 Markaz, Islamabad on account of Wheat Flour Subsidy 2013.

Audit observed during scrutiny of available spouse relationship in NSER database (in most of cases NADRA validated the family relation during desk survey) maintained by BISP that in 2,824 cases, both spouses of the family were accommodated through release of Wheat Flour Subsidy cash transfer to them.

Audit held that an excess amount of Rs. 5.648 million was disbursed in violation of Sindh Cabinet decision.

BISP replied that the audit of Sindh Wheat Flour Subsidy program doesn't come under the purview of Federal Audit as the cash assistance under the programme was disbursed through funds provided by Government of Sindh and that too were directly transferred in the main account of BISP maintained by HBL for Cluster-3, without involving Federal Treasury.

The reply was not acceptable as the ineligible families were selected by the BISP management.

The matter was discussed in the DAC meeting held on 29.11.2023. The forum directed BISP management to constitute a committee for devising a mechanism for identification of spouses. Moreover, recover the amount within one month.

Audit recommends that responsibility for non-compliance be fixed besides recovery of objected amount.

{Para No.13 of AIR of BISP HQrs for the Audit Year 2023-24}

2.4.24 Irregular payment of honorarium to employees of other departments from BISP budget- Rs. 1.982 million

Clause 14(2) of Chapter VII of BISP Act, 2010 states that the Secretary shall have full powers to incur expenditure or re-appropriate funds, subject to any general or specific instructions of the Board”.

Audit observed that the management of Benazir Income Support Program paid an amount of Rs. 1,982,010 as honorarium (Rs. 1,216,600 and Rs. 765,410 to AGPR, PWD, NTC and Police department employees) @ two month's basic pay during the month of May and June-2023 are as follows:

(Rs. in millions)				
Sr. No.	Name of Department	Number of Employees	Month	Amount of Honorarium
01	NTC	02	05/2023	0.199
02	PWD (EM)	03	05/2023	0.260
03	PWD (Civil)	08	05/2023	0.655
04	Security Staff/Police	02	05/2023	0.102
05	Pak PWD & NTC	13	06/2023	0.475
06	AGPR Islamabad	04	06/2023	0.199
07	Police Security Office (CP Office)	03	06/2023	0.092
Total				1.982

Audit held as under:

- i. No general or specific instructions for payment of honorarium were given by the BISP Board.
- ii. There is no provision for Honorarium paid to other than BISP employees in the Employees Services Rules and BISP Act, 2010.
- iii. There was no proof available on record to substantiate that the above employees had not received honorarium from their own departments.

The initial audit observation was issued on 30.08.2023. The management replied that the payment was fully covered under the applicable regulatory and legal framework of BISP in terms of Section 10(d) and 14(2) of BISP Act 2010. Moreover, Regulation No.46 of BISP Financial Regulations-2018 provides that “the Secretary may make such payments as are deemed to be necessary in the interest of program in accordance with Section 10(d) and Section 14(2) of the Act.

The reply was not acceptable as there was no provision under the Employees Services Rules and BISP Act 2010 for payment of honorarium to employees other than BISP employees. Moreover, non-payment certificates/ affidavit from parent offices for such employees were not produced to audit.

The matter was discussed in the DAC meeting held on 29.11.2023. The management apprised the DAC that the government employees pointed out by Audit did not receive any amount from their respective departments. DAC directed BISP management to provide a certificate in this regard from their parent offices that no honorarium was paid to the said staff.

Audit recommends that non-payment certificate/affidavit from their parent offices should be provided to audit otherwise recovery be effected.

{Para No.13 of AIR of BISP HQrs for the Audit Year 2023-24}

2.4.25 Non-establishment of the BISP Council

Section 8 of the Benazir Income Support Programme Act, 2010, states that there shall be a Council of the Programme with the President of Pakistan as its Chief Patron and the Prime Minister as its Chief Executive. The Council shall comprise highly reputable, distinguished and well accomplished national and international individuals who shall be appointed by the Chief Patron on the advice of the Executive Patron. The Chairperson shall be the ex-officio Member of the Council.

Audit observed that the Benazir Income Support Programme Council has not been established despite lapse of 13 years.

Audit held that non-establishment of the Council was the violation of the BISP Act.

The Initial audit observation was issued on 30.08.2023. The management replied that after establishment of new Federal Government, appointment of new Chairperson and approval of Council Regulations will be put up through summary for the Prime Minister (Executive Patron) and President of Pakistan (Chief Patron).

The matter was discussed in the DAC meeting held on 06.12.2023. The management explained that efforts are being made for establishment of BISP Council, for which one of the prerequisites is approval of

draft Council Regulations. The case regarding approval of said Regulations is already under process. The DAC directed the management to pursue the matter for early establishment of BISP council and progress be shared with audit in next DAC.

Audit recommends compliance of DAC directive.

{Para No.64 of AIR of BISP HQrs for the Audit Year 2023-24}

CHAPTER 3

PAKISTAN BAIT-UL-MAL

3.1 Introduction

A. Pakistan Bait-ul-Mal (a welfare fund) established in 1992 by PBM Act, 1991 (amended 2002 & 2016) under the umbrella of Ministry of Social Welfare & Special Education. The mission of the PBM is to provide social protection to the poor and marginalized segments of the society. All the programs of Pakistan Bait-ul-Mal are funded through “Grant-in-Aid” provided by Government of Pakistan. The Pakistan Bait-ul-Mal is administered by the Board which is constituted by the Federal Government. All administrative and financial powers under the Act are exercised by the Managing Director who is appointed by the Federal Government.

According to Section 4 of PBM Act, 1991, the money in the Bait-ul-Mal shall be utilized for the following purposes:

- Provide financial assistance to destitute and needy widows, orphans, invalid, infirm and other needy persons;
- Rendering help for rehabilitation of the persons specified in clause (a) in various professions or vocations;
- Provide assistance to children of the deserving persons for educational pursuits;
- Provide residential accommodation and necessary facilities to the deserving persons;
- Provide free medical treatment to indigent sick persons and set up free hospitals, poor houses and rehabilitation centers and give financial aid to charitable institutions, including industrial homes and other educational institutions established specially for poor and needy;
- Provide stipends to educated youth during training before their employment in jobs;
- Provide stipends and financial assistance to brilliant but poor students who cannot afford to acquire higher technical or medical education abroad for lack of money;
- Sponsor and promote self-employment scheme; and
- Any other purpose approved by the Board having regard to the aims and objects of the Bait-ul-Mal.

B. Comments on Budget & Accounts (Variance Analysis)

Statement of Accounts of Bait-ul-Mal Fund for the year 2022-23 was as under:

(Rs. in millions)

Particulars	Amount
-------------	--------

Total Budget	5,905.00
Total Disbursements	5,904.98
Balance (Lapsed)	0.02

Budget of Formations Audited:

(Rs. in millions)

Sr. No.	Name of Formation	FY(s)	Receipts / Budget	Expenditure	Excess / Saving
01	PBM Provincial Office Lahore	2022-23	1,125.04	1,235.751	-111.711
02	PBM Provincial Office Multan	2022-23	587.409	629.915	-42.506
	Total		1,712.449	1,865.666	-154.217

C. Sectoral analysis on the achievements against targets agreed under MTBF

The performance indicators, targets and achievements for the FY 2022-23 by PBM is tabulated below:

Output	Selected performance indicators	Targets	Achievement
Provision of financial assistance related to health and education through Individual Financial Assistance	Number of beneficiaries of individual financial assistance general	8,000	4,391
	Number of beneficiaries of individual financial assistance medical	49,000	13,719
	Number of beneficiaries of individual financial assistance education	6,860	5,769
	No. of beneficiaries of Panagah	8,760,000	10,230,627

Table: Audit Profile of Pakistan Bait-ul-Mal

(Rs. in millions)

Sr. No.	Description	Total	Audited	Expenditure audited FY 2022-23
---------	-------------	-------	---------	-----------------------------------

1	Formations	121	03	5,904.98
2	Assignment Account (excluding FAP)	09	02	1,865.67

3.2 Classified Summary of Audit Observations

Audit observations amounting to Rs. 2,083.037 million were raised as a result of audit. This amount does not include any recoverable amount. Summary of audit observations classified by nature is as under:

(Rs. in millions)

Sr. No.	Classification	Amount
1	Irregularities	1,532.616
A	Management of accounts with commercial banks	1,370.236
B	Financial Management	162.380
2	Value for money and service delivery issue	28.108
3	Others	522.313

3.3 Brief comments on the status of compliance with PAC Directives

Year of AR	PAC Status	No. of Actionable points	Compliance	Non-compliance	% Compliance
1993-94	Held	9	8	1	89
1997-98	Held	8	7	1	88
2000-01	Held	1	0	1	0
2003-04	Held	2	0	2	0
2006-07	Held	5	3	2	60
2007-08	Held	3	0	3	0

2009-10	Held	11	7	4	64
2010-11	Held	16	1	15	6
2015-16	Held	11	0	11	-
2016-17	Held	3	0	3	-
2017-18	Held	3	0	3	-
2018-19	Held	05	0	5	-
2019-20	Held	3	-	3	-
2021-22	Not Held	0	0	0	-
2022-23	Not Held	0	0	0	-

3.4 AUDIT PARAS

Irregularity and non-compliance

3.4.1 Irregular transfer of funds from Sub-Assignment Account to operational accounts – Rs. 1,370.236 million

Para 1(xv) of Asaan Assignment Account Procedure (Local Currency), 2020 state that Cash withdrawal or transfer of funds to any bank account is not allowed except employees related deductions like Pension contribution, Provident Fund and GP Fund, etc. These deductions shall be made as per Rules/Policy Guidelines/ Procedure of the relevant offices. Payment shall be made only through crossed cheque to contractors, vendors, suppliers, employees, etc.

According to para 3 (vi) and (vii) of Pakistan Bait-ul-Mal head office Islamabad letters No.PBM/A.D.(B&F)/2021-22/2827 dated 06-08-2021 and No.PBM/A.D.(B&F)/2022-23/5018 dated 25-07-2022 “Funds may not be transferred from sub-assignment account to another bank account”.

The management of Pakistan Bait-ul-Mal Provincial/Regional Office transferred funds of Rs. 1,370.236 million from the Sub-Assignment Accounts maintained with National Bank of Pakistan to commercial bank accounts during the financial year 2022-23.

Details are as follows:

(Rs. in millions)

Sr. No.	Formation Name	Para No. of AIR	Amount transferred from Assignment Account
1	PBM Provincial Office, Lahore	9	1,112.386

2	PBM Regional Office, Multan	6	257.850
	Total		1,370.236

Audit observed that the funds were transferred from the Assignment Account to operational account without the approval of Finance Division.

Audit held that transfer of funds from (sub) Assignment Account to operational accounts, to avoid the lapse of fund, was irregular and unauthorized.

The initial audit observations were issued to the management of PBM PO Lahore and Multan on 24.08.2023 and 18.09.2023 respectively. The management of PBM PO Lahore replied that no objection was raised for such a disbursement procedure by both the AGPR and the PBM Head Office. The management of PBM PO Multan replied that the amount in question was transferred to the Admin Account for further transfer into the salary accounts of the staff.

The replies were not acceptable as para 3 (vii) of Pakistan Bait-ul-Mal head office Islamabad letter No.PBM/A.D.(B&F)/2022-23/5017 dated 25-07-2022 states that “Funds may not be transferred from sub-assignment account to another bank account”.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends that the funds irregularly withdrawn from Assignment Accounts should be deposited into the government treasury from now on besides taking disciplinary action against the person(s) at fault.

Note: The issue was reported earlier also in the Audit Report for the Audit Year 2022-23 vide para no. 3.4.1 having financial impact of Rs. 1,180.341 million. Recurrence of same irregularity is a matter of serious concern.

3.4.2 Non-refund of unspent balances on the account of IFA– Rs. 522.313 million

As per DAC directives dated 27.02.2020 on the Audit Report of PBM for the year 2018-19 “the entire amount recovered from hospitals be deposited in Government Treasury and record thereof be verified from audit”.

Section 23 (03) of Public Finance Management Act 2019 states that “Every grant approved by the National Assembly for financial year and every other authority or sanction issued under this Act in respect of financial year, shall lapse and cease to have any effect at the closed of that financial year.

Para 01 (iv) of the revised procedures for operation of Assignment Accounts of Federal Government states that assignment account will be part of consolidated fund. Amounts remaining unspent at the close of financial year will appear as savings under the respective budget grant surrendered in time. Unspent ceiling/balance in assignment accounts will not be carried forward in the next financial year.

The managements of Pakistan Bait-ul-Mal Provincial Office, Lahore and Multan issued funds to different hospitals and educational institutions on account of IFA (medical) and IFA (education) The hospitals and educational institutions refunded back the un-utilized amounts to Provincial Offices of Lahore and Multan as detailed below:

(Rs. in millions)

Formation Name	Para No. of AIR	FY	No. of Hospitals /Institutions	Amount refunded
PBM PO Lahore	1	2021-22	48	304.476
-do-	-do-	2022-23	45	167.021
PBM PO Multan	1	2022-23	39	50.816
Total				522.313

Audit observed that the management of Pakistan Bait-ul-Mal Lahore and Multan kept the said funds in their respective IFA Accounts and did not refund the amount of Rs.522.313 million into government treasury.

Audit held that the amount of Rs. 522.313 million was required to be refunded into government treasury as surplus balances of the respective financial year instead of keeping it into respective IFA Bank Accounts of PBM Provincial offices.

The initial audit observations were issued to the managements of PBM PO Lahore and Multan on 24.08.2023 and 18.09.2023 respectively. In response the managements in general replied that the unspent balances were utilized as per instructions/authorization of PBM Head Office, Islamabad.

The reply was not acceptable as it was a violation of section 23 (03) of Public Finance Management Act 2019.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends that the refunded balances may be deposited in Govt. treasury.

Note: The issue was reported earlier also in the Audit Reports for the Audit Year 2019-20 and 2021-22 vide para no. 4.5.8 and 3.4.2 respectively having financial impact of Rs. 411.39 million. Recurrence of same irregularity is a matter of serious concern.

3.4.3 Un-authorized re-appropriation of funds - Rs. 162.38 million

According to Rule 12 of GFR, Volume-I, “A controlling officer is responsible to watch that the funds allotted to the spending units, are expended in the public interest upon the object, which the money was provided”.

Reference letter No. PBM/AD (B&F)/ 2021-22/2827 dated 06.08.2021 states that funds/ budget may not be transferred/re-appropriation from one project to another project without the approval of competent authority. The utilization of funds should be made under the project/ head for which the fund/budget is allocated and the same should be reflected in the books of Accounts.

Management of PBM PO Lahore utilized funds amounting to Rs.162.38 million during period 2021-22 against re-appropriation of funds under different head of accounts.

Audit observed that the expenditure was incurred by re-appropriation of funds without the approval of the competent authority as detailed below:

(Rs. in millions)

Sr. No.	From project	To	Amount
1	IFA Rs.3.295 million, DUEs Rs.47 million, EKBNS Rs. 112.084	SSRCL Rs.69.5 million, WECs Rs.7 million, Ehsas Kadah, Rs.12.2 million, Admn, Rs. 73.68 million.	162.38

Audit held that it reflects negligence on part of the management.

Initial audit observation was issued on 24.08.2023. The management replied that re-appropriation under different head of accounts was forwarded to PBM Head Office Islamabad for approval of competent authority, PBM Head Office conveyed approval that concerned Director is fully competent to approve the re-appropriation under major, and minor heads. In this regard the said re-appropriation has been approved for your kind verification.

The reply was not acceptable as the re-appropriation was done after the close of financial year.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends that an inquiry may be initiated for fixation of responsibility.

(Para 6 of PBM PO Lahore)

3.4.4 Disbursement of Individual Financial Assistance (IFA) to Government Servants - Rs. 28.108 million

Individual Financial Assistance (IFA) policy of Pakistan Bait-ul-Mal provides that the Government servants (including those on contract and their family members are not eligible to apply for the IFA.

Employees serving in public sector organizations, corporations, autonomous bodies are also not eligible to apply.

The management of PBM issued cheques to 14,747 beneficiaries under IFA Programs during FY 2022-23.

Audit observed that the Individual Financial Assistance (IFA) was being disbursed to 176 beneficiaries amounting to Rs. 28,108,833 who were Government Employees. By providing IFA to these employees the other eligible poor person deprived from the due benefits. Details are given at **Annexure-VII**.

Audit held that IFA benefits shall be allocated to deserving persons as per policy of PBM. The management shall trace such cases through MIS by upgrading and coordination with other organizations.

The initial audit observation was issued on 28.08.2023. The management replied that PBM relies on investigation reports from the concerned Assistant Directors of relevant districts which help assess the financial status of applicants and their eligibility for assistance. Moreover, in compliance of audit observation, PBM management has requested to CGA & AGPR to provide a web interface for data sharing and cross-verification of employment status of an applicant to avoid duplication in future.

The reply was not acceptable as the verification process was carried out by PBM employees and that led to disbursement to ineligible persons.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends that rules/policies/orders must be followed while disbursing the amount and a mechanism may be devised in order to avoid such a practice in future and a fact finding may be initiated against a person(s) held responsible.

{Para No. 28 of AIR of PBM HQ}

3.4.5 Non-surrender of PBM IFA Recovery/Balance at Year End

As per Para 01 (iv) of the revised procedures for operation of Assignment Accounts of Federal Government states that assignment account will be part of consolidated fund. Amounts remaining unspent at the close of financial year will appear as saving under the respective budget grant surrendered in time. Unspent ceiling/balance in assignment accounts will not be carried forward in the next financial year.

The management of Pakistan Bait-ul-Mal maintained a bank account in National Bank of Pakistan, Islamabad for recovery from IFA project and having balance of Rs. 34,816,050 as on 30.06.2022.

Audit observed that the management of PBM, Islamabad recovered an amount of Rs. 359,826,356 from different hospitals which was re-used during the Financial Year 2022-23. IFA recovery account shows a balance of Rs. 34.816 million at the close of the financial year.

Audit held that IFA recovery along with closing balance was required to be surrendered and deposited into Federal Government treasury.

The Initial audit observation was issued on 24.08.2023. The management replied that matter regarding implementation of TSA-II (Treasury Single Account System) in PBM has taken up with the Finance Division through the Poverty Alleviation and Social Safety Division vide letter No. PBM/AD (Accounts-I)/2022-23/3107 dated: 24-02-2023. The outcome of the matter was still awaited and would be shared with audit when received.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends that closing balance of IFA Recovery be deposited to Government Treasury.

{Para No.9 of AIR of PBM Head Office Islamabad Audit Year 2023-24}

CHAPTER 4

MINISTRY OF OVERSEAS PAKISTANIS AND HUMAN RESOURCE DEVELOPMENT

4.1 Introduction

A. The Ministry of Overseas Pakistanis and Human Resource Development oversees matters concerning Overseas Pakistanis and human resource development in Pakistan. According to Rules of Business, 1973 following functions are assigned to allied departments/ offices:

1. National policy, planning and coordination regarding manpower development and employment promotion for intending overseas workers.
2. Preparation of short and long-term programs for manpower development and employment promotion abroad.
3. Research into problems of overseas Pakistanis; promotion and coordination of measures best suited to resolving them and motivating Pakistani citizens abroad to strengthen their links with the mother country.
4. Policy for linkages between the training of workers/labour force with the latest requirements abroad.
5. Linkage of training imparted at training institutes like National Training Bureau, Pakistan Manpower Institute, etc. with the efforts for increase in manpower export through Overseas Employment Corporation and Bureau of Emigration and Overseas Employment. This would also include close coordination and linkage with the Community Welfare Attaches abroad.
6. Welfare of Pakistani emigrants abroad and their dependents in Pakistan.
7. Periodic assessment, review and analysis of manpower resources and employment requirements overseas.
8. Administrative control of Overseas Pakistanis Foundation.
9. Special Selection Board for selection of Community Welfare Attaches for posting in Pakistan Missions abroad.
10. Administration of:
 - a) Emigration Ordinance, 1979;
 - b) Control of Employment Ordinance, 1965;
 - c) Workers Welfare Fund Ordinance, 1971;
 - d) Companies Profits (Workers Participation) Act, 1968;

e) Employees' Old Age Benefits Act, 1976 including supervision and control of the employees' old age benefits institutions.

11. Administrative control of:

a) Overseas Employment Corporation; and

b) Bureau of Emigration and Overseas Employment.

12. Foreign Employment and Emigration.

13. Administration of the Industrial Relations Act, 2012 and keeping a watch on labour legislation from international perspective, coordination of labour legislation in Pakistan and the Industrial Relations Commission.

14. Dealing and agreements with international organizations in the fields of Labour and Social Security.

B. Comments on Budget & Accounts

Statement of Receipts/ Budget allocated and expenditure for the FY(s) 2021-23 is as under:

(Rs. in millions)

S. No.	Name of Formation	FY(s)	Receipts/ Budget	Expenditure
1	EOBI HQ, Karachi (RO Faisalabad Central, Lahore South & Adj Authority at Karachi	2022-23	62,182.497	55,140.390
2	WWF Islamabad	2022-23	-	2,126.701
3	WWB Punjab	2022-23	15,418.736	9,629.887
4	WWB Balochistan, Quetta	2022-23	2,132.138	1,955.638
5	OPF Islamabad	2022-23	5,415.613	5,952.262
6	OPF Mirpur AJK	2022-23	72.342	42.831
7	OPF Multan	2022-23	13.637	13.445
8	Bureau of Emigration HQ	2022-23	-	1,144.947
9	PE DG Khan	2022-23	34.746	32.290
10	PE Sialkot	2022-23	31.597	29.405
11	WWB KPK Peshawar	2021-22	4,150.404	4,081.975
12	PRIMACO	2021-22	9,390.00	2,626.37
	Total			82,776.141

C. Sectoral analysis on the achievements against targets agreed under MTBF

The performance indicators, targets and achievements for the FY 2022-23 by Ministry of Overseas Pakistanis and Human Resource Development Division is tabulated below:

Outputs	Selected Performance Indicators	Targets	Achievements
Promotion of overseas employment and welfare of overseas Pakistanis	Number of Community Welfare Attachés around the world	24	Details were not provided to Audit
	Number of complaints of emigrants registered by Community Welfare Attaches	35000	
	Percentage of complaints of emigrants resolved by Community Welfare Attaches	72%	
Resolution of Industrial Disputes	Number of labor disputes resolved	16000	
Overseas employment promotion and regulation of overseas employment promoters	Number of employees hired by foreign countries	480,000	
Monitoring and control of immigration and overseas employment	Computerization of data of outgoing emigrants	480,000	

Table: Audit Profile of Ministry of Overseas Pakistanis and Human Resource Development

(Rs. in millions)

Sr. No.	Description	Total Nos	Audited	Expenditure audited FY 2022-23
1	Formations	69	15	82,776.141
2	Assignment Accounts (excluding FAP)	-	-	-
3	Authorities/ Autonomous Bodies etc., under the PAO	53	13	82,776.141
4	Foreign Aided Projects	-	-	-

4.2 Classified Summary of Audit Observations

Audit observations amounting to Rs. 41,048.355 million were raised as a result of audit. This amount also includes recoverable of Rs. 4,226.541 million as pointed out by the audit. Summary of audit observations classified by nature is as under:

(Rs. in millions)

Sr. No.	Classification	Amount
1	Irregularities	1,187.729
A	HR/ Employees related irregularities	46.140
B	Procurement related irregularities	1,115.995
C	Management of accounts with commercial banks	1.486
D	Financial Management	24.108
2	Value for money and service delivery issues	2,710.128
3	Others	37,150.498

4.3 Brief comments on the status of compliance with PAC Directives

Year of AR	Formation	PAC Status	No. of Actionable points	Compliance	Non-compliance	% Compliance
-------------------	------------------	-------------------	---------------------------------	-------------------	-----------------------	---------------------

2013-14	Ministry of OP&HRD	Not Held	1	0	1	-
2011-12	-do-	Held	2	1	1	50
2014-15	-do-	Not Held	8	0	8	-
2016-17	-do-	Not Held	3	0	3	-
2012-13	EOBI	Held	13	0	13	-
2012-13	EOBI SAR (Mega Issues)	Held	12	0	12	-
2014-15	EOBI	Held	17	2	15	12
2015-16	EOBI	Held	17	0	17	-
2017-18	EOBI	Held	3	0	3	-
1989-90	OEC	Held	5	3	2	60
1990-91	OEC	Held	5	3	2	60
1991-92	OEC	Held	9	6	3	67
1992-93	OEC	Held	7	5	2	71
1996-97	OEC	Held	10	8	2	80
1997-98	OEC	Held	7	6	1	86
2000-01	OEC	Held	5	4	1	80
2005-06	OEC	Held	7	6	1	86
2006-07	OEC	Held	7	3	4	43
2007-08	OEC	Held	2	1	1	50
2010-11	OEC	Held	5	1	4	20
2011-12	OEC	Held	3	2	1	66
2012-13	OEC	Held	3	0	3	-
2013-14	OEC	Held	7	5	2	71
2016-17	OEC	Held	4	0	4	-
2017-18	PRIMACO	Held	28	0	28	-
1987-88	OPF	Held	20	19	1	95
1989-90	OPF	Held	12	9	3	75

1990-91	OPF	Held	5	4	1	80
1992-93	OPF	Held	5	3	2	60
1994-95	OPF	Held	7	4	3	57
1995-96	OPF	Held	10	6	4	60
1996-97	OPF	Held	12	10	2	83
1997-98	OPF	Held	7	5	2	71
1999-20	OPF	Held	3	1	2	33
2000-01	OPF	Held	14	11	3	79
2001-02	OPF	Held	2	0	2	-
2003-04	OPF	Held	19	3	16	16
2004-05	OPF	Held	3	1	2	33
2006-07	OPF	Held	9	5	4	56
2007-08	OPF	Held	4	1	3	25
2008-09	OPF	Held	10	3	7	30
2009-10	OPF	Held	8	4	4	50
2010-11	OPF	Held	26	8	18	31
2011-12	OPF	Held	13	9	4	69
2013-14	OPF	Held	7	3	4	43
2014-15	OPF	Held	3	3	0	-
2016-17	OPF	Held	12	2	10	17
2017-18	OPF	Held	9	7	2	22
2019-20	OPF	Held	7	0	7	-
2021-22	OPF	Not held	-	-	-	-
2012-13	WWF & Boards	Held	44	4	40	10
2015-16	WWF & Boards	Held	17	0	17	-
2017-18	WWF & Boards	Held	15	4	11	27
2019-20	WWF	Held	4	0	4	-
2006-07	EOBI	Held	1	0	1	-

2007-08	EOBI	Held	1	0	1	-
2008-09	EOBI	Held	2	0	2	-
2016-17	EOBI	Held	2	0	2	-
2008-09	OPF	Held	1	0	1	-
2009-10	OPF	Held	1	0	1	-
2009-10	WWF/Boards	Held	1	0	1	-
2016-17	WWF/Boards	Held	2	0	2	-
2022-23	-	Not Held	0	0	0	-

4.4 AUDIT PARAS

Employees' Old-age Benefits Institution

Irregularity and non-compliance

4.4.1 In-admissible Old Age Pension awarded on dubious/wrong date of births – Rs. 2,798.985 million

Section 22(1) of EOB Act states that an insured person shall entitled to a monthly old-age pension at the rate specified in the schedule. Provided that: (a) he is over sixty years of age, or fifty-five years in the case of a woman; (b) contributions in respect of him were paid for not less than fifteen years. Provided further that the age specified in clause (a) will be reduced by five years in the case of an insured person employed in the occupation of mining for at least ten years immediately preceding retirement.

EOBI disbursed an amount of Rs. 47,183 million as benefit payments to 414,234 Insured Persons (IPs) during the financial year 2022-23.

Audit observed that, in 5131 cases, old age pension (pension code 1) was awarded on invalid date of births (different from date of birth mentioned on CNIC duly validated by Bank during KYC through NADRA at the time of account opening) to make the IPs eligible for pension benefits before their entitlement for old age pension. Details of a few cases on sample basis are at **Annexure-VIII**, whereas complete details of 5132 cases were provided to the EOBI management in soft form by the audit team.

Audit held that an amount of Rs. 2,798.985 million on an average basis (Rs. 5,000 per month) was paid to such IPs over the period of time before their entitlement for old age pension with respect to age which was inadmissible and loss to the EOBI.

The initial audit observation was issued on 13.10.2023. The management replied that the EOBI had accurately processed and rightly awarded the pension cases. Moreover, 2,166 records out of 5,132 cases were before the establishment of NADRA. However, the regional offices examined 2,435 out of the 5,131 cases (47%) reported by the audit regarding inadmissible of old age pension awarded on dubious/wrong date of births. The Institution processes the cases of old age pension after the examination of copy of

CNIC/NIC, Employer's age proof certificate and copy of matric certificate (Where Applicable). The record is available for verification by Audit.

The reply was unsatisfactory as evidence in support of reply, such as a birth certificate, matriculation certificate, Service book, CNIC/NIC was not provided.

The PAO was requested to a convene DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends the matter should be investigated. Moreover, the payment of old age pension to those beneficiaries who are less than 60 and 55 years of age in cases of male and female respectively may be stopped and recovery of inadmissible amount may be effected.

{Para 2 of AIR of EOBI HQ for the Audit Year 2023-24}

4.4.2 Non-recovery of arrears of contribution – Rs. 2,475.161 million

Para No.05.11 of EOBI Operating Manual states that all the Regional Heads have been invested with the powers of Assistant Collector (Grade-1) to recover the arrears of contributions as arrears of land revenue.

EOBI collected an amount of Rs. 4,000.50 million as Contribution from Employers & Insured Persons during the financial year 2022-23.

Audit observed that, as per EOBI provided report, a sum of Rs. 2,475.161 million was outstanding against defaulting employers (after VR-8 issuance) on account of contributions for the financial year 2022-23.

Details are as follows:

(Rs. in millions)

Circle/ Region	No. of VRs	Amount
B&C-I	1481	490.389
B&C-II	655	1,101.936
B&C-III	728	882.836
Total	2864	2,475.161

Audit held that non-recovery of arrears of contribution has a loss to EOBI.

The initial audit observation was issued on 13.10.2023. The management replied that the number VR-08 issued by the B&Cs during the period was 4,184. Similarly, the amount of contribution was Rs.2,908

million instead of Rs.2,475 million. The recovery status of demands issued in the year 2022-23 from the 39 Regional Offices, were: Out of Rs. 2,908.68 million an amount of Rs. 1,096 million were recovered, Rs. 439.71 were in litigation, Rs. 14.97 million amount was reduced by courts, Rs. 8.04 million pertained to closed units and EOBI was pursuing the recovery of balance amount of Rs. 1,349.93 million vigorously.

The reply was not satisfactory as no record in support of recovery made and reasons of non-recovery was provided.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends that the arrears of contribution be recovered within 60 days.

{Para 17 of AIR of EOBI HQ for the Audit Year 2023-24}

Note: The issue was reported earlier also in the Audit Reports for the Audit Year 2020-21, 2021-22 and 2022-23 vide para no. 4.5.3, 4.4.1 and 4.4.2 respectively having financial impact of Rs. 8,041.386 million. Recurrence of same irregularity is a matter of serious concern.

4.4.3 Pending recoveries from Employers - Rs. 69.347 million

Para 05.11 of EOBI Operating Manual states that all the Regional Heads have been invested with the powers of Assistant Collector (Grade-1) to recover the arrears of contributions as arrears of land revenue. The notice under Section 81 will be served. After service of notice and expiry of 15 days from the date of service of notice, the Assistant Collector should order u/s 83 for attachment and sale of moveable property of the defaulter. A copy of warrant shall be endorsed to the B&C Department, Head Office for information. If the defaulter fails to pay the dues within stipulated time, recovery thereof shall be effected as arrears of land revenue.

The management of EOBI Regional Office Faisalabad (Centre) issued demand notices under the Land Revenue Act, 1967 (W.P.ACT XVII of 1967) to 191 employers during the financial year 2022-23.

Audit observed that the management of EOBI-Regional Office Faisalabad (Centre) identified 191 employers having more employees than the registered IPs during surprise visit as a result of which 52 employers paid their due contribution. However, an amount of Rs. 69.347 was pending from the remaining employers.

Audit held that due to the non-recovery of the due amount from employers the Institution suffered a loss.

The initial audit observation was issued on 31.10.2023, however no response was received.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends that recoveries should be made from the respective employers within 60 days.

{Para 8 of AIR of EOBI RO (Centre) Faisalabad}

4.4.4 Non-recovery of loss sustained by EOBI during non-updation of facilitation system – Rs. 33.527 million

According to Section 3(2) of EOBI Contribution Rules, 1976 contribution falling due at the end of the month, to which they relate, shall be paid not later than 15th of next following month.

EOBI installed a facilitation system to facilitate the Employers for payment of contribution through generation of auto voucher with a purpose to ease the process of payment, reconciliation and to maintain a track of the employer in the system including exact number of Insured Persons. EOBI fixed/locked the rate of contribution in the system @ 780 per month/per insured person during the period 2021-22 (based on minimum wages of Rs.13,000).

Audit observed, in case of, EOBI Regional Office Lahore, as under:

- i. Rate of contribution during the period 2021-22 is Rs.1,050 per month/per IP on the basis of minimum wage of Rs.17,500.
- ii. 08 Establishments having 10,348 IPs were willing to deposit contribution @ Rs.1,050 but failed due to EOBI system error.

Audit held that EOBI sustained loss of Rs.33.526 million (10,348*270*12) during 2020-21 due to non-recovery of difference accrued through facilitation system. Details are at **Annexure-IX**.

The initial audit observation was issued on 24.08.2023. The management replied that the issue related to EOBI Head Office in Karachi.

The reply was not satisfactory as the department did not address the observation raised in the audit para.

DAC in its meeting held on 28.09.2023 pended the para with the direction to the management to share progress report detailing recovery of arrears & the pendency including notices issued thereof with Audit. It further directed to expedite the matter & pursue vigorously.

Audit recommends implementation of DAC decision.

{Para 12 of AIR of EOBI RO Lahore}

Note: The issue was reported earlier also in the Audit Report for the Audit Year 2021-22 vide para no. 4.4.2 having financial impact of Rs. 1,513.517 million. Recurrence of same irregularity is a matter of serious concern.

4.4.5 Unauthenticated spouse relation in cases of survivor's benefits paid to the survivors – Rs. 20.381 million

Section 22B(2) of EOBI Act provides that in the case of the death of an insured person who had become entitled to old age pension before his death, the surviving spouse shall, if the spouse had married

the deceased person before he had attained the minimum age prescribed for old age pension, receive a life pension equal to the pension of such person.

EOBI disbursed an amount of Rs. 47,183 million as benefit payments to 414,234 Insured Persons (IPs) during the financial year 2022-23.

Audit observed, on sample basis, that survivor's benefits amounting to Rs. 20.381 million were paid to those 208 survivors during the FY 2022-23 whose spouse relation was found doubtful as matched with the CNIC of the spouses fetched by Benazir Income Support Program during survey. Details are given at **Annexure-X**.

Audit held that survivor pension paid without verification of spouse relation from NADRA was not justified and remained unauthenticated.

The initial audit observation was issued on 13.10.2023. The management replied that the regional offices examined 148 out of 208 cases (67%) pointed out by the audit. These cases were processed on the basis of survivor's CNIC, Nikah Nama and FRC issued by NADRA and record is available for verification. However, the Regional Offices have been directed to track the remaining 60 cases with the instructions to stop payment in such cases till verification of record.

The reply was not acceptable as no documentary evidence such as CNIC of beneficiary, CNIC of the spouse, Nikah Nama and FRC issued by the NADRA was provided.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends that Marriage/ Family Registration Certificate duly validated from NADRA may be produced to audit for verification. Moreover, an Service Level Agreement (SLA) may be executed with NADRA for validation of family/spouse relation of all cases before granting survivor pensions.

{Para 5 of AIR of EOBI HQ}

4.4.6 Provision of more than on type of benefits awarded against same 'Link Claim Number' – Rs. 14.994 million

Section 22B(1) of EOB Act states that in the case of the death of an insured person while in insurable employment but after he had completed not less than thirty six months insurable employment, the surviving spouse, if any, shall be entitled to a life pension equal the minimum pension.

EOBI disbursed an amount of Rs. 47,183 million as benefit payments to 414,234 Insured Persons (IPs) during the financial year 2022-23.

Audit observed, on a test check basis, that two survivor pensions (pension code 5) at full rate were awarded to 294 beneficiaries by linking them with single 147 'link claim numbers', which was incorrect and unjustified.

Details are given at **Annexure-XI**.

Audit further observed that an average amount of Rs. 14.994 million was paid to such 147 beneficiaries' by incorrect linkage of their claim numbers with 'link claim numbers' of their spouses which was irregular.

Audit held that due to incorrect linkages, the chances of in-admissible pension being awarded could not be ruled out.

The initial audit observation was issued on 13.10.2023. The management replied that the regional offices had examined the cases pointed by the audit and found that 121 cases are correctly tagged linked claim numbers and 59 cases were incorrect tagged link claim numbers. The detail summary is as follows:

S. No.	Description	No. of Cases
1	Correctly tagged linked claim numbers	121
2	Incorrectly tagged linked claim numbers which are corrected by the region in the system	59
3	First time benefit case (Not Conversion Cases)	56
4	File being traced	58
Total		294

Photocopies of Processing sheets & copy of NIC/CNIC of beneficiaries were placed in file for the perusal and verification of audit authorities.

The reply was not acceptable as no supporting evidence of correctly tagged linked claim numbers and correction made was provided to audit.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends that the matter may be justified and record may be corrected otherwise inquiry may be conducted to fix responsibility and amount of inadmissible pension paid may be recovered.

{Para 4 of AIR of EOBI HQ}

4.4.7 Recoverable amount against payments of benefits at excess rates to one or both wives of same Insured Person – Rs. 8.86 million

Section 22B(2) of EOB Act provides that in the case of the death of an insured person who had become entitled to old age pension before his death, the surviving spouse shall, if the spouse had married the deceased person before he had attained the minimum age prescribed for old age pension, receive a life pension equal to the pension of such person.

EOBI disbursed an amount of Rs. 18,436 million as benefit payments to survivors under pension code 05 during the financial year 2022-23.

Audit observed that benefit payments were made to one or both wives of same Insured Person under pension type "survivor pension" at unequal or excess rates. An excess amount of Rs. 8.86 million approx. was paid to such 36 survivors of 18 Insured Persons upto 30.06.2023 as detailed in **Annexure-XII**.

Audit held that the unequal or excess amount paid to the survivors was irregular and recoverable.

The initial audit observation was issued on 13.10.2023. The management replied that the Institution thoroughly examined all 36 survivors' pension cases. 04 cases (Sr. No. 12, 13, 25 & 26) of survivor pension were found to be paid at excess rate. The same were stopped and recovery was initiated. The total recoverable amount was Rs. 449,225. (04) Survivor Pension Claims at S. No. 2, 10, 18 & 36 were erroneously generated for the same widow while awarding the pension. But amounts were never disbursed to those accounts and are marked inactive since generation. (03) instances at S. No. 07, 22 & 23 of tagging of wrong Linked Claim with Survivor Claims, thus showing two widows. It has now been corrected in the system. Two (02) instances at S. No. 27 & 28 of less pension paid to the Survivors. The total Amount less paid to be disbursed is Rs. 131,750. The same will be disbursed in due course of time and accordingly intimate. All other survivor benefits payments have been awarded correctly.

The reply was not acceptable as neither the proof of the initiation of recovery nor the correction of wrong tagging was provided.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends that the matter may be inquired and excess amount paid should be recovered.

{Para 1 of AIR of EOBI HQ}

4.4.8 Unjustified provision of two survivor pensions under pension code 5 to same person – Rs. 5.288 million

Section 28(1&2) of EOBI Act states that an insured person shall not be paid for the same period more than one of the benefits provided for this Act. Where an insured person is entitled to more than one benefit under this Act, he shall be given the higher of such benefits.

EOBI disbursed an amount of Rs. 18,436 million as benefit payments to survivors under pension code 05 during the financial year 2022-23.

Audit observed that 13 survivors were getting 2 survivor pensions each at a time (cut-off date is 30.06.2023), which was unjustified and irregular. An extra amount of Rs. 5.288 million on an average basis was paid to them. Details are at **Annexure-XIII**.

The initial audit observation was issued on 13.10.2023. The management replied that 13 widows were receiving 02 Survivor Pensions (26 files) out of whom 04 widows' both files (total 08 files) had been tracked. After the examination of these 08 files, it was found that three widows were getting two survivor pensions on behalf of two husbands due to remarriage before the age of superannuation. In one case (Iqbal Bibi), the beneficiary was drawing Survivor pension after her husband died vide claim no QBW11418, and also receiving Estate pension with claim no QBW12410 after death of her son, Jamil. However, the said Estate pension was awarded under code no 5 instead of code 6. The files in remaining cases (09 cases) were not traceable yet being old record and due to shifting of some files to other Regions. The regions concerned have been directed to track record with the instructions to stop payments in such cases till verification of record as per regulations.

The reply was not acceptable as no evidence in support of reply was provided to audit.

Audit recommends that the matter may be justified otherwise matter may be inquired and amount of inadmissible pension paid may be recovered.

{Para 7 of AIR of EOBI HQ}

4.4.9 Survivor pensions awarded on doubtful deaths of Insured Persons – Rs. 4.96 million

Section 22B(1-3) of EOB Act relating to Survivors' Pension states that: (1A) In case of death of an insured person, while not in insurable employment but after he had completed five years insurable employment, the surviving spouse, if any, shall be entitled to a life pension equal to the minimum pension. (2) In the case of the death of an insured person who had become entitled to old-age pension or invalidity pension before his death, the surviving spouse, shall, if the spouse had married the deceased person before he had attained the minimum age prescribed for old-age pension, receive life pension equal to the pension of such person.

EOBI disbursed an amount of Rs. 18,436 million as benefit payments to survivors under pension code 05 during the financial year 2022-23.

Audit observed, on a test check basis, that in 53 cases, survivor pensions were awarded to spouses of deceased persons whose deaths were found suspected/doubtful as matched with spouse relation in BISP survey data and their dates of opening of accounts by banks which are found after the dates of their reporting death as per EOBI record. Details are given at **Annexure-XIV**.

Audit held that payment of survivor pension amounting to Rs. 4.96 million during the financial year 2022-23 without confirmation/verification of their deaths from NADRA was doubtful.

The initial audit observation was issued on 13.10.2023. The management replied that 29 out of 53 files (55%) were examined and found that the cases were processed on the basis of copy of death certificates, issued by concerned department, along with copies of Nikah Nama and FRC as applicable. The record of 29 original files was available for verification. The files in remaining 24 cases were not traceable yet being old record. The regions concerned have been directed to track record with the instructions to stop payments in such cases till verification of record as per regulations.

The reply was not acceptable as no evidence in support of the reply was provided to the audit.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends that death certificates and Family Relation certificates duly validated from NADRA may be provided to the audit for verification. Moreover, an Service Level Agreement (SLA) should be executed with NADRA for validation of death of all cases before granting survivor pensions.

{Para 6 of AIR of EOBI HQ}

4.4.10 Double payment of re-credits to pensioners due to wrong de-credits– Rs. 2.864 million

Para 5.3 of agreement between EOBI and Bank Alfalah states that EOBI shall provide to BAFL soft data electronically, containing claim numbers, names, CNIC numbers of pensioners, concerned BAFL Branches and amount to be disbursed to them every month. Para 5.5 further states that EOBI hereby absolves BAFL from any responsibility or liability in respect of any fault, delay, mistake and negligence on the part of EOBI's staff, unless the same is due to in default by BAFL, of its obligation under this agreement.

EOBI re-credited an amount of Rs. 1,854.752 million during the financial year 2022-23 as per EOBI CBA-MIS of EOBI.

Audit observed that in 68 cases, double payments of re-credits were made to the pensioners during the financial year 2022-23 due to wrong payments of double de-credits, which was not in the knowledge of EOBI as it was neither included in the recoverable statement nor found in the amount recovered in the MDA account under the description 'EOBI dup arrears cases 010223, 020223 & 030223'. Details are given at **Annexure-XV**.

Audit held that an amount of Rs. 2.864 million was excess deposited into the accounts of pensioners which needs to be recovered.

The initial audit observation was issued on 13.10.2023. The management replied that the error first occurred in a few months notably June 2022 and July 2022 whereby the BAFL pushed de-credit data in certain cases twice in successive months instead of only once which remained unnoticed. However, when it occurred during January and February, 2023, contrary to assertion in the Para, the error was identified by Internal Audit, EOBI and necessary recoveries were initiated. The payroll was now being run after checking de-credited data of previous months. As such, no such errors were reported from the month of May, 2023 onwards. It was reiterated that the reason for not appearing of twice re-credited amount in the description 'EOBI dup arrears cases 010223, 020223 & 030223' was that it was a recovery of the excess amount at the instructions of IT department of EOBI.

The reply was not acceptable as the objected cases were not provided in the list of recoverable amount identified by EOBI.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends to inquire the matter to find out reasons of double re-credit, to avoid such lapses in future besides recovery of objected amount. Moreover, since audit calculation is based on current financial year only i.e., the amounts wrongly de-credited and double recredited in the financial year 2022-23, the exact amount of excess payment to pensioners may be calculated which was wrongly de-credited in previous year(s) and double recredited in the current financial year 2022-23.

{Para 13 of AIR of EOBI HQ}

4.4.11 Loss due to delay in de-credited amount from MDA account to MIA account on daily basis – Rs. 1.486 million

Para 6 of the 3rd Supplemental to banking Services agreement signed between EOBI and Bank Alfalah dated 11.04.2023 states that “BAFL shall be responsible to transfer the de-credit amount from Main Disbursement Account (MDA) to Main Investment Account (MIA) manually on daily basis. Report of the said transfer shall be shared on the same day. Para 1 of said agreement further states that “the parties agree that with effect from 3rd August 2022, the terms of the Agreement shall stand extended for a further period of twenty-four (24) months.”

Bank Alfalah de-credited an amount of Rs. 1,036.750 million during the financial year 2022-23 as per EOBI CBA-MIS of EOBI.

Audit observed that the de-credited amount from the pensioners accounts was not transferred by Bank Alfalah from MDA account (Interest Free Account) to MIA account on daily basis during the period from 03.08.2022 to 30.06.2023. Details are at **Annexure-XVI**.

Audit held that delay in transfer of de-credited amount from MDA to MIA was a violation of agreement and resulted in loss of interest to EOBI amounting to Rs. 1.486 million.

The initial audit observation was issued on 13.10.2023. The management replied that the bank did not transfer the amount of De-credit from MDA to MIA account as per the agreement on daily basis which caused loss of interest to EOBI. The matter has already been reported to the bank and requested to clarify the observation of Government audit and refund the amount of interest to MIA account at the earliest.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends to calculate the exact delayed amount and recovery of interest amount thereof.

{Para 41 of AIR of EOBI HQ}

Note: The issue was reported earlier also in the Audit Report for the Audit Year 2021-22 vide para no. 4.4.4 having financial impact of Rs. 870.734 million. Recurrence of same irregularity is a matter of serious concern.

4.4.12 Conflict of Interest due to presence of employees of EOBI as members of sub-committees of Board of Trustees (BoT)

Rule 5 of the Prevention and Management of Conflict of Interest Act, 2017 states that a Public Servant shall not render advice or make a decision or participate in the making of a decision related to the exercise of an official power, duty or function if such person knows, or reasonably should know, that, in the rendering of such advice or making of such decision, he would be in a conflict of interest or apparent conflict of interest.

The Board of Trustees (BoT) of EOBI constituted its sub-committees over the period of time to perform the specified role. The committees include HR Committee, Investment Committee, Fixed Income Committee and Audit Committee.

Audit observed presence of employees of EOBI in such sub-committees as members instead of secretary/convener.

Audit held that employees of EOBI were part of management and the BoT and sub-committees were the overseeing authorities over the activities performed by the management, so the presence of employees in sub-committees as members was a conflict of interest. Moreover, such employees of EOBI also got meeting attending fees @ Rs. 25,000 per meeting amounting to Rs. 1.7 million during the year, which was an extra burden on EOBI exchequer.

The initial audit observation was issued on 13.10.2023. The management replied that sub-committees are constituted by the Board on the recommendation of President who is Federal Secretary Ministry of OP&HRD. The Director-General level officers, who are Civil Servants and not the employees of EOBI, are included as members in these sub-committees. Except HR committee the departmental representative i.e., employees of EOBI (below the rank of DGs) are included as Secretaries who are not the members of these sub-committees. Hence, there is no conflict of interest. However, the observation of Audit upto the extent of the HR committee was duly noted and will be placed before the Board for their advice/rectification, if deemed fit.

The reply was not acceptable as the civil servants on deputation at the disposal of EOBI were serving as employees of EOBI.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends that presence of employees of EOBI in sub committees as members and drawing benefits thereof should be reconsidered and sub committees be reconstituted as per spirit of the Prevention and Management of Conflict of Interest Act, 2017.

{Para 42 of AIR of EOBI HQ}

Pakistan Real Estate Investment & Management Company (Pvt) Limited (PRIMACO)

Irregularity and non-compliance

4.4.13 Non-encashment of bank and performance guarantees/non-recovery of mobilization advance - Rs. 1,077.343 million

In 80th BoD meeting which was held in 22 November, 2021, it was unanimously decided that since M/s Mughals Pakistan Pvt. Ltd, the Contractor of Hotel Project & Business complex at Lahore has neither submitted a request for further extension of time nor fulfilled the contractual obligations, therefore, no extension of time (EOT) be granted and the contract stands expired with effect from 22nd October, 2021. The Board further resolved that PRIMACO management shall encash the financial guarantees (bank guarantees for mobilization advance & performance guarantees) after proper homework & analysis of the relevant documents from all angles so as to ensure their successful encashment in a timely manner. The

Board also resolved that necessary liquidated damages be imposed on the contractor as per relevant contract clauses.

Pakistan Real Estate Investment & Management Company (PRIMACO) obtained bank guarantees against mobilization advance amounting to Rs. 714.972 million from M/s Mughal Pakistan (Pvt.) Ltd. along with performance guarantee from United Insurance Company amounting to Rs. 362.371 million for the construction of EOBI Hotel & Business Complex Project at Lahore as per detail given below:

(Rs. in millions)

Sr. No.	Bank	Guarantee No.	Expiry	Amount
1	Habib Metropolitan Bank Ltd.	HMBL/LG/2/46/1500309/2021	19.12.2021	360.507
2	Askari Bank Ltd.	2011LG20004012	21.12.2021	354.466
3	United Insurance Co. of Pakistan Ltd.	UIC/D/P003/0000101631/0520 /117	19.08.2022	362.371
Total				1,077.343

Audit observed that despite lapse of 20 months since the BoD decision, the management of PRIMACO failed to recover mobilization advance and encashment of bank guarantees and performance guarantee. The management had not imposed any liquidated damages on the contractor till close of audit.

The initial audit observation was issued on 28.08.2023. The management replied that the matter was pending in litigation and PRIMACO was contesting both cases in court of law.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends that necessary action may be taken for early recovery from the contractor.

{Para 20 of AIR of PRIMACO for the year 2022-23}

Workers Welfare Fund Islamabad

Irregularity and non-compliance

4.4.14 Non-deduction of Income Tax at Source on the fee paid directly to the Institutes by Worker Welfare Fund – Rs. 26.780 million

Section 47 of Income Tax Ordinance, 2001 states that any scholarship granted to a person to meet the cost of the person's education shall be exempt from tax under this Ordinance, other than where the scholarship is paid directly or indirectly by an associate. As per withholding Income tax Regime guidelines, the rate of Income tax is 05% of the amount of services rendered.

Worker Welfare Fund Islamabad released an amount of Rs. 363.243 million directly to educational Institutes during the financial year 2022-23 on account of workers' and Employees of WWF children education fee.

Audit observed that income tax at source amounting to Rs. 26.780 at the rate of 05% was not deducted by WWF from the service charges paid to the Institutes as fees of the students studying in such Institutes.

Detaila are as follows:

(Rs. in millions)

Sr. No.	Nature of Payment	Total Fee Paid	Income tax deduction @ 5%
01	Worker's children payment under Payment	133.669	6.683
02	Worker's children payment Post Payment	190.990	9.550
03	Panel School Payment	179.868	8.993
04	Employees children payment	31.065	1.553
	Total	535.593	26.780

Audit held that non-deduction of income tax from payments made to Institutes resulted in loss to government revenues.

The initial audit observation was issued on 25.09.2023. The management replied that withholding tax is being deducted from the bills submitted by the educational institutes directly to WWF, except for those institutes which are exempted from withholding tax. However, withholding tax cannot be deducted from fee challans submitted by the workers / employees of WWF in which payments are being made on case to case basis. Educational institutes deposit withholding tax directly to FBR.

The reply was not acceptable as no evidence / document for deduction and deposit of income tax was available.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends that income tax may be recovered and deposited into Govt. treasury.

{Para No. 14 of AIR of WWF Islamabad for the Audit Year 2022-23}

4.4.15 Placing of un-registered school on panel of WWF and payment of Fee and other charges without verification of 'Workers' - Rs. 19.463 million

Eligibility criteria for institution and student of Worker Welfare Board approved by Governing body from time to time provide that Educational Institution means: (i) Cadet Colleges/Public Schools being run by the Federal or a Provincial Government. (ii) All Public and private colleges recognized by the Federal/ Provincial Government. (iii) All Public/Private Universities Colleges recognized by the HEC. (iv) All engineering colleges universities registered with HEC as well as PEC.

Worker Welfare Fund Islamabad made payment of Rs. 172.140 million during the financial year 2022-23 to certain private educational institutes on account of tuition fee, hostel messing, transport and stipend charges. Six Schools remained on the panel of WWF and their claims were directly received in WWF Secretariat and payment thereof was made directly to these schools.

A sum of Rs. 19.463 million was paid to School of Excellence Islamabad from Workers Welfare Fund Islamabad on account of fee and other charges. Audit observed that this institute was not recognized/ registered with Private Educational Institutes Regularity Authority (PEIRA). Furthermore, the status of Workers against whom the payment was made was also not verified by the management of Fund.

Audit held that undue favour was given to the school and payment made to school was not justified.

The initial audit observation was issued on 25.09.2023. The management replied that competent authority had constituted a fact finding committee to probe into the irregularities / discrepancies in payments made to M/s Allied School and International School of Excellence. The outcome of report should be forwarded to Audit Section as and when received.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends to inquire the matter for fixation of responsibility against person(s) responsible beside verification of all payments and status of workers.

{Para No. 27 of AIR of WWF Islamabad for the Audit Year 2022-23}

4.4.16 Payment of Gratuity in addition to Contributory Provident Fund (CPF) – Rs. 4.707 million

Finance Division Office Memorandum No.F.15(3)R-14/84 dated 16.10.1984 states that the payment of 'gratuity' cannot, therefore, be made part of the CPF Scheme, and as such it should not be paid in addition to CP Fund contribution. All such autonomous/Semi-autonomous bodies and corporations etc.

under the administrative control of ministries/divisions, where the pension scheme does not exist that the payment of 'gratuity' in addition to Contributory Provident Fund is not allowed to their employee on quitting the service.

Worker Welfare Fund, Islamabad adopted both schemes i.e., payment of Gratuity and Contributory Provident Fund.

Audit observed that the Workers Welfare Fund paid an amount of Rs. 4.707 million as Gratuity and Rs. 8.467 million as Contributory Provident Fund to its employee, namely Mr. Arshad Mehmood Ex-Computer Programmer during financial year 2022-23.

Audit held that the payment of Gratuity in addition to Contributory Provident Fund was irregular.

The initial audit observation was issued on 25.09.2023. The management replied that the WWF (Employees Service) Rules, 1997, duly notified by the Ministry of Labour, Manpower and Overseas Pakistanis have due concurrence of Establishment and Finance Division vide Notification No. S.R.O.1193 (I) 97 dated 15.11.1997. The Rules ibid has existence of CP Fund and Gratuity in Chapter-15 and 17 of the rules.

The reply was not considerable as the payment was made in violation of the instructions issued by Finance Division.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends seeking clarification from Finance Division, besides discontinuation of the additional stream of CP Fund.

Note: The issue was reported earlier also in the Audit Reports for the Audit Year 2021-22 vide para no. 4.4.18 having financial impact of Rs. 7.733 million. Recurrence of same irregularity is a matter of serious concern.

{Para No. 02 of AIR of WWF Islamabad for the Audit Year 2022-23}

4.4.17 Loss to WWF due to theft of VTIs Assets - Rs. 3.523 million

Governing Body of WWF, Islamabad in its 149th meeting (agenda item no.2) held on 27-07-2021 decided to confirm the transfer/ handing over of four vocational institutes to Punjab and one to Khyber Pakhtunkhwa.

Workers Welfare Fund operated four Vocational Training Institutes in different cities of Punjab. The Institutes are non-functional since many years.

Audit observed that Assets of Workers Welfare Fund valuing Rs. 3.523 million were found stolen from VTI Jhang (Boys) which results in loss to Workers Welfare Fund^[d2].

Audit held that loss to the Fund established for the welfare of Workers was not justified resulting in loss to government.

The initial audit observation was issued on 25.09.2023. The management replied that FIR was lodged by the department in connection with the theft incident. The same was being pursued with the police department for recovery of the lost assets.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends for inquiry for fixation of responsibility against person(s) responsible besides recovery of amount.

{Para No. 11 of AIR of WWF Islamabad for the Audit Year 2022-23}

4.4.18 Irregular and un-justified payments to school on account of fee beyond registration- Rs. 3.330 million

Eligibility criteria for institution and student of Worker Welfare Board approved by Governing body from time to time provides that Educational Institution means: (i) Cadet Colleges/Public Schools being run by the Federal or a Provincial Government. (ii) All Public and private colleges recognized by the Federal Provincial Government. (iii) All Public/Private Universities Colleges recognized by the HEC. (iv) All engineering colleges universities registered with HEC as well as PEC.

Worker Welfare Fund Islamabad made payment of Rs. 22.00 million to M/s Al-Kaiynaat School on account of tuition fees, transport and stipend charges etc. during the financial years 2021-23. The school was provisionally registered with PEIRA upto middle level (class i to viii).

Audit observed that a sum of Rs. 3.330 million was paid to M/s Al-Kaiynaat School on account of tuition fee and transport charges etc. against students claimed by the institution studying in class 9th and 10th.

Detail is at **Annexure-XVII**.

Audit held that the amount paid against the students studying in classes beyond the registered level was unjustified.

The initial audit observation was issued on 25.09.2023. The management replied that a fact-finding committee has been constituted by the competent authority to probe into the irregularities / discrepancies in payments made to M/s Al- Kaiynat school. The outcome of report shall be forwarded to Audit as and when received.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends inquiring the matter for fixation of responsibility against person(s) at fault besides recovery of amount.

{Para No. 17 of AIR of WWF Islamabad for the Audit Year 2022-23}

Worker Welfare Board Khyber Pakhtunkhwa

Irregularity and non-compliance

4.4.19 Loss due to non-lending of vacant floors of WWB Khyber Pakhtunkhwa Building located at Phase-V Hayatabad Peshawar- Rs. 28.317 million

Section 11-C (a)(i) of the Workers Welfare Ordinance, 1971 provides that, a Board, for discharge of its functions under this ordinance, shall as soon as may be after its constitution, make and carry into effect a scheme regulating or providing for the regulation of matters connected with allotment, cancellation of allotment and fixation of rent of the houses financed by the money allocated from the Fund, and their maintenance and repairs.

The office of Workers Welfare Board, Khyber Pakhtunkhwa shifted in the newly constructed building at Phase-5 Hayatabad Peshawar on 01.10.2021.

Audit observed that the space of the building allocated for rental purposes was not rented out by WWB Peshawar till the close of financial year 2021-22. Details are as follows:

Project/Building	Floor	Area Occupied	Vacant area
WWB KPK Office Building located at Phase-V Hayatabad Peshawar	2 nd Floor	Vacant	23,306
	3 rd Floor	Vacant	23,306
	4 th Floor	11,653	11,653
	5 th Floor	11,653	11,653
Total vacant area			69,918
Loss=69,918*45=3,146,310*09 months (01.10.2021 to 30.06.2022)			28,316,790

Audit held that non-renting out of vacant space resulted in loss of Rs. 28.317 million to the WWB Peshawar.

The initial audit observation was issued on 27.03.2023. The management replied that efforts were being made to rent out the vacant floor to the public sector organization in the light of the KP Workers Welfare Board, Peshawar and the space of 5th floor consisting of 11653 sft covered areas @ Rs. 45 per sft Rs. 524,385 per month was rented out w.e.f 01.11.2022.

DAC meeting was held on 15.08.2023. The forum directed the management to complete the due course of action under PPRA rules 2004 within three months for allotment of vacant floors of the WWB's building.

No further progress was reported till the finalization of Audit Report.

Audit recommends pursuing the matter vigorously for early lending out of building allocated for rental purposes.

{Para 4 of WWB Peshawar for the Audit Year 2022-23}

4.4.20 Non-deduction of Income Tax at source on account of tuition fee paid directly to the Universities– Rs. 21.795 million

Section 47 of Income Tax Ordinance 2001, states that any scholarship granted to a person to meet the cost of the person's education shall be exempt from tax under this Ordinance, other than where the scholarship is paid directly or indirectly by an associate. Furthermore, as per withholding Income tax Regime guidelines amended from time to time through Finance Act, the rate of Income tax is 06% of the amount of services rendered.

Worker Welfare Board Khyber Pakhtunkhwa Peshawar released an amount of Rs. 363.243 million directly to 46 universities/colleges during the financial year 2021-22 on account of worker's children education fee.

Audit observed that income tax at source @ 6% amounting to Rs. 21.794 million was not deducted by WWB from the service charges paid to the universities against fees of the students.

Audit held that non-deduction of income tax at source was loss to the Government exchequer.

The initial audit observation was issued on 27.03.2023. The management replied that payment of scholarship to the students is being made to the concerned universities / colleges on account of actual expenditure incurred on the education of the workers children. According to the Section 47 of Income Tax Ordinance 2001 any scholarship granted to a person to meet the cost of the person's education shall be exempt from tax, other than where the scholarship is paid directly or indirectly by an associate.

DAC meeting was held on 15.08.2023. The DAC directed the management to produce exemption certificates, to be obtained from universities concerned, to Audit within one-month time. In case no exemption certificate is provided by any of the university, the amount of income tax be deducted / adjusted from future payments / claims of the university (s).

Audit recommends early compliance of DAC directive.

{Para 1 of WWB Peshawar for the Audit Year 2022-23}

4.4.21 Non-deposit of deducted Income Tax to tax authorities resulting in loss on account of surcharge and double payment of withholding tax – Rs. 12.274 million

Withholding Income Tax Regime guidelines amended from time to time through Finance Acts, provides that the time of deposit of Income tax deducted at source is, in cases other than Federal/Provincial Government is within 7 days from the end of each week ending on every Sunday.

Worker Welfare Board account bearing number 001309305005 maintained at Bank of Khyber showed a debit amount of Rs. 16.335 million without any cheque number and voucher.

Audit observed that the amount of Rs. 16.335 million was deducted by tax authorities on 23.11.2021 through Banker Cheque in lieu of non-deposit of Income tax deducted at source by management of Worker Welfare Board Peshawar during the financial years 2013 to 2016.

Audit held that WWB Peshawar had suffered a loss of Rs. 12.274 million due to non-deposit of income tax at source by the management as the debited amount of Rs. 16.335 million included:

- i. Surcharge of 5.370 million which was imposed by tax authorities.
- ii. An amount of Rs. 6.904 million which was paid/returned by WWB to the universities against withholding tax before the withdrawal of amount by tax authorities through banker cheque.

The initial audit observation was issued on 27.03.2023. The management replied that KP WWB has already taken notice by conducting the inquiry to carry out fact finding of the issue and to nominate the person at fault vide letter N. WWB /1-11/6007-11 dated 30.12.2021. The outcome of the inquiry will be shared with audit.

DAC meeting was held on 15.08.2023. The DAC pended the para with the direction to the management to finalize the fact finding within 15 days and share the report with Audit. It further directed to take up the matter with FBR for recovery of surcharge amount.

Audit recommends implementation of DAC decision.

{Para 2 of WWB Peshawar for the Audit Year 2022-23}

4.4.22 Payment of gratuity in addition to Contributory Provident Fund (CPF) – Rs. 8.440 million

Finance Division Office Memorandum No.F.15(3)R-14/84 dated 16.10.1984 states that the payment of ‘gratuity’ cannot, therefore, be made part of the CPF Scheme, and as such it should not be paid in addition to CP Fund contribution. All such autonomous/Semi-autonomous bodies and corporations etc. under the administrative control of ministries/divisions, where the pension scheme does not exist that the payment of ‘gratuity’ in addition to contributory provident fund is not allowed to their employee on their quitting the service.

Worker Welfare Board, Khyber Pakhtunkhwa Peshawar adopted both schemes i.e., payment of Gratuity and Contributory Provident Fund.

Audit observed that WWB paid an amount of Rs. 9.562 million as Gratuity and Rs 8.440 million as Contributory Provident Fund during the financial year 2021-22 to its employees as detailed below:

(Rs. in millions)

S.No	Name of Employees	Gratuity Amount	CPF Amount
1	Bakht Bibi	0.4686	0.4907
2	Zahid Hussain	0.5052	0.4358

3	Akbar Dad	0.4058	0.3985
4	Amanullah	0.2832	0.1236
5	Awal Hayat	0.5808	0.5826
6	Naeema Begum	0.3217	0.2766
7	Noor Zada	0.6284	0.7587
8	Razia Begum	2.0421	3.0636
9	Sajjad ul Haq	2.5203	0.4142
10	M Nazakat	0.4945	0.5369
11	Qaiser Shah	0.3086	0.3137
12	Niaz Muhammad	0.4324	0.4620
13	Rahim Qasim	0.5698	0.5830
	Total	9.5615	8.4401

Audit held that the payment of Gratuity in addition to Contributory Provident Fund was irregular.

Initial audit observation was issued on 27.03.2023. The management replied that the employees of KP WWB had no pension facility and Contribution Provident Fund and Gratuity was being paid to the employees of Workers Welfare Board, Peshawar in the light Workers Welfare Fund Employees Service Rules 1997 duly approved by the Governing Body, hence there is no irregularity involved.

DAC meeting was held on 15.08.2023. The DAC pended the para and decided to link the fate of para with that of similar para highlighted in the AIR 2022-23 related to Workers Welfare Fund vide DAC meeting dated 18.01.2023. It was decided that the opinion from Finance Division for WWF would equally be applicable on all other Boards including KP WWB.

Audit recommends seeking an early clarification from Finance Division, besides discontinuation of the additional stream of CP Fund.

{Para 12 of WWB Peshawar for the Audit Year 2022-23}

Note: The issue was reported earlier also in the Audit Report for the Audit Year 2021-22 vide para no. 4.4.26 having financial impact of Rs. 6.260 million. Recurrence of same irregularity is a matter of serious concern.

4.4.23 Payment of scholarships to the dependents of government employees – Rs. 7.114 million

Eligibility criteria for disbursement of welfare measures out of Worker Welfare Fund provides that the worker must be covered under definition of workman as prescribed in Industrial Relations Act (IRA). Minimum three years cumulative service is required to avail education facility.

Worker Welfare Board, Khyber Pakhtunkhwa, Peshawar released an amount of Rs. 7.114 million on account of stipend and fees against the names of 22 students during the financial year 2021-22.

Audit observed that the said payments were made to the dependents of government employees, which was not justified. Details are at **Annexure-XVIII**.

Audit held that the payment of welfare measures to the dependent of government employees was irregular and created doubt about their status as workman under the rules.

The initial audit observation was issued on 27.03.2023. The management replied that the name mentioned in audit para and their units were covered in the SOPs approved the Workers Welfare Fund, Islamabad. There are a number of scrutiny process involved and after completing all the pre-requisite and approval of the committee and subsequent approval of the Competent Authority (Chairman, WWB), the payment of scholarship is released to the concerned eligible students through their concerned universities / colleges.

DAC meeting held on 15.08.2023. The DAC pended the para with the direction to the management to ascertain that there is no overlapping period of government service viz-a-viz factory worker period.

Audit recommends that eligibility of the objected workers be re-determined and appropriate action be taken accordingly.

{Para 22 of WWB Peshawar for the Audit Year 2022-23}

4.4.24 Irregular maintenance of ten (10) Banks Accounts instead of Treasury Single Account by WWB KPK

Section 30 (02) (d) of Chapter-V of Public Finance Management Act, 2019 provides for placement of all public moneys into the treasury single accounts.

Further, Section 2(s) of Public Finance Management Act, 2019 provides that "public moneys" mean the moneys forming part of the Federal Consolidated Fund and the Public Account of the Federation.

The management of Worker Welfare Board, Peshawar maintained ten (10) Bank accounts in Bank of Khyber (BoK) and United Bank Limited (HBL).

Audit observed that Worker Welfare Board did not operated with one single treasury account as per the directions of Finance Division.

Details are as follows:

S. No.	Name of Bank	Account No	Nature
01	BoK Saddar Road Peshawar 0013	SDA-1823-00-01	DOE Education
02	-do-	1320303001	DOE CPF Account
03	-do-	1192	Establishment Acc.

04	-do-	8985-04	Dev Account
05	-do-	09282-00-07	Main Receipt Acc.
06	-do-	11049-003	Welfare Account
07	UBL Tahkhal Payan Peshawar	000244304366	CPF Saving Account
08	-do-	000246468983	Security Account
09	BOK Saddar Road Branch	9373006	Technical Education
10	-do-	001309305005	Scholarship Account

Audit held that operating 10 bank accounts, instead of one single account, without concurrence of the Finance Division was irregular.

The initial audit observation was issued on 27.03.2023. The management replied that it is maintaining single bank account in the BoK being a Provincial Government entity where the main Collection Accounts are maintained in the name of Secretary Labour / Chairman, WWB. All the funds are received from the Workers Welfare Fund, Islamabad in the said account and similarly the internal receipts from the KP WWB, Peshawar are also received in the same bank account from where the funds are released to the other expenditure account maintained in the same bank.

DAC meeting held on 15.08.2023. The DAC pended the para and directed the management to seek opinion of Finance Division in the matter through Workers Welfare Fund.

Audit recommends that instructions of Finance Division may be complied with.

{Para 24 of WWB Peshawar for the Audit Year 2022-23}

Punjab Workers Welfare Board

Irregularity and non-compliance

4.4.25 Payment of gratuity in addition to Contributory Provident Fund (CPF) - Rs. 7.602 million

Finance Division Office Memorandum No.F.15(3)R-14/84 dated 16.10.1984 states that the payment of 'gratuity' cannot, therefore, be made part of the CPF Scheme, and as such it should not be paid in addition to CP Fund contribution. All such autonomous/Semi-autonomous bodies and corporations etc. under the administrative control of ministries/divisions, where the pension scheme does not exist that the

payment of 'gratuity' in addition to contributory provident fund is not allowed to their employee on their quitting the service.

Punjab Workers Welfare Fund, Lahore adopted both schemes i.e., payment of Gratuity and Contributory Provident Fund.

Audit observed that Punjab WWB, during the financial year 2022-23, paid a sum of Rs. 7.602 million as Gratuity and Rs. 3.826 million as Contributory Provident Fund to its employees as detailed below:

(Rs. in millions)

Sr #	Name of Employee	Gratuity Payment	CP Fund Payment	Total Payment
1	Mr. M. Hanif	2.577	0.993	3.57
2	Waris Ali	4.789	0.066	4.855
3	Ijaz ur rehman	0	2.671	2.671
4	Abdul Rehman	0	0.096	0.096
5	Khalid Pervaiz	0.236	0	0.236
Total		7.602	3.826	11.428

Audit held that payment of Gratuity in addition to Contributory Provident Fund was irregular.

The initial audit observation was issued on 24.08.2023. The management replied that accounting procedure is in process and expected to be approved in due course of time from Finance Department, Punjab.

DAC meeting was held on 28.09.2023. The forum pended the para and directed the management to expedite and take following steps in the matter:

- i. Appointment of Fund Manager/constitution of Investment Committee.
- ii. Formulation of Investment Rules/Policy.
- iii. Preparation of Accounts Manual & Audited Annual Accounts.
- iv. Regular audit of annual account.

Audit recommends seeking an early clarification from Finance Division, besides discontinuation of the additional stream of CP Fund.

{Para No.05 of AIR of Punjab Workers Welfare Fund Lahore Audit Year 2023-24}

Note: The issue was reported earlier also in the Audit Reports for the Audit Year 2021-22 vide para no. 4.4.29 having financial impact of Rs. 4.325 million. Recurrence of same irregularity is a matter of serious concern.

4.4.26 Loss to Punjab Workers Welfare Fund due to subletting of complex by lessee without permission - Rs. 1.20 million

Clause 11 of Lease agreement between Ministry of Science and Technology, Government of the Pakistan and Punjab Worker Welfare Board, Lahore dated 14th September, 2001, states that the lessee shall not sublet or assign the complex or any of its portion etc. without prior written consent of the lessor.

The Punjab Workers Welfare Board entered into lease agreement with the Information Technology and Telecommunication Division on 14th September, 2001 for twenty years lease of its property known as M.A Jinnah Technical Institute, Raiwind Road Lahore.

Audit observed that the lessee had subletted the portion of property to Habib Bank Limited (HBL) to open bank branch without prior permission of Lessor.

Audit held that Punjab Workers Welfare Fund did not claim the rental income from bank and canteen premises and sustained loss of approximately Rs. 1.2 million during 2022-23.

The initial audit observation was issued on 24.08.2023. The management replied that Punjab Workers Welfare Fund had taken up the matter with the management of COMSATS University Islamabad, Lahore Campus, Lahore vide letter dated 07.09.2023.

DAC meeting was held on 28.09.2023. The DAC pended the para with the direction to make recovery from Lessee within a month.

Audit recommends early compliance of DAC directive.

{Para 11 of AIR of Punjab WWB for the Audit Year 2022-23}

Workers Welfare Board Balochistan

Irregularity and non-compliance

4.4.27 Non-recovery of amount on account of sale of Plots / Quarters in labour colonies - Rs. 39.889 million

Rule-23 of GFR states that every government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

Workers Welfare Board Balochistan Quetta had sold 1404 houses / flats on installments during previous years.

Audit observed that the management of Workers Welfare Board Balochistan failed to collect due installments from the allottees and a sum of Rs. 39.892 million was due, however the same could not be recovered. Details are as follows:

(Rs. in millions)

Sr. No	Name of colony	Amount outstanding
1	Workers City Quetta By Pass	7.101
2	Labour Colony Bypass	0.760
3	Workers City Hub	22.725
4	Labour Colony Dukki	1.432
5	Labour Colony Khuzdar	1.256
6	Old Workers City Nava Killi	1.985
7	New Workers City Nava Killi	3.251
8	New Labour Colony Loralai	1.094
9	Old Labour Colony Loralai	0.288
Total		39.892

Audit held that non recovery of outstanding amount resulted in loss to Workers Welfare Board.

The initial audit observation was issued on 06.10.2023. The management replied that against an amount of Rs. 39,889,840 on account of recovery against the allottees of above labour colonies, a sum of Rs. 2,921,538 has been recovered during the period of 01/07/2023 to 30/09/2023. Notices are regularly served to defaulters (individually) after every quarter, however, efforts will be more accelerated for early recovery of outstanding amount within shortest possible time.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends that the outstanding amount may be recovered from defaulters.

Note: The issue was reported earlier also in the Audit Report for the Audit Year 2021-22 vide para no. 4.4.31 having financial impact of Rs. 48.517 million. Recurrence of same issue / irregularity is a matter of serious concern.

{Para No. 7 of AIR of WWB Balochistan for the Audit Year 2022-23}

4.4.28 Irregular hiring of security services without open competition and tendering - Rs. 19.411 million

Rule 12 of Public Procurement Rules, 2004 provides that procurement over Five hundred thousand Pakistani Rupees and up to the limit of Three million Pakistani Rupees shall be advertised on the Authority’s website in the manner and format specified by regulation by the Authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency. Provided that the lower financial limit for advertisement on Authority’s website for open competitive bidding shall be the prescribed financial limit for request for quotations under clause (b) of rule 42.

Workers Welfare Board Balochistan, Quetta hired services of M/s Silver Arrows for security of WWB Head Office and 12 Workers Model Higher Secondary Schools for the financial year 2022-23.

Audit observed that security services amounting to Rs. 19.411 million were hired through quotations instead of inviting open tenders for obtaining most competitive rates.

Audit further observed that Income Tax @ 6% amounting to Rs. 1.079 million was not also deducted from the firm. Details of payment made during the financial years 2021-23 are as follows:

(Rs. in millions)

Sr. No	Year	Amount
1	Head Office 2022-23	1.421
2	Schools 2021-23	17.990
	Total	19.411

Audit held that procurement by avoiding open tender negated healthy and fair competition and resulted in loss to government. Moreover, non-deduction of Income tax was loss to the govt. exchequer.

The initial audit observation was issued on 06.10.2023. The management replied that quotations among reputed firms were invited and most competitive and advantageous rate of M/s Silver Arrow Security Services (Pvt.) Ltd was approved at Rs. 26,600 per school for a period of three months. This rate

includes the wages fixed by government plus tax and company's profit. No other extra charges were included in it.

The reply was not acceptable as the services of security firm were hired without calling open tender.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends that inquiry be conducted for fixation of responsibility against person(s) at fault.

{Para No. 12 of AIR of WWB Balochistan for the Audit Year 2022-23}

4.4.29 Purchase of uniform and notebooks without calling open tender - Rs 19.241 million

Rule 12 of Public Procurement Rules, 2004 provides that procurement over Five hundred thousand Pakistani Rupees and up to the limit of Three million Pakistani Rupees shall be advertised on the Authority's website in the manner and format specified by regulation by the Authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency. Provided that the lower financial limit for advertisement on Authority's website for open competitive bidding shall be the prescribed financial limit for request for quotations under clause (b) of rule 42.

Workers Welfare Board Balochistan procured uniform items and notebooks amounting to Rs. 14.521 million and Rs. 4.720 respectively during financial year 2021-22.

Audit observed that procurement was made through quotations instead of inviting open tenders for obtaining most competitive rates.

Audit held that procurement made without calling open tenders and without preparation of annual procurement plan was mis-procurement.

The initial audit observation was issued on 06.10.2023. The management replied that in the open tendering procedure nearly 40 to 45 days are involved for advertisement in the press/PPRA website and processing the offers and obtaining the approval. To avoid wastage of precious time of the students, the method of inviting quotations after exploring the market, was adopted and lowest/economical rates were considered. Had the office adopted open tendering process, the academic session of the students would have been delayed in completing all the procedure mentioned above.

The reply was not acceptable as violation of PPRA Rules was accepted.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends that inquiry be conducted for fixation of responsibility against person (s) responsible.

{Para No. 11 & 17 of AIR of WWB Balochistan for the Audit Year 2022-23}

4.4.30 Doubtful payments to employees on account of salaries without any record of appointment and joining of duty- Rs 13.521 million

In terms of Rule-23 of GFR Vol-I, every government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

Audit observed from the record of salaries paid to employees of WWB that in the month of March 2022 and onward certain new employees were entered in the payroll and their salaries were started thereon, however no record of appointments was available with the management. A sum of Rs. 13.521 million was drawn by these persons as salaries during the financial year 2021-23. Details are at **Annexure-XIX**.

Audit held that inclusion of employees in Payroll and start of salaries without any availability of record relating appointment etc. made the whole process doubtful.

The initial audit observation was issued on 06.10.2023. The management replied that appointment letters and duty arrival reports of all the new officers and officials listed in the pay roll were available. The same were not provided during audit because the relevant files were not readily available at the time of audit. Now the relevant record could be verified.

The reply was not acceptable as no record was verified from audit.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends to investigate the matter for fixation of responsibility against the person(s) responsible besides recovery of amount.

{Para No. 58 of AIR of WWB Balochistan for the Audit Year 2022-23}

Note: The issue was reported earlier also in the Audit Report for the Audit Year 2021-22 vide para no. 4.4.38 having financial impact of Rs. 34.711 million. Recurrence of same irregularity is a matter of serious concern.

4.4.31 Payment of Gratuity in addition to Contributory Provident Fund (CPF) – Rs. 8.044 million

Finance Division Office Memorandum No.F.15(3)R-14/84 dated 16.10.1984 states that the payment of 'gratuity' cannot therefore, be made part of the CPF Scheme, and as such it should not be paid in addition to CP Fund Contributory. All such autonomous/Semi-autonomous bodies and corporations etc. under the administrative control of ministries/divisions, where the pension scheme does not exist that the payment of 'gratuity' in addition to Contributory Provident Fund is not allowed to their employee on quitting the service.

Workers Welfare Board, Quetta adopted both schemes i.e. payment of Gratuity and Contributory Provident Fund.

Audit observed that the Workers Welfare Board paid an amount of Rs. 8.044 million as Gratuity and Rs. 7.886 million as Contributory Provident Fund to its employees during financial year 2021-23. Details are as follows

(Rs. in millions)

S#	Name & Designation	Gratuity	CP Fund	Net Amount
1	Afzal Hameed (AD Works)	7.105	3.110	10.215
2	Khuda-E-Rahim (Driver)	0.402	0.036	0.439
3	Shakeela Yousuf W/O Muhammad Yousuf (Naib Qasid)	0.298	0.170	0.468
4	Umme E Asma (Arabic Teacher)	-	0.716	0.716
5	Abdul Rahim (Arabic Teacher)	-	0.358	0.358
6	Ghulam Hussain (Chowkidar)	0.238		0.238
7	Ghulam Hussain (Chowkidar)	-	1.325	1.325
8	Liaquat Ali (Senior Teacher)	-	1.217	1.217
9	Shoaib Ahmed S/O Muhammad Yahya (Mali)	-	0.648	0.648
10	Jalal Ud Din (Driver)	-	0.135	0.135
11	Saima Faiz (JET)	-	0.171	0.171
	Total	8.044	7.886	15.930

Audit held that irregularity occurred due to non-observance of instructions issued by Ministry of Finance, which has resulted in undue burden on the Fund.

The initial audit observation was issued on 06.10.2023. The management replied that payment of Gratuity and Contributory Provident Fund (CPF) to the employees of this Board is made as per WWF (Employee Service) Rules, 1997 and approval of Governing Body WWF Islamabad. No payment is made to any employee in violation of prevailing rule and decision of Governing Body WWF Islamabad. A letter has been sent to WWF Islamabad who is the funding agency of Workers Welfare Board regarding financial advice in the matter as soon as the reply received the same will be share with the audit and policy will be compiled in letter and spirit.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends that the matter be referred to Finance Division for opinion and the instructions of Finance Division be adopted.

Note: The issue was reported earlier also in the Audit Report for the Audit Year 2021-22 vide para no. 4.4.33 having financial impact of Rs. 4.859 million. Recurrence of same irregularity is a matter of serious concern.

{Para No. 28 of AIR of WWB Balochistan for the Audit Year 2022-23}

4.4.32 Non-deduction of Sales Tax from consultant's payments - Rs. 2.368 million

The Balochistan Sales Tax on Services Act, 2011 states that services provided by technical, scientific and engineering consultants are subject to deduction of Sales Tax @ 15%

Workers Welfare Board Balochistan, Quetta awarded consultancy contracts of Initial Environment Examination to M/s Infrastructure Consulting Engineering (ICE Consultant) on 23.09.2022.

Audit observed that a sum of Rs. 15.792 million was paid to the consultant, M/s Infrastructure Consulting Engineering (ICE Consultant), during the period under audit, however sales tax amounting to Rs. 2.369 million was not deducted while making payments.

Audit held that non-deduction of sales tax resulted in loss to government treasury.

The initial audit observation was issued on 06.10.2023. The management replied that the above project was sponsored by the Federal Ministry (Overseas Pakistanis and Human Resources Development). Moreover, this Board had adopted PPRA Rules, therefore the deduction of provincial taxes like Balochistan Sale Tax (BSTS) were not applicable on this Board. Besides, the Consultant (M/S ICE), did not include the rate of BSTS in their lowest bid, therefore said deduction was not made from him.

The reply was not acceptable as the sales tax was required to be charged.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends an inquiry for fixation of responsibility, recovery and deposit of amount in government treasury as well as adoption of remedial measures to avoid reoccurrence of such irregularity in future.

{Para No. 31 of AIR of WWB Balochistan for the Audit Year 2022-23}

4.4.33 Non-recovery of rent of flats handed over to Balochistan Institute of Nephrology Quetta

Section 11-C (a)(i) of the Workers Welfare Ordinance 1971 provides that subject to the provision of this ordinance, a Board, for discharge of its functions under this ordinance, shall as soon as may be after its constitution, make and carry into effect a scheme regulating or providing for the regulation of matters connected with allotment, cancellation of allotment and fixation of rent of the houses financed by the money allocated from the Fund, and their maintenance and repairs.

Worker Welfare Board Balochistan, Quetta handed over 42 flats to Balochistan Institute of Nephrology Quetta (BINUQ) for further allotment to its staff in 2015.

Audit observed that no rent was recovered from the residents of the Quarters since 2015 which resulted in loss to millions of rupees to Workers Welfare Board. Monthly house rent against 42 employees approximately of Rs. 681,225 was being deposited in WWB prior to handing over the flats/quarters. The same could not be collected for nine years. Details are as follows:

S. No.	Category of Staff Residence	Nos. of Flats/Bungalows
1	BS-18 & 19	02
2	BS-15 to 17	04
3	BS-11 to 14	12
4	BS 01-10	24

Audit held that non-recovery of rent from allottees resulted in loss to Workers Welfare Board.

The initial audit observation was issued on 06.10.2023. The management replied that numerous letters were written / sent to Chief Executive Officer BINUQ to deposit the rent of bungalows and flats occupied by the staff of BINUQ, but no reply received from quarter concern till date of this reply. The matter was taken up with Secretary Health Department, Balochistan, but no response was received from their end. Again, a letter to both the offices mentioned above has been written, by this Board. In case they do not responds this letter then this Board will be compelled to get the bungalows vacated from BINUQ employees through District Administration.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends to recover the rent amount.

{Para No. 20 of AIR of WWB Balochistan for the Audit Year 2022-23}

4.4.34 Appointments against posts reserved for promotions

Governing Body Workers Welfare Fund in its 145th meeting held on 17.08.2020 approved the revival of following posts;

Teaching and non-teaching staff for WMHS Pishin and Nokandi (42 each)	84
Workers Model HSS Kingri	32
Workers Model HSS Eastern By Pass Quetta	33
Post vacant due to death/retirement	11

Total	160
-------	-----

Workers Welfare Board, Balochistan, Quetta made appointments during FY 2022-23 in Workers Model High/Higher Secondary Schools.

Audit observed that the appointments were made by ignoring the quota and many appointments were made against the promotion quota. Some of the instances of irregular appointments in excess than quota is as follows:

Name of Post	No. of posts for initial appointment	No. of persons appointed	Excess appointments
Principal (B-18)	0	02	02
V. Principal (B-17)	0	03	03
Sr. Teacher (B-17)	0	04	04
Senior Subject Specialist (B-17)	14	0	-
Sr. Librarian (B-17)	02	0	-
Computer Instructor	14	08	-
SST Science	13	03	-
SST General	0	04	04
Office Assistant	02	03	01
Librarian	05	03	-
Lab Assistant	0	06	06
PTI	08	07	-
Sr. Clerk	02	01	-

Jr. Teacher	12	21	09
Drawing Teacher	15	12	-
Arabic Teacher	13	12	-
Junior Clerk	06	09	03

Audit held that appointments made against the posts reserved for promotion quota was not justified and irregular.

The initial audit observation was issued on 06.10.2023. The management replied that only those official/officers were promoted who fulfilled the pre-required, length of service and seniority basis. After filling the promotion quota remaining posts were advertised for initial appointments. Copies of promotion orders were available for verification by audit authorities.

The reply was not acceptable as the management did not produce any documentary evidence related to initial appointments and promotions before and after appointments.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends that the matter be inquired for fixation of responsibility.

{Para No. 43 of AIR of WWB Balochistan for the Audit Year 2022-23}

Overseas Pakistanis Foundation

Irregularity and non-compliance

4.4.35 Purchase and payment of land through suspected fake Power of Attorney - Rs. 32,586 million

Rule-23 of GFR states that every government officer should realize fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and that he will also be held personally responsible for any loss arising from fraud or negligence on the part of any other Government officer to the extent to which it may be shown that he contributed to the loss by his own action or negligence.

Overseas Pakistanis Foundation (OPF) and Tariq & Siraj Associates entered into an agreement through Siraj-ul-Mulk on 27.06.1994 for procurement of land to develop a Housing Colony at Zone-5 named as OPF Housing Colony, Islamabad. OPF agreed to purchase a minimum of 3,000 Kanals from the seller (Tariq & Siraj Associates) in six Mozas i.e., Herdo Gehr, Jandala, Khatril, Peja, Pind Malkan and Ladhiot. The seller agreed to sell this land at Rs. 55,000 per Kanal as follows:

- i. 395 Kanal and 13 Marlas mutated in the name of OPF vide No. 511.
- ii. 11 Kanal and 17 Marlas were mutated vide mutation No. 512.

iii. 5 Kanal 10 Marlas + 6 Kanal 17 Marlas were acquired vide mutation No. 601.

Audit observed that OPF management finalized the deal on the basis of a Power of Attorney which was suspectedly fake. OPF paid the following amounts for purchase and acquisition of land:

(Rs. in millions)

Description	Land procured	Price per kanal	Total Price
Purchase price per Kanal (Zone-V Islamabad)	407 Kanals and 10 marlas	0.055	22.413
Current Market value (Zone-V Islamabad)	407 Kanals and 10 marlas	8.000 approx.	32,564.000

Audit held that OPF was not able to secure the government interest resulting in probable loss of Rs. 32.586 million (Rs. 22.413 million already paid + Rs. 32,564 million Current Market Value) due to negligence and non-verification of attorney/documents at the time of purchase of land.

The initial audit observation was issued on 24.08.2023. The management replied that OPF has requested NAB authorities to investigate the matter and also filed a review appeal in the Honorable Supreme court of Pakistan.

DAC meeting was held on 15.09.2023. The management apprised the forum that the matter is pending in Supreme Court of Pakistan including FIA & NAB. DAC pended the para till outcome of the case from respective courts.

Audit recommends that the matter be pursued vigorously by the management.

{Para No. 9 of AIR of OPF Head Quarters Islamabad for the Audit Year 2022-23}

4.4.36 Non-recovery of plot/surcharge price from defaulter allottees- Rs. 837.949 million

Para-2 of Terms & Conditions of allotment approved by the OPF management states that the allottee shall pay the cost of land according to the schedule as provided, shall be payable as determined by the management of OPF from time to time and in keeping with the amenities provided to the allottees. Surcharge @ 16% per annum will be charged on all delayed payments. If you fail to deposit two (2) consecutive installments, your allotment may be liable to cancellation. If any amount remains in arrears and the payment is not made despite the notices, the management shall have the right to cancel the allotment, assume possession of the plot and forfeit 10% of the price of plot plus other dues. The decision of the Management in this behalf shall be final.

Overseas Pakistanis Foundation (OPF) created and allotted plots in various schemes at different locations of the country. Details are as follows:

S. No.	Scheme		Created Plots		Allotted Plots		Vacant Plots	
			Residential	Commercial	Residential	Commercial	Residential	Commercial
01	Phase-I, Lahore		1,779	99	1,762	98	17	01
02	Phase-I Extension, Lahore		549	19	544	19	5	0
03	OPF Greens, Lahore		56	0	53	0	3	0
04	OPF Town, Lahore		164	36	71	1	93	35
05	Zone-V, Islamabad	Plots	2,542	216	2,006	17	536	199
		Country Homes	198	0	47	0	151	0
		Apartments	120	0	38	0	82	0
		Apartments Plots	04	0	0	0	04	0
06	Gujrat		210	66	210	66	0	0
07	Larkana		430	24	430	24	0	0
08	Dadu		404	13	404	0	0	13
09	Peshawar		741	74	741	68	0	6
10	Mirpur (AJK)		2,880	187	2,612	120	268	67
11	Turbat		366	54	366	54	0	0
Total			10,443	788	9,284	467	1159	321

Audit observed that receivable price of plots, development charges and surcharge amounting to Rs. 837.949 million were not received / recovered from Overseas Pakistanis against 324 plots. Detail of outstanding amount is as follows:

(Rs. in millions)

S. No.	Particulars	Price of Plots	Development	Amount (Rs)
1	Price of Plot + Surcharge on Price of Plot	51.256	286.192	337.448
2	Development Charges + Surcharge on Development Charges	137.292	363.209	500.501
Total				837.949

Audit held that non-recovery of plot/surcharge price from the overseas Pakistanis resulted in loss to the OPF fund.

The initial audit observation was issued on 24.08.2023. The management replied that OPF had issued notices to the allottees for the clearance of outstanding dues however, due to the appeal filed by some allottees in court of law against development charges and surcharge, OPF was facing difficulties in collection of dues. Despite the above, efforts were underway to collect the outstanding dues from the allottees.

DAC meeting was held on 15.09.2023. DAC pended the para and directed the management of OPF to pursue the court cases vigorously and expedite the outcome thereof.

Audit recommends implementation of DAC decision.

{Para No. 1 of AIR of OPF Head Quarters Islamabad for the Audit Year 2022-23}

4.4.37 Non-recovery from allottees of OPF schemes - Rs. 694.241 million

Para-1,2,18 & 20 of the approved terms & conditions of allotment provides that the allottee shall pay the cost of Apartment/country home according to the provided schedule as determined by the management of OPF from time to time. Surcharge @ 16% per annum will be charged on all delayed payments. If allottee fails to deposit two (2) consecutive installments, the allotment may be liable to cancellation. If any amount remains in arrears and the payment is not made deposit the notices, the management shall have the right to cancel the allotment, assume possession of the plot and forfeit 10% of the price of plot plus other dues. The decision of the OPF Management in this behalf shall be final.

Overseas Pakistanis Foundation (OPF), Islamabad allotted farm-houses (OPF Greens), apartments at OPF Valley Zone-V, Islamabad and country homes at OPF Valley Zone-V, Islamabad as per approved terms & conditions.

Audit observed that the management had not recovered an amount of Rs. 694.241 million from 72 defaulter allottees of farm-houses, apartments and homes. Details are as follows:

(Rs. in millions)

Sr. No.	Property Name	Para No. of AIR	Total Allotted	No. of defaulters	Recoverable amount
1	Farm-Houses / OPF Greens Raiwind Road, Lahore	2	53	24	447.510
2	Apartments at OPF Valley Zone-V, Islamabad	3	38	23	41.196
3	Country Homes, at OPF Valley, Zone-V, Islamabad	4	47	25	205.535
Total			138	72	694.241

Audit held that OPF sustained a loss of Rs. 694.241 million due to non-recovery from defaulters.

The initial audit observation was issued on 24.08.2023. The management stated that recovery had been made and efforts are underway to recover the entire outstanding payments, at earliest.

DAC meeting was held on 15.09.2023. DAC pended the para with the direction to management to get the recovered amount verified from Audit. It further directed to expedite efforts for recovery of remaining amount. Otherwise, cancellation of allotments may be expedited or pursued.

Audit recommends implementation of DAC decision.

Bureau of Emigration & Overseas Employment

Irregularity and non-compliance

4.4.38 Non-receipt of verification fee from intended Emigrants- Rs. 146.546 million

According to Para 11.2 of PC-I titled "Registration of intending emigrants via biometric verification system linked with NADRA", the project shall generate revenue amounting to Rs. 77.82 million annually at the rate of Rs 200 per verification from intending emigrants on the account of "Biometric Verification Service" linked with NADRA.

Bureau of Emigration and Overseas Employment registered a total number of 732,730 intending emigrants during the financial years 2021-23.

Audit observed that verification fee on account of biometric verification was not collected from the intending emigrants as detailed under:

(Rs. in millions)

Sr. No.	Protector of Emigrants	No of Emigrants upto May 2023	Verification Fee per Emigrants	Loss Revenue
1	Karachi	129,727	200	25.945
2	Rawalpindi	170,311	200	34.062
3	Lahore	103,623	200	20.725
4	Peshawar	101,431	200	20.286
5	Quetta	3,433	200	0.687
6	Multan	51,197	200	10.239
7	DG Khan	34,774	200	6.955
8	Sialkot	58,067	200	11.613
9	Malakand	80,167	200	16.033
Total		732,730	200	146.546

Audit held that non-implementation of revenue aspect of the Project resulted in loss of Rs. 146.546 million.

The initial audit observation was issued on 18.09.2023. The management replied that export of manpower from Pakistan had witnessed a downward trend after 2015 due to various reasons which includes Gulfization Policy of GCC Countries, imposition of dependent fee and VAT etc. In light of the above, when the export of manpower is going down, efforts to promote the manpower export from Pakistan needs to be carried out. High emigration cost is another factor that the government is focused on to reduce. Moreover, according to Sustainable Development

Goals 10.7, recruitment cost needs to be reduced to the maximum level. Therefore, imposition of new fee is not possible, therefore, Rs. 200/- per verification fee from intending emigrant on account of Biometric Verification Service is not possible in current scenario.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends that the management may look into the matter and share outcome in the DAC meeting.

{Para No. 1 of AIR of Bureau of Emigration and Overseas Employment Audit Year 2022-23}

4.4.39 Less payment of 'profit commission' to Bureau by State Life Insurance Corporation and resultant loss – Rs. 19.578 million

According to Para 12 of Emigrant Group Insurance Contract signed by the Bureau of Emigration and State Life Insurance Corporation (SLIC) on 09.12.2010, the corporation shall pay the profit commission to the Bureau within three months after the end of each contract year based on the working of the profit and loss account. In event of the Income being in excess of the Outgo, in any profit and loss account, the corporation shall pay to the Bureau a profit commission of 92.5% of such excess (profit).

The Profit Commission Statement for the year 2020 available on record was analysed by the audit team.

Audit observed that the State Life Insurance Corporation added a sum of Rs. 21.166 million in Outgo side under the head 'Loss carried forward from the year 2019'. As a result less profit (Income – Outgo) was shown in accounts and accordingly, less commission was paid to Bureau to the tune of Rs. 19.578 million.

Audit held that less profit commission paid by SLIC resulted in loss to the Bureau.

The initial audit observation was issued on 18.09.2023. The management replied that the Bureau is already working on this matter.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends to recover the amount from SLIC.

{Para No. 5 of AIR of Bureau of Emigration and Overseas Employment Audit Year 2022-23}

4.4.40 Issuance of licences to Overseas Employment Promoters without approval of the Federal Government

Section 12 (2) of Emigration Ordinance 1979, states that on receiving an application under sub-section (1), the Federal Government may, after such inquiry as it may deem necessary, grant the license applied for on such terms and conditions, if any, and on payment of such fee and furnishing such security, as may be prescribed, or withhold such license, and the decision of the Federal Government shall be final.

Section 11A of Emigration Rules 1979 provides that an Overseas Employment Promoter shall establish an office in the premises approved by the Federal Government. He shall not shift his office or open more than two branch offices or shift the same except with the permission of the Federal Government and on the payment of fee of five thousand rupees.

Bureau of Emigration and Overseas Employment (BE&OE) issued 318 licences to various Overseas Employment Promoters (OEPs) during the years 2021-23 with the approval of Ministry of Overseas Pakistanis and Human Resource Development (OP&HRD). Similarly, the Bureau had transferred OEP Licence/Change of Jurisdiction of 13 OEPs during the same period with the approval of the Ministry.

Audit observed that the Overseas Employment Promoters were granted licences without approval of ‘federal government’ as defined in the honourable Supreme Court of Pakistan’s judgment dated 18.08.2016.

Audit held that the licences were issued to OEPs without the approval of federal government which was violation of Emigration Ordinance 1979, as approval of the Cabinet forum being federal government was required to be obtained.

The initial audit observation was issued to the management on 18.9.2023. The management replied that the matter pertained to Ministry of Overseas Pakistan and Human Resource Development and may be taken up with the Ministry.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting was not convened by the PAO till the finalization of this report.

Audit recommends that licences to OEPs may be issued with the approval of federal government only.

{Para No. 10 &11 of AIR of Bureau of Emigration and Overseas Employment Audit Year 2022-23}

CHAPTER 5

POVERTY ALLEVIATION AND SOCIAL SAFETY DIVISION

5.1 Introduction

A. The Division of Poverty Alleviation and Social Safety was established to implement the umbrella initiative, Ehsaas. Launched on March 27, 2019, the objective of Ehsaas is to reduce inequality, invest in people, and lift lagging districts. Ehsaas is about the creation of a ‘welfare state’ by countering elite capture and leveraging 21st century tools – such as using data and technology to create precision safety nets; promoting financial inclusion and access to digital services; supporting the economic empowerment of women; focusing on the central role of human capital formation for poverty eradication, economic growth and sustainable development; and overcoming financial barriers to accessing health and post-secondary education. The functions of the Division are as follows:

- i. The program’s principles and approaches center on tapping whole-of- government multi-

- sectoral collaboration of solutions;
- ii. Ensuring joint federal-provincial leadership; and main-streaming the role of the private sector through an approach which will provide a level playing field on the one hand and foster locally-relevant innovation on the other, to create jobs and promote livelihood in quick-win areas.
 - iii. The program's premise is grounded in the importance of strengthening institutions, transparency and good governance.
 - iv. The program is for the extreme poor, orphans, widows, the homeless, the disabled, those who risk medical impoverishment, for the jobless, for poor farmers, for laborers, for the sick and undernourished; for students from low-income backgrounds and for poor women and elderly citizens. This plan is also about lifting lagging areas where poverty is higher.

B. Comments on Budget & Accounts

(Rs. in millions)

S. No.	Name of Office	FY(s)	Budget Allocated	Expenditure
1	PASSD, Islamabad (Zakat Cell)	2022-23	10,817.666	10,817.666

C. Sectoral analysis on the achievements against targets agreed under MTBF

The performance indicators, targets and achievements for the FY 2022-23 by Ministry of Human Rights is tabulated below:

Outputs	Selected Performance Indicators	Planned Target	Targets Achieved
Mainstreaming the Poverty Alleviation and Social Protection Services	Number of assets to be transferred to poor households	14,651	Details were not provided to Audit
	Number of livelihood beneficiaries to be trained	59,389	
	Number of beneficiaries to be received Interest Free Loan	76,465	

Table: Audit Profile of PASS DIVISION

(Rs. in millions)

Sr. No.	Description	Total Nos	Audited	Expenditure audited FY 2022-23
1	Formations	61	17	10,817.666

5.2 Classified Summary of Audit Observations

Audit observations amounting to Rs. 425.120 million were raised by audit. This amount includes a recoverable amount of Rs. 168.580 million. Summary of audit observations classified by nature is as under:

(Rs. in millions)

Sr. No.	Classification	Amount
1	Irregularities	256.540
A	Financial management	256.540
2	Value for money and service delivery issues	-
3	Others	168.580

5.3 Brief comments on the status of compliance with PAC Directives

Audit Year	Status of PAC/Remarks	No. of Audit Paras (Sub-Paras) Discussed	Paras (Sub-Paras) Not Complied	Percentage of compliance
1995-98	PAC held	19(104)	3(36)	65
1998-99	PAC held	79	14	82
1998-99	PAC held	21	21	0
1999-00	PAC held	21	21	0
2000-01	PAC held	47	5	90
2002-03	PAC not held	-	-	-
2003-04	PAC held	7 (23)	(12)	48
2004-05	PAC held	8	8	0

2005-06	PAC not held	-	-	-
2006-07	PAC held	8	5	37.5
2007-08	PAC held	8(16)	8(5)	69
2008-09	PAC held	10	7	30
2009-10	PAC held	3	3	0
2010-11	PAC held	18 (64)	(44)	31
2011-12	PAC not held	-	-	-
2012-13	PAC not held	-	-	-
2013-14	PAC held	13	10	23
2014-15	PAC not held	-	-	-
2015-16	PAC not held	-	-	-
2016-17	PAC held	1(7)	1(7)	0
2017-18	PAC held	10	10	-
2018-19	PAC held	05	-	100
2019-20	PAC not held	-	-	-
2021-22	PAC not held	-	-	-
2018-19	PAC held (PPAF)	5	5	-
2018-19	PAC held (ZCCA)	2	2	-
2018-19	PAC held (CZF)	4	4	-
2022-23	PAC not held	0	0	-

5.4 AUDIT PARAS

Central Zakat Administration/Fund

Irregularity and non-compliance

5.4.1 Release of funds on the basis of 1998 census instead of 2017 census resulting in depriving beneficiaries of Khyber Pakhtunkhwa and Balochistan Province – Rs. 256.54 million

Section 9(1) of Zakat and Ushr Ordinance 1980, provides that the Central Zakat Council shall prepare budget for each financial year and may, from the Central Zakat Fund, make disbursements and transfer funds to Provincial Zakat Fund in such form and manner as may be prescribed and as would help

in ensuring satisfaction of the needs of the needy and the poor throughout the country, as far as possible, on a uniform basis.

The Council of Common Interests (CCI) in its meeting held on 8.11.2012 approved formula which was based on 1997 population census as under:

- a. 7% of the Total collection be retained by the federal government for federal areas i.e. ICT (35.14% of 7%), FATA (46.29% of 7%) and GB (18.57% of 7%).
- b. The remaining 93% be distributed amongst provinces in accordance with the formula in vogue prior to 2008 i.e., Punjab 57.36%, Sindh 23.71%, KPK 13.82% & Balochistan 5.11%.

Council of Common Interest (CCI) in its 45th meeting held on 12th April 2021, approved the Final results of Sixth Population & Housing Census-2017.

Audit observed that the PASS Division moved summary for distribution of Zakat amongst Federation and Provinces amounting to Rs. 6,190.370 million on 13.07.2021 to Prime Minister of Pakistan. The share was calculated on the basis of decision of CCI in its meeting held on 8.11.2012.

Audit held that since the Sixth Population census of 2017 was approved by CCI on 12.4.2021, therefore the calculation of distribution of Zakat amongst Provinces was required to be revised on the basis of 2017 census. Non-revision of calculation resulted in depriving beneficiaries of Khyber Pakhtunkhwa, Sindh and Balochistan amounting to Rs. 256.54 million. Details are provided in **Annexure-XX**.

Initial audit observation was issued on 09.10.2023. The management replied that CCI is a constitutional forum to decide the inter-provincial matters at Federal level. The CCI in its meeting held on 8.11.2012 decided a mutually agreed Zakat distribution formula on Population Cum Poverty basis on the pattern of the NFC award. The same formula is in vogue to date as all the Federating units are comfortable with their allocated share.

DAC meeting was held on 08.01.2024. The DAC directed the management to follow up with Finance Division to revise the NFC in accordance with census 2017.

Audit recommends that Zakat funds may be released on the basis of approved 2017 census and provinces of Khyber Pakhtunkhwa, Balochistan and Sindh may be compensated in future releases with the objected amount.

Note: The issue was reported earlier also in the Audit Report for the Audit Year 2022-23 vide para no. 6.4.4 having financial impact of Rs. 146.804 million. Recurrence of same irregularity is a matter of serious concern.

{Para No. 3 of AIR of CZF Islamabad for the Audit Year 2022-23}

Zakat Collection/Deduction Offices

Irregularity and non-compliance

5.4.2 Irregular exemption granted from Zakat without obtaining declarations (CZ-50) - Rs. 161.927 million

Rule 14 of Zakat Collection and Refund Rules, 1981 states, that for recording the deductions of Zakat in respect of the Provident Fund balances, at the time of the final settlement and of non-refundable advances, ZCOs shall maintain a separate folio for each quarter in the Zakat Deduction/Refund Register, wherein the necessary details will be entered at the time of the final settlement and that of the drawal of non-refundable advance. First Schedule of the Zakat and Ushr Ordinance 1980 describes that Zakat shall be deducted in case of non-refundable advance, 2.5% of the amount drawn or, in case of final settlement, 2.5% of the balance standing to the credit of the subscriber as on the Valuation Date.

Zakat Collection Offices were required to deduct Zakat as per rules and procedure provided in the Zakat Collection and Refund Rules.

Audit observed that, out of such 12 ZDAs, the management of the following 10 deducting agencies did not deduct Zakat amounting to Rs. 161.927 million from Saving Bank Accounts on 1st of Ramazan, at the time of encashment/ maturity of Government Securities and at the time of payments of non-refundable advances/final payment of Provident Fund. Details are as follows:

(Rs. in millions)

Sr. No.	Name of ZCO	Para No. of AIR	No. of account holders / employees	FY(s)	Amount of Zakat Exempted
1.	Askari Commercial Bank Limited, Aabpara Branch) Islamabad	1 & 2	43	2022-23	54.503
2.	HBL, G-9 Branch, Islamabad	1 & 3	159	2021-23	39.619
3.	NSC, Johar Town, Lahore	5	140	2022-23	24.783
4.	SBP, Head Office, Karachi	2 & 4	568	2017-22	26.202
5.	Meezan Bank, Gulberg Branch, Lahore	4	40	2021-23	7.931
6.	ABL, Garden Town, Lahore	2	20	2021-23	5.332
7.	NBP, Main Branch, Lahore	2	37	2020-23	2.091
8.	Pakistan Railways Accounts Lahore	1 & 2	51	2020-23	0.789
9.	International Islamic University	3	25	2020-23	0.342
10.	General Post Office (GPO) Lahore	2	11	2018-23	0.335

	Total	161.927
--	--------------	----------------

Audit held that non-deduction of Zakat resulted in loss to Zakat Fund.

The Initial audit observations were issued to the management of respective ZCOs. It was replied that the objected declarations were available for audit verification. However, the management of Pakistan Railways Accounts Lahore and General Post Office (GPO) Lahore replied that employees were exempted on submission of CZ-50.

The replies were not acceptable as original declarations or notarized copies were not provided.

The Initial audit observations were issued to the managements of Askari Commercial Bank Limited Aabpara Branch Islamabad, HBL G-9 Branch Islamabad, NSC Johar Town Lahore and National Bank of Pakistan Main Branch Lahore on 21.8.2023, 26.9.2023, 28.8.2023 and 28.8.2023 respectively, but no response was received from the management concerned.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting had not been convened by the PAO until the finalization of this report.

Audit recommends that justification for non-deduction of Zakat be provided otherwise amount of Zakat be recovered and deposited in Central Zakat Fund.

Note: The issue was reported earlier also in the Audit Report for the Audit Year 2019-20 and 2020-21 vide para no. 6.5.1 and 5.5.3 respectively having financial impact of Rs. 66.371 million. Recurrence of same irregularity is a matter of serious concern.

5.4.3 Irregular grant of exemption from deduction of Zakat by accepting invalid declarations/received after valuation date - Rs. 6.653 million

Rule 20 (1) of Zakat (Collection and Refund) Rules, 1981 describes that Zakat shall not be deducted in respect of the assets of a person claiming exemption on ground of faith and fiqah under the first proviso to sub section (3) of section 1 of the Ordinance, provided he files with the ZCO a declaration, on the form CZ-50 or an attested true copy thereof, within a period not less than thirty days preceding the valuation date.

Zakat Collection Offices were required to deduct Zakat as per rules and procedure provided in the Zakat Collection and Refund Rules.

Audit observed that, out of such ZDAs, the management of the following deducting agencies granted Zakat exemptions amounting to Rs. 6.653 million from Saving Bank Accounts, encashment/maturity of Government Securities and at the time of payments of non-refundable advances/final payment of Provident Fund without receiving declarations on form CZ-50 thirty days before valuation date. Details are as follows:

(Rs. in millions)

Sr. No.	Name Of ZCO	Para No. of AIR	No. of accounts holder / employees	FY(s)	Amount of Zakat exempted
1	State Bank of Pakistan (SBP) Head Office Karachi	3	170	2017-22	3.654
2	International Islamic University (IIU) Islamabad	1	195	2020-23	2.520
3	ZCO Pakistan Railways Accounts (Workshop) Lahore	3	15	2020-23	0.340
4	HBL, G-9 Branch, Islamabad	5	3	2021-23	0.139
Total					6.653

Audit held that grant of exemption against declarations which were not received thirty days before valuation date was irregular and loss to Zakat fund.

The initial audit observations were issued to the management of respective ZCOs. The management of International Islamic University (IIU) Islamabad replied that it was noted for future compliance. All the photocopies of declarations were attested by the Notary public and could be verified. The management of Pakistan Railways Accounts (Workshop) Lahore replied that the Zakat deduction stamps were considered from the 1st Ramazan (not less than thirty days preceding the valuation date) and the Zakat submission dates were mentioned on the stamp papers.

The replies were not acceptable as original record was not produced to audit to authenticate the claim of management.

However, the Initial audit observations were issued to the managements of SBP Karachi and HBL G-9 Branch Islamabad on 27.03.2023 and 26.09.2023 respectively, but no response was received from the management.

The PAO was requested to convene a DAC meeting vide letters dated 01.12.2023, 13.12.2023 and 29.12.2023. However, the meeting was not convened by the PAO till the finalization of this report.

Audit recommends that amount of Zakat be recovered and deposited in Central Zakat Fund besides adoption of remedial measures to avoid reoccurrence of such irregularity in future.

Note: The issue was reported earlier also in the Audit Report for the Audit Year 2021-22 vide para no. 5.4.3 having financial impact of Rs. 6.11 million. Recurrence of same irregularity is a matter of serious concern.



AUDIT REPORT
ON
THE ACCOUNTS OF
CLIMATE CHANGE, ENVIRONMENT AND
DISASTER MANAGEMENT ORGANIZATIONS
OF FEDERAL GOVERNMENT
AUDIT YEAR 2023-24

AUDITOR-GENERAL OF PAKISTAN

DIRECTORATE GENERAL AUDIT (CLIMATE CHANGE & ENVIRONMENT)

Chapter 1

Earthquake Reconstruction & Rehabilitation Authority (ERRA)

1.1 Introduction

A. The earthquake of 8th October 2005 caused severe damage and massive loss of life and assets in the province of Khyber Pakhtunkhwa and the State of Azad Jammu & Kashmir. Immediately after the earthquake, the Federal Relief Commission was established on 10.10.2005 to mobilize all resources and coordinate relief activities. Thereafter, on 24.10.2005, the Government of Pakistan established Earthquake Reconstruction and Rehabilitation Authority (ERRA), as an autonomous organization for post disaster damage assessment and reconstruction & rehabilitation of the affected areas. The Authority was established in pursuance of Earthquake Reconstruction and Rehabilitation Authority Ordinance, 2006 (Ordinance No. XXVIII of 2006). The said Ordinance was re-promulgated as Ordinance No. XI of 2007. Later on, the Parliament passed an Act called as “Earthquake Reconstruction and Rehabilitation Authority Act 2011” which was published in the Gazette of Pakistan on 14.03.2011.

ERRA is performing its functions in five earthquake affected districts of Khyber Pakhtunkhwa (Abbottabad, Mansehra, Battagram, Shangla and Kohistan) through Provincial Earthquake Reconstruction and Rehabilitation Agency (PERRA) and four Districts of Azad Jammu and Kashmir (Muzaffarabad, Bagh, Rawalakot and Poonch) through State Earthquake Reconstruction and Rehabilitation Agency (SERRA).

B. Comments on Budget and Accounts of audited entities (Variance Analysis)

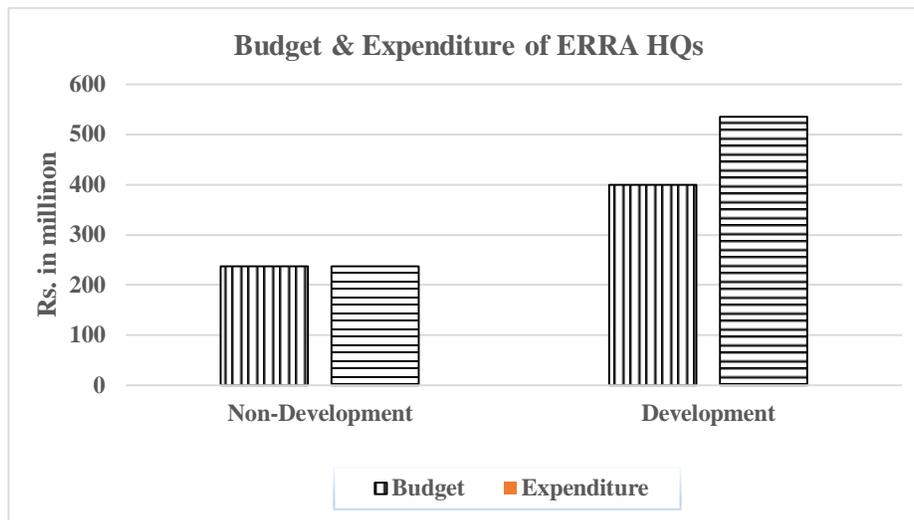
(Rs. in million)

Name of Entity	Expenditure Head	Budget	Expenditure	Savings/Excess
ERRA HQs	Non-Development	236.882	236.882	-
	Development	400.000	535.863	(135.863)

Source: annual financial statements

Note: Excess expenditure includes payments made from ERRA Fund A/C Rs. 107.109 million, Rs. 18.385 million received as 1/3rd share of salaries of PERRA employees from provincial government and Rs. 10.369 million paid from PERRA retention money account.

The graphical representation of budget and expenditure of ERRA (HQs) is as under:



The entire payments of development and non-development expenditure of PERRA, SERRA & other field offices in Khyber Pakhtunkhwa and Azad Jammu and Kashmir are centralized and are processed and paid through Finance Wing of ERRA HQs.

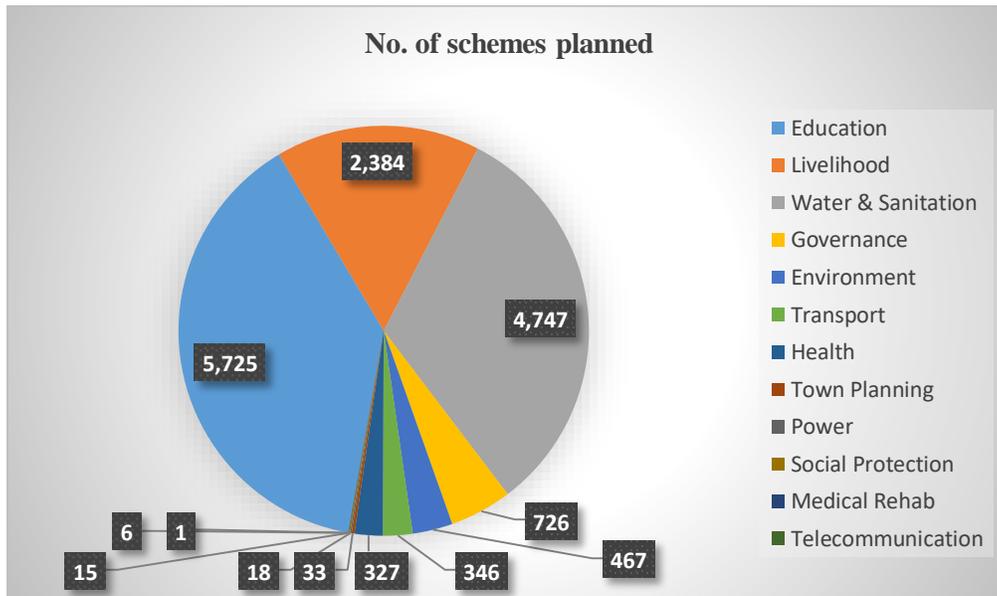
C. Sectoral Analysis

ERRA was established with the objective to plan, coordinate, monitor and regulate reconstruction and rehabilitation activities in the earthquake affected areas of Azad Jammu and Kashmir and Khyber Pakhtunkhwa. In the rehabilitation stage, under its Rural Housing Reconstruction Program, ERRA provided financial compensation to more than 28,000 urban residents for construction of houses. The total amount disbursed among the affectees for reconstruction of houses in rural part of earthquake affected areas was Rs. 71.95 billion¹².

In the reconstruction phase, a total of 14,795 projects / schemes in twelve (12) sectors were planned to be reconstructed / rehabilitated in earthquake affected areas by reconstructing the lost and destroyed facilities while following highest standards of reconstruction and rehabilitation with the obligation to “Build Back Better”.

The graphic presentation of number of schemes planned by ERRA in different sectors is as under:

¹² ERRA Financial Statements 2021-22



Since the inception of ERRA till 30th June 2023, 11,070 schemes in these sectors have been completed and handed over to the end users. Sector wise detail of all completed projects is given at Para No. 1.4.7 of this report.

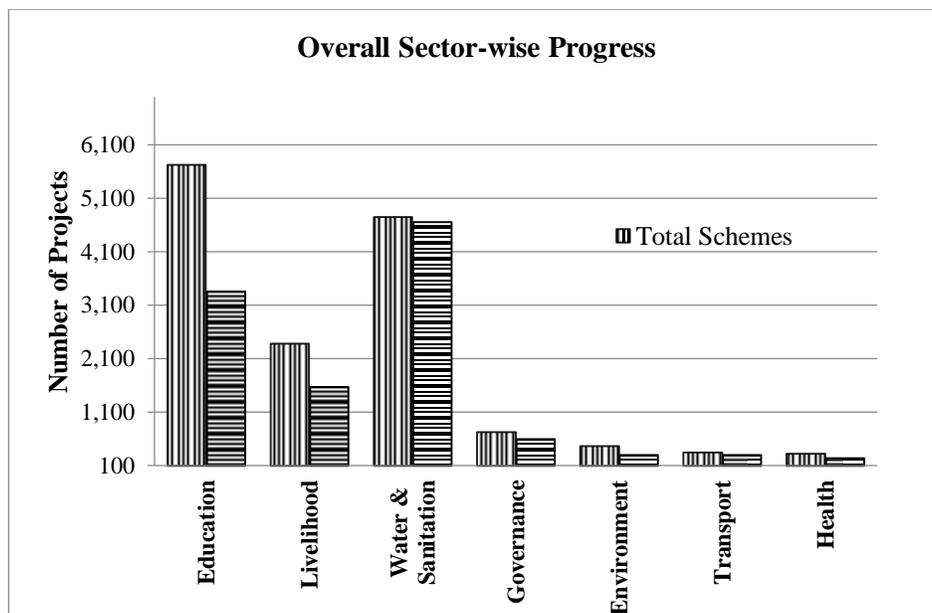
However, during the financial year 2022-23, no major expenditure on the reconstruction / rehabilitation of ongoing projects / schemes was incurred due to financial constraints. The status of schemes completed in 12 sectors was almost same as earlier i.e. till 30th June 2022. The overall sector-wise progress / achievement of ERRA as on 30.06.2023 is as under:

Sr. No.	Sectors	Total Projects	Completed Projects	Outstanding Projects
1.	Education	5,725	3,355	2,368
2.	Livelihood	2,384	1,571	813
3.	Water & Sanitation	4,747	4,651	95
4.	Governance	726	591	135
5.	Environment	467	298	168
6.	Transport	346	302	42
7.	Health	327	240	87
8.	Town Planning	33	31	2
9.	Power	18	15	3
10.	Social Protection	15	11	4

11.	Medical Rehab	06	04	2
12.	Telecommunication	01	01	0
Total		14,795	11,070	3,719

Source: data provided by ERRA

The above table reveals that out of total 14,795 projects, 11,070 have been completed till June 2023 and 3,719 schemes are still outstanding. The graphical presentation of the planned and completed projects in major sectors is as under:

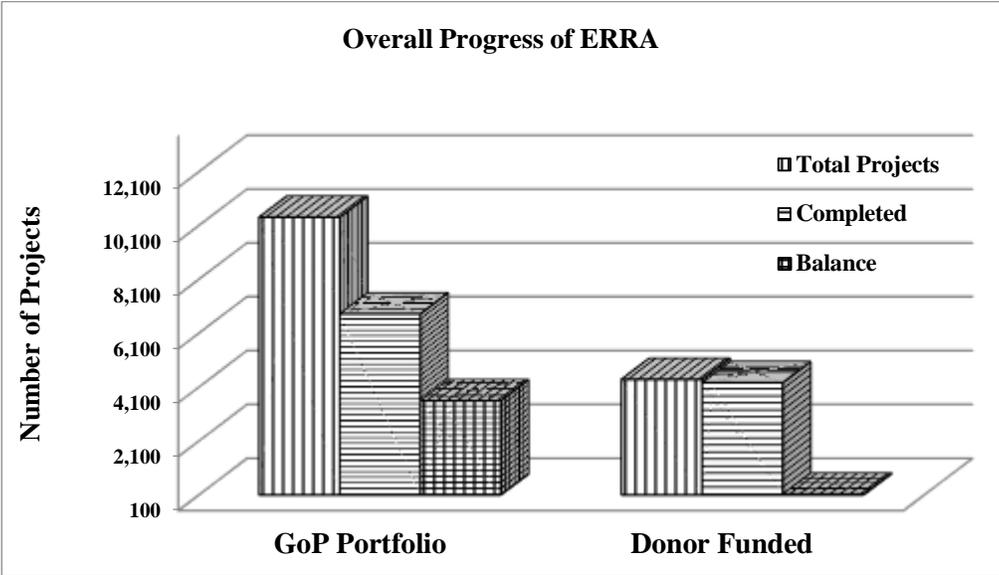


The ongoing and completed projects / schemes also include the schemes completed by ERRA (GoP funds) and donors funded schemes. The bifurcation of projects / schemes i.e. GoP funded and Donors funded with achieved level of progress is as under:

Source of funding	Total Projects	Completed	Rationalized	Balance	Percentage of completion
GoP Portfolio	10,408	6,810	1,083	2,515	66%
Donors	4,387	4,260	103	24	97%
Total	14,795	11,070	1,186	2,539	75%

Source: data provided by ERRA

The above table indicates that the completion percentage of donors funded projects was 97% as compared to the GoP funded projects which was only 66%. Further, ERRA could achieve overall progress of 75% since its inception in 2005 till 30th June 2023. Graphical representation is as under:



City Development Projects

In addition to above projects / schemes, four (04) City Development Projects i.e. New Balakot City Development Project (NBCDP) in Khyber Pakhtunkhwa and Muzaffarabad City Development Project (MCDP), Bagh City Development Project (BCDP) and Rawalakot City Development Projects (RCDP) in Azad Jammu and Kashmir were also executed by ERRA. Reconstruction of government facilities, road networks, water facilities, sewerage networks and other miscellaneous works were included in the respective City Development Projects (CDPs).

Land for New Balakot City Development Project (NBCDP) was acquired for Rs. 1.43 billion and work for construction was awarded to M/s Mumtaz Construction Company at a cost of Rs. 2,432.614 million on 25.06.2007. An amount of Rs. 2,966.571 million (development Rs. 2,822.115 million and operational Rs. 144.456 million) had been spent on NBCDP upto the financial year 2019-20. At present, the project is stalled and ERRA is required to take concrete measures to reinstate the project to ensure that the expenditure incurred does not go waste.

Total funding available for Azad Jammu and Kashmir Urban Development Program was USD 353 million, out of which USD 300 million (85% foreign component) was made available through a preferential buyer credit of EXIM Bank of China and USD 53 million (15% local component) was made available by Government of Pakistan through PSDP allocation as counterpart funding. The program was launched during December 2009.

Although, the City Development Projects in Azad Jammu and Kashmir have been physically completed, however, the financial closure is in process and final bills of the projects after ascertaining the recoveries pointed out by audit are required to be adjusted, besides, adjustment of mobilization / secured advance and financial assistance granted to the contractors.

Table-I Audit Profile of Earthquake Reconstruction & Rehabilitation Authority (ERRA)**(Rs. in million)**

Sr. No.	Description	Total Nos.	Audited	Expenditure audited FY 2021-22	Receipts audit FY 2021-22
1.	Formations	26	01	772.745	Nil
2.	<ul style="list-style-type: none"> • Assignment Accounts • ERRA Fund Account 	02	02	400.00	Nil
		01	01	145.996	79.731
3.	Authorities / Autonomous Bodies etc. under the PAO	Nil	Nil	Nil	Nil
4.	Foreign Aided Project (FAP)	02	02	14.589	Nil

1.2 Classified Summary of Audit Observations

Audit observations amounting to Rs. 2,397.317 million have been raised in this report pertaining to ERRA. Recovery amounting to Rs. 2,292.442 million has been pointed out in the audit observations. Summary of the audit observations classified by nature is as under:

Table -II Overview of Audit Observations**(Rs. in million)**

<i>Sr. No.</i>	<i>Classification</i>	<i>Amount</i>
<i>1.</i>	<i>Financial Management</i>	<i>2,382.343</i>
<i>2.</i>	<i>Public Service Delivery / Performance</i>	<i>--</i>
<i>3.</i>	<i>Irregularities</i>	<i>14.974</i>
<i>A</i>	<i>HR / Internal Control Weaknesses</i>	<i>14.974</i>

1.3 Brief comments on the status of compliance with PAC directives

Since inception of ERRA, fourteen (14) audit reports on the accounts of ERRA have been published, out of which Audit Reports pertaining to the year 2006-07, 2009-10 and 2010-11 to 2017-18 were discussed in the PAC meetings held from time to time. Current status of compliance with PAC directives for reports discussed so far is given below:

Sr. No.	Audit Report	PAC held on	Number of Audit Paras			Compliance		
			discussed in PAC	Settled by PAC	Directives issued	Received	Awaited	%
1.	2006-07	15.12.2008	44	09	35	32	01	98
2.	2009-10	19.10.2019	49	49	00	00	00	--
3.	2013-14	04.05.2016	74	16	58	34	15	70
4.	2010-11 to 2017-18	13.08.2021	15	07	08	00	08	0
5.	2010-11 to 2017-18	20.10.2021	15	08	07	02	05	29
6.	2010-11 to 2017-18	11.02.2022	15	07	08	06	02	75

The ERRA is required to fully implement the remaining PAC directives especially the PAC directives pertaining to Audit Reports of 2010-11 to 2017-18 where the compliance is relatively low.

1.4 AUDIT PARAS

Financial Management

1.4.1 Non deposit of Income Tax into Government Treasury – **Rs. 2,027.881 million**

According to section 153(1)(c) of Income Tax Ordinance 2001, every prescribed person making a payment in full or part including a payment by way of advance to a resident person on the execution of a contract, including contract signed by a sports person but not including a contract for the sale of goods or the rendering of or providing services, shall, at the time of making the payment, deduct tax from the gross amount payable. And according to Para 38(a) of ERRRA Accounting Procedure, crossed cheques on account of recovery of income tax deducted at source from the suppliers / contractors etc. shall be forwarded by the DDO to the respective Income Tax Commissioner / Income Tax Officer.

Earthquake Reconstruction & Rehabilitation Authority (ERRA) deducted an amount of Rs. 2,027.881 million as income tax from payments made to various contractors during the financial years 2011-12 to 2016-17. The detail is as under:

(Rs. in million)

Sr. No.	Particulars of Projects	Financial Year	Amount of income tax
1.	Muzaffarabad City Development Project (MCDP)	2012-2017	1039.452
2.	Bagh City Development Project (BCDP)	2012-2017	600.797
3.	Rawalakot City Development Project (RCDP)	2012-2017	171.731
4.	Kuwait Fund for Development Projects	2012-2017	69.76
5.	Saudi Fund for Development Projects	2012-2017	118.269
6.	Islamic Development Bank Projects	2012-2017	27.872
Total		--	2,027.881

During the audit of ERRRA for the financial year 2022-23, it was observed that an amount of Rs. 2027.881 million was shown as Income Tax deductions from various contractors during the financial years 2011-12 to 2016-17. However, the deducted amount was not deposited into Government Treasury in accordance with provisions of Income Tax Ordinance, 2001.

Audit held that non-deposit of income tax into Government treasury resulted into loss to the Government.

Initial observation was issued on 21.11.2023. The management replied that the matter has already been taken-up with Government Adjuster/ Additional Secretary Finance. As the tax liability is "Govt. to

Govt.” payments, it has been proposed that the tax liability of the project may be adjusted through book adjustments. However, the case is still under process.

DAC meeting was held on 20.12.2023. The DAC directed that case should be taken up with Finance Division for arrangement of funds to settle unpaid tax liabilities.

Audit recommends that amount of income tax may be deposited in Government treasury.

(Para No. 01 of AIR 2022-23 ERRa HQs)

1.4.2 Non-deposit of profit into government treasury – Rs. 247.014 million

As per Para 26 of ERRa Accounting Procedure, the receipts if any generated by the Authority shall be the receipts of the government and shall be deposited in the government treasury on the same day, and if received after banking hours, on the next working day.

Earthquake Reconstruction & Rehabilitation Authority (ERRa) maintained National Income Daily Account at National Bank of Pakistan Foreign Office Branch for the purpose of ERRa Fund.

During audit of ERRa for the financial year 2022-23, it was observed that an amount of Rs. 247.014 million was earned as profit on the amounts retained in the National Income Daily Account maintained for ERRa funds with National Bank of Pakistan. However, the amount of profit was not deposited into Government treasury. Details are as under:

(Rs. in million)

Sr. No.	Date	Principal Amount	Interest amount paid by Bank
1.	09.07.2022	1,198.441	55.509
2.	14.01.2023	1,255.072	85.123
3.	15.07.2023	1,233.087	106.382
Total		3,686.600	247.014

Audit held that non-deposit of profit into Government Treasury was against the provision of Para-26 of ERRa Accounting Procedures - 2006.

Initial observation was issued on 11.10.2023. The management replied that the process of amendment in Para 26 of ERRa Accounting Procedure is in process. Finance Division and Law & Justice Division had agreed to the proposed amendment. However, the matter is still under process in the office of Auditor-General of Pakistan.

DAC meeting was held on 20.12.2023. The DAC directed that the case may be taken up with office of Auditor-General of Pakistan and outcomes be shared with audit authorities.

Audit recommends that the queries and observations raised by the office of the Auditor-General of Pakistan on the case may be addressed by ERRA at the earliest so as to conclude the matter as per law and rules.

(Certification Audit ERRA, 2022-23, ML Para No. 5)

1.4.3 Loss to the Government due to investment in National Income Daily Account at lower interest rates – Rs. 78.914 million

According to Section 15(1) of Earthquake Reconstruction & Rehabilitation Authority Act 2011, there shall be established a fund for reconstruction and rehabilitation to be known as the ERRA Fund which shall vest in and be utilized by the authority to meet the expenses and carry out the objectives of this Act.

Earthquake Reconstruction & Rehabilitation Authority (ERRA) maintained National Income Daily Account at National Bank of Pakistan for the purpose of ERRA Fund. The closing balance in the bank account as on 30.06.2023 was Rs. 1,255.072 million.

During audit of ERRA for the financial year 2022-23, it was observed that interest rate paid by National Bank of Pakistan was much lower than the policy rates notified by the State Bank of Pakistan. Moreover, National Bank of Pakistan was not increasing the interest rates in consonance with increase in policy rates announced from time to time.

Audit held that low interest rates paid by the National Bank of Pakistan and accepted by the Authority resulted a loss amounting to Rs. 78.914 million to the Government. Details are as under:

(Rs. in million)

Date	Balance Principal Amount	Interest rate offered by NBP per annum (%)	Interest amount paid by NBP	SBP rate as per Monetary Policy Statement	Difference in interest rate applied by NBP (%)	Loss due to low interest rate paid by NBP
(1)	(2)	(3)	(4)	(5)	(6)	(7)
09.07.2022	1,198.441	9.26%	55.509 (2)*(3)	15.00%	5.74% (5)- (3)	34.374 ((2)*(6)/2)
14.01.2023	1,255.072	13.56%	85.123	16.00%	2.44%	15.283
15.07.2023	1,233.087	17.25%	106.382	22.00%	4.75%	29.257
Total	3,684.600	--	247.014	--	--	78.914

Initial observation was issued on 11.10.2023. The management replied that ERRA never negotiated with National Bank of Pakistan regarding interest/profit rates of National Income Daily Account as ERRA opened just a bank account not invested the funds. Therefore, question regarding loss to the government did not arise.

The reply of the management was not satisfactory as the management placed the funds in saving account without in-house deliberation to get the interest rates as notified by the State Bank of Pakistan.

DAC meeting was held on 20.12.2023. The DAC directed that matter should be taken up with the National Bank of Pakistan for increase in the interest rates as per SBP policy so as to maximize the profit on the Fund and prevent the loss being suffered by the government due to low interest rates.

Audit recommends that the management may take up the matter with NBP to enhance the interest rates in line with the policy rates announced by State Bank of Pakistan.

(Certification Audit ERRA, 2022-23 ML Para No. 3)

1.4.4 Non-deposit of Education Cess into Government Treasury - Rs. 10.987 million

According to section 2(3) of the Azad Jammu and Kashmir Education Cess Act 1975, there shall be levied a Cess known as Education Cess chargeable at the rate of 5% on the amount of income tax/ super tax assessed and payable by the assesses except Government employees and all employees of autonomous bodies and Semi-Government bodies and banks. Further, Section 3 provides that responsibility of collection of education cess shall lie upon the authority which disburses the salaries or recovers any amount or releases anything, upon which education cess is liable. If an authority, responsible collection of education cess, fails to recover from him as penalty a sum not exceeding the amount of education cess not so recovered, in addition to the amount of the cess recoverable by such collecting authority.

Earthquake Reconstruction & Rehabilitation Authority (ERRA) deducted an amount of Rs. 10.987 million as Education Cess from payments to various contractors during the financial years 2010-11 to 2016-17. Details are as under:

(Rs. in million)

Sr. No.	Financial Year	Education Cess not deposited	Penalty due to non-deposit of Education Cess
1.	2010-11	0.106	0.106
2.	2011-12	0.217	0.217
3.	2012-13	2.292	2.292
4.	2013-14	0.546	0.546

5.	2014-15	2.344	2.344
6.	2015-16	4.088	4.088
7.	2016-17	1.393	1.393
Total		10.987	10.987

During the audit of ERRA for the financial year 2022-23, it was observed that the amount deducted as education cess was not deposited into Government Treasury in accordance with provisions of *Azad Jammu and Kashmir Education Cess Act 1975*. Further, non-deposit of education cess may result in accretion of penalty amounting to Rs.10.987 million.

Audit held that non-deposit of education cess resulted into loss to the government revenues. Moreover, non-deposit of education cess may result in the penalty as per Section 2(3) of *Azad Jammu and Kashmir Education Cess Act 1975*.

Initial observation was issued on 21.11.2023. The management replied that according to *AJK Education Cess Act and Rules 1975*, Education Cess is the levy of AJ&K Government and same has been conveyed to ERRA vide letter dated 30.04.2012.

DAC meeting was held on 20.12.2023. The DAC directed that Education Cess deducted under Section 2(3) of *Azad Jammu and Kashmir Education Cess Act 1975* be deposited into government treasury.

Audit recommends that education cess deducted under section 2(3) of *Azad Jammu and Kashmir Education Cess Act 1975* and may be deposited into Government treasury in order to avoid penal action from tax authorities.

(Para No. 02 of AIR 2022-23, ERRA HQs)

1.4.5 Non-deposit of Tajweed-ul-Quran Trust Cess into Government Treasury – Rs. 6.560 million

According to section 6(i) of the *Azad Jammu and Kashmir Tajweed-ul-Quran Trust Act 2014*, Tajweed-ul-Quran Cess shall be levied on the revenue recoverable in Azad Jammu and Kashmir for the Trust Fund at various rates determined by the Government. The Government shall have the authority to determine the rate of Tajweed-ul-Quran Cess. The government shall be able to change the rate from time to time depending on the situation.

Earthquake Reconstruction & Rehabilitation Authority (ERRA) deducted Tajweed-ul-Quran Cess amounting to Rs. 6.560 million from payments to various contractors during the financial years 2010-11 to 2016-17. The detail is as under:

(Rs. in million)

Sr. No.	Financial Year	Amount
---------	----------------	--------

1.	2010-11	0.071
2.	2011-12	0.071
3.	2012-13	1.568
4.	2013-14	0.302
5.	2014-15	1.494
6.	2015-16	2.621
7.	2016-17	0.433
Total		6.560

During the audit of ERRA for the FY 2022-23, it was observed that the deducted amount as Tajweed-al-Quran Cess was not deposited into Government Treasury in accordance with provisions of Azad Jammu and Kashmir Tajweed-ul-Quran Trust Act 2014.

Audit held that non-deposit of Tajweed-al-Quran Cess resulted into loss to the government revenues.

Initial observation was issued on 21.11.2023. The management replied that the matter regarding deposit of Tajweed-al-Quran cess has already been conveyed to ERRA vide letter dated 30.04.2012.

DAC meeting was held on 20.12.2023. The DAC directed the management that Tajweed-ul-Quran Trust Cess deducted under section 6(1) of Tajweed-ul-Quran Trust Act 2014 be deposited into government treasury.

Audit recommends that amount deducted as Tajweed-ul-Quran Trust cess may be deposited into government treasury.

(Para No. 04 of AIR 2022-23, ERRA HQs)

Public Service Delivery / Performance

1.4.6 Non-convening of ERRA Council meetings

According to section 8(1) of Earthquake Reconstruction & Rehabilitation Authority (ERRA) Act 2011, there shall be established the Earthquake Reconstruction and Rehabilitation Council which shall consist of the following members, namely:

(a)	Prime Minister of Pakistan	Chairperson
(b)	Prime Minister of Azad Jammu and Kashmir	Member

(c)	Chief Ministers of Punjab, Khyber Pakhtunkhwa, Sindh and Balochistan	Members
(d)	Chief Minister, Gilgit Baltistan	Member
(e)	The Federal Minister for Finance or Advisor to the Prime Minister on Finance as the case may be; and	Member
(f)	Deputy Chairman, Planning Commission	Member
(g)	Chairman of the Authority	Member
(h)	Deputy Chairman of the Authority	Member
(i)	Two members each from the National Assembly and the Senate to be nominated by the Speaker and Chairman respectively in consultation with the Leaders of the house	Members

Further, according to Section (9) of ERRA Act 2011, the Council shall provide policy guidelines and approve the policies, plans, programmes, projects and schemes, submitted by Chairman or the Board. Further, according to section 14(2) of ERRA Act 2011, Council shall meet once in three months or as often as the Chairman of the Council may direct.

Earthquake Reconstruction & Rehabilitation Authority (ERRA) Council was established in pursuance of Section 8(1) of ERRA Act, 2011.

During audit of ERRA for the financial year 2022-23, it was observed that ERRA Council meetings were not being held regularly as required under the Act.

It was also observed that 13th ERRA Council meeting was held in 2011, whereas the next meeting was held after 10 years i.e. 2021 and since then, no meeting was held.

Audit held that non-convening of ERRA Council meeting was not justified resulting in lack of strategic guidance for the organization.

Initial observation was issued on 21.11.2023. The management replied that due to busy schedule of Prime Minister of Pakistan, it was difficult to conduct ERRA Council meeting after every three months as it pertains to availability of Prime Minister.

DAC meeting was held on 20.12.2023. The DAC directed that management should pursue the matter to convene ERRA Council meetings as per provisions of ERRA Act, 2011.

Audit recommends that ERRA Council meetings may be convened as per provisions of ERRA Act, 2011.

(Para No. 07 of AIR 2022-23 ERRA HQs)

1.4.7 Non-completion of ERRA projects and schemes as planned/ conceived

According to Article 5 of ERRA Act 2011 and Clause 1.3 of ERRA Operational Manual, the ERRA shall be responsible for all reconstruction, rehabilitation and early recovery programmes and projects in affected areas.

Government of Pakistan established Earthquake Reconstruction and Rehabilitation Authority (ERRA) on 24.10.2005 with the objective to plan, coordinate, monitor and regulate reconstruction and rehabilitation activities in the earthquake affected areas. A total of 14,795 projects / schemes in 12 sectors were planned to be reconstructed / rehabilitated.

During audit of ERRA for the financial year 2022-23, it was observed that since inception, ERRA has incurred huge operational expenditure but the planned targets could not be achieved despite lapse of more than 18 years. The sector-wise progress / achievement of targets as on 30.06.2023 is as under:

Sr. No.	Sector	Projects	GoP Portfolio	Donor / Sponsor
1.	Education	5,725	3,931	1,794
2.	Health	327	148	179
3.	Governance	726	633	93
4.	Transport	346	130	216
5.	Livelihood	2,384	2,381	3
6.	Town Planning	33	31	2
7.	Environment	467	467	0
8.	Power	18	0	18
9.	WATSAN	4,747	2,665	2,082
10.	Telecommunication	1	1	0
11.	Social Protection	15	15	0
12.	Medical Rehabilitation	6	6	0
Total		14,795	10,408	4,387
A	Completed Projects	11,070	6,815	4,261
B	Balance Portfolio of projects	2,539	2,515	24

Further, in addition to the above schemes, New Balakot City Development Project (NBCDP) was conceived during 2007 and land for the project was acquired for Rs. 1.43 billion. The construction work was awarded to M/s Mumtaz Construction Company on 25.06.2007 for a cost of Rs. 2,432.614 million. An amount of Rs. 2,966.571 million (Rs. 2,822.115 million for development and Rs. 144.456 million for operational purposes) was incurred on the project up to the financial year 2019-20. However, the work is stalled since 2014 and was not resumed till finalization of this audit report i.e. February 2024 resulting in non-achievement of the objective as well as time and cost overrun.

Audit held that non-completion of schemes/projects by ERRA resulted in time and cost overrun.

Initial observation was issued on 21.11.2023. The management replied that due to financial crunch faced by ERRA, the schemes could not be completed in time.

DAC meeting was held on 20.12.2023. DAC directed that management should look into the matter and outcomes be shared with audit authorities.

Audit recommends that management may look into the matter and a mechanism may be devised for the early completion of projects and achievements of the overall targets.

(Para No. 15 of AIR 2022-23, ERRA HQs)

HR / Internal Control Weaknesses

1.4.8 Un-authorized draw of PM Secretariat Allowances – Rs. 12.766 million

According to Cabinet Division letter No. 2-31-88-Min-II dated 17.08.1999, the PM Secretariat Allowance and electricity & fuel subsidy was allowed to the employees of the President Secretariat and the Prime Minister's office on the Public side whose PAOs were the Principal Secretary to the President and the Principal Secretary to the Prime Minister respectively.

The Cabinet Division vide memorandum No. 4-9/2013-Min-I dated 14.06.2013 de-linked the Public Affair Wing from the Prime Minister's Office and transferred it to the Parliamentary Affair Division. The Cabinet Division vide letter No. 4-13/2005-Min-I, dated 29.04.2014 clarified that ERRA was established through Act as an autonomous / body corporate, and ERRA was not part of the Prime Minister's Office. However, for the purpose of co-ordination, ERRA is administratively attached with Prime Minister's Office. The Authority has not been mentioned in the Schedule-II and III of Rules of Business, 1973 being not under administrative control of any Division of the Federal Secretariat.

Earthquake Reconstruction and Rehabilitation Authority (ERRA) paid an amount of Rs. 12.766 million to the employees as PM Secretariat Allowance, fuel allowance, fuel charges etc. during the financial year 2022-23. Details are as under:

(Rs. in million)

Sr. No.	Particulars	Amount
1.	PM Secretariat Allowance	8.631
2.	Fuel Allowance	1.863
3.	Utility Charges etc.	2.272
Total		12.766

During audit of ERRA for the financial year 2022-23, it was observed that ERRA made payment of PM Secretariat allowances to its employees unauthorizedly in violation of Government instructions / clarification as ERRA was not a part of PM Secretariat.

Audit held that payment of inadmissible allowances resulted in loss to the Government.

Initial observation was issued on 21.11.2023. The management replied that ERRA was established under Act of Parliament as an autonomous body and administratively attached with Prime Minister Office. Hence it does not make any effect on the status of ERRA as already declared by Government of Pakistan, P.M Secretariat Notification dated 24.10.2005 and Finance Division Regulation Wing letter dated 17.12.2005. Thus the ERRA status is same as was on 24.10.2005. It was further replied that Prime Minister is the Minister in-Charge of ERRA and all Parliamentary affairs and all summaries for the Prime Minister, Federal Cabinet and ECC of the Cabinet are authorized by Prime minister as Minister in Charge.

Reply of the department was not satisfactory because the Authority has not been mentioned in the Schedule-II and III of Rules of Business, 1973 being not under administrative control of any Division of the Federal Secretariat.

DAC meeting was held on 20.12.2023. Due to divergent view points of the management and audit authorities, no conclusive recommendations were agreed upon. DAC decided to discuss the para in the next DAC meeting.

Audit recommends that payment of PM Secretariat allowance may be stopped and amount paid beyond entitlement of emoluments may be recovered from the concerned staff.

Note: The issue was also reported earlier in the Audit Report for the Audit Year 2022-23 vide Paras No. 3.4.3 having financial impact of Rs. 17.564 million. Recurrence of same irregularity is a matter of serious concern.

(Para No. 16 of AIR 2022-23 ERRA HQs)

1.4.9 Irregular payment of Honorarium – Rs. 2.208 million

According to Appendix 4 of GFR Vol-II, read with para 41 of GFR Vol-I, the amount of honorarium should not exceed one month pay of the Government servant concerned on each occasion. In case of recurring honoraria, this limit applies to the total of recurring payments made to an individual in a financial year.

Earthquake Reconstruction & Rehabilitation Authority paid honorarium amounting to Rs. 3.956 million during the financial year 2022-23.

During audit of ERRA for the financial year 2022-23, it was observed that ERRA paid an amount of Rs. 3.498 million on account of honorarium (equivalent to two month basic pay) to its employees, exceeding their entitled limit of Rs. 1.749 million (one month basic pay). This resulted into overpayment of Rs. 1.749 million.

Further, the Authority paid Rs. 0.458 million as honorarium to the employees of Finance Division who were not entitled to receive honorarium from ERRA. Details are attached at **Annexure-II**.

Audit held that payment of excess amount than entitlement i.e. Rs. 1.749 million to Authority employees and the payment of Rs. 0.458 million to employees of Finance Division was inadmissible and irregular.

Initial observation was issued on 21.11.2023. The management replied that ERRA Board is empowered to accord sanction for payment of Honorarium to employees upto six months basic pay once in a financial year. Therefore, ERRA Board in its 32nd meeting accorded sanction for payment for two month's basic pay, which is according to the rules. Furthermore, officials mentioned at Sr. No. 1 to 5 of audit Para, were involved to ERRA related affairs and honorarium was paid accordingly upon the sanction of ERRA Board.

Reply of the department was not satisfactory because according to GFR Vol-I, the amount of honorarium should not exceed one month's basic pay of the Government servant concerned on each occasion.

DAC meeting was held on 20.12.2023. Due to divergent view points of the management and audit authorities, no conclusive recommendations were agreed upon.

Audit recommends that excess amount may be recovered.

Note: The issue was also reported earlier in the Audit Report for the Audit Year 2022-23 vide Paras No. 3.4.1 having financial impact of Rs.7.101 million. Recurrence of same irregularity is a matter of serious concern.

(Para No. 09 of AIR 2022-23 ERRA HQs)

Chapter 2

National Disaster Risk Management Fund (NDRMF)

2.1 Introduction

A. National Disaster Risk Management Fund (NDRMF) was established in December 2016 to generate and consolidate resources and invest in a comprehensive risk reduction and mitigation strategy to reduce the impact of disasters in a proactive manner. NDRMF is a government-owned not-for-profit organization registered with the Securities & Exchange Commission of Pakistan under Section 42 of Companies Act, 2017. The Fund is established as a non-banking financial intermediary with a corporate structure aiming to provide funding through matching grants of upto 70% for a range of structural and non-structural interventions carried out through a variety of stakeholders including UN Agencies, NGOs as well as public sector departments.

NDRMF held a key role in implementing, coordinating and monitoring Disaster Risk Reduction (DRR) activities in the country. The Fund is responsible for awarding, managing and guiding investments meant to reduce risk and vulnerabilities that are associated with climatic change and natural hazards. The objective of the Fund is to focus on primary and critical level disaster planning, preparedness, pre-disaster mitigation and early warning systems.

At present, the administrative control of NDRMF rests with the Ministry of Planning, Development & Special Initiatives.

B. Comments on Budget and Accounts (Variance Analysis)

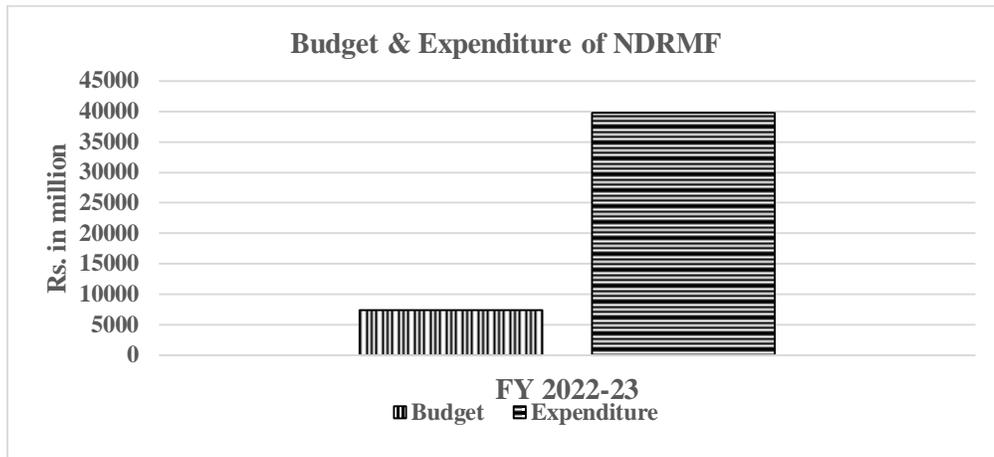
(Rs. in million)

Financial Year	Budget	Expenditure
2022-23	7,379.60	39,742.198

Source: Approved budget from NDRMF 33rdBoD meeting

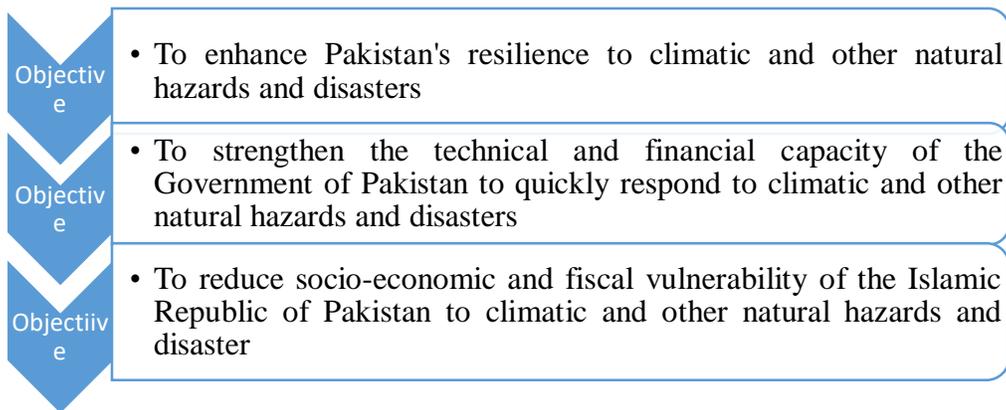
The expenditure for the FY 2022-23 includes an amount of Rs. 35.371 billion (USD 150.00 million) allocated to Benazir Income Support Program (BISP) for distribution of cash grants to 1.415 million affectees of flood 2022.

The graphical representation of budget and expenditure of NDRMF for the financial year 2022-23 is as under:



C. Sectoral Analysis

National Disaster Risk Management Fund (NDRMF) is the key agency to generate resources for Disaster Risk Reduction (DRR) activities in the country. The objectives of the NDRMF as per Article of Association¹³ are as under:



The resources pooled under the National Disaster Risk Management Fund (NDRMF) are dedicated to support the implementation of the National Disaster Management Plan (NDMP) 2012-2022 and National Flood Protection Plan-IV (NFPP-IV) 2015-2025. The Fund is required to finance projects relevant to the specified targets, however, phase-based interventions are finalized based on imminent needs and demands.

Details of NDRMF funds

¹³ Article of Association Para 1 (III)

Initial financing of NDRMF was made through a loan of \$200 million by the Asian Development Bank (ADB) and grants of USD 3.400 million by the Government of Australia. The overall position of Loan/Grants received, disbursements, expenditure and balances available by 30.06.2023 is as under:

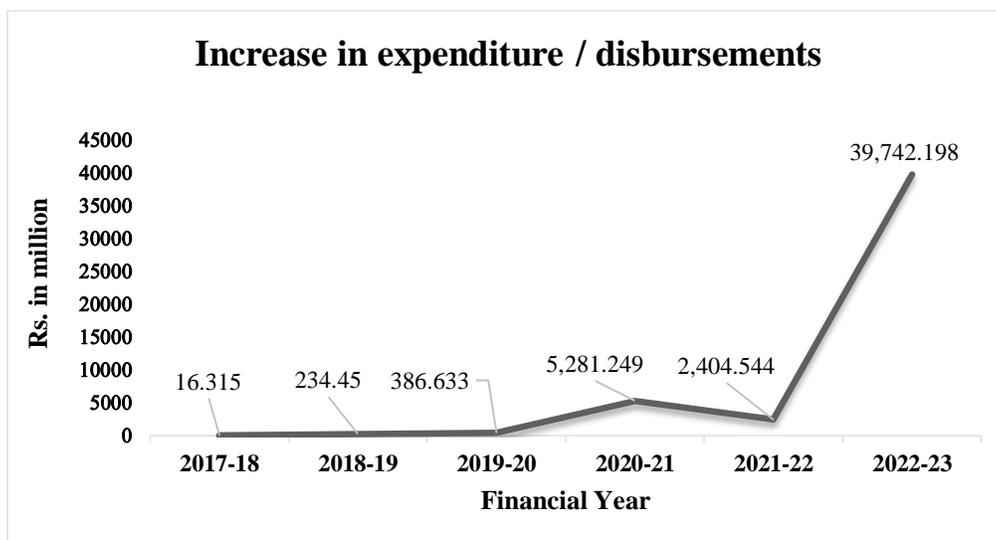
(Amount in million)

Sr. No.	Donor	Loan /Grant No.	Loan / Grant Status USD	Total funds received from Donors/GoP (PKR)	Disbursement made by NDRMF (PKR)	Closing balance as per Cashbook as on 30 th June, 2023 (PKR)
1.	Asian Development Bank	Loan No. 3473-PAK (USD)	75.00	2,540.639	1,372.309	2,668.724
				219.453	219.453	-
				4,810.653	4,810.653	-
2.	Asian Development Bank	Loan No. 3474-PAK (USD)	125.00	10,135.231	10,135.231	3,855.000
				1,168.818	1,071.225	59.827
				4,305.808	4,305.808	-
				217,067.809	217.068	-
3.	Australian Grant	ADB Grant No. 0519-PAK (USD)	3.36	458.243	443.156	
4.	Government of Pakistan		25.00	2,455.513	2,455.513	3,855.000
				181.988	181.988	209.737
5.	Agence Française de-Development	Loan No. 1036 01 (EUR)	20.00	3,511.318	1,573.319	1,937.999
6.	Swiss Grant (SDC)	Grant No. 0639-PAK (USD)	1.50	185.586	140.235	45.350
7.	World Bank	Credit No. 6246-PK (USD)	188.00	3,078.763	1,839.184	1,239.597
				35,539.394	35,539.394	-
8.	Asian Development Bank (EAL)	Loan No. 3923-PAK (USD)	100.00	174.062	41.983	
9.	Norwegian Grant	ADB Grant No. 0701-PAK (USD)	5.28	-	-	-

Source: Statement provided by NDRMF

Details of expenditure / disbursements

The increase in expenditure/disbursement of NDRMF since its establishment to 30.06.2023 is reflected as under:



Note: The sharp increase in expenditure/disbursement for the FY 2022-23 was due to allocation of an amount of Rs. 35.371 billion (USD 150.00 million) to BISP for distribution of cash grants to 1.415 million affectees of flood 2022.

Major Schemes / Projects of NDRMF

Major schemes / projects conceived by NDRMF are as under:

(Rs. in million)

Sr. No.	Name of Project /Scheme	FIP	Total Cost
1.	Promoting Integrated Mountain Safety in Northern Pakistan (PIMSNP)	Agha Khan Foundation	834.600
2.	Disaster Preparedness Support Plan for Emergency Rescue Services	Rescue-1122 Khyber Pakhtunkhwa	613.850
3.	Rehabilitation of HajipurGujran Flood Protection Bund from RD 0+000 To RD 37+750	Punjab Irrigation Department	500.570

4.	Building resilience by strengthening the community through inclusive Disaster Risk Management	Muslim Aid	400.850
5.	Recoupment of damaged T-head Spur along AganiAkil Loop Bund	IRR Sindh	389.800
6.	Rehabilitation of Old DegNullah from Deg Diversion Channel to Q.B Link Canal	Punjab Irrigation Department	385.440
7.	Providing stone apron, stone pitching, and earth along LS Bund Work Dadu Division	IRR Sindh	300.766
8.	Multi-Hazard Vulnerability Risk Assessment (MHVRA)	NDMA	277.700
9.	From Vulnerability to Resilience (V2R)	Pakistan Red Crescent Society	228.100
10.	Restoration of Jalala Flood Protection Bund from RD 0+000 To RD 26+700	Punjab Irrigation Department	210.550
11.	Resilient and Adaptive Population in Disaster (RAPID)	Islamic Relief Pakistan	192.600
12.	Strengthening Tsunami and Earthquake Preparedness in Coastal Areas of Sindh Province	PDMA Sindh	180.000
13.	<i>Protecting village AbadiShahapurChangora, Fatehpur etc. against Erosive Action of BeinNullah</i>	Punjab Irrigation Department	162.880

Source: <http://www.ndrmf.pk/projects>

Table-IAudit Profile of National Disaster Risk Management Fund (NDRMF)

(Rs. in million)

Sr. No.	Description	Total Nos.	Audited	Expenditure audited FY 2022-23	Receipts audited FY 2022-23
---------	-------------	------------	---------	--------------------------------	-----------------------------

1.	Formations	01	01	39,742.198	Nil
2.	<ul style="list-style-type: none"> • Assignment Account • SDAs • Others 	Nil	Nil	Nil	Nil
		Nil	Nil	Nil	Nil
		Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	Nil	Nil	Nil	Nil
4.	Foreign Aided Project (FAP)	01	01	39,742.198	Nil

2.2 *Classified Summary of Audit Observations*

Audit observations amounting to Rs. 174.336 million and USD 0.064 million have been raised in this report pertaining to NDRMF. Recovery amounting to Rs. 57.439 million has been pointed out in the audit observations. Summary of audit observations classified by nature is as under:

Table –II *Overview of Audit Observations*

<i>Sr. No.</i>	<i>Classification</i>	<i>Amount in million</i>	
		PKR	USD
1.	<i>Financial Management</i>	116.897	0.064
2.	<i>Public Service Delivery / Performance</i>	57.439	--

2.3 **Brief comments on the status of compliance with PAC directives**

The Directorate General Audit (CC&E) started auditing and reporting National Disaster Risk Management Fund (NDRMF) since financial year 2016-17. No Audit Report has been discussed in PAC meeting so far.

2.4 AUDIT PARAS

Financial Management

2.4.1 Loss due to investment of Endowment Fund at lower interest rates - Rs. 132.575 million

According to Para 3 (2) of National Disaster Management Fund Rules-2016, Endowment Fund shall be invested in a portfolio or through a third party, a) in Government Securities at a fixed or variable rates of interest; b) the National Savings Schemes of the Federal Government at a fixed or variable rate of interest c) a scheduled bank that has a minimum credit rating of AA and is approved by the Board.

National Disaster Risk Management Fund (NDRMF) invested funds amounting to Rs. 13,995.80 million in 12-months MTB during the year 2022 at an interest rate of 11.50%.

During audit of the NDRMF for the financial year 2022-23, it was observed that during the currency of investment, the State Bank of Pakistan in 2022 raised the policy interest rate multiple times up to 16%, however NDRMF failed to take into the account the increase in policy rates and did not reinvest the funds at the increased interest rates as notified by the SBP from time to time.

An analysis made by the NDRMF revealed that had NDRMF chosen to prematurely withdraw the funds from MTBs and had reinvested the funds at the increased interest rates, it would have earned a profit of Rs. 1,777.820 million instead of Rs. 1,645.246 million which was realized from MTBs. This resulted into a loss of profit amounting to Rs. 132.575 million to NDRMF. Details of the working is at **Annexure-III**.

It was also observed that the matter related to loss was discussed in 34th Board of Directors (BoD) meeting, however, no action was taken to make good the loss suffered by NDRMF.

Audit held that non-investment of funds at the notified interest rates resulted in loss of profit to the Fund.

Initial observation was issued on 01.11.2023. The management replied that NDRMF achieved the highest profit rate of 22.79% from investment in MTBs during the period December 2022 to December 2023.

The reply of the management was not acceptable because audit had highlighted loss of profit on invested funds during the period December 2021 to December 2022, whereas the department's response highlighted the period December 2022 to December 2023. Further, the NDRMF had miscalculated its loss of profit. The reported figure indicates a loss of Rs. 101.792 million, while the actual loss due to low interest rates was Rs. 132.575 million.

DAC meeting was held on 22.01.2024. DAC directed the management of NDRMF to get the relevant record verified from audit authorities within one month to establish its stance.

Audit recommends implementation of DAC decision.

(FAP Audit Report 2022-23, NDRMF, OS No. 9)

2.4.2 Loss due to non-utilization of Australian Grant – USD 63,075 (Rs. 15.105 million)

Government of Australia through ADB committed funds amounting to USD. 3.362 million for Multi Hazard Vulnerability Risk Assessment (MHVRA) under Grant No. 0519-PAK dated 2.12.2016.

National Disaster Risk Management Fund (NDRMF) utilized an amount of USD 3.298 million out of total grant committed by donor.

During audit of NDRMF for the financial year 2021-22, it was observed that NDRMF could not fully utilize the funds within the grant closure date i.e. 31.05.2022. The grant closure date was extended to 31.12.2022, however the grant could not be utilized by the Fund even within the extended period. Consequently, the unutilized amount of USD 63,075 (PKR 15,105,447) was transferred back to the donor upon the expiry of revised closure date.

Audit held that non utilization of grant money was serious lapse on the part of management resulting in loss to government amounting to USD. 63,075 equivalent to Rs. 15.105 million.

Initial observation was issued on 01.11.2023. The management replied that NDRMF in collaboration with M/o NHR&C, prepared a project proposal for strengthening the health system covering the entire country. Accordingly, a PC-I was prepared and submitted to CDWP under Emergency Assistance for Fighting the Covid-19 pandemic. However, the PC-I faced deferral by CDWP on 10.01.2022, after raising key observations. Consequently, in line with CDWP comments and upon the request of the Minister M/o PD&SI, the matter was referred to NDRMF. The NDRMF Board, Chaired by the Deputy Chairman Planning Commission on 10.03.2022, recommended cancellation of the loan.

The reply was not satisfactory because the available grant funds were not utilized and were subsequently transferred back to the donor, resulting in a loss to the government.

DAC meeting was held on 22.01.2024. DAC directed the management of NDRMF that record/correspondence regarding requests made to the donor for extension in time of Grant and the decline of request by the donor be produced to audit authorities for verification.

Audit recommends implementation of DAC decision.

Note: The issue was also reported earlier in the Audit Report for the Audit Year 2022-23 vide Para No. 1.4.8 having financial impact of USD 0.838 million. Recurrence of same irregularity is a matter of serious concern.

(FAP Audit Report 2022-23, NDRMF, OS No. 12)

Public Service Delivery / Performance

2.4.3 Non-recovery from Pakistan Poverty Alleviation Fund (PPAF) due to cancellation of grant implementation agreement -Rs. 57.439 million

According to Section 13.3 of Grant Implementation Agreement (GIA), the Pakistan Poverty Alleviation Fund (PPAF), in the event of termination of Agreement by the NDRMF, shall transfer the entire amount granted under the Agreement.

National Disaster Risk Management Fund (NDRMF) signed a Grant Implementation Agreement (GIA) on 25.11.2019 with the Pakistan Poverty Alleviation Fund (PPAF) for the project "Building Resilience to Disasters and Climate Change" with a total cost of Rs. 823.984 million. The project completion date was 24.05.2021.

During the audit of the NDRMF for the financial year 2022-23, it was observed that the PPAF could achieve only 9.99% physical progress up to May 2023. Consequently, the agreement was cancelled by NDRMF on 08.05.2023.

It was further observed that an amount of Rs. 57.439 million was disbursed to PPAF in FY 2019-20, out of which Rs. 42.560 million remained unspent with the PPAF. However, no recovery of disbursed amount was made till date of audit i.e. October, 2023.

Audit held that non-completion of the project resulted in non-achievement of objectives of the DRR. Besides, the amount meant for disaster risk management in the country was held up with PPAF resulting in non-availability of funds for other projects related to DRR.

Initial observation was issued on 01.11.2023. It was replied that NDRMF is vigilantly engaged with the FIP for the recovery of amount. However, the matter is in dispute and at arbitration stage, therefore that may take time to reach to amicable solution.

DAC meeting was held on 22.01.2024. DAC directed that an inquiry be conducted by CFAO of the Ministry with the ToRs i.e. (i) Signing of GIA with FIP without due diligence (ii) workout actual loss to the Fund in terms of interest rate and commitment charges and (iii) fix responsibility. DAC further directed that comprehensive and conclusive inquiry report be submitted to PAO within one month.

Audit recommends implementation of DAC decision.

(FAP Audit Report 2022-23, NDRMF, OS No. 10)

2.4.4 Non-compliance with the directives of BoD and HR Committee regarding restructuring of NDRMF

According to the minutes of the 6th and 7th meetings of the HR Committee, specific instructions were issued to the NDRMF management to prepare draft proposal for downsizing the organization with the primary objective of reducing the salaries and recurrent costs to half of the estimated budget for the fiscal year 2022-23. Furthermore, the management was tasked to formulate Key Performance Indicators (KPIs) for each position for conducting performance appraisals up to the managerial level.

NDRMF in its 33rd BOD meeting held on 29.11.2022 directed the Human Resource Committee and NDRMF management to come up with a unanimous proposal in consultation with the donors/lenders for making the organization qualitative, resourceful, and more operational in terms of project portfolio and place it before the Board for consideration and final approval by 31.01.2023.

During the audit of NDRMF for the financial year 2022-23, it was observed that neither the downsizing and restructuring of NDRMF was carried out nor any proposal was submitted to the Board of Directors (BoD) within the specified timeframe to restructure the organization and reduce the recurring costs.

Audit held that inaction on part of the management led to non-restructuring of the organization and non-reduction in the recurring costs of the Fund.

Initial observation was issued on 01.11.2023. The management replied that in compliance to the BOD's directions, NDRMF management has taken substantial steps in consultation with donors, lenders and partners.

The reply was not satisfactory as the Board decisions regarding downsizing, reducing salaries, controlling recurrent costs and formulating Key Performance Indicators (KPIs) for performance appraisals were not followed and implemented.

DAC meeting was held on 22.01.2024. DAC directed that updated progress on the restructuring of NDRMF be provided during next DAC meeting.

Audit recommends implementation of DAC decision.

(FAP Audit Report 2022-23, NDRMF, OS No. 03)

Chapter 3

National Disaster Management Authority (NDMA)

3.1 Introduction

A. *National Disaster Management Authority* (NDMA) was established under the National Disaster Management Act, 2010. The Authority functions under the supervision of National Disaster Management Commission (NDMC) which is headed by the Prime Minister of Pakistan. NDMA manages the whole Disaster Management Cycle (DMC) which includes Preparedness, Mitigation, Risk Reduction, Relief and Rehabilitation.

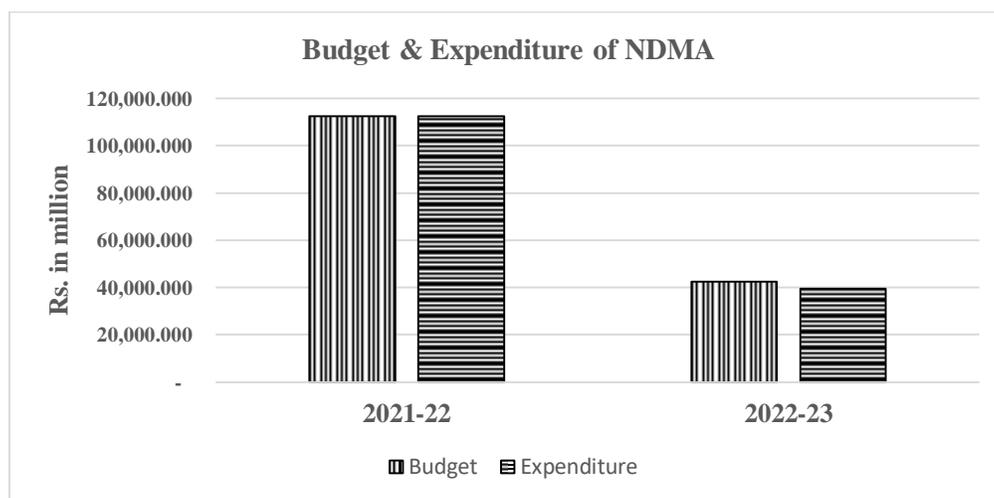
B. Comments on Budget and Accounts (Variance Analysis)

(Rs. in million)

Financial Year	Budget	Expenditure	Savings
2021-22	112,437.155	112,434.356	2.799
2022-23	42,347.419	39,498.689	2,848.730

Source: budget and expenditure statements

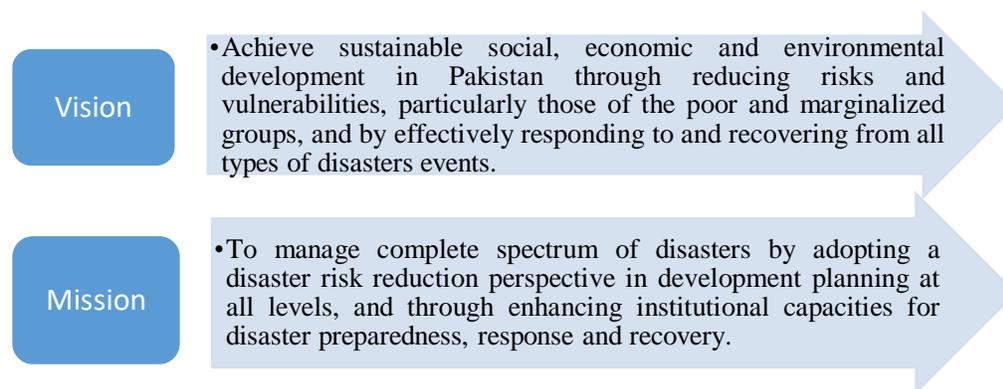
The graphical representation of budget and expenditure of NDMA is as under:



The major reason for decrease in budget and expenditure of NDMA in financial year 2022-23 was due to the allocation and corresponding expenditure on procurement of COVID-19 vaccine and Karachi Transformation Plan (KTP) during financial year 2021-22.

C. Sectoral Analysis

The NDMA aims to develop sustainable operational capacity to undertake disaster related activities by the relevant agencies. The vision and mission statement of NDMA defines its core objectives as under:



NDMA act as Secretariat of National Disaster Management Commission to facilitate implementation of Disaster related strategies. The main objectives of NDMA are as under:

- Map all the hazards in the Country and conduct risk analysis on a regular basis.
- Develop guidelines and standards for national and provincial stakeholders regarding their role in Disaster Risk Management.
- Ensure establishment of DM authorities and Emergency Operations Centers at provincial, district and municipal levels in hazards-prone areas.
- Provide technical assistance to federal ministries, departments and provincial DM authorities for disaster risk management initiatives.
- Organize training and awareness raising activities for capacity development of stakeholders, particularly in hazard-prone areas.
- Collect, analyze process, and disseminate inter-sectoral information required in an all hazards management approach.
- Ensure appropriate regulations are framed to develop disaster response volunteer teams.
- Create requisite environment for participation of media in DRM activities.
- Serve as the lead agency for NGOs to ensure their performance matches accepted international standards e.g., the SPHERE standards.
- Serve as the lead agency for international cooperation in disaster risk management. This will particularly include information sharing, early warning, surveillance, joint

training and common standards and protocols required for regional and international cooperation.

- Coordinate emergency response of federal government in the event of a national level disaster through the National Emergency Operations Center (NEOC)

Disaster / Emergency situations handled by NDMA are as under:

- Earthquake on 31 January 2018 (20km East of Bela, Balochistan& Hindukush Region)
- Shimshal Valley likely GLOF Situation.
- Margalla Hills Fires – March & May 2018.
- KotliSattian Forest Fire – May 2018.
- Islamabad Sunday Market Fire incidents in July 2018.
- Heat wave in Sindh – May 2018
- Monsoon Season – 2018.
- Covid-19
- Locust Combat Operation

In addition to above, NDMA has started to circulate and upload on its official website for general public, the alerts / updates issued by Pakistan Meteorological Department to all stakeholders in the country. In addition, the Daily Situation Report (DSR) is also circulated to stakeholders summarizing the cumulative disaster relief activities, water level in Dams/ reservoirs and rivers flow situation report by Flood Forecasting Division. Further, the Annual Report indicating the progress of NDMA was regularly being prepared and published on the NDMA’s website.

On the other side, the National Disaster Management Commission (NDMC) which is the strategic body to oversee the affairs of NDMA had a total of four (04) meetings since inception and no meeting was held after 28.03.2018. Moreover, the internal audit wing is not established in NDMA resulting in non-generation of internal audit reports and periodic review of internal controls within the organization. The physical verification of stores and stock also needs to be carried out on periodical basis, as the Authority is maintaining warehouses containing huge quantities of relief related items including medical equipment, PCR kits, food items and non-food items etc.

Table-IAudit Profile of *National Disaster Management Authority(NDMA)*

(Rs. in million)

Sr. No.	Description	Total Nos.	Audited	Expenditure audited FY 2022-23	Revenue / Receipts audit FY 2022-23

1.	Formations	01	01	39,498.689	Nil
2.	<ul style="list-style-type: none"> • Assignment Account • NDMA Fund A/c • NDMF-DRR 	01	01	353.952	Nil/
		Nil	Nil	39,139.802	Nil
		01	01	4.934	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	Nil	Nil	Nil	Nil
4.	Foreign Aided Project (FAP)	Nil	01	40,925.000	Nil

3.2 *Classified Summary of Audit Observations*

Audit observations amounting to Rs. 4,104.978 million and USD 0.197 million have been raised in this report pertaining to NDMA. Recovery amounting to Rs. 153.339million has been pointed out in the observations. Summary of the audit observations classified by nature is as under:

Table –II *Overview of Audit Observations*

(Amount in million)

<i>Sr. No.</i>	<i>Classification</i>	<i>PKR</i>	<i>USD</i>
<i>1.</i>	<i>Financial Management</i>	<i>1,402.025</i>	<i>0.197</i>
<i>2.</i>	<i>Irregularities</i>	<i>2,121.592</i>	<i>--</i>
<i>B.</i>	<i>Procurement</i>	<i>2,121.592</i>	<i>--</i>
<i>3.</i>	<i>Public Service Delivery / Performance</i>	<i>581.361</i>	<i>--</i>

3.3 Brief comments on the status of compliance with PAC directives

The Directorate General Audit (CC&E) started auditing and reporting NDMA since 2015-16. PAC meeting on Audit Reports for the audit year 2015-16 to 2017-18 was held on 22.11.2021, wherein fifteen (15) Audit Paras were discussed. Current status of compliance with PAC directives for report discussed so far is given below:

Audit Report	Number of Audit Paras			Compliance		
	Discussed in PAC	Settled by PAC	Directives issued	Compliance Received	Awaited	Percentage of compliance
2016-17	15	09	06	00	06	00
2017-18	10	09	01	01	00	100%
2020-21 (Covid-19)	06	05	01	01	00	100%

The NDMA is required to implement the PAC directives pertaining to Audit Report of 2016-17.

3.4 AUDIT PARAS

Financial Management

3.4.1 Unauthorized expenditure from National Disaster Management Fund for non-specified purposes - Rs 143.097 million

According to Section 29 (5) of National Disaster Management Act 2010, the National Disaster Management Fund (NDMF) shall be administered by the National Authority towards meeting the expenses for emergency preparedness, response, mitigation, relief and reconstruction.

National Disaster Management Authority (NDMA) incurred an expenditure amounting to Rs.143.097 million on repair of vehicles, POL, TA/DA and miscellaneous operational expenditure out of National Disaster Management Fund (NDMF).

During audit of NDMA for the financial year 2022-23, it was observed that the National Disaster Management Fund (NDMF) was used for non-specified purposes and the amount meant for relief activities was unauthorizedly spent on POL, repair of vehicles and TA/DA expenses. The breakup of unauthorized payments from NDMF are as under:

(Rs. in million)

Sr. No.	Particulars	Amount
1.	Repair of Transport	40.152
2.	POL	57.406
3.	Miscellaneous operational expenditure by survey teams.	9.000
4.	TA/DA	36.539
Total		143.097

Audit further observed that regular budget for operational expenditure was separately provided to NDMA to meet the expenses related to POL, repair of vehicles, TA-DA and other operational expenditure. Therefore, incurrence of expenditure on the above activities was not authorized from NDMF.

It was also observed that the DAC meeting held on 09.03.2023 had decided to deposit the amount drawn from National Disaster Management Fund on account of payment to employees. However, in violation of the DAC decision, the Authority continued the practice of drawal of operational expenses from NDMF.

Audit held that expenditure on non-specified purposes out of NDMF account was un-authorized and contrary to the provisions of the NDMA Act resulting into unauthorized use of funds meant for relief and rehabilitation of affectees.

Initial observation was issued on 24.11.2023. The management replied that Section 29 (5) of the NDM Act 2010 allow the National Disaster Management Fund (NDMF) to cover expenses related to emergency preparedness, response, mitigation, relief and reconstruction. NDMA classifies its vehicles into staff cars and operational vehicles with operational vehicles specifically utilized for disaster-related activities across the country. Consequently, the expenditures was incurred for activities directly associated with disaster relief, response and reconstruction.

The reply was not satisfactory because NDMF cannot be utilized for the purposes other than specified in the Act. Further, regular budget for operational expenditure was separately provided to NDMA and the said expenditure was required to be incurred from the annual budgetary allocation.

DAC meeting was held on 29.12.2023. The DAC directed for obtaining ex-post facto approval of the competent authority of the said expenditure.

Audit recommends that the NDMF may be used for authorized purposes only and the amount may be refunded to the Fund.

Note: The issue was also reported earlier in the Audit Report for the Audit Year 2021-22 vide Para No. 3.4.10. Recurrence of same irregularity is a matter of serious concern.

(Para No. 38 of AIR 2022-23 NDMA)

3.4.2 Loss due to investment of NDMA Funds at lower interest rates – Rs. 800.690 million

According to Section 29 of National Disaster Management Act 2010, the Federal Government may, by notification in the official gazette, constitute a fund to be called the National Disaster Management Fund for meeting any threatening disaster situation or disaster.

National Disaster Management Authority (NDMA) maintained National Income Daily Account with National Bank of Pakistan (NBP) for the purpose of National Disaster Management Fund (NDMF). The closing balance in the bank account as on 30.06.2023 was Rs. 34,965.937 million.

During audit of NDMA for the financial year 2022-23, it was observed that interest rate paid by NBP was much lower than the policy rates notified by State Bank of Pakistan from time to time. Moreover, NBP had not increased the interest rates in consonance with increase in policy rates.

Audit held that low interest rates paid by the National Bank of Pakistan resulted in loss to the Authority amounting to Rs. 800.690 million. Details are as under:

(Rs. in million)

Date	Balance Principal Amount	Interest rate paid by NBP per annum	Interest paid	SBP policy rate	Difference in interest rate (less paid)	Loss
09.07.2022	32,420.865	11.19%	1,813.723	15.00%	3.81%	617.842

14.01.2023	30,572.554	14.80%	2,262.956	16.00%	1.20%	182.848
Total			4,076.679			800.690

Initial observation was issued on 24.11.2023. The management replied that matter is under process with NBP for higher interest rate as per SBP Policy.

DAC meeting was held on 29.12.2023. The DAC directed NDMA to take-up matter with NBP to apply the interest rates as per the SBP policy.

Audit recommends implementation of DAC decision.

(Para No. 25 of AIR 2022-23 NDMA)

3.4.3 Loss to government due to non-utilization of foreign grant – USD. 0.197 million

According to Section 2.01 of the Grant Agreement (Grant No. 0844-PAK) entered between Islamic Republic of Pakistan and Asian Development Bank on 16.09.2022 for Pakistan flood 2022 emergency response project, ADB agreed to make available an amount of three million Dollars (\$ 3,000,000) to the recipient from ADB's Asia Pacific Disaster Response Fund resources on terms and conditions set forth in the grant agreement.

Further, according to Section 3.04 of the Grant Agreement, the recipient shall not use the proceeds of the Grant, or allow the proceeds of the Grant to be used, for any expenditures incurred after the Grant closing date which is six months after the date of grant agreement i.e., 16.09.2022.

National Disaster Management Authority (NDMA) had utilized USD 2.802 million (equivalent to Rs. 775.192 million) out of total grant at the closing date.

During NDMA for the financial year 2022-23, it was observed that NDMA was not able to fully utilize the grant within specified time and an amount of USD 197,068.11 was expired being unutilized.

Audit held that inaction on part of NDMA resulted in loss of grant money meant for rehabilitation of the flood affectees 2022.

Initial observation was issued to management on 27.10.2023. Management replied that an unspent balance of USD 197,039.66 could not be consumed due to exchange rate distortions and supply chain disruptions in the local/international market during 2022.

The reply of the management was not acceptable because failure to maximize the utilization of the granted funds is serious lapse on the part of management of NDMA.

The DAC in its meeting held on 16.11.2023 directed that matter of extension of the completion date of foreign grant may be taken up with donor/EAD within 15 days.

Audit recommends implementation of DAC decision.

(Para No.03 of Financial Attest Audit Report of NDMA, FY 2022-23- ADB Grant No. 0844-PAK)

3.4.4 Un-authorized opening and operating of bank account without prior approval of Finance Division- Rs. 304.899 million

According to Rule 4 (1) of Cash Management (Treasury Single Account) Rules, 2020, no Government office shall open, operate or maintain a bank account for any purpose, except in accordance with the Act and these rules.

Further, according to Section 23 (2) Public Finance Management Act, 2019, no authority shall transfer public moneys for investment or deposit from government account including the assignment accounts to other bank account without prior approval from the Federal Government.

National Disaster Management Authority (NDMA) disclosed an amount of Rs. 304.899 million as cash receipts and Rs. 4.934 million as cash payments out of bank account titled “NDMF Disaster Risk Reduction Capacity Building” in the financial statements during the financial year 2022-23. The details are as under:

(Rs. in million)

Sr. No.	Particulars	Amount
Receipts		
1.	Serena Hotel Islamabad	20.000
2.	Asian Disaster Preparedness Center (ADPC)	6.000
3.	Kuwait embassy	278.899
Total		304.899
Expenditure		
1.	Capacity building- hiring of staff	4.934

During audit of NDMA for the financial year 2022-23, it was observed that NDMA opened a new bank account titled “NDMF Disaster Risk Reduction Capacity Building” during the financial year 2022-23 and received donations from different sources. However, approval of the Finance Division for opening and operating of the bank account was not obtained.

Audit held that opening and operation of bank account without approval of Finance Division was un-authorized and irregular.

Initial observation was issued to management on 27.10.2023. Management replied that Accounting Procedure of NDMF A/c empowers PAO NDMA to open more than one bank account in any scheduled bank which shall be opened with approval of National Authority. Further, it is clarified that NDMA did not open a new account, rather created a sub-account to park the funds specifically donated by national / International agencies.

The DAC in its meeting held on 16.11.2023 directed that NDMA’s stance may be shared with the

Finance Division and clarification in this regard may be solicited within 15 days.

Audit recommends implementation of DAC decision within 15 days.

(Para No.10 of Financial Attest Audit Report of NDMA, FY 2022-23)

3.4.5 Over payment to vendor on supply of food packs - Rs. 124.841 million

According to S.R.O. 1636(1)/2022 dated 30.08.2022 issued by Federal Board of Revenue (FBR) "the Federal Government exempted for a period of ninety days, the import and supply of the goods as certified by the National Disaster Management Authority or a Provincial Disaster Authority for relief operation for flood affectees, from the whole of the sales tax."

National Disaster Management Authority (NDMA) paid an amount of Rs. 1442.048 million to M/S Canteen Stores Department (CSD) on account of supply of food packs for flood affectees during the financial year 2022-23.

During audit of NDMA for the financial year 2022-23, it was observed that the supplier had included General Sales Tax (GST) in the invoices/bills, whereas, GST was exempt on supply of goods for relief operations for flood affectees. However, NDMA paid the entire amount which was inclusive of GST, thereby overpaid an amount of Rs. 124.841 million to M/S CSD. The details are as under:

(Rs in million)

Sr. No.	Voucher No.	Cheque No.	Date	Amount Exclusive of GST	Amount Inclusive of GST	Over payment
1.	108	86764787 & 87565916	30.09.22 & 18.11.22	454.535	502.191 (482.103 +20.087)	47.655
2.	416	87566032	21.12.22	862.672	939.858	77.186
Total						124.841

Audit held that over payment to vendor on account of GST resulted in loss of Rs. 124.841 million to government.

Initial observation was issued on 24.11.2023. The management replied that M/s Canteen Stores Department (CSD) is registered with the Federal Board of Revenue (FBR) and is exempted from "Sales Tax Withholding." Therefore, the advance deduction or withholding of sales tax for payments to M/s CSD is not applicable. As such, no excess payments was made to M/s CSD.

The reply was not acceptable because payments were made without deducting the GST amount claimed by the supplier which resulted into overpayment.

DAC meeting was held on 29.12.2023. The DAC directed to recover the overpaid amount from M/s CSD for depositing into government treasury.

Audit recommends implementation of DAC decision within 30 days.

(Para No. 32 of AIR 2022-23 NDMA)

3.4.6 Non-deduction of Sales Tax on Services- Rs. 28.498 million

According to Section 3 (1) of the Islamabad Capital Territory (Tax on Services) Ordinance 2001, there shall be charged, levied and paid a tax known as sales tax at rates specified in column (4) of Table-1 of the Schedule to this Ordinance of the value of the taxable services.

National Disaster Management Authority (NDMA) paid an amount of Rs. 203.809 million to M/S Nasrullah Khan & Company on account of transportation of goods and labour charges during the financial year 2022-23.

During audit of NDMA for the financial year 2022-23, it was observed that the contractor had included/added sales tax on services @ 16% and @18% in invoices. However, while making payment to contractor, ICT Sales Tax on Services amounting to Rs. 28.498 million was not deducted by NDMA. Details are attached at **Annexure-IV**.

Audit held that non deduction of ICT Tax on services was violation of the Ordinance and rules which resulted in loss of Rs. 28.498 million to government revenue.

Initial observation was issued on 24.11.2023. The management replied that Sales Tax on services has been deducted and deposited into Government Treasury.

DAC meeting was held on 29.12.2023. The DAC directed to provide documentary evidence for verification so as to establish the recovery of Sales Tax on Services.

Audit recommends implementation of DAC decision within 15 days.

(Para No. 33 of AIR 2022-23 NDMA)

Procurement

3.4.7 Irregular award of contract to National Logistic Cell - Rs 1,899.00 million

According to Rule 42 (f-iii & iv) of Public Procurement Rules 2004 (Direct Contracting with State Owned Entities), in case there are more than one organizations or bodies eligible to perform the works or render the services, the procuring agency shall hold competition amongst them through limited tendering (notifications) without any advertisements, however, giving reasonable time for submission of their applications or proposals. The procuring agency shall devise a mechanism for determining price reasonability to ensure that the prices offered by the state owned entities are reasonable for award of the contract.

National Disaster Management Authority (NDMA) awarded direct contract to National Logistic Cell (NLC) for construction of National Emergency Operation Centre (NEOC) building. The contract agreement amounting to Rs. 1,899.00 million between National Disaster Management Authority (NDMA) and National Logistic Cell (NLC) was signed on 20.03.2023. The detail of payments made to NLC during financial year 2022-23 are as under:

(Rs in million)

Sr. No.	Detail	Vendor	Voucher No.	Date	Cheque No.	Amount Paid
1.	IPC No 01	NLC	584	07.04.2023	94539365	281.041
2.	IPC No 02	NLC	611	19.04.2023	94539417	181.096
3.	IPC No 03	NLC	628	23.05.2023	94539437	113.214
4.	IPC No 04	NLC	633	26.05.2023	94539443	75.445
5.	IPC No 05	NLC	645	16.06.2023	94539458	547.371
6.	IPC No 06	NLC	655	27.06.2023	94539470	124.557
Total						1,322.726

During audit of NDMA for financial year 2022-23, it was observed that notice for invitation of bids was issued on 20.02.2023 to M/s NLC, M/s FWO and M/s Railcop with the instruction to submit bid latest by 27.02.2023 which was further extended upto 01.03.2023. Only one bidder i.e. M/s NLC submitted the bid which was accepted and contract was awarded on the basis of single bid. However, no mechanism was established for determining price reasonability to ensure that the prices offered by M/s NLC (single bidder) were reasonable for award of the contract in violation of Rule of 42(f-iv) of public procurement rules.

Audit held that award of construction work of NEOC building without determining the price reasonability of the cost offered through single bid was not justified.

Initial observation was issued on 31.10.2023. The management replied that contract was awarded under Rule 42 (f-iii & iv) of Public Procurement Rules 2004 (Direct Contracting with State Owned Entities) and Section-32 of NDM Act 2010. Further, ample response time was given with extension upto 1st March 2023.

The reply was not satisfactory as no mechanism was established for determining price reasonability to ensure that the prices offered by NLC were reasonable.

DAC meeting was held on 29.12.2023. DAC directed to provide documentary evidence of mechanism adopted by management to determine the price reasonability of rates quoted by NLC in light of rule 42(f-iii & iv).

Audit recommends implementation of DAC decision.

(Para No. 14 of AIR 2022-23 NDMA)

3.4.8 Mis-procurement of kerosene heaters and mats for flood affectees 2022 - Rs. 222.592 million

According to Rule 4 of Public Procurement Rules, 2004, procuring agencies, while engaging

in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

National Disaster Management Authority (NDMA) procured kerosene heaters and mats amounting to Rs. 222.592 million during financial year 2022-23 for flood affectees 2022 out of ADB grant. The details are as under:

(Rs. in million)

Sr. No.	Name of Items	Name of Vendor	Qty.	Unit Price	Total Cost
1.	Kerosene Heater	M/s Majid Traders	7,167	10,350.00	74.178
2.	Bubble Mats	M/s International Business Services	43,000	3,451.50	148.414
Total					222.592

During audit of NDMA for financial year 2022-23, it was observed that NDMA published tender notice in newspapers on 22.11.2022 and last date for bid submission was 28.11.2022 thereby allowing response time of only seven (07) days, on plea of emergency. However, the procured items were neither issued nor utilized and were lying un-utilized in warehouse as on 30th June, 2023.

It was further observed that NDMA had neither prepared annual procurement plan at the start of the year nor uploaded the same on PPRA website and thus procurements were made without any planning in violation of procurement rules.

Audit held that procurement on emergency basis by reducing response time without any immediate requirement resulted in non-competitive procurement and deprived the government of competitive rates.

Initial observation was issued to management on 27.10.2023. It was replied that due to exchange rate fluctuations, acute shortage of dollars, distortions and supply chain disruptions in the local/international market and due to holidays in China, Competent Authority granted extension in delivery time on request of firms. Due to late delivery of items, winter season had passed, therefore, items could not be delivered to flood affectees.

The reply of the management was not acceptable because sufficient response time was not allowed to achieve competitive bidding process. Further, items procured on emergency basis were not issued till date which shows items were unnecessary purchased.

The DAC in its meeting held on 16.11.2023 directed NDMA to conduct assessment in flood affected areas and point-out most vulnerable and un-attended flood-hit affectees. It was also directed by the DAC that ADB and EAD may also be intimated regarding the provision of the relief items to affectees of other hydrometric event, because most of the flood-2022 affectees had received humanitarian

assistance. DAC also directed that need-Assessment report may be shared with the Audit authority comprising list of vulnerable affectees along-with delivery status of the relief items procured out of ADB Funds.

Audit recommends implementation of DAC directives.

(Para No.01 of Financial Attest Audit Report of NDMA, FY 2022-23-ADB Grant No. 0844-PAK)

Public Service Delivery / Performance

3.4.9 Non-holding of National Disaster Management Commission meetings on regular basis for strategic guidance on disaster management in Pakistan

According to Section 4 (1) of National Disaster Management Act, 2010, the National Commission shall meet as and when necessary and at such time and place as the Chairperson of the National Commission may think fit.

Further according to agenda item 1(a) of National Disaster Management Commission meeting held on 28.03.2018, the members showed concerns and hoped that the meetings of the Commission will be held on annual basis.

National Disaster Management Commission (NDMC) held its last meeting on 28.03.2018.

During audit of NDMA for the financial year 2022-23, it was observed that NDMC had held only 05 meetings in total and the last meeting of the Commission was held 28.03.2018. Details of the meetings held so far are as under:

Sr. No.	NDMC meetings	Dates of meetings
1.	First meeting	05.03.2007
2.	Second meeting	03.01.2009
3.	Third meeting	19.08.2010
4.	Fourth meeting	21.02.2013
5.	Fifth meeting	28.03.2018

Audit held that non-conducting of regular meetings of NDMC was not justified leading to delay in review and approval of issues of strategic and national importance. The issue assumes more importance keeping in view the fact that Pakistan faced earthquakes, pandemic in shape of Covid-19 and successive floods in last few years and the strategic guidance from NDMC was not available.

Initial observation was issued on 13.10.2023. The management replied that NDMA management tried their level best to secure availability of the Prime Minister of Pakistan by moving summaries for NDMC meeting. However, the meeting of the Commission could not be materialized.

DAC meeting was held on 29.12.2023. The DAC directed NDMA to pursue the matter for holding the NDMC meeting.

Audit recommends implementation of DAC decision.

(Para No. 06 of AIR 2022-23 NDMA)

3.4.10 Un-authorized issuance of flood relief items to Turkiye/ Syria procured out of ADB Grant – Rs. 552.599 million

According to Schedule-I of Grant Agreement entered between Asian Development Bank (ADB) and Islamic Republic of Pakistan “the project consist of activities relating to provision of life preserving services for communities affected by monsoon flood 2022 disaster”. Grant Agreement between ADB and Islamic Republic of Pakistan for 3 million Dollars (\$3,000,000) was signed on 16.09.2022 for emergency response against Flood 2022 in Pakistan.

NDMA procured winterized tents and blankets out of ADB Grant during financial year 2022-23 for flood affected people of Pakistan. The details are as under:

(Rs. in million)

Sr. No.	Name of Items	Quantity	Unit Price	Name of Vendor	Total Cost
1.	Winterized tents	7,167	62,500	M/s Usman Traders	447.937
2.	Blankets	43,000	2,434	M/s Fazaldin Trade Solicitors	104.662
Total					552.599

During audit of NDMA for the financial year 2022-23, it was observed that in contravention of the provisions of the grant agreement and the stated purposes, the winterized tents and blankets procured out of ADB Grant for flood affectees of Pakistan were dispatched to Turkey and Syria

Audit held that the ADB Grant was specifically meant for activities relating to provision of life preserving services for communities affected by monsoon flood 2022 disaster. Therefore, the utilization of grant for other purposes was unjustified and deprived the flood affectees 2022 in the country.

Initial observation was issued to management on 27.10.2023. Management replied that the relief items (tents, blankets) procured out of ADB grant had to be diverted to the earthquake affected population of Turkiye / Syria due to very tight timeline of relief operation given by the Prime Minister and has also been recouped/re-stocked for the purpose grant was made.

The DAC in its meeting held on 16.11.2023 directed to take-up the matter with the ADB for concurrence and acceptance of the use of flood relief items for other purposes based upon vulnerability. After that completion report of the project may also be shared with the Audit authorities.

Audit recommends implementation of DAC decision.

(Para No.02 of Financial Attest Audit Report of NDMA, FY 2022-23, ADB Grant No. 0844-PAK)

3.4.11 Non-recovery of Liquidated Damages charges from supplier – Rs. 28.762 million

According to Clause 6 of the contract agreement, if supplier fails to deliver any or all of the goods or perform the services within the time period(s) specified in the work order, purchaser/consignee shall without prejudice to its other remedies under the contract, shall have the right to claim liquidated damages and the supplier shall pay to purchaser as liquidated damages.

Further, according to Clause 8 (c) of the contract agreement, the time for delivery of the stores as stipulated in the work order shall be taken as the essence of the contract.

National Disaster Management Authority (NDMA) paid an amount of Rs. 1,060 million to M/s H. Sheikh Noor-Ud-Din & Sons Pvt. Ltd. during the financial year 2022-23 on account of procurement of 2,000,000 mosquito nets. As per work order issued to the supplier, the delivery was required to be completed on 26.08.2023. Due to non-delivery of the mosquito nets on time, NDMA deducted an amount of Rs. 3,127,000 as liquidated damages (LD) at the rate of Rs. 0.2 percent per day of delay.

During audit of NDMA for the financial year 2022-23, it was observed that total LD charges which were required to be deducted amounted to Rs. 31.890 million, whereas, an amount of Rs. 3.127 million only was deducted which resulted in less recovery of Rs. 28.762 million LD charges from the supplier. Details are at **Annexure-V**.

Audit held that less deduction of LD charges resulted in loss to the public exchequer.

Initial observation was issued on 13.10.2023. The management replied that 2.00 million mosquito nets were purchased for the flood-affected. A quantity of 0.502 million nets were delivered on the same day i.e. 26.08.2022 while balance quantity of 1.497 million were scheduled for delivery by 14.09.2022 due to a daily production capacity of 0.100 million. Further, liquidated damages of Rs. 3.127 million (@ 0.2% per day) were deducted and recovered from the vendor for late delivery beyond the deadline.

DAC meeting was held on 29.12.2023. The DAC decided that NDMA shall examine the case of the supplies delivered beyond the agreed delivery time and grant / notify Extension of Time (EoT) after recording proper reasons and justification.

Audit recommends implementation of DAC decision.

(Para No. 01 of AIR 2022-23 NDMA)

3.4.12 Non-Conducting of Independent Third Party Audit of Donor Assistance for Flood Relief 2022

According to Prime Minister Office, Islamabad letter No 3(1)/DS(Cab)/2022(559) dated 8th September 2022, “To ensure full transparency and accountability of donor assistance received for flood relief and rehabilitation 2022, the Prime Minister is pleased to direct that independent Third Party Audit by reputed chartered accountancy firms shall be arranged both by federal and provincial implementation agencies, in consultation with the respective donors”.

National Disaster Management Authority (NDMA) received ADB grant amounting to USD 3.00 million for flood affectees 2022 (Grant No. 0844-PAK) and incurred expenditure amounting to USD 2.802 million (equivalent to Rs. 775.192 million) out of total grant during financial year 2022-23.

Further, NDMA also received other donations amounting to Rs. 304.898 million for flood 2022 affectees and incurred expenditure amounting to Rs 4.934 million out of these donations during financial year 2022-23. Details are as under:

(Rs. in million)

Sr.No.	Description	Amount
1.	Donation received from Serena Hotel Islamabad	20.000
2.	Donation received from Asian Disaster Preparedness Center (ADPC)	6.000
3.	Donation received from Kuwait Embassy	278.898
Total		304.898

During audit of NDMA for the financial year 2022-23, it was observed that independent third party audit from reputed chartered accountancy firm of the donations/grants received for flood 2022 was not carried out by NDMA.

Audit held that non-arrangement and carrying out of independent third party audit from chartered accountancy firm was violation of directions of Prime Minister’s office.

Initial observation was issued on 24.11.2023. The management replied that the grant was mentioned in the Annual Financial Statement (AFS) of NDMA for the Financial Year 2022-23 and the same was audited by the certification audit team from the O/o the Directorate General Audit (Climate Change & Environment), Islamabad.

The reply was not acceptable because independent third party audit from chartered accountancy firm was required to be carried out in compliance of the instructions of Prime Minister’s office.

DAC meeting was held on 29.12.2023. DAC directed NDMA to arrange third party audit of the funds in respect of ADB Grant for flood-2022.

Audit recommends implementation of DAC decision.

(Para No. 24 of AIR 2022-23 NDMA)

Chapter 4

Ministry of Climate Change and Environmental Coordination

Islamabad

4.1 Introduction

A. The Government of Pakistan in exercise of the powers conferred by Articles 90 and 99 of the Constitution of Islamic Republic of Pakistan constituted the Ministry of National Disaster Management to handle the functions retained at the federal level after the 18th Amendment. The new Ministry was envisaged to act as a reporting agency for international /national commitments and coordinate to enable provinces to develop their capacities to effectively handle their responsibilities.

The Ministry of National Disaster Management was later renamed as Ministry of Climate Change owing to the magnitude and recurrence of climate change related disasters, such as consecutive floods of 2010, 2011 and 2012. The Ministry of Climate Change has been vested with the mandate to comprehensively address disaster management along with spearheading national climate change initiatives related to adaptation and mitigation. The Ministry of Climate Change was renamed as Ministry of Climate Change and Environmental Coordination vide Cabinet Secretariat (Cabinet Division) Government of Pakistan Memorandum dated 20.04.2023.

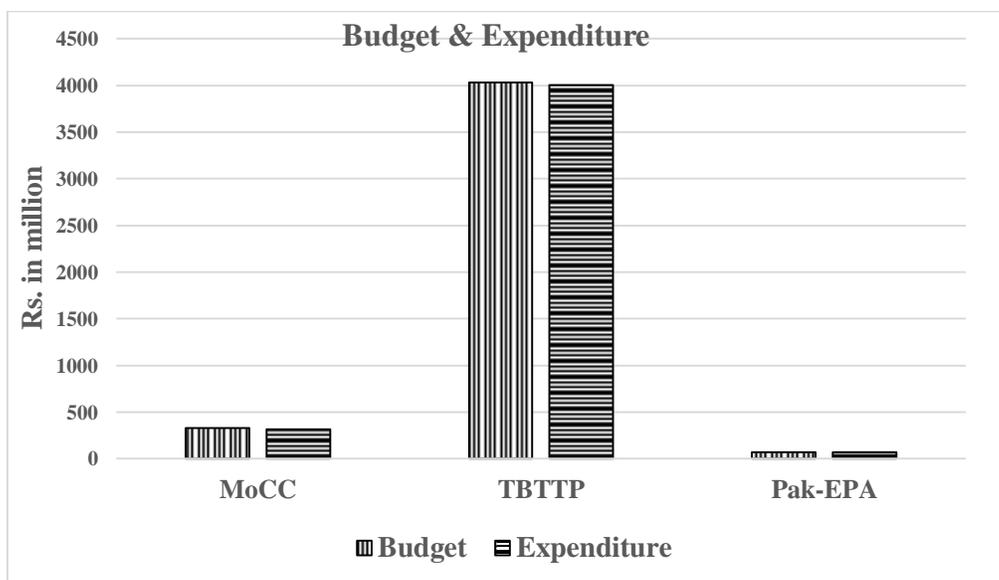
B. Comments on Budget and Accounts of audited entities (Variance Analysis)

(Rs. in million)

Name of Office	Budget Allocation	Expenditure	Lapse of funds/saving
Ministry of Climate Change & Environmental Coordination, Islamabad	326.988	316.410	10.578
Capacity Building on water quality	22.990	21.911	1.079
Climate Resilient Urban Settlement Unit	16.659	15.415	1.243
Ten Billion Tree Tsunami Programme	4,031.000	4,005.630	25.370
Pakistan Environmental Protection Agency (Pak-EPA)	70.130	69.539	0.591

Source: Budget and expenditure statements

The graphical representation of budget and expenditure of MoCC and its attached departments is as under:



C. Sectoral Analysis

The subject of environment and climate change has attracted the attention of policy makers worldwide in the last few decades. Due to drastic changes in the global climate and emerging threats, the governments around the world are focusing on policies and plans to mitigate risks as well as invest in different ventures for sustainable development.

According to Long Term Climate Risk Index (CRI), Pakistan was ranked amongst the top ten most climate change affected countries during 2000-2019¹⁴. The country is prone to a number of hazards such as floods, earthquakes, droughts, glacial lake outburst flood (GLOF) and landslides etc. In past, Pakistan has witnessed massive human, structural and financial losses e.g. the consecutive floods during 2010 to 2014 have resulted in monetary losses of over USD 18 billion with 38.12 million people affected, 3.45 million houses damaged and 10.63 million acres of crops destroyed. Agricultural sector growth dropped from 3.5% to 0.2% between 2009 and 2010 due to 2010 flood. Similarly, 1,200 people died in Karachi during unprecedented heat wave in 2015¹⁵.

In the aftermath of monsoon season 2022, massive rains and flash floods caused widespread damages impacting over 33 million people in Pakistan while the provinces of Sindh and Balochistan have been the most affected, all other provinces and regions were also affected at varying scales with massive damage to infrastructure and livelihood¹⁶. Hundreds and thousands of peoples were displaced with over 6.500 million homes washed away / damaged.

Pakistan is party to a number of regional and international environmental agreements and forums e.g. UNFCCC, UNCCD, Cartagena Protocol, Nagoya Protocol, CITES, IPBES, Ramsar Convention, Malé

¹⁴Global Climate Risk Index 2021 (German Watch)

¹⁵ Pak INDC Report

¹⁶ <http://paistanconsultehuston.org/prime-ministers-flood-relief-fund-2022>

Declaration on Trans-boundary Air Pollution, SACEP, SAARC, UNEP, UN Habitat, UNICEF, UNCSD, GLOBE etc. Ministry of Climate Change works as a focal federal institution to fulfill international obligations under various multilateral environmental agreements (Conventions, Protocols and Treaties etc.) to establish National Environmental Quality Standards and facilitate & harmonize environmental standards, laws, acts and policies at national level.

Attached Departments of Ministry of Climate Change and Environmental Coordination(MoCC&EC)

The Ministry of Climate Change carries out its functions through various attached departments as under:



PSDP allocation for FY 2022-23 & major projects / programs of MoCC

Under the Federal PSDP 2022-23 for Climate Change Division, the total allocation was Rs. 9,500.00 million.¹⁷ The utilization of the funds and major PSDP projects / programs of MoCC are tabulated below:

(Rs. in million)

Sr. No.	Name of Project	Funds released during 2022-23	Utilization up to 30.06.2023
1.	Capacity Building on Water Quality Monitoring & SDG (6.1)	22.990	21.911
2.	Climate Resilient Urban Human Settlement Unit	16.659	15.415
3.	Up-scaling of Green Pakistan Programme (Revised)	4,031.000	4,005.630

Source: Funds and expenditure statements provided by MoCC

Ten Billion Tree Tsunami Program (TBTP) is a major ongoing project of Ministry of Climate Change in terms of budget and expenditure. An analysis of physical performance of forestry component of TBTP for the financial year 2019-20 to 2022-23 is as under:

(Figures in million)

	No. of plants (planted/ regenerated/distributed)
--	---

¹⁷ Federal PSDP 2022-23

Sr. No.	Province/ Territory	Target as per PC-I (2019-23)	Achievement (2019-23)	Remaining Target	%age of Achievement
1.	Punjab	466.00	329.47	136.53	71%
2.	Sindh	1,000.00	794.76	205.24	79%
3.	KP	1,000.00	695.58	304.42	70%
4.	Balochistan	100.00	17.37	82.63	17%
5.	AJK	560.00	161.68	398.32	29%
6.	GB	170.00	69.99	100.01	41%
Total		3,296	2,068.86	1,227.14	63%

Source: statement provided by TBTP management

Moreover, the Ministry has undertaken a number of foreign funded projects relating to a variety of issues concerning environment. The projects are detailed as under:

Sr. No.	Title
1.	Glacial Lake Outburst Flood (GLOF-II)
2.	Transforming the Indus Basin with Climate Resilient Agriculture and Water Management
3.	Pakistan Snow Leopard & Ecosystem Protection Program (PSLEP)
4.	National Ozone Unit

Source: <http://www.mocc.gov.pk>

Plans and Policies

The Ministry of Climate Change and Environmental Coordination (MoCC&EC) has formulated various policies/programs related to climate change and environmental issues. These include:

- i. National Action Program to Combat Desertification in Pakistan (2002)
- ii. National Environment Policy (2005)
- iii. National Water Policy (2005)
- iv. National Wetland Policy (2007)
- v. Drinking Water Policy (2009)
- vi. National Rangeland Policy (2010)
- vii. National Sanitation Policy (2012)
- viii. National Forest Policy (2016)

- ix. National Electronic Vehicle Policy (2019)
- x. National Climate Change Policy (2021)
- xi. National Biodiversity Strategies and Action Plan 2017-2030.

Source: <http://www.mocc.gov.pk>

Organizational Management and Governance

A sound organizational management and governance play a vital role in accomplishment of desired objectives. The findings of this report and previous audit reports indicate that the Government in Pakistan successfully installed a comprehensive governing framework related to environment and climate change. However, full benefits are still to be achieved due to non-operationalization and non-functioning of a number of important forums e.g. Pakistan Climate Change Authority. Moreover, key posts including Deputy Inspector General (Forest), Deputy Directors and Deputy Conservator were not filled. Non-appointment of key staff is likely to hamper the implementation of policies related to forest and achievement of stated objectives and targets related to environment and climate change in the country.

MoCC&EC executed a number of development schemes, however, the monitoring and evaluation of the schemes could not be carried out properly. The post of Chief Finance & Accounts Officer (CF&AO) could not be created even during financial year 2022-23 which was a violation of the PFM Act having consequences towards efficient financial management practices. Similarly, the post of Chief Internal Auditor was also not created in the Ministry depriving the management to install, review and update effective internal control mechanism.

Implementation

Ministry of Climate Change and Environmental Coordination is the apex policy making body which formulates policies related to environment and Climate Change. The implementation of these policies, programs and projects is the responsibility of a variety of implementation agencies at federal, provincial and district levels. These implementing agencies mainly include provincial Agriculture, Forest, Livestock, Fisheries & Irrigation Departments as well as the Federal & Provincial Environmental Protection Agencies. The cross-cutting nature of activities spanning over a number of agencies at various level of the government makes it difficult to effectively coordinate and follow-up the plans and program.

Table-I *Audit Profile of Ministry of Climate Change and Environmental Coordination Islamabad and its Attached Departments / Agencies*

(Rs. in million)

Sr. No.	Description	Total Nos.	Audited	Expenditure audited FY 2022-23	Revenue / Receipts audit FY 2022-23
1.	Formations	06	02	4,359.366	Nil

2.	• Assignment Account	01	01	Nil	Nil
	• SDAs	Nil	Nil	Nil	Nil
	• Others	06	06	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	03	02	Nil	Nil
4.	Foreign Aided Project (FAP) REDD+	01	01	465.761	Nil

4.2 *Classified Summary of Audit Observations*

Audit observations amounting to Rs. 232.683 million and USD 0.849 million have been raised in this report pertaining to Ministry of Climate Change and Environmental Coordination and its attached departments/ formations. Summary of audit observations classified by nature is as under:

Table –II *Overview of Audit Observations*

(Rs. in million)

<i>Sr. No.</i>	<i>Classification</i>	<i>PKR</i>	<i>USD</i>
1.	<i>Financial Management</i>	225.788	0.849
2.	Public Service Delivery / Performance	--	--
3.	<i>Irregularities</i>	6.895	--
A.	<i>HR / Internal Control Weaknesses</i>	--	--
B.	<i>Procurement</i>	6.895	--

4.3 *Brief comments on the status of compliance with PAC directives*

The Directorate General Audit (CC&E) Islamabad started auditing and reporting Ministry of Climate Change and Environmental Coordination Islamabad since 2018-19. Ten (10) Paras pertaining to the Audit Report of MoCC&EC for the Audit Year 2019-20 were discussed in the PAC meeting held on 25.11.2021. Current status of compliance with PAC directives for report discussed so far is given below:

	Number of Audit Paras	Compliance
--	------------------------------	-------------------

Audit Report	Discussed in PAC	Settled by PAC	Directives issued	PAC Directives fully implemented	PAC Directives partially implemented	Percentage
2019-20	10	03	07	05	02	85%

The Ministry is required to fully implement the remaining PAC directives.

4.4 AUDIT PARAS

Financial Management

4.4.1 Loss due to non-utilization of foreign grant – USD 848,669 (Rs. 186.165 million approx.)

According to Grant Agreement between Islamic Republic of Pakistan and International Bank for Reconstruction and Development, an amount of USD 7.814 million was allocated as Readiness Fund (REDD+ Readiness Preparation Grant) of the Forest Carbon Partnership Facility.

The REDD+ Project utilized an amount of USD 6.965 million till closure of the project i.e. 30.11.2023.

During audit of REDD+ Project for the financial year 2022-23, it was observed that out of the total grant (USD 7.814 million), Project management claimed and received an amount of USD 7.590 million through withdrawal applications during the period 2015-16 to 2022-23. Resultantly, an amount of USD 224,024 remained unclaimed till closure of the project.

It was further observed that out of claimed / received amount, only an amount of USD 6.965 million was utilized, leaving an amount of USD 624,645 (PKR 137.023 million) unutilized which was returned back to the donor.

Audit held that non-utilization of grant was serious lapse on the part of management resulting in loss to government amounting to USD 848,669 (USD 224,024 + USD 624,645) equivalent to Rs. 186.165 million. {USD 848,669.71 x Rs. 219.36 (exchange rate for the returned amount of Rs. 137.023 million)}

Initial observation was issued on 14.11.2023. The management admitted that the grant amount could not be fully utilized by the closing date due to various reasons i.e. high variation in dollar conversion rates, COVID-19, frequent transfers of NPDs/Secretary MoCC and non-approval of some of the planned activities by the NPD.

The management was requested to convene DAC meeting vide letters dated 14.11.2023 and 28.11.2023. However, the meeting was not convened by the PAO till finalization of this report.

Audit recommends that inquiry may be conducted by the controlling Ministry for fixing responsibility for non-utilization of the committed grant resulting in loss to the Government.

(Para No.1 of Financial Attest Audit Report of REDD+, FY 2022-23)

4.4.2 Loss due to non-declaration of MACF as non-profit organization – Rs. 28.459 million

According to Section 2, Clause 36 of Income Tax Ordinance 2001, non-profit organization means any person other than an individual, which is established for religious, educational, charitable, welfare or development purposes, or for the promotion of an amateur sport, formed and registered under any law as a non-profit organization and approved by the Commissioner for specified period, on application made by such person in the prescribed form and manner, accompanied by the prescribed documents and, on requisition, such other documents as may be required by the Commissioner.

Mountain Area Conservancy Fund (MACF) working under Ministry of Climate Change was established and registered in 2003 as company, as not-for-profit organization under Section 42 of Companies Ordinance,

1984. MACF maintained three bank accounts and funds amounting to Rs. 785.348 million was available on which profit of Rs. 134.861 million was earned during the financial year 2022-23.

During the audit of Ministry of Climate Change and Environmental Coordination (MoCC&EC) for the financial year 2022-23, it was observed that:

- i. MACF management did not applied for declaration of MACF as non-profit organization resultantly MACF was not included in 2nd schedule of Income Tax Ordinance 2001 and therefore, was not exempted from deduction of withholding tax.
- ii. The banks deducted an amount of Rs. 28.459 million on account of withholding tax on the profit / interest earned on the funds despite the fact that the entity being a non-profit organization was exempt from withholding tax. Details are as under:

(Rs. in million)						
Sr. No.	Account No.	Title of Account	Bank Name	Opening Balance	Profit earned	Withholding tax deducted
1.	0604591481001773	MACF	MCB ENERCON Building G-5/2 Islamabad	773.884	132.988	28.185
2.	2006308107		Silk Bank F-10 Markaz Islamabad	1.305	0.213	0.029
3.	2005176247		-do-	10.159	1.660	0.245
Total						28.459

Audit held that due to inaction on the part of the management, the MACF could not be included in 2nd schedule of Income Tax Ordinance and declared non-profit organization. Resultantly, banks withheld Income Tax on profit earned. This caused MACF a loss of amounting to Rs. 28.459 million.

Initial observation was issued on 24.07.2023. The management replied that in 29th Board Meeting of MACF held on 03.05.2023, it was proposed to engage a Legal Adviser but this item was not discussed as the board decided that, the available MACF amount may be equally transferred to the Biodiversity Funds established by KP and GB after fulfilling the required legal process and procedures.

The reply was not satisfactory as loss sustained to MACF due to non-declaration as non-profit organization since inception.

DAC meeting was held on 14.11.2023. The DAC directed the management to take up matter with FBR and submit report thereof within 30 days.

Audit recommends implementation of DAC decision within 30 days.

Note: The issue was also reported earlier in the Audit Report for the Audit Year 2022-23 vide Para No. 2.4.6 having financial impact of Rs. 13.922 million. Recurrence of same irregularity is a matter of serious concern.

(Para No. 7 of AIR 2022-23, MoCC&EC)

4.4.3 Non-utilization of Clean Environment Fund and non-investment of the surplus money of Company – Rs. 11.164 million

According to Clause III of Memorandum of Association, 'Clean Environment Fund' was established to regulate, conserve and sustainably manage natural resources under the Federal Government's jurisdiction and provide technical, financial and institutional assistance. Additionally, the CEF aims to establish and maintain analytical Geographic Information System (GIS) labs, promote research for sustainable environmental protection and collaborate with environmental NGOs and civil society for awareness and advocacy.

Further, according to Section IV(10) of Memorandum of Association (MoA) of Clean Environment Fund, in order to achieve its object, the company shall exercise the power to invest the surplus moneys of the company not immediately required in such a manner as may from time to time be determined by the company.

The Clean Environment Fund (CEF) operating under the Pakistan Environmental Protection Agency (Pak-EPA), was established in 2015 as a not-for-profit organization under Section 42 of the Companies Ordinance, 1984. In June 2016, an initial fund of Rs. 6.790 million was deposited into CEF account. During the period from June 2016 to May 2019, additional funds amounting to Rs. 4.374 million were received through donations and fines. The total fund with CEF as on 30th May 2019 was Rs. 11.164 million as per available bank statement.

During the audit of Pak-EPA for the financial year 2021-22 and 2022-23, it was observed as under:

- i. There was no record and bank statement available with the management to ascertain the exact amount in the Fund as on 30.06.2023.
- ii. The available funds with CEF were not being utilized to achieve the stated objectives.
- iii. On one hand the available funds with CEF remained unutilized, while on the other hand, the unutilized funds were not invested in profitable opportunities to earn profit on the parked funds.
- iv. The management did not applied for declaration of CEF as non-profit organization resultantly CEF was not included in 2nd schedule of Income Tax Ordinance 2001 and therefore, was not exempted from deduction of withholding tax.

Audit held that non utilization of CEF for intended purposes and non-investment of the parked funds resulted in loss to the Government.

Initial observation was issued on 25.08.2023. Management replied that CEF is currently dormant and notification has not been issued in respect of members for Board of Directors (BoDs). Upon reactivation of the Fund, the same will be got included in 2nd schedule under Income Tax Ordinance 2001. The surplus amount of the fund will be invested in accordance with the decision / approval of Board of Directors (BoD).

The PAO was requested to convene DAC meeting vide letters dated 14.09.2023, 10.10.2023 and 30.10.2023. However, the meeting was not convened by the PAO till finalization of this report.

Audit recommends that the CEF may be operationalized as conceived and surplus funds may be invested as required under MoA.

(Para No. 7 of AIR 2022-23, Pak-EPA)

Public Service Delivery / Performance

4.4.4 Non-achievement of plantation targets under TBTP and non-plantation of 1,227.14 million plants

According to Para 4 of PC-I of Ten Billion Tree Tsunami Program (TBTP), funds amounting to Rs. 109,380 million were earmarked under forestry component for the period 2019-20 to 2022-23. Further, according to Para 11.6, the programme will be funded by Government of Pakistan, co-financed by Provincial Governments and Planning Commission will release funds in a bi-annual manner.

Ministry of Planning Development & Special Initiatives (M/o PD&SI) released funds amounting to Rs. 24,052.800 million to TBTP under forestry component during financial year 2019-2023.

During Audit of National Strategic Support Unit of Ten Billion Tree Tsunami Program (NSSU-TBTP), Islamabad for financial years 2022-23, it was observed that:

- i. During the period from 2019 to 2023, against the target plantation of 3,296.00 million plants, only 2,068.86 million plants were actually planted. As a result, 1,227.14 million plants could not be planted. Details are as under:

(Figures in million)

Sr. No.	Province/ Territory	No. of plants (planted/ regenerated/distributed)			
		Target as per PC-I (2019-23)	Achievement (2019-23)	Remaining Target	%age of Achievement
1.	Punjab	466.00	329.47	136.53	71%
2.	Sindh	1,000.00	794.76	205.24	79%
3.	KP	1,000.00	695.58	304.42	70%
4.	Balochistan	100.00	17.37	82.63	17%
5.	AJK	560.00	161.68	398.32	29%
6.	GB	170.00	69.99	100.01	41%
Total		3,296	2,068.86	1,227.14	63%

- ii. Further, beside plantation, various other allied activities were also provided in the Umbrella PC-I for Sindh, KP, Balochistan, AJK and GB regions. However, the targets related to allied activities were also not met by these regions during the duration of PC-I i.e. 2019-2023. Details are at **Annexure-VI**.
- iii. During the financial year 2022-23, 50% of the positions at NSSU and PSSUs remained vacant. Details are at **Annexure-VII**.
- iv. Key positions of Deputy Project Director Wildlife, Media & Communication and Manager GIS remained unfilled at NSSU.
- v. PSSUs remained non-functional and key positions of Regional Project Directors (RPDs) in Forestry and Wildlife were vacant since the inception of programme.

Audit held that failure to plant 1,227.14 million trees and the non-achievement of targets for allied activities led to non-achieving the objectives of the Ten Billion Tree Tsunami Programme (TBTTP). Further, non-appointment on key positions hindered the implementation and oversight of forestry and wildlife initiatives under the programme.

Initial observation was issued on 10.08.2023. The management replied that as per the Umbrella PC-I, Rs. 64,099 million was allocated for the forestry component for financial year 2019-2023. However, only Rs. 24,052 million (37.5%) were released to executing agencies. Despite the partial funding, the program has achieved 63% of its plantation targets, marking a significant success.

DAC meeting was held on 14.11.2023. The DAC directed to take up the matter with Mo PD&SI and Ministry of Finance regarding non-achievement of targets due to non-release of funds in accordance with PC-I. The matter may also be brought to the notice of ECNEC.

Audit recommends implementation of DAC decision.

(Para No. 12 of AIR 2022-23, TBTTP)

4.4.5 Non-carrying out proper geo-positioning of plantation sites to ascertain plantation progress under TBTTP

According to Annex III of PC-I of Ten Billion Tree Tsunami Program (TBTTP), Geographic Information Systems (GIS) Lab will be established at National Strategic Support Unit (NSSU) Islamabad with main objective of GIS based monitoring system through establishing the hardware and software tools. GIS Lab will help in evidence-based monitoring of on ground plantation progress and development of National Geo-Database for Forestry & Wildlife.

National Strategic Support Unit of Ten Billion Tree Tsunami Program (NSSU-TBTTP) under the MoCC&EC established a GIS Section at NSSU Islamabad for progress review and monitoring. Details of GIS data maintained by NSSU is as under:

Sr. No.	Provinces	Total No. of Sites 2019-23 as Forestry section NSSU	2019-2022 as per GIS Section			
			Reported Data by PMUs	Data on GIS format	Data not available on GIS Format	Monitored Sites by NSSU
1.	Punjab	3,290	2,575	2,560	15	108
2.	Sindh	1,013	956	956	-	71
3.	Khyber Pakhtunkhwa	10,157	10,099	8,305	1,794	434
4.	Balochistan	408	326	326	-	64
5.	Gilgit	5,897	3,847	3,747	100	264
6.	AJ&K	2,071	1,523	1,512	11	227
Total		22,836	19,326	17,406	1,920	1,168

During Audit of NSSU-TBTTP Islamabad for financial years 2022-23, it was observed as under:

- i. A total of 22,836 plantation sites for the Forestry Component were reported to NSSU-TBTTP from all provinces between FY 2019-20 to 2022-23. However, PMUs reported only 17,406 plantation sites during the same period in GIS format. The GIS format data for 5,430 sites (22,836 - 17,406) was not submitted by the Project Management Units (PMUs).
- ii. During financial year 2019-22, physical monitoring was conducted for only 1,168 sites, representing 6% of the total reported 19,326 GIS-integrated plantation sites.
- iii. No database for TBTTP wildlife component activities was developed in GIS system.
- iv. An amount of Rs. 37.00 million was allocated in the PC-I for purchase of various essential equipment i.e. computer server, GPS devices, imaging drone with HD camera and sensors, 3D LIDAR sensor, android application development tools, ArcGIS software products, high-resolution satellite imagery, as well as resources for printing and forest atlas preparation. However, these essential equipment had not been procured till date of audit viz November 2023.

Audit held that non-obtaining of GIS format based data of 5,430 plantations sites and non-development of wildlife component database was serious lapse on the part of management which resulted into lack of proper evidence based physical monitoring.

Initial observation was issued on 10.08.2023. The management replied that the non-availability of GIS format data for 1,794 sites in KP was due to security reasons. Physical monitoring was conducted in AJK, GB, Balochistan, and KP for FY 2020-21 and 2021-22. A wildlife geo-database existed for spatial activities such as national parks. The GIS analysts utilized free software like QGIS, ILWIS, and MAVERICK which not only successfully completed activities but also saved a significant amount of financial resources for the Government of Pakistan.

The reply of the management was not satisfactory because no documentary evidence for actual monitored sites was provided. Further, data from TBTTP indicated only 6% monitoring rate which was not justified. Moreover, no supporting documentation or certificate regarding the availability of GIS format data for wildlife activities and the analysis of non-overlapping project activities was provided.

DAC meeting was held on 14.11.2023. The DAC directed that the matter may be placed before the PSC for deliberation specifically on the issue of (1) GIS format data availability and analysis, (2) physical monitoring of forestry and wildlife component activities and (3) GIS Lab equipment, procurement of high resolution satellite imagery for Pre & Post plantation analysis, forest atlas preparation and printing etc. The outcome of the same may be presented in the next DAC meeting.

Audit recommends implementation of DAC decision within 30 days.

(Para No. 17 of AIR 2022-23, TBTTP)

4.4.6 Non-achievement of Provincial Wildlife Components under Ten Billion Tree Tsunami Program

According to Para 4 of PC-I of Ten Billion Tree Tsunami Program (TBTTP), an amount of Rs. 15,593 million was earmarked under wildlife component. Further, according to Para 11.6, the program will be funded by Government of Pakistan, co-financed by Provincial Governments and Planning Commission will release funds in a bi-annual manner.

Federal Governments released funds amounting to Rs. 318.358 million to Provincial Wildlife Departments during financial year 2022-23 for wildlife activities under the Ten Billion Tree Tsunami Program (TBTP).

During Audit of National Strategic Support Unit of Ten Billion Tree Tsunami Program (NSSU-TBTP), Islamabad for financial years 2022-23, it was observed that:

- i. The Provincial Wildlife Departments did not initiated various activities/targets as provided in work plan/PC-I. Details are as under:

(Rs. in million)

Sr. No.	Name of Province/Territory	No. of activities not initiated	Annexures
1.	AJ&K	2	VIII (a)
2.	GB	12	VIII (b)
3.	Punjab	6	VIII (c)
4.	Balochistan	14	VIII (d)
5.	Sindh	21	VIII (e)
6.	KP	10	VIII (f)

- ii. Provincial Wildlife Department Sindh could not utilize released funds on Wildlife activities due to non-finalization of rules and regulations.
- iii. An amount of Rs. 858.280 million was released to Provincial Wildlife Department Punjab (Rs. 712.041 million revalidated from previous financial years and Rs. 146.239 million released during FY 2022-23). However, the department could utilize funds amounting to Rs. 221.215 million while the balance amount of Rs. 637.065 million (Rs. 110.285 million and Rs. 526.780 million) remained un-spent and un-released at spending level.

The targets of wildlife component could not be initiated and funds could not be utilized, however NSSU did not take up the matter for corrective measures and achievement of the planned targets.

Audit held that non-initiation of wildlife activities resulted into non-achievement of planned targets of the program.

Initial observation was issued on 10.08.2023. The management replied that TBTP will ensure that all activities were expedited and completed by the executing agencies to achieve intended outcomes of the program.

DAC meeting was held on 14.11.2023. The DAC directed TBTP to prepare a progress report on the provincial wildlife component and place it in the PSC meeting for deliberation and the outcome of the same may be shared in the next DAC meeting.

Audit recommends implementation of DAC decision within 30 days.

(Para No. 10 of AIR 2022-23, TBTP)

4.4.7 Non addressing the delays and challenges encountered in the implementation/execution of TBTPactivities

According to the decision made during the 3rd Programme Steering Committee (PSC) meeting on 22.12.2022 (Agenda item No. 6), a summary will be forwarded through the Development Wing of MoCC&EC to formalize matters before the competent forum, i.e., the Executive Committee of the National Economic Council (ECNEC). This pertains to the delays and challenges encountered in the implementation/execution of various programs/ activities under TBTP.

Ten Billion Tree Tsunami Program (TBTP) conceived various projects in the Umbrella PC-1 amounting to Rs. 10,285 million during the financial year 2019-23. Details of projects are as under:

(Rs. in million)

Sr. No.	Name of Projects	Cost as per PC-I
1.	Pollution Load Assessment Network (PLAN) project for improvement of air quality of Islamabad	500.00
2.	Development of National Parks, wetlands, ecotourism sites, safari parks etc.	3,895.00
3.	Establishment of Zoo cum Botanical Garden	3,000.00
4.	Development and Execution of Comprehensive Plan for Islamabad as a model city in terms of Horticulture Landscape	1,200.00
5.	Development & Management of Margalla Hills National Park and or Islamabad Zoo	1,690.00
Total		10,285.00

During Audit of NSSU-TBTP Islamabad for the financial years 2022-23, it was observed that management did not submit the matter to the competent forum / ECNEC with regard to delays and challenges faced during the implementation / execution of programme activities in line with PSC directions.

Audit held that non-forwarding of matter to the competent forum / ECNEC was non-adherence to the instruction issued by PSC resulting into non-addressing of delays and challenges encountered in the implementation/execution of various programs/ activities under TBTP.

Initial observation was issued on 10.08.2023. The management replied that the matter has been communicated to the Development Wing of MoCC&EC for onward deliberations with MoPD&SI.

DAC meeting was held on 14.11.2023. The DAC directed the Development Wing of MoCC&EC to take up the matter at ECNEC level and progress report may be presented in the next DAC meeting.

Audit recommends implementation of DAC decision within 30 days.

(Para No. 11 of AIR 2022-23, TBTP)

4.4.8 Non-convening of Project Steering Committee meetings of Climate Resilient Urban Human Settlements Unit

According to Para 13 of PC-I of Climate Resilient Urban Human Settlements (CRUSH), the Project Steering Committee (PSC) constitution and charter will be notified by the MoCC&EC. The PSC members will include the representatives of Federal Ministry of Finance (FAs Organization), Ministry of Planning, Development & Reforms (Chief-PP&H/PUP&P Center), all Provincial Urban Units' and the UN-Habitat (Pakistan). Moreover, the PSC will meet after regular intervals to over-view the operation and activities of the CRUSH and issue the policy guidelines to improve and augment the role of Unit towards ensuring the climate resilient urban planning and development throughout Pakistan.

Ministry of Climate Change and Environmental Coordination (MoCC&EC) initiated a PSDP scheme during the financial year 2019-20 titled 'Climate Resilient Urban Human Settlements (CRUHS)' with a total cost of Rs. 90.158 million. An amount of Rs. 15.415 million was incurred on project activities during the financial year 2022-23. The Project Steering Committee (PSC) was notified by the Ministry on 17.08.2020.

During audit of MoCC&EC for the financial year 2022-23, it was observed that PSC convened its 1st meeting on 27.01.2021, however, no meeting was convened during the financial year 2021-22 and 2022-23 till conclusion of audit i.e. August 2023.

Audit held that non-convening of regular interval meetings of PSC resulted into weak oversight of project implementation along with lack of strategic guidance required to achieve the program objectives.

Initial observation was issued on 24.07.2023. The management replied that first PSC meeting was conducted on 27.01.2021 and the second PSC meeting will be arranged in forthcoming days positively.

DAC meeting was held on 14.11.2023. The DAC directed that PSC meeting may be convened within 30 days and minutes of meeting may be shared with Audit authorities.

Audit recommends implementation of DAC decision within 30 days.

(Para No. 16 of AIR 2022-23, MoCC&EC)

4.4.9 Non convening of Annual General Meetings and Board meetings of Clean Environment Fund

According to Section 21 of Companies Act 2017, a general meeting, to be called Annual General Meeting, shall be held in accordance with the provisions of Section 132, within sixteen months from the date of incorporation of the company and thereafter, once at least in every year within a period of one hundred and twenty days following the close of its financial year.

Further, according to Rule 6 of Corporate Governance Rules 2013, the Board shall meet at least once, each quarter of a year, to ensure that it discharges its duties and obligations to shareholders and other stakeholders efficiently and effectively. In case of non-compliance, the same shall be reported to the Commission with reasons of non-compliance, within fourteen days of the end of the quarter in which the meeting should have been held.

Clean Environment Fund (CEF) working under control of Pakistan Environmental Protection Agency, Islamabad was established and registered in 2015 as company as not for profit organization under section 42 of the Companies Ordinance, 1984.

During the Audit of Pak-EPA for the financial year 2021-22 and 2022-23, it was observed as under:

- i. No Annual General Meeting (AGM) has been convened since the inception of the company in 2015 till date of the audit i.e. August 2023.
- ii. Only one Board meeting was held on 18.06.2015, and no further Board meetings have been convened till August 2023.

Audit held that non conduct of AGM and BoDs meetings was violation of rules resulting in non-achievement of purposes of the CEF.

Initial observation was issued on 25.08.2023. The management replied that Clean Environment Fund is lying dormant and Pak-EPA has made efforts to get the fund reactivated. As soon as it will be activated, the Annual General Meeting (AGM) of all the members / board of directors will be scheduled accordingly.

The PAO was requested to convene DAC meeting vide letters dated 14.09.2023, 10.10.2023 and 30.10.2023. However, the meeting was not convened by the PAO till finalization of this report.

Audit recommends that necessary steps may be taken to operationalize the Fund by convening of AGM and holding regular Board meetings.

(Para No. 6 of AIR 2022-23, Pak-EPA)

4.4.10 Non-existence of mechanism for post monitoring of environmental approvals granted by Pak-EPA

According to Rule 17(1) of Pak-EPA Review of Initial Environmental Examination & Environmental Impact Assessment Regulations, 2000, for purposes of verification of any matter relating to the review or to the conditions of approval of an IEE or EIA prior to, during or after commencement of construction or operation of a project, duly authorized staff of the Federal Agency shall be entitled to enter and inspect the project site, factory building and plant and equipment installed therein

Pakistan Environmental Protection Agency (Pak-EPA) had issued environmental approvals to the proponents to commence the projects with certain conditions. Details are attached at **Annexure-IX**.

During audit of Pak-EPA for the financial year 2021-22 to 2022-23, it was observed as under:

- i. Conditional environmental approvals of the projects were granted, however, compliance of the conditions of approval of IEE/EIA was not checked and reviewed by the Agency.
- ii. No post monitoring visits were carried out for the purpose of verification and inspection of projects.
- iii. The proponents had not submitted compliance reports of IEE and EIA conditions in respect of the approved projects.

Audit held that non-existence of a proper post monitoring mechanism of approved Initial Environmental Examination (IEEs) and Environmental Impact Assessment (EIAs) resulted in unchecked activities leading to environmental degradation.

Initial observation was issued on 25.08.2023. The management responded that due to shortage of staff in the EIA section of Pak-EPA, effective monitoring cannot be ensured. However, Pak-EPA constituted an

Environmental Monitoring Team (EMT) on 05.09.2023, aiming to fulfill post-compliance monitoring requirements for approved projects.

The PAO was requested to convene DAC meeting vide letters dated 14.09.2023, 10.10.2023 and 30.10.2023. However, the meeting was not convened by the PAO till finalization of this report.

Audit recommends that effective post monitoring may be carried out by the EPA to ensure compliance of conditions of environmental approvals, environmental laws, rules and regulations.

Note: The issue was also reported earlier in the Audit Report for the Audit Year 2022-23 vide Para No. 2.4.18. Recurrence of same irregularity is a matter of serious concern.

(Para No. 8 of AIR 2022-23, Pak-EPA)

4.4.11 Non classification of industrial units by Pak EPA

According to Rule 4 of National Environment Quality Standards (Self-Monitoring and Reporting by Industry) Rules, 2001, on the basis of the pollution level of an industrial unit, the Director General shall classify the unit into Category A, B or C for liquid effluents, and category A or B for gaseous emissions.

Further, according to Rule 3, all industrial units shall be responsible for correct and timely submission of Environmental Monitoring Reports to the Federal Agency. Rule 12 provides that the Federal Agency shall compile, analyze and manage the data contained in the Environmental Monitoring Reports with the objective, inter alia, of enforcing the National Quality Standards and developing an environmental database.

Pakistan Environmental Protection Agency, Islamabad (Pak-EPA) is a regulatory body established under Section 5 of Pakistan Environmental Protection Act, 1997 for the protection, conservation, rehabilitation and improvement of the environment and prevention and control of pollution.

During audit of Pak-EPA for the financial year 2021-22 to 2022-23, it was observed as under:

- i. Pak-EPA had not classified the industrial units into Category A, B or C for liquid effluents, and category A or B for gaseous emissions.
- ii. Industrial units were not submitting monthly, quarterly and annual environmental monitoring reports.

Audit held that non-classification of industrial units was serious lapse on the part of the management which resulted into non-compilation, analysis and development of environmental database of Islamabad Capital Territory (ICT).

Initial observation was issued on 25.08.2023. The management replied that industrial units have been categorized according to the Pakistan Environmental Protection Act 1997, distinguishing between liquid effluent and gaseous emissions. Within Islamabad Capital Territory (ICT), industrial facilities are situated in three out of five different zones. Some industries submit approved environmental compliance reports to Pak-EPA. Notices will be issued to ensure that industries submit comprehensive environmental compliance reports, inclusive of management and analysis of data. The assignment is currently in progress and will be concluded at the earliest.

The reply of the management was not satisfactory as details of all classified units operating within the territorial jurisdiction of Pak-EPA was not provided. Further, the management admitted that not all industrial units were submitting monitoring reports, leading to the non-development of an environmental database

The PAO was requested to convene DAC meeting vide letters dated 14.09.2023, 10.10.2023 and 30.10.2023. However, the meeting was not convened by the PAO till finalization of this report.

Audit recommends that classification the industrial unit may be carried out and mechanism may be developed for reporting of these unit on monthly, quarterly and annual basis besides development of environmental database.

(Para No. 9 of AIR 2022-23, Pak-EPA)

4.4.12 Improper maintenance of record of IEE and EIA projects in contravention of EPA Act, 1997

According to Section(7) of Pakistan Environmental Protection Act, 1997, the Federal Agency shall maintain separate Registers for IEE and EIA projects, which shall contain brief particulars of each project and a summary of decisions taken thereon. The registers shall be open to inspection by the public at all reasonable hours and the disclosure of information in such Registers shall be subject to the restrictions specified in sub-section (3).

Further, according to Regulation 21 of the Pakistan Environmental Protection Agency (Review of IEE and EIA) Regulations, 2000, the Agency shall maintain separate registers for IEE and EIA projects, on the format specified in Schedule VIII.

Pakistan Environmental Protection Agency (Pak-EPA), Islamabad issued Initial Environmental Examination (IEE) and Environmental Impact Assessment (EIA) approvals to the various proponents during the financial year 2021-22 and 2022-23.

During audit of Pak-EPA Islamabad for the financial year 2021-22 and 2022-23, it was observed that the record of environmental approval was maintained in soft form which did not meet the requirements of Section 7 of the EPA Act.

Audit held that non-maintenance of IEE/EIA registers was not justified resultantly the approvals granted lacked authentication and was susceptible to changes and manipulations. Moreover, due to non-maintenance of proper registers, the inspection by public was not possible.

Initial observation was issued on 25.08.2023. The management replied that separate registers have been prepared to document projects undergoing Initial Environmental Examination and Environmental Impact Assessment.

The reply of the management was not satisfactory as documentary evidence was not provided in support of reply.

The PAO was requested to convene DAC meeting vide letters dated 14.09.2023, 10.10.2023 and 30.10.2023. However, the meeting was not convened by the PAO till finalization of this report.

Audit recommends that proper registers on the prescribed form may be maintained for IEE and EIA approvals.

(Para No. 11 of AIR 2022-23, Pak-EPA)

4.4.13 Delay in processing of Initial Environmental Examination (IEE) and Environmental Impact Assessment (EIA)

According to the Rule 11 of Pakistan Environmental Protection Agency Review of Initial Environmental Examination and Environmental Impact Assessment Regulations, 2000, the Federal Agency shall make every effort to carry out its review of the Initial Environmental Examination (IEE) within forty five (45) days, and of

the Environmental Impact Assessment (EIA) within ninety (90) days, of issue of confirmation of completeness under clause (a) of sub-regulation (1) of regulation 9.

Pakistan Environmental Protection Agency (Pak-EPA), Islamabad issued Initial Environmental Examination (IEE) and Environmental Impact Assessment (EIA) approvals to the various proponents during the financial year 2021-22 and 2022-23.

During audit of Pak-EPA Islamabad for the financial year 2021-22 and 2022-23, it was observed as under:

- i. Proponents submitted several IEE/EIA cases for approval, however, approvals were delayed and not granted within the stipulated 45 and 90 days period as required under the rules. Details are at **Annexure-X**.
- ii. In several cases, the proponents had submitted EIAs for environmental approval, however, despite the passage of a considerable period, approvals were not finalized and granted till conclusion of audit i.e. August 2023. Details of such cases are at **Annexure-XI**.

Audit held that delayed processing and non-issuance of approvals within the specified time was violation of the Act.

Initial observation was issued on 25.08.2023. The management replied that the delay in processing IEE and EIA cases was due to non-provision, delayed, and incomplete provision of information. Further, capacity constraints in the EIA section also contribute to delays in the review process. Efforts are underway to address these challenges by increasing the capacity of the EIA Section through the filling of vacant positions.

The PAO was requested to convene DAC meeting vide letters dated 14.09.2023, 10.10.2023 and 30.10.2023. However, the meeting was not convened by the PAO till finalization of this report.

Audit recommends that Pak-EPA may devise a strategy keeping in view the available resources to fast-track the processing of environmental approvals and their issuance strictly within the specified period.

Note: The issue was also reported earlier in the Audit Report for the Audit Year 2022-23 vide Para No. 2.4.17. Recurrence of same irregularity is a matter of serious concern.

(Para No. 12 of AIR 2022-23, Pak-EPA)

4.4.14 Improper functioning of Pakistan Environmental Protection Agency Laboratory

According to Section 6(2)(e) of Pakistan Environmental Protection Act 1997, the Federal Agency shall establish and maintain laboratories to help in the performance of its functions under this Act and to conduct research in various aspects of the environment and provide or arrange necessary assistance for establishment of similar laboratories in the private sector.

The Pakistan Environmental Protection Agency (Pak-EPA), Islamabad, established a laboratory with two sections i.e. water and air/emission sections. The agency appointed staff and procured equipment to carry out its functions.

During audit of Pak-EPA for the financial year 2021-22 and 2022-23, it was observed that major equipment in laboratory were non-functional / non-operational. Details are as under:

Sr. No.	Name of Section in Lab/NEQS wing	Total Number of Equipment	Number of Equipment non-function / non operational
1.	Water Section	41	21
2.	Air/emission Section	38	31

Audit held that non-functional laboratory equipment compromised Pak-EPA's ability to conduct essential environmental assessments and monitoring.

Initial observation was issued on 25.08.2023. The management replied that hardware and software issues, equipment reaching the end of their shelf life, obsolescence, and non-availability of spare parts led to non-functionality. Further, the budget constraints did not allow for repair /maintenance of the equipment. The department has requested a technical grant for equipment repair and funds amounting to Rs. 20.0 million have been allocated in the financial year 2023 to address these equipment issue.

The PAO was requested to convene DAC meeting vide letters dated 14.09.2023, 10.10.2023 and 30.10.2023. However, the meeting was not convened by the PAO till finalization of this report.

Audit recommends that management may take immediate steps to ensure that the EPA lab is fully functional and operational and all necessary equipment is in place.

(Para No. 14 of AIR 2022-23, Pak-EPA)

4.4.15 Non preparation and non-publishing Annual National Environmental Report on the state of the environment

According to the Section 6(1)(d) of the Pakistan Environmental Protection Act 1997, the Pakistan Environmental Protection Agency shall prepare and publish an Annual National Environmental Report on the state of environment.

Pakistan Environmental Protection Agency (Pak-EPA), Islamabad was required to prepare and publish an annual National Environmental Report on the state of environment.

During audit of Pak-EPA for the financial year 2021-22 and 2022-23 it was observed that Pak-EPA had not prepared and published the Annual National Environmental Report on the state of environment for the period 2021-22 and 2022-23.

Audit held that due to non-preparation and non-publication of Annual National Environment Report on the state of environment, the performance of EPA could not be ascertained by the stakeholders.

Initial observation was issued on 25.08.2023. The management replied that the delay in publishing the report was due to a shortage of human resources, financial constraints, and technical limitations including lack of experts and equipment. However, efforts are underway to compile scientific data, gather necessary materials, and maintain records for the forthcoming State of the Environment (SoE) report for Islamabad Capital Territory. Pak-EPA is committed to resume the publication of SoE reports starting from 2023 onwards.

The PAO was requested to convene DAC meeting vide letters dated 14.09.2023, 10.10.2023 and 30.10.2023. However, the meeting was not convened by the PAO till finalization of this report.

Audit recommends that National Environment Report may be prepared and published by Pak-EPA on an annual basis reflecting the state of environment in Pakistan.

Note: The issue was also reported earlier in the Audit Report for the Audit Year 2022-23 vide Para No. 2.4.15. Recurrence of same irregularity is a matter of serious concern.

(Para No. 15 of AIR 2022-23, Pak-EPA)

HR / Internal Control Weaknesses

4.4.16 Non-creation of posts of CFAO and CIA in Ministry of Climate Change and Environmental Coordination

According to Section 28(1) of Public Finance Management Act 2019, to assist Principal Accounting Officers in financial management, there shall be Chief Finance and Accounts Officer (CFAO) positions in Ministries and Divisions and Financial Advisers organization shall stand disbanded. Moreover, under Section 29(1) of the Act, the position of Chief Internal Auditor (CIA) shall be created.

Ministry of Climate Change and Environmental Coordination (MoCC&EC) was allocated budget amounting to Rs. 583.61 million in different cost centers during the financial year 2022-23. Details are as under:

(Rs. in million)

Sr. No.	Description	Budget allocation
1.	Ministry of Climate Change	326.988
2.	Islamabad Wild Life Management Board (IWMB)	52.295
3.	Zoological Survey of Pakistan (ZSP)	39.109
4.	Global Climate Impact Study Center	95.088
5.	Pak Environment Protection Agency	70.130
Total		583.61

During audit of MoCC&EC for the financial year 2022-23, it was observed that the post of Chief Finance and Accounts Officer (CFAO) and Chief Internal Auditor (CIA) were not created in the Ministry as required under the PFM Act.

Audit held that non-creation of posts of CFAO and CIA was violation of PFM Act, 2019 and Financial Management and Powers of Principal Accounting Officers Regulations, 2021 leading to overall weak financial management in the Ministry.

Initial observation was issued on 24.07.2023. The management replied that MoCC&EC has taken up the matter with Finance Division for creation of the post of CFAO and CIA. Finance Division informed that Auditor General of Pakistan is responsible to take up the case for creation of posts with Finance Division. Moreover, AGP has already taken up the case of creation of posts and the same is under consideration.

DAC meeting was held on 14.11.2023. The DAC directed MoCC&EC to pursue the case for the creation of posts of CFAO and CIA with Finance Division and AGP office.

Audit recommends implementation of DAC decision.

Note: The issue was also reported earlier in the Audit Report for the Audit Year 2022-23 vide Para No. 2.4.1. Recurrence of same irregularity is a matter of serious concern.

4.4.17 Non appointment of Climate Resilient Human Settlements Specialist and Environment Friendly Urban Infrastructure Specialist

According to Annex-III of PC-I of Climate Resilient Urban Human Settlements, two (02) posts of Specialist Climate Resilient Human Settlements and Specialist Environment Friendly Urban Infrastructure were provided on contract basis.

Ministry of Climate Change and Environmental Coordination (MoCC&EC) initiated a PSDP scheme in 2019-20 titled 'Climate Resilient Urban Human Settlements (CRUHS)' with a total cost of Rs. 90.158 million for five (05) years. An expenditure of Rs. 15.415 million was incurred during the financial year 2022-23.

During audit of MoCC&EC for the financial year 2022-23, it was observed that two (02) posts of Specialist Climate Resilient Human Settlements and Specialist Environment Friendly Urban Infrastructure were vacant since 26.01.2021 and 12.02.2021 respectively.

Audit held that non-appointment of Specialist was likely to hamper the achievement of stated objectives of the project and targets related to environment and climate change in the country.

Initial observation was issued on 24.07.2023. The management replied that appointment against two posts of Specialists was initially finalized on 18.03.2020. However, subsequent to resignations effective from 26.01.2021 and 12.02.2021, the posts became vacant. These vacant posts were re-advertised along with other project posts on 26.07.2021. Despite completing the recruitment process for the remaining posts on 15.03.2022, no suitable candidates meeting the criteria outlined in PC-I were found, consequently, the posts of specialists continued to remain unfilled.

DAC meeting was held on 14.11.2023. The DAC directed that PSC meeting may be convened within 30-days and the matter be placed before the forum for deliberation. The outcome of the same may be provided in the next DAC meeting.

Audit recommends implementation of DAC decision within 30-days.

4.4.18 Irregular recruitment of officers/ officials in TBTP without screening test

According to Para 1(b) of Establishment Division O.M. No. No.F-53/I/2008-SP dated 03.03.2015, the short listed applicants, as a result of screening test, would be interviewed. The Departmental Selection Committee constituted would adjudge the applicant on the score in the test and interview. Score in the test would have 70% weightage and 30% weightage would be allocated for interview among the members of the Department Selection Committee as Chairman 40% and two members 30% each.

Further, according to amended clause 1(xiii) of Office Memorandum of Establishment Division No. F.53/1/2019-SP(Pt) dated 14.03.2019, Ministries/Divisions/Sub-ordinate Offices etc. were required to finalize the recruitments within 120 days from the date of advertisement.

National Strategic Support Unit of Ten Billion Tree Tsunami Program (NSSU-TBTP) under the Ministry of Climate Change and Environmental Coordination (MoCC&EC) advertised vacant positions on 29.09.2022. In response to advertisement, 8,801 applicants applied for the positions, out of which 144 applicants were shortlisted for interview by the scrutiny committee. Details are provided at **Annexure-XII**.

During audit of NSSU-TBTTP for financial years 2022-23, it was observed as under:

- i. The appointments were made on interview basis without conducting any screening test of the candidates.
- ii. The initial screening test for shortlisting of candidates was ruled out to fill the vacant posts on urgent basis. Advertisement for recruitment of nine (09) posts was published on 29.09.2022, however, the recruitment was not completed within 120 days as required under rules. The offer of appointment for the post of DPD Finance and Admin, Monitoring and Evaluation and Wildlife was issued on 29.03.2023, 29.03.2023 and 01.08.2023 respectively. The recruitment of remaining posts were not finalized till date audit i.e. August, 2023.
- iii. Departmental Selection Committee (DSC) comprised of 5 members instead of 3 members in violation of rules. Scrutiny of record i.e. interview sheets revealed that lump sum interview marks were awarded to the candidates instead of criteria of 40% and 30% each member as given in the rules.
- iv. Minutes of meeting of shortlisting committee showing required education and experience as per ToRs and the detail of education and experience held by the shortlisted candidates was not available on record.
- v. Sixteen (16) and twenty (20) candidates against the post of DPD Admin & Finance and Monitoring & Evaluation respectively were shortlisted for interview. However, Seven (07) and eight (08) candidates respectively appeared for interview and the remaining were absent. Moreover, the evidence of record pertaining to issuance of interview call letters i.e. Urgent Mail Service (UMS) receipts / e-mail to the successful candidate was not available.

Audit held that recruitment of candidates without adherence to recruitment policy was violation of relevant rules.

Initial observation was issued on 10.08.2023. The management replied that three positions of Deputy Directors are policy level positions, which were better assessed by interviews and not by screening tests. The recruitment process was delayed due to the change of the government and one candidate had forwarded application for his rejection, which caused delayed. The departmental Selection Committee was chaired by the Secretary, the Chair can distribute the marks equally to members of committee being the competent authority. The required experience and education of all the candidates interviewed were provided to the members of the committee during the interviews.

The reply of the management was not satisfactory as the procedure prescribed for recruitments by the Establishment Division was not followed.

DAC meeting was held on 14.11.2023. The DAC directed the department to conduct fact finding inquiry for violation of the prescribed procedure laid down by the Establishment Division and take the matter with Establishment Division. The outcome may be shared in the next DAC meeting.

Audit recommends implementation of DAC decision within 30-days.

(Para No. 04 of AIR 2022-23, TBTTP)

Procurement

4.4.19 Irregular procurement of Furniture & Fixture and Machinery items – Rs. 6.895 million

According to Rule 29 of Public Procurement Rules 2004, the procuring agencies shall formulate an appropriate evaluation criterion listing all the relevant information against which a bid is to be evaluated. Such evaluation criteria shall form an integral part of the bidding documents. Failure to provide for an unambiguous evaluation criterion in the bidding documents shall amount to mis-procurement.

Further, Rule 10(1) provides that any terms, specifications, standards, features, characteristics and requirements prescribing the technical or quality characteristics shall be generic in nature and shall not include reference to brand name, model number, catalogue number, name or origin of the country or similar classification.

Ministry of Climate Change and Environmental Coordination (MoCC&EC) initiated competitive bidding process for procurement of furniture, fixture and machinery items and incurred an expenditure amounting to Rs. 6.895 million during financial year 2022-23. Details are as under:

(Rs. in million)				
Sr. No.	Contingent Bill No.	Name of Vendor	Head of Account	Amount
1.	569	M/s Galaxy Traders	Purchase of Furniture and Fixture	2.861
2.	572	M/s Al-Hafiz Corporation, Islamabad	Purchase of Furniture and Fixture	1.087
3.	737	M/s Galaxy Traders	Purchase of Machinery	0.636
4.	570	M/s Al-Hafiz Corporation, Islamabad	Purchase of Machinery	0.198
5.	568	M/s Galaxy Traders	Purchase of Machinery	2.113
Total				6.895

During audit of MoCC for the financial year 2022-23, it was observed as under:

- i. Method of competitive bidding process i.e. single stage one envelope or single stage two envelope was not mentioned in the bidding document. Moreover, no well-defined evaluation criteria was given in the bidding document with regard to award of numbers / marks of the bid.
- ii. Brand / Model specification of items were mentioned in the bidding documents in violation of procurement rules. Specification mentioned in bidding documents is provided at **Annexure-XIII**.
- iii. Specifications of the procured items were not defined in the bidding documents, work orders and invoices. Moreover, bidders were required to quote rate in square feet(SFT) however, successful

bidders did not quoted rates in SFT and instead quoted lump sum rates which was violation of bidding document.

- iv. Neither the order to constitute the Inspection committee was available on record nor was inspection report regarding satisfactory supply and installation of items available.
- v. Delivery challans were not available on record to authenticate that the items were supplied/received in accordance with bidding documents/ work orders.

Audit held that Public Procurement Rules were not adhered resulting into irregular procurement.

Initial observation was issued on 24.07.2023. The management replied that method of competitive bidding was inadvertently omitted. Further, brand/model and specifications of items were also inadvertently mentioned in the bidding documents. Specifications for machinery equipment was not provided, instead it was mentioned to provide best quality IT equipment. Specification of furniture and fixture items was clearly mentioned in the bidding documents at schedule of requirement Sr. No. 1 to 12. It was further replied that an inspection committee was also constituted.

DAC meeting was held on 14.11.2023. The DAC directed fact finding inquiry be conducted and report thereof be submitted within 30 days. The compliance in this regard may be submitted in next DAC meeting.

Audit recommends implementation of DAC decision within 30 days.



AUDIT REPORT

ON

THE ACCOUNTS OF

POWER DIVISION, ITS ATTACHED ENTITIES AND NEPRA

AUDIT YEAR 2023-24

DIRECTORATE GENERAL AUDIT (POWER)

1. ISSUES OF THE POWER SECTOR

1.1 Piling Up of Energy Receivables

CPPA-G purchases energy from power producers on behalf of the DISCOs using the energy transmission network maintained by NTDC. The energy is then sold to the consumers by the DISCOs. Revenue earned from sale of energy is paid by the DISCOs to the power producers through CPPA-G to clear the energy payment invoices. Thus, recovery of energy charges delivered to the consumers is the central link in the power sector supply chain. Piling up of energy receivables implies that cash-shortfall is faced not only in the DISCOs but also in linked entities including CPPA-G and power generation companies. CPPA-G's receivables from DISCOs caused the circular debt burden on the power sector.

The accumulation of liability of CPPA-G comprises of different attributes. Receivables from DISCOs are one part. Other factors include receivables from the government in lieu of energy subsidy, pending receivables from K-electric and outstanding Late Payment Surcharges levied by the power generation companies on CPPA-G on account of delayed payments.

The piling of energy receivables at the end of DISCOs can be categorized into different classifications and allied causes. The DISCOs were not successful to recover 100% of the amount billed to the consumers during Financial Year causing increase in the receivables to the stated extent. Moreover, the DISCOs were maintaining a list of running and dead defaulters (consumers). These consumers of different categories (i.e. industrial, commercial and agriculture etc.) had failed to pay their energy dues over an extended period of time causing cash-shortfall as well as financial loss to the company.

Additionally, theft of energy through kunda connection, meter tempering and wrong reading etc. is also prevalent in the DISCOs. There are other systemic issues such as low recovery of dues from tube-well connections and delays in settlement of subsidy pertaining to AJK resulting in to piling up of overall receivable.

On the above lines, audit has analyzed the issue of piling up of energy receivables in the DISCOs from different aspects: broadly at a company level as well as at operation circle & consumer level, on a sample analysis basis to highlight the piling up of receivables and illustrated findings in the following paras:

1.1.1 Non-recovery on account of sale of energy from DISCOs – Rs.2,530,645.77 million

According to provision 9.6.2 of Commercial Code, CPPA-G shall communicate the failure of any Distribution Company to fully pay any monthly invoice issued by CPPA-G to Authority, the Ministry of Water and Power and the Ministry of Finance in order to assure the enforcement of the Market Rules and Commercial Code or to assure that other suitable substitute actions may be taken by these institutions.

During audit of CPPA-G, an amount of Rs.2,530,645.77 million (**Annex-A**) was receivable from distribution companies including K-Electric on account of sale of energy. Due to this huge blockage of funds, power sector was under stiff financial crunch and payments to power producers were delayed. Consequently, late payment surcharges ranging from KIBOR + 2% to KIBOR + 4% were being charged by power producers. Had this huge

amount been recovered from DISCOs, liquidity position of power sector could have been improved thereby eliminating the burden of circular debt and late payment surcharges.

Financial inefficiency resulted in non-recovery of Rs.2,530,645.77 million on account of sale of energy from DISCOs during the Financial Year 2021-22.

The matter was taken up with the management in May, 2023 and reported to the Ministry in June, 2023. The management replied that the shortfall of recovery was a recurring phenomenon on the part of distribution companies and matter was being pursued through monthly review meetings conducted under the chairmanship of Secretary Ministry of Energy (Power Division) to monitor the performance of DISCOs with reference to losses and recovery.

The DAC in its meeting held on October 09, 2023 directed the management to submit revised reply within 07 days and pended the para for next higher forum.

Audit recommends implementation of DAC's decision besides ensuring recovery from DISCOs and providing the progress thereof.

(Draft Para No.94/2023-24)

1.1.2 Non-recovery of energy dues from defaulters – Rs.877,596.31 million

According to Para-1.3 of Commercial Procedure, “the Revenue Officer and Assistant Manager are responsible for: i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company ii) efficient application of billing and collection procedure”.

During audit of DISCOs, it was observed that an amount of Rs.877,596.31 million was recoverable from running and permanently disconnected (P-Disc.) energy defaulters (Government and private). In this respect, no efforts were made by the management to accelerate the recovery from defaulters. The detail is as under:

Sr. No.	Name of Formation	Draft Para No.	Amount (Rs.in million)
1.	FESCO	168, 171 & 172/2023-24	247.71
2.	HESCO	785 & 1295/2023-24	44,468.69
3.	IESCO	152/2023-24	200.06
4.	LESCO	857 & 1026/2023-24	16,100.66
5.	MEPCO	644/2023-24	64.77
6.	PESCO	385,386,569 & 1135/2023-24	8,604.36
7.	QESCO	459 & 1271/2023-24	603,354.05
8.	SEPCO	604 & 718/2023-24	198,378.48
9.	TESCO	760, 812 & 1045/2023-24	6,177.53

	Total	877,596.31
--	--------------	-------------------

(Source: Progress Report of DISCOs)

Non-adherence to Commercial Procedure resulted in non-recovery of Rs.877,596.31 million from energy defaulters up to the Financial Year 2022-23.

The matter was taken up with the management during March, 2023 & August to October, 2023 and reported to the Ministry during June, 2023 & October to December, 2023. The management replied that in some cases amount had been recovered and efforts were being made to recover the remaining amount.

The DAC in its meeting held on October 09, and December 14 to 23, 2023 directed the management to produce the record of completed actions within 15 days and effect pending recoveries. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No.1.1.1 having financial impact of Rs.653,957.57 million. Recurrence of same irregularity is a matter of serious concern.

1.1.3 Extra generation cost due to non-availability of RLNG - Rs.61,971.83 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of store, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of NPPMCL, it was observed that power generation plants generated 41,774.68 GWh during the 2020-21 to 2022-23. Out of total generated units 619.6 million units were generated by using costly fuel i.e., HSD due to non-availability of RLNG, which caused consumers to pay extra cost of Rs.61,971.83 million.

Non-adherence to Authority's instructions resulted in extra generation cost of Rs.61,971.83 millin due to non-availability of RLNG up to the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that due to crises of RLNG nationwide and as per the call from System Operator, the plant was operated on HSD to avoid national crises. The Company had the Annual Delivery Plan (ADP) in place for the RLNG for the period when HSD had been used, moreover, SNGPL had declared a country-wide crisis of RLNG. Audit contended that operating the plants on HSD instead of RLNG during three (03) financial years 2020-21 to 2022-23 needed to be justified with specific reasons.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to submit revised reply as per calculation of para and get the stance verified from Audit. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC's decision.

(Draft Para No. 1303/2023-24)

1.1.4 Heavy generation loss due to poor maintenance of power plants – Rs.14,797.52 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of store, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of NPPMCL, it was noticed that the power plants remained out of service for 2303.99 Hrs. due to high exhaust spread on HSD fuel, condenser tube leakage and sometimes due to miscellaneous reasons. The forced outages happened due to improper / poor maintenance of the plants, resultantly 857.496 million (kWh) energy units amounting to Rs.14,797.52 million were less generated.

Poor operational management resulted in heavy generation loss of Rs.14,797.52 million due to poor maintenance of power plants up to the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that unfortunate incident on HBS (the fire on Unit Auxiliary Transformers) resulted in consumption of maximum forced outage allowance since the CoD of the Complex. However, this incident was being considered under the insurance cover, hence, losses would be mitigated. Similarly, a rotor incident at Balloki happened and resulted in to loss of forced outage consumption but this event was also under the insurance cover to indemnify the loss.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to submit revised reply showing the difference between allowed and actual forced outages and get the record verified from Audit within 15 days. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC's decision.

(Draft Para No. 748/2023-24)

1.1.5 Loss due to late payment surcharge – Rs.12,511.709 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of NPPMCL, it was observed that an amount of Rs.34,794 million on account of gas charges was appearing as closing balance to be paid to SNGPL as on June 30, 2023. Due to non-clearance of gas charges, interest on delayed payments amounting to Rs.12,511.70 million was imposed by the Sui Northern Gas Pipeline (SNGPL). Resultantly, company had to face extra financial burden of Rs.12,511.70 million, which showed poor management and internal control weakness.

Non-adherence to the Authority's instructions resulted in loss of Rs.12,511.70 million during the Financial Years 2020-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that NPPMCL was continuously persuading CPPA-G to release funds from receivables of the company, so that overdue payments including late payment surcharge to SNGPL could be paid.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to pursue the matter with CPPA-G vigorously and payment be made to SNGPL accordingly. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC's decision.

(Draft Para No. 750/2023-24)

1.1.6 Non-recovery of cost of energy units supplied to Power Generators (IPPs and GENCOS) – Rs.5,096.86 million

As per NEPRA Tariff, Tariff C-2 is applicable to consumers receiving supply at 11 kV or 33 kV at one point metering arrangement and having sanctioned load up to and including 5000 kW.

During audit of CPPA-G Islamabad, it was observed that an amount of Rs.5,096.86 million was recoverable from Power Generators comprising IPPs and GENCOs on account of supply back feed energy. The amount was required to be recovered / adjusted against the energy invoices of the Power Generators, which was not done.

Non-adherence to NEPRA Tariff resulted in non-recovery of Rs.5,096.86 million from the power generators during the Financial Year 2021-22.

The matter was taken up with the management in May, 2023 and reported to the Ministry in June, 2023. The management replied that out of total outstanding amount of Rs.5.097 billion as on June 30, 2022, an amount of Rs.1.465 billion had been recovered. The outstanding amounts mostly represented disputed payments by IPPs and might require adjustment of receivables against their payables.

The DAC in its meeting held on October 09, 2023 directed the management to provide the record of recovered / adjusted amount to audit for verification within 07 days. No further progress was reported till finalization of the report.

Audit recommends that the management needs to look into the matter and expedite the recovery / adjustment of cost of energy from the energy invoices of the power generators.

(Draft Para No.95/2023-24)

1.1.7 Non-recovery of outstanding energy dues from unmetered commercial consumers - Rs.3,191.82 million

According to Para-1.3 of Commercial Procedure, "the Revenue Officer and Assistant Manager are responsible for: i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company ii) efficient application of billing and collection procedure".

During audit of CEO TESCO, it was observed from CP-88 A & 88 L that an amount of Rs.3,191.82 million was recoverable from 26,365 unmetered commercial consumers. The meters were not installed against these consumers to assess the actual consumption of electricity. Out of these 26,365 unmetered consumers, 18,687 consumers were permanently disconnected, however, 7,678 consumers were active and were still enjoying the unmetered facility without actual assessment of their electricity consumption.

Non-adherence to Commercial Procedure resulted in non-recovery outstanding energy dues of Rs.3,191.82 million from unmetered commercial consumers up to the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that due to military operations and law & order situation in Ex-FATA, maximum consumers had abandoned the war-torn areas and migrated to settled districts. The sites had been demolished and their tracing was a herculean task for the field formations given the lack of support by the local administration. Moreover, arrears against permanently disconnected consumers could not be recovered due to non-posting of Recovery Tehsildar as Land Record & Land Revenue Act had been extended recently, after FATA merger in the province of KPK.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to take appropriate action for recovery of outstanding amount. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC's decision.

(Draft Para No. 758/2023-24)

1.1.8 Blockage of recovery of energy charges due to non-decision by CRC and RRC - Rs.1,897.09 million

According to Rule-5(5) of Public Sector Companies (Corporate Governance) Rules-2013, "the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders".

During audit of Eastern Circle LESCO, it was observed that energy charges of Rs.1897.09 million were not recovered from 975 consumers due to deferment by Circle Review Committee (CRC) and Regional Review Committee (RRC). However, consumers were enjoying the power facility without paying the energy charges. Due to non-decision of disputed energy charges by the CRC and RRC, the company was facing financial crunch.

In-efficient management resulted in blockage of recovery of energy charges amounting to Rs.1,897.09 million due to non-decision by CRC and RRC up to the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in October, 2023. The management replied that an amount of Rs.567.519 million had been recovered and an amount of Rs.1,329.57 million was outstanding.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the recovery record in support of reply verified from Audit within 15 days and expedite pending recovery. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC's decision.

(Draft Para No. 373/2023-24)

1.1.9 Non-recovery of energy charges from unregistered / kunda connections - Rs.1,015.37 million

According to Para-9.1(II) of NEPRA Consumer Service Manual, all theft cases would be dealt by DISCO strictly in accordance with relevant sections of Pakistan Penal Code, 1860 (Act XLV of 1860) and the Code of Criminal Procedure, 1898 (Act V of 1898). The disconnection of electricity shall be carried out immediately under the supervision of concerned Officer of DISCO by removing such facility. As per para 9.1.(III) of Consumer Service Manual, DISCO shall be authorized to recover its loss by raising a detection bill as follows provided that the maximum period of charging in such cases shall be restricted to twelve months for unregistered consumers and up to six months for registered consumers.

During audit of DISCOs, it was observed that an amount of Rs.1,015.37 million was debited against 7,510 un-registered / kunda connections under Code-888 but neither these illegal unregistered connections were regularized and brought into billing cycle, nor outstanding energy charges recovered. Moreover, legal and departmental action against these persons was also not forthcoming from record. The details are as under:

Sr. No.	Name of Formation	Draft Para No.	No of consumers	Amount (Rs.in million)
1	FESCO	164, 1128/2023-24	459	17.12
2	GEPCO	31, 362, 715/2023-24	1274	57.89
3	LESCO	370, 646/2023-24	868	94.88
4	MEPCO	306/2023-24	149	1.42
5	PESCO	1244/2023-24	4760	844.06
Total			7,510	1,015.37

(Source: CP-22A & MIS Data of DISCOs 2021-22 & 2022-23)

Non-adherence to NEPRA Consumer Service Manual resulted in non-recovery of energy charges amounting to Rs.1,015.37 million from unregistered connections up to the Financial Year 2022-23.

The matter was taken up with the management in April & November, 2023 and reported to the Ministry in October & December, 2023. The management replied that some of the amount had been recovered and efforts were being made for recovery of remaining amount.

The DAC in its meetings held on December 14, 2023 to December 23, 2023 directed the management to get the record of completed actions verified from Audit within a week and expedite the pending actions within a month. No further progress was intimated till finalization of the report.

Audit recommends the implementation of DAC's decision and legal action be taken against the culprits.

1.1.10 Non-recovery of detection charges / pending units from consumers – Rs.324.24 million

According to Para-1.3 of Commercial Procedure, “the Revenue Officer and Assistant Manager are responsible for: i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company ii) efficient application of billing and collection procedure”.

During audit of DISCOs, it was observed that energy meters of domestic, industrial, agricultural & commercial categories were physically checked by the surveillance teams / metering & testing (M&T) of the companies and detection charges of 11.98 million units amounting to Rs.324.24 million on account of slowness, tempering in meters and pending units etc. were approved for recovery from the consumers, however, the same were not recovered. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	Units (in million)	Amount (Rs.in million)
1.	IESCO	153/2023-24	0.11	2.46
2.	LESCO	335/2023-24	2.14	15.92
3.	MEPCO	921/2023-24	2.04	52.44
4.	PESCO	502,555,709 & 1183/2023-24	5.41	185.53
5.	QESCO	458 & 1029/2023-24	1.44	46.96
6.	TESCO	1043/2023-24	0.84	20.93
Total			11.98	324.24

(Source: Progress Report of Detection Bill & Pending Units of DISCOs)

Non-adherence to the Commercial Procedure resulted in non-recovery of Rs.324.24 million on account of detection charges and pending units from the consumers up to the Financial Year 2022-23.

The matter was taken up with the management during March, 2023 & August to November, 2023 and reported to the Ministry during June, 2023 & October to December, 2023. The management replied that in some cases, detection charges had been recovered from consumers while efforts were being made to recover the amount in remaining cases.

The DAC in its meetings held on October 9, 2023 and December 14-23, 2023 directed the management to get the recovery record verified from audit within 15 days and expedite pending recovery. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC’s decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No.1.4.1 having financial impact of Rs.8,719.07 million. Recurrence of same irregularity is a matter of serious concern.

1.1.11 Loss due to non-recovery of electricity charges against temporary connections – Rs.88.91 million

According to Special Condition No. E-1(2) of Supply under Tariff-E of NEPRA schedule of electricity tariff, “the supply shall not be given by the Company without obtaining security equal to the anticipated supply and other miscellaneous charges for the period of temporary supply”.

During audit of DISCOs, it was observed that electricity dues of Rs.88.91 million were pending against 782 temporary connections. In contravention of special condition, the companies did not obtain security equal to the anticipated supply charges and resultantly had nothing to adjust against the outstanding dues. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	No. of Consumers	Amount (Rs.in million)
1.	FESCO	83 & 1127/2023-24	213	22.73
2.	GEPCO	714/2023-24	146	3.58
3.	LESCO	334 & 908/2023-24	325	56.68
4.	PESCO	550/2023-24	35	1.42
5.	SEPCO	603/2023-24	63	4.50
TOTAL			782	88.91

(Source: CP-120-A of DISCOs)

Non-adherence to tariff condition resulted in loss of Rs.88.91 million due to non-recovery of electricity dues from temporary consumers up to the Financial Year 2022-23.

The matter was taken up with the management in April, 2023 & September to November, 2023 and reported to the Ministry in June, 2023 & October to December, 2023. The management replied that in some cases, recovery had been effected and efforts were being made to recover the remaining amount.

The DAC in its meeting held on August 26, 2023 and December 14-23, 2023 directed the management to get the recovery record verified from audit within 15 days and expedite the pending action within a month. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC’s decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No. 1.1.6 having financial impact of Rs.165.14 million. Recurrence of same irregularity is a matter of serious concern.

1.1.12 Non-recovery of electricity dues from consumers after court decisions in favour of DISCOs – Rs.55.01 million

According to Para-1.3 of Commercial Procedure, “the Revenue Officer and Assistant Manager are responsible for: i) implementing in conjunction with the Executive Engineer, the commercial policy laid down

from time to time by the Authority through the Company ii) efficient application of billing and collection procedure”.

During audit of FESCO & MEPCO, it was observed that 62 court cases involving an amount of Rs.55.01 million were decided in favour of the companies. The amount of decided court cases was required to be recovered from consumers, which was not done. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	No. of Cases	Amount (Rs.in million)
1.	FESCO	91/223-24	19	2.50
2.	MEPCO	625/2023-24	43	52.51
TOTAL			62	55.01

(Source: Court Case Files of DISCOs)

Non-adherence to Commercial Procedure resulted in non-recovery of electricity dues of Rs.55.01 million from consumers after court decisions in favour of DISCOs up to the Financial Year 2022-23.

The matter was taken up with the management during April & September, 2023 and reported to the Ministry during June & November, 2023. The management replied that in few cases, recovery had been effected and efforts were being made to recover the remaining amount.

The DAC in its meeting held on August 26, 2023 and December 21, 2023 directed the management to get the record of completed action verified from Audit within 15 days and expedite recovery in remaining cases. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC’s decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No. 1.1.5 having financial impact of Rs.5,404.69 million. Recurrence of same irregularity is a matter of serious concern.

1.1.13 Loss due to excess utilization of auxiliary units - Rs.15 million

According to 2nd Revised PC-1 2019 Clause (9) "Annual operating cost based on proposed capacity utilization and source of financing". The calculated percentage for Auxiliary units' consumption approved in the said document was 1.22% from year 1 to year 5 for Havelli Bahadur Shah and the calculated percentage for Auxiliary units' consumption for Balloki 1.47% was approved.

During audit of NPPMCL, it was observed that consumption of auxiliary units for both the plants was in excess as compared to the approved auxiliary consumption per unit in 2nd revised PC-1 2019. HBS used 531.57 GWh units instead of 264.63 GWh units during the period 2020-21 to 2022-2023 and Balloki used 720.29 GWh units instead of 295.22 GWh units.

Non-adherence to Clause 9 of 2nd revised PC-I resulted in a loss of Rs.15 million due to excessive consumption of auxiliary units during the period 2020-21 to 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that tariff was based on the net output & Net Heat Rate, which already accounted for auxiliary consumption in the process of power generation. The auxiliary consumption did not impact the tariff to the consumers, as well as no loss to the Company. Audit contended that auxiliary consumption beyond the limit stipulated in PC-I needed to be justified.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to submit revised reply as per schedule/detail of para and get the record verified from Audit. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC's decision besides inquiring the matter for fixing responsibility of loss.

(Draft Para No. 868/2023-24)

1.1.14 Loss due to connecting permanently disconnected consumers through bogus meters and non-recovery of outstanding arrears – Rs.11.47 million

According to Para-III (1) of Guidelines for enforcing the responsibility for losses sustained by the authority through fraud or negligence of individuals, 1982, "All losses, whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved." As per Para 9.1.3 of Consumer Service Manual, "DISCO shall be authorized to recover its loss by raising a detection bill provided that the maximum period of charging in such cases shall be restricted to twelve months for unregistered consumers and up to six months for registered consumers".

During audit of Operation Circle Khyber PESCO, it was observed that twenty-three (23) sites of permanently disconnected consumers were checked and found installed with bogus meters/direct connections without paying outstanding dues of PESCO amounting to Rs.11.47 million (detection charges + arrears). This state of affairs indicated that defaulter consumers were enjoying electricity facility without paying outstanding dues with the collaboration of field staff.

Non-adherence to Authority's instructions resulted in loss of Rs.11.47 million due to connecting permanently disconnected consumers through bogus meters and non-recovery of outstanding arrears up to the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that consumers had been charged for 98135 units amounting to Rs.2,944,050. FIRs were registered against permanently disconnected consumers and an amount Rs.1,073,517 was also recovered, however, the remaining payment/regularization was under process. Moreover, six (06) consumers were running out of twenty-three (23) consumers.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to submit revised detailed reply along with documentary evidence to audit within 15 days. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC's decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No. 1.4.42 having financial impact of Rs.25.86 million. Recurrence of same irregularity is a matter of serious concern.

(Draft Para No. 572/2023-24)

Concluding Recommendations

Piling up of receivables is a potential failure for the Distribution companies. It directly affects their financial viability as a going concern. The issue is complex having multifarious factors as explained above and thus needs a multi-pronged strategy to address it. An efficient billing and collection mechanism is needed to be implemented to ensure greater efficiency in the recovery process. Furthermore, efforts are needed to expedite identified recoveries / receivable amounts.

1.2 Significant Line Losses in the Power Sector

Power is being delivered to the consumers through a power distribution network being managed by Distribution Companies (DISCOs). Certain volume of energy is lost in the distribution process and not delivered to the end-consumers. In this context, Line losses refer to the losses suffered by a distribution company in delivery of energy across its Transmission (i.e 132 kV Grid) and distribution network (11 kV Grid). Line Losses reflect the extent of a company's inability to sell energy procured from the power producers causing cash-flow constraints. Line Losses issue is a multi-faceted issue having linkages with different operational and financial activities of the company.

NEPRA has allowed certain percentage of line losses (termed as NEPRA targets), being inevitable and has included them in its tariff determination for the DISCOs. Losses up-to these permissible limits are passed on to the end-consumers in the shape of per-unit tariff. However, losses beyond NEPRA targets convert directly into financial loss of the company, affect its liquidity position and make it unable to payback its liabilities to power producers through CPPA-G.

The Distribution network or grid comprises of cluster of 11 kV feeders. At present there are 9706 feeders spread across the domain of all the DISCOs. Feeders are actually meters through which energy, once received at the grid-station, is distributed along low-tension lines to the consumers. There are two types of feeders i.e. independent feeder and general feeder. The independent feeder is installed for a single high-end commercial / industrial consumer whereas the general feeder provides energy to multiple / thousands of consumers (average varies company to company). Hence, general/mixed-load feeders indicate a specific area or locality to where electricity is being delivered. The information / data of these feeders are also a key point of calculating and analyzing line losses.

Meter reading on the feeders, installed at grid stations, is compared with the energy utilized by the consumer's meters so to work out how much of energy was dispatched and billed to the consumer of a specific

locality. If the energy units delivered through the feeders are more than the billed units, it illustrates that the line losses have taken place. High percentage of line losses against a feeder is a sound indication of over loading in that specific feeder's locality. Similarly, if feeder units are less than the units billed to the consumers, this indicates that overbilling has been done to the consumers of that locality.

On the above lines, audit has analyzed the line losses position in the DISCOs: firstly, at company level and then on sample test check basis at operational circle level & feeder level to highlight line losses, high pilferage of energy, high technical losses and operational inefficiencies, which is illustrated in the following paras.

1.2.1 Loss of revenue due to T&D losses beyond NEPRA's targets – Rs.196,384.51 million

NEPRA had fixed targets of energy losses ranging from 8.84%, 9.10%, 18.57%, 8.0%, 12.34%, 20.16%, 17.05%, & 9.21% for the Financial Year 2022-23 in respect of FESCO, GEPCO, HESCO, LESCO, MEPCO, PESCO, SEPCO & TESCO respectively.

During audit of DISCOs, it was observed that the percentage of T&D losses was more than the targets of losses set by the NEPRA. Hence, 11,609.715 million energy units valuing Rs.196,384.51 million were lost beyond the NEPRA's target. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	NEPRA Target (%)	Actual %age of Loss	Units lost beyond NEPRA target (million)	Amount (Rs.in million)
1.	FESCO	966/2023-24	8.84	15.10 to 30	211.964	6,298.34
2.	GEPCO	713/223-24	9.10	12 to 19.8	132.433	2,877.77
3.	HESCO	782 & 789/2023-24	18.57	19.90 to 100	1,418.20	1,5781.86
4.	LESCO	906/2023-24	8.00	20 to 66	747.84	14,956.78
5.	MEPCO	925/2023-24	12.34	21 to 100	124.395	3,801.53
6.	PESCO	836 & 839/2023-24	20.16	36.46	7,733.29	132,981.03
7.	SEPCO	605/2023-24	17.05	32.57	1,219.18	19,179.43
8.	TESCO	756/2023-24	9.21	11.4 to 68.6	22.413	507.77
TOTAL					11,609.715	196,384.51

(Source: Progressive CP-22A of DISCOs)

Non-adherence to NEPRA's targets resulted in loss of revenue amounting to Rs.196,384.51 million due to T&D losses during the Financial Year 2022-23.

The matter was taken up with the management during September to November, 2023 and reported to the Ministry in November to December, 2023. The management replied that NEPRA never fixed the target at feeder level however, the line losses were due to over loaded transmission lines, lengthy feeders, law and order situation,

difference in reading dates, shifting of load, duplicate source, stealing of energy, wrong coding and unrealistic NEPRA targets etc. Administrative and legal actions were being taken to reduce the line losses.

The DAC in its meeting held on August 26 and December 14-23, 2023 directed the management to provide feeder wise analysis depicting efforts taken & resources employed to curtail feeder wise line losses to audit within 15 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No. 1.2.1 having financial impact of Rs.141,769.45 million. Recurrence of same irregularity is a matter of serious concern.

1.2.2 Energy losses on independent feeders beyond permissible limit - Rs.2,366.42 million

According to Distribution Rehabilitation Guidelines issued by the General Manager (Operation) WAPDA, Lahore on September 24, 2003, the maximum Annual Energy Losses (AEL) for HT circuit (HT Feeders) is 3% for rural/urban areas.

During audit of DISCOs, it was observed that percentage of annual progressive energy losses on 291 independent feeders remained over & above the permissible limit of 3%, which entailed loss of 79.233 million units amounting to Rs.2,366.42 million. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	No. of feeders	Percentage (%) of losses	Units Lost beyond 3% (million)	Amount (Rs.in million)
1.	FESCO	974/2023-24	31	3.5% to 53.20%	10.019	311.95
2.	GEPCO	690/2023-24	23	3.20% to 100%	5.632	122.40
3.	HESCO	781/2023-24	21	3.15% to 100%	6.276	195.19
4.	IESCO	143//2023-24	09	4.3% to 26.5%	0.948	20.87
5.	LESCO	905/2023-24	41	4.0% to 75.0%	6.193	123.85
6.	MEPCO	897/2023-24	42	3.6% to 63.7%	3.866	118.17
7.	PESCO	837/2023-24	49	3.2% to 78.3%	36.274	1,196.68
8.	QESCO	956/2023-24	60	5.20% to 100%	5.769	132.68
9.	TESCO	757/2023-24	15	3.7% to 28.5%	4.256	144.63

Total	291		79.233	2,366.42
--------------	------------	--	---------------	-----------------

(Source: CP-22A of DISCOs for the Financial Year 2022-23)

The above analysis, done on sample selection basis, showed that independent feeder connections were being supervised inadequately by the companies entailing material financial losses. Particularly, abnormal high-end losses ranging between 3.15% to 100% were observed in GEPCO, HESCO and QESCO, which indicated high risk of energy theft and/or technical incapacitated feeder-system.

Non-adherence to Distribution Rehabilitation Guidelines resulted in energy losses amounting to Rs.2,366.42 million on independent feeders beyond permissible limit up to the Financial Year 2022-23.

The matter was taken up with the management in March to April, 2023 & October to November, 2023 and reported to the Ministry in June, 2023 & November to December, 2023. The management replied that line losses above permission limit were due to difference in reading dates, shifting of load, duplicate source and wrong coding etc., however, notices had been served to the consumers and the cases would be pursued in the light of revised NEPRA Consumers' Service Manual.

The DAC in its meeting held on August 26 and December 14 to 23, 2023 directed the management to substantiate the reply by providing feeder wise analysis with grid log sheet and respective CP-22 & 34-C within 15 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

1.2.3 Non-saving of energy units by reducing line losses due to delay in execution of HT / LT works – Rs.197.31 million

According Paras-4.1.3 to 4.1.6 of WAPDA Distribution Rehabilitation Guidelines September 2003, "total time for approval of work, execution and preparation of completion report will be restricted to 130 days".

During audit of Project Directorate Construction GEPCO, 158 HT / LT feeders' proposals with an estimated cost of Rs.362.30 million were approved in order to reduce the distribution losses by annual saving in kWh units, improve the voltage drop and efficiency of the distribution system. The said works were initiated up to during July, 2021 to December, 2022, but could not be completed and delayed for a period ranging from 54 to 636 days beyond the stipulated period of 130 days. Had the said works been completed within stipulated period, the envisaged annual kWh units of Rs.197.31 million could have been saved.

Non-adherence to Distribution Rehabilitation Guidelines resulted in non-saving of energy units amounting to Rs.197.31 million due to delay in execution of HT / LT works during the Financial Year 2021-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in October, 2023. The management replied that non-availability of material and shortage of staff was the main reason of delay in execution of works.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to submit work-wise detailed reasons for delay to audit within a week. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC's decision.

1.3 Overbilling

Accuracy and reliability of consumer's billing-data is the key attribute on which the overall business of the distribution companies is based upon. In fact, the working of the whole power sector, including government subsidy calculations, CPPA-G liability pay-off etc., and all such activities were directly or indirectly linked with the source billing data. In this context, overbilling by the DISCO's represent weak internal check failures and data credibility errors in managing the billing data by the companies resulting in financial loss to the company on one hand and misreporting of facts to the allied power sector players on the other hand.

In the following paras, audit has analyzed the extent and types of overbilling practices found prevalent in the distribution companies:

1.3.1 Overbilling to consumers due to charging of abnormal excessive load factor beyond permissible limit of NEPRA – Rs.25,109.21 million

The Consumer Service Manual Annexure-V prescribed percentage of Load Factor for different types of connections.

During audit of DISCOs, it was observed that abnormal excessive percentage of load factor (above 100%) beyond the permissible limit of NEPRA was charged to different types of consumers. This scenario depicted that the excess percentage of load factor was charged in order to achieve the target of line losses. Due to abnormal excessive load factor, 877.97 million units valuing Rs.25,109.21 million were overbilled to the consumers. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	Units	Amount (Rs.in million)
1.	FESCO	1066/2023-24	279.42	9,162.42
2.	GEPCO	20, 508 & 716/2023-24	478.63	12,541.12
3.	LESCO	622/2023-24	39.50	769.38
4.	MEPCO	612 & 863/2023-24	20.79	608.39
5.	QESCO	1080/2023-24	59.63	2,027.90
Total			877.97	25,109.21

(Source: DISCOs MIS generated report 2021-22 & 2022-23)

Non-adherence to the provisions of the Consumer Service Manual resulted in overbilling of Rs.25,109.21 million to the consumers due to charging of abnormal excessive load factor during the Financial Year 2022-23.

The matter was taken up with the management in April, 2023 & August to October, 2023 and reported to the Ministry in June, 2023 & November to December, 2023. The management replied that the consumers had used the load beyond their sanctioned load and in some cases inquiry committees had been constituted.

The DAC in its meeting held on August, 26 and December 14-23, 2023 directed the management to get case to case analysis verified from audit and also directed to initiate/expedite the inquiry and submit its report to audit within 30 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC’s decision.

1.3.2 Staggeringly abnormal refund of units due to systemic practice of overbilling (wrong reading/detection) – Rs.21,673.20 million

According to instructions issued by the Managing Director PEPCO vide letter dated December 01, 2010, “strict disciplinary action, without any exception, shall be taken against the officers and staff found involved in the over-billing”.

During audit of DISCOs, it was observed that 662.33 million units with amount of Rs.21,673.20 million were refunded / credited to 292,784 Private and Govt. consumers as a result of revision of wrong reading and detection charges through adjustment notes during the Financial Years 2019-20 to 2022-23. However, trend analysis of total units credited / adjusted to consumers, showed that A-type adjustment i.e. revision of wrong reading of 523.24 million units with amount of Rs.17,945.71 million was made, which remained up to 82.80% however, C, D, E, F & G-Type adjustment i.e revision of detection bills 138.54 million units with amount of Rs.3,727.54 million was also made and remained up to 17.20%. The detail is as under:

Units & Amount in million

Sr. No.	Name of Company	Draft Para No.	F.Y	No of Cons.	Units credited	Amount (Rs.in million)	A-Type (Revision of wrong reading)			C,D,E,F & G (Revision of detection bills)		
							units	Amount	%	units	Amount	%
1.	CEO FESCO	1020/2023-24	2022-23	89,899	116.2	3,564.54	85	2565.84	71.98	31.19	998.7	28.02
2.	Sialkot Op Circle GEPCO	510/2023-24	2020-21 to 2022-23 (03 Years)	17,793	45.81	970.35	37.43	739.7	76.23	8.38	230.65	23.77
3.	CEO GEPCO	917/2023-24	2022-23	112,929	154.45	4,054.82	102.9	2,752.54	67.88	51.53	1302.33	32.12
4.	Eastern Op Circle LESCO	679/2023-24	2019-20 to 2022-23 (04 Years)	72,163	345.87	13,083.49	297.9	11,887.63	90.86	47.44	1,195.86	9.14
Total				292,784	662.33	21,673.20	523.24	17,945.71	82.80	138.54	3,727.54	17.20

(Source: MIS Reports of DISCOs for the year 2019-20 to 2022-23)

Moreover, Special audit of debit and credit adjustments for FY 2016-17 & 2017-18 conducted by Chief Internal Audit GEPCO had already pointed out that unjustified debit / credit adjustments were made by ROs through F-Category. Despite earlier pointation of Internal Audit, adjustment of 31% units against total adjusted credit units was made through F-Category (Adjustment by Chief Internal Auditor) during the year 2022-23.

The above scenario indicates that overbilling was regular practice and at the same time neither detection nor refund policy was according to the standard procedure / practice. No departmental action was taken against the officers / officials at fault either for overbilling or refund.

Inefficient operational management resulted in staggeringly abnormal refund of units amounting to Rs.21,673.20 million due to systemic practice of wrong reading/detection charged to consumers up to the Financial Year 2022-23.

The matter was taken up with the management in August to October, 2023 and reported to the Ministry in October to December, 2023. The management replied that all the adjustments were made after proper scrutiny and approval from competent authority, however, human, arithmetic, clerical and technical errors could not be avoided. The management of GEPCO replied that an inquiry committee had been constituted with reference to PDP No.510/2023-24.

The DAC in its meeting held on December 18 - 21, 2023 did not agree with the reply of FESCO management and directed to furnish detailed revised reply to Audit within 15 days. DAC directed the management of GEPCO to expedite the inquiry in PDP No.510/2023-24 and conduct fact finding inquiry in PDP No.917/2023-24 and submit the reports to audit within a month. DAC also directed the management of LESCO to carry out Special Audit with specific TORs from Manager Internal Audit, LESCO and finalize the report within two months. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

1.3.3 Undue generation of revenue through overbilling - Rs.8,442.97 million

According to Commercial Procedure, "Revenue Officer is responsible for: i) Implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company ii) Efficient application of billing and collection procedures".

During audit of DISCOs, it was observed that the percentages of energy losses of 1,095 feeders were in negative figures. The negative losses revealed that the units billed were in excess of units received on feeders, which was an indication of overbilling of Rs.8,442.97 million to the consumers. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	No. of Feeders	Units Excess billed (million)	Amount (Rs.in millions)
1.	FESCO	965/2023-24	110	24.37	758.65
2.	GEPCO	691/2023-24	112	24.21	526.15
3.	HESCO	780/2023-24	98	55.70	1,732.35
4.	IESCO	144/2023-24	100	48.00	1,055.92
5.	LESCO	645 & 1006/2023-24	488	92.72	1,802.94

6.	MEPCO	307 & 641/2023-24	22	5.46	75.99
7.	PESCO	838/2023-24	127	72.63	2,396.05
8.	QESCO	1031/2023-24	38	15.42	94.92
TOTAL			1,095	338.51	8,442.97

(Source: CP-22A for the year 2022-23)

The above analysis done on sample basis shows that there were significant instances where the management of respective companies had done overbilling against different feeder-regions to non-transparently reflect their line losses figures. Generally, a large number of feeders were found overbilled in DISCOs, requiring urgent internal control enforcements.

The matter was taken up with the management in March, 2023 and August to November, 2023 and reported to the Ministry in June, 2023 to December, 2023. The management replied that the negative line losses appeared due to difference in reading dates, wrong feeder coding, dual supply and shifting of load etc.

The DAC in its meetings held on October 09, 2023 and December 14-23, 2023 directed the management to substantiate the reply by providing feeder wise analysis with grid log sheets and respective CP-22 & CP-34-C within 15 days. No further progress was intimated till finalization of the report.

Audit recommends that the management needs to implement DAC's decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No. 1.3.2 having financial impact of Rs.2,225.58 million. Recurrence of same irregularity is a matter of serious concern.

1.3.4 Unjustified billing to feeders with Zero Consumers - Rs.407.342 million

According to Commercial Procedure, "Revenue Officer is responsible for: i) Implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company ii) Efficient application of billing and collection procedures".

During audit of CEO MEPCO, it was observed that unjustified billing was made to feeders illustrating zero number of consumers with zero sanction load. The units billed on those feeders were 13.329 million units amounting to Rs.407.342 million. This mismanagement during billing process required immediate attention and needed justification.

Non-adherence to authority instructions resulted unjustified billing to feeders with zero consumer amounting to Rs.407.342 million during the Financial Year 2022-23.

The matter was taken up with the management in November, 2023 and reported to the Ministry in December, 2023. The management replied that certain feeders had been shifted from one sub division to another or from one grid to another, resulting in the allocation of new feeder codes for the same feeders. As a result, consumers who were previously billed under the old feeder code were now included in the progressive statistics, as they were moved within the Financial Year. Consequently, data from the time of relocation onward was now

associated with the new feeder codes. Audit contended that billing made to the feeders having zero number of consumers needed to be inquired.

The DAC in its meeting held on December 20 & 21, 2023 directed the management to inquire the matter at PPMC level and inform audit about the outcome within 30 days. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC's decision.

(Draft Para No. 923/2023-24)

1.3.5 Unjustified billing to dead defaulters- Rs.43.89 million

According to Commercial Procedure, "Revenue Officer is responsible for: i) Implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company ii) Efficient application of billing and collection procedures".

During audit of CEO MEPCO, it was observed that undue generation of revenue was made through billing to dead defaulters. The units received were zero but units billed were 1,436,162 amounting to Rs.43.89 million. This state of affairs needed to be justified.

Non-adherence to Authority's instructions resulted in unjustified billing to dead defaulters amounting to Rs.43.89 million during the Financial Year 2022-23.

The matter was taken up with the management in November, 2023 and reported to the Ministry in December, 2023. The management replied that the consumers stealing energy through direct hooking were also included in this category. The reply was not tenable as charging of units to dead defaulters other than stealers of energy was irregular and needed to be inquired. Moreover, other suitable mechanism for billing to dead defaulter involved in theft of electricity needed to be devised.

The DAC in its meeting held on December 20 & 21, 2023 directed the management to adopt some better way to make the recovery from kunda connections and get the record verified within 30 days. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC's decision besides fixing responsibility.

(Draft Para No. 941/2023-24)

1.3.6 Irregular credit balances against un-registered / kunda connections – Rs.2.38 million

According to Commercial Procedure, "Revenue Officer is responsible for: i) Implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company ii) Efficient application of billing and collection procedures".

During audit of CEO GEPCO, it was observed that negative/ credit balances amounting to Rs.2.38 million were appearing against 282 unregistered / kunda connections under code-888 without any reason/justification, which was incomprehensible. This abnormal practice was indicative that either the

excess credit afforded to kunda connections or credit given was unjustified, hence, the same warranted to be probed into, which was not done.

Non-adherence to commercial procedure resulted in irregular credit balances against un-registered / kunda connections amounting to Rs.2.38 million up to the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that the matter would be inquired case to case basis through field formations and action taken would be intimated to Audit in due course of time.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to submit revised reply to audit within a week and expedite pending actions within a month. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC's decision.

(Draft Para No. 737/2023-24)

Concluding Recommendations

Overbilling is a significant organizational issue for the distribution companies. It negatively reflects the image of the DISCOs and reduces their credibility in the eyes of the consumers. Shortage in recoveries and different court cases were linked with this lack of reliability in the DISCOs' billing data. Ministry may make efforts to ensure that overbilling instances are controlled within operations of the respective companies.

1.4 Poor Operational Management by the Distribution Companies

Operational Management involves a comprehensive set of business activities being undertaken by the DISCOs aimed at effective maintenance / enhancement and augmentation of its distribution network infrastructure as well as efficient management of its consumer portfolio. The consumers are classified among different categories such as domestic, commercial, industrial, agriculture, bulk-supply etc. The categories have further been classified based on the load being supplied to these consumers. High energy load consumed by a customer necessitates additional charges and additional equipment for independent feeder and grid-station. Thus, due diligence in overall operational activities is necessary to manage the power sector distribution network efficiently.

Weak internal checks and inadequate operational management lead to different anomalies in the distribution network operations, causing loss to the company and adversely affect the performance of its infrastructure. For example, cases where the consumers had extended load without regularization meant that on one hand, the electricity network was overloaded and on the other hand, due charges were not being received from the consumers.

Similarly, another grey area, in operational management, was delay in non-replacement of defective meters. This lapse creates space for financial irregularities and companies the transparency of the whole billing process causing material financial loss to the company on account of inaccurate energy bills.

On the above lines, Audit has analyzed the operational management issues in the DISCOs from different aspects: broadly at company level and on sample basis at operation circle/consumer level, to highlight the irregularities, internal check lapses and financial losses being incurred by the companies, which is illustrated in the following paras:

1.4.1 Non-removal of electrical equipment and non-recovery of arrears – Rs.501,225.19 million

According to Para-3 of WAPDA’s circular dated April 15, 1998, “disconnections will be effected through removal of meters, transformers, span or any other equipment to ensure that no possibility of loop hole is left for unauthorized use of energy during the period of disconnection. The equipment after having been removed from site was required to be returned to store”.

During audit of DISCOs, it was observed that 267,436 consumers of all categories defaulted to pay energy charges of Rs.501,225.19 million. The Equipment Removal Orders (EROs) were issued but not implemented. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	No. of cases	Amount (Rs.in million)
1	FESCO	80/2023-24	203	561.44
2	GEPCO	666/2023-24	557	10,254.83
3	HESCO	794/2024-24	1,000	9,813.71
4	LESCO	856/2023-24	26,052	19732
5	MEPCO	309/2023-24	510	494.36
6	PESCO	1243/2023-24	115	856.78
7	QESCO	1282/2023-24	238,999	459,512.07
TOTAL			267,436	501,225.19

(Source: CP-114 / Progress Reports of DISCOs)

Non-adherence to instructions resulted in non-removal of electrical equipment and non-recovery of energy charges amounting to Rs.501,225.19 million up to the Financial Year 2022-23.

The matter was taken up with the management during April, 2023 & September to November, 2023 and reported to the Ministry during June, 2023 & October to December, 2023. The management replied that efforts were

being made for implementation of EROs and recovery of arrears. Further progress would be intimated to Audit accordingly.

The DAC in its meeting held on August 26, 2023 and December 14-23, 2023 directed the management to implement EROs besides effecting recovery and produce record to audit for verification within 30 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No. 1.1.2 having financial impact of Rs.71,898.09 million. Recurrence of same irregularity is a matter of serious concern.

1.4.2 Loss due to breach of subsidy agreement by land owners of Baluchistan - Rs.75,274.06 million

According to minutes of meeting on subsidy for tube well consumers in Baluchistan dated January 09, 2015, in case where the agricultural tube well consumers are using more than 30 horsepower electric motors, such entries will be made against their accounts, which will be jointly maintained by QESCO and the district administration.

During audit of CEO QESCO, it was observed that 27,446 agricultural consumers were using 50 hp electric motor against 30 hp, which resulted in illegal increase of load by 14.92 kW and ultimately electricity consumption increased to 8,986 units from 5,391 units. This showed that current bills of agricultural consumers increased to Rs.287,552/- from Rs.75,474/-. The impact of that illegal installation and consumption of 50 hp electric motors was Rs.75,274.06 million during FY 2022-23.

Non-adherence to the provision of subsidy agreement by land owners of Baluchistan resulted in loss of Rs.75,274.06 million up to the FY 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that many attempts were made to convince the farmers to abide by the Subsidy Agreement. The owners of tube well resisted the disconnecting campaigns launched by QESCO. The illegal enhancement of load by the consumers can only be stopped with the support of local Administration and deployment of Frontier Constabulary (F.C.) personnel with the QESCO field staff.

The DAC in its meeting held on December 22 & 23, 2023 directed the management to pursue the matter and resolve the issue. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 1115/2023-24)

1.4.3 Non-execution / non-completion of electrification works - Rs.26,594.19 million

According to Paras-4.1.3 to 4.1.6 of WAPDA Distribution Rehabilitation Guidelines September 2003, "total time for approval of work, execution and preparation of completion report will be restricted to 130 days".

During audit of DISCOs, it was observed that an amount of Rs.26,594.19 million was allocated for execution of 4,247 electrification works comprising deposit works / village electrification / chain augmentation / hazards works / schemes & feeders since long. The works were required to be completed within 130 days but the same were still pending. No efforts were made by the DISCOs towards completion of these pending works. The slow execution of works reflected slackness and unprofessional attitude of the management. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	No. of works	Amount (Rs.in million)
1.	FESCO	85, 90, 174, 536, 575 & 1083/2023-24	1,571	2,374.76
2.	GEPCO	280 & 668/2023-24	1,459	3,098.16
3.	HESCO	407,413,682 & 784/2023-24	57	1,416.54
4.	LESCO	289,327,447,620 & 649/2023-24	384	7,494.25
5.	MEPCO	635 & 920/2023-24	242	4,864.93
.	PESCO	297/2023-24	177	3,172.99
6.	QESCO	392,429 & 481/2023-24	17	1,233.60
7.	SEPCO	235/2023-24	330	1,318.04
8.	TESCO	193/2023-24	09	1,619.51
9.	NTDC	133/2023-24	01	1.41
TOTAL			4,247	26,594.19

(Source: Work-in-progress reports of DISCOs)

Non-adherence to WAPDA Distribution Rehabilitation Guidelines resulted in non-execution / non-completion of electrification works amounting to Rs.26,592.78 million up to the Financial Year 2022-23.

The matter was taken up with the management in March to April, 2023 & August to November, 2023 and reported to the Ministry in June, 2023 and October to December, 2023. The management replied that some of the works had been completed and remaining were under execution.

The DAC in its meeting held on August 26 and December 14-23, 2023 directed the management to get the record of completed actions verified from Audit within a week and expedite the pending actions within 60 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No. 1.4.5 having financial impact of Rs.3,457.16 million. Recurrence of same irregularity is a matter of serious concern.

1.4.4 Huge refund to consumers due to revision of reading / detection charges - Rs.21,546.18 million

According to instructions issued by the Managing Director PEPCO vide letter dated December 01, 2010, “strict disciplinary action, without any exception, shall be taken against the officers and staff found involved in the overbilling”. As per Memorandum of understanding (MOU) signed between Ministry of Water & Power and DISCOs, “adjustment / bill corrections will be rationalized / minimized to less than 0.01% of total billing”.

During audit of DISCOs, it was observed that 502.786 million energy units amounting to Rs.21,546.18 million were refunded to 114,043 consumers on account of wrong reading and detection through adjustment notes. This scenario indicated that overbilling was done to consumers in one month and same was refunded in next month on account of wrong reading. Moreover, detection bills were not charged as per detection policy and had to be revised on consumers’ complaints. This was done just to conceal the actual line losses and theft of energy. No action was taken against the officers / officials involved in credit adjustments. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	No of Consumers	Units Refunded	Amount (Rs.in million)
1.	FESCO	77 & 166/2023-24	1,615	0.312	170.05
2.	GESCO	120/2023-24	2,8784	82.360	1,413.34
3.	LESCO	329, 699,909 & 934/2023-24	5,4908	384.049	19,369.63
4.	MEPCO	1285/2023-24	2,7115	35.62	564.76
5.	PESCO	1245/2023-24	868	0.435	19.22
6.	QESCO	629/2023-24	753	0.010	9.18
TOTAL			114,043	502.786	21,546.18

(Source: CP-52 (Adjustment) of DISCOs)

Non-adherence to directions/rules resulted in huge refund of Rs.21,546.18 million to the consumers due to revision of reading / detection charges up to the Financial Year 2022-23.

The matter was taken up with the management in April, 2023 & August to November, 2023 and reported to the Ministry in June, 2023 and October to December, 2023. The management replied that all the refunds were made after due verification and with the approval of competent authority. In some cases, disciplinary action was also taken against the delinquents.

The DAC in its meetings held on August 26, 2023 and December 14-23, 2023 directed the management to provide the record in support of reply to Audit for verification within 15 days and in some cases, also directed to

inquire the matter and submit its report to Audit within 30 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No. 1.3.1 having financial impact of Rs.10,907.04 million. Recurrence of same irregularity is a matter of serious concern.

1.4.5 Irregular charging of overheads beyond permissible limit to consumers/works – Rs.9,163.29 million

According to Clause-2.5 of Consumer Service Manual 2021, the charges for installation of connection shall include 12% store handling charges and 8% installation charges. According to WAPDA Distribution Rehabilitation Guidelines Para 4.1.2 (iii) (c), cost estimation for development of HT Proposal shall be carried out according to the prevailing store issue rates (i.e. 12% in built rates) and installation charges will be taken @ 8%.

During audit of DISCOs and NTDC, it was observed that certain overheads including carriage / erection / foundation charges, consultancy charges, structure cutting charges and tree cutting charges of Rs.9,163.29 million were included in cost estimates of 4,782 works of different types comprising transmission lines, grid stations, HT/LT works, new connections and extensions of load cases etc., in addition to 12% store handling and 8% installation charges. The charging of overheads beyond the permissible limit was in contradiction to the provisions of Consumer Service Manual / WAPDA Distribution Rehabilitation Guidelines and cannot be termed as regular. The detail is as under and **Annex-B**:

Sr. No.	Name of Company	Draft Para No.	No of Works	Amount (Rs.in million)
1.	FESCO	517 & 1069/2023-24	186	383.67
2.	GEPCO	26,44,245,270 & 799/2023-24	2,239	689.44
3.	HESCO	409 & 630/2023-24	24	68.67
4.	MEPCO	653/2023-24	57	2.44
5.	PESCO	298/2023-24	2,138	231.66
6.	SEPCO	253/2023-24	112	106.88
7.	TESCO	813/2023-24	15	21.87
8.	NTDC	1174/2023-24	11	7,658.66
Total			4,782	9,163.29

(Source: Completion and Capitalization Reports of DISCOs for the year 2022-23)

Violation of the provisions of the Consumer Service Manual / WAPDA Distribution Rehabilitation Guidelines resulted in irregular charging of overheads beyond permissible limit to consumers / works amounting to Rs.9,163.29 million up to the Financial Year 2022-23.

The matter was taken up with the management during April & August to October, 2023 and reported to the Ministry in June & October to December, 2023. The management replied that overheads were charged as per SOP.

The DAC in its meeting held on August 26 and December 14-23, 2023 directed the management to submit case to case detailed revised reply justifying with Accounting Manual / NEPRA Consumer Service Manual within 15 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

1.4.6 Unjustified refund to running consumers on account of segregation of electricity bills – Rs.9,142.32 million

According to NEPRA Consumer Service Manual Para.6.4.2, in cases where accumulated readings are recorded, segregated bills shall be prepared keeping in view the number of months for which the readings have accumulated to give slab benefit/relief to the consumers.

During audit of DISCOs, it was observed that a huge mount Rs.10,209.94 million was credited to consumers in different types of adjustments. However, data of total amounts credited to the consumers reflected that major credit of Rs.9,142.32 million was given under adjustment type-B to 293,572 consumers of various categories by segregating their electricity bills in order to provide slab benefit / relief of tariff during the Financial Years 2018-19 to 2022-23. The trend of B-type adjustment against total adjustments remained 80.18% to 99.34%. The segregation of bills was only allowed to new connections and RCO cases on their accumulated units. But, on sample basis checking of CP-75 and CP-52 revealed that huge amounts were credited to the consumers on segregation of bills of already running consumers on their accumulated units of more than 2 months without taking actions against Meter Readers, Meter Inspectors and SDOs who were responsible to record and charge the units to consumers on their actual monthly consumption. The detail is as under: -

Sr. No.	Name of Company	PDP No.	F.Y	Total amount credited without units	No of Consumers B-Type	Amount under B-Type Adjustments (without units)	% B-Type Adjustments
1	Sialkot Op Circle GEPCO	511/2023-24	2020-21 to 2022-23 (03 Years)	514.30	36,203	508.77	99.14%, 98.61 & 99.12%
2	CEO GEPCO	797/2023-24	2022-23	916.95	23,725	798.01	87.03%
3	Eastern Op Circle LESCO	680/2023-24	2019-20 to 2022-23 (04 Years)	7938.87	118,180	7,117.64	98.72%, 98.72%, 99.34% & 96.60%
4	Nankana Op Circle LESCO	700/2023-24	2018-19 to 2022-23 (05 Years)	0	3,838	46.34	0

5	Muzaffargarh Op Circle MEPCO	721/2023-24	2020-21 to 2022-23 (03 Years)	462.88	95,227	311.71	80.18%
6	Khyber Op Circle PESCO	563/2023-24	2020-21 to 2022-23 (03 Years)	376.942	16,399	359.85	95.46%
Total				10,209.94	293,572	9,142.32	

(Source: CP-52 & 75 of DISCOs for the year 2022-23)

This scenario indicated that neither actual monthly units were recorded / charged to running consumers nor any action was taken against responsables who had charged the accumulated units. Hence, this practice showed that refund of amounts without units on account of segregation of electricity bills was an undue favour extended to running consumers by allowing slab benefit. Resultantly, company sustained revenue loss to the stated extent.

Non-adherence to NEPRA Consumer Service Manual resulted in unjustified refund of Rs.9,142.32 million given to running consumers on account of segregation of electricity bills up to the Financial Year 2022-23.

The matter was taken up with the management in September to October, 2023 and reported to the Ministry in November, 2023. The management replied that segregation was carried out after fulfilling all departmental formalities and refund without units was afforded against taxes, difference of tariff and late payment surcharge on account of wrong reading and fixed charges etc. The management of PESCO replied that segregation was allowed to the deserving consumers due to shortage of meter readers and far flung / scattered area and management of GEPCO replied that an inquiry had been constituted in PDP No. 511/2023-24.

The DAC in its meeting held on December 18 - 21, 2023 directed the management to submit revised reply and get the record verified from Audit within 15 days. DAC directed the management of GEPCO to expedite the inquiry in PDP No. 511/2023-24 and submit its report to audit within a month and also directed the management of LESCO to carry out Special Audit with specific TORs from Manager Internal Audit, LESCO in PDP No. 680/2023-24 and finalize the report within two months. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

1.4.7 Non-earthing / grounding of HT/LT poles / structures of distribution system - Rs.7,813.25 million

According to Clause DDC-4 of Distribution Design Code, "the earthing of a distribution transformer, the neutral and body of the transformer should be connected to ground rods as per IEC and PSI Standards Design Specifications. Earthing of Consumer Service and its meter shall be as per design standards adopted by the Licensees; and consistent with IEC, and IEEE Standards". As per Section 12.2.4 of Chapter 12 Safety and Security of Consumer Service Manual; "the earthing systems installed shall be dimensioned and regularly tested to ensure protection from shock hazards."

During audit of DISCOs, it was observed that 2,414,019 HT / LT poles / Structures installed in distribution system remained without earthing / grounding, which showed poor performance of DISCOs. It was further observed that P&E directorate and field formations were charging contract charges in the estimates of deposit works and HT< works but contract works of earthing / grounding were not executed. The un-earthed /grounded

HT/LT Poles/Structure was one of the main reasons of increasing of fatal/non-fatal incidents on distribution system. The estimated cost for earthing /grounding of distribution system worked out to be Rs,7,813.25 million. However, its installation was not started and the lives of human and animals remained vulnerable due to the unearthed system. The detail is as under and **Annex-C**:

Sr. No.	Company	Draft Para No.	LT/HT Poles	Amount (Rs.in million)
1	FESCO	973/2023-24	93726	364.14
2	GEPCO	807/2023-24	359782	3,597.82
3	HESCO	1294/2023-24	261078	2,088.62
4	LESCO	1025/2023-24	356873	578.13
5	MEPCO	922/2023-24	486320	182.65
6	PESCO	835/2023-24	431226	86.28
7	QESCO	1027/2023-24	310562	0
8	TESCO	832/2023-24	114452	915.61
TOTAL			2,414,019	7,813.25

(Source: Correspondence with NEPRA for the year 2022-23)

Non-adherence to the provisions of NEPRA’s Distribution Design Code resulted in non-earthing / grounding of HT/LT poles / structures of distribution system valuing Rs.7,813.25 million up to the Financial Year 2022-23.

The matter was taken up with the management in October & November, 2023 and reported to the Ministry in November & December, 2023. The management replied that earthing / grounding was provided at the time of installation but with the passage of time it was deteriorated and required a fresh earthing / grounding, however, utmost efforts were being made to carry out earthing.

The DAC in its meetings held on December 14, 2023 to December 23, 2023 directed the management to investigate non-earthing / non-grounding of HT/LT Poles/ structure of distribution system despite inclusion of cost for said works in earlier estimates besides expediting the earthing / grounding works. No further progress was intimated till the finalization of report.

Audit recommends implementation of DAC’s decision.

1.4.8 Undue favour to the consumers for unauthorized extended load – Rs.2,463.37 million

According to Condition-6 of WAPDA Abridged Conditions of Supply, “in case of non-removal / non-regularization of un-authorized extended load, the supply to the consumer shall be disconnected”.

During audit of DISCOs, it was observed that 7,689 consumers of different categories extended the load of their energy connections illegally without approval of competent authority. The field formations neither disconnected the energy connections nor regularized the un-authorized extended load in violation of the above condition. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	No. of Consumers	Amount (Rs.in million)
1	FESCO	86, 165 & 1070/2023-24	2,836	582.92
2	GEPCO	34, 350 & 665/2023-24	2,800	863.52
3	HESCO	831/2023-24	09	9.13
4	IESCO	145 & 147/2023-24	128	135.13
5	LESCO	326 & 648/2023-24	1,118	343.66
6	MEPCO	303,614 & 892/2023-24	320	174.66
7	PESCO	389,401,402,566 & 890/2023-24	294	165.21
8	QESCO	457 & 467/2023-24	128	103.89
9	TESCO	761/2023-24	56	85.25
TOTAL			7,689	2,463.37

(Source: Batch-24, 27, 29 & 46 of DISCOs)

Non-adherence to the WAPDA Abridged Condition of Supply resulted in non-recovery of Rs.2,463.37 million from consumers on account of additional security deposit, feeder rehabilitation charges and capital cost due to unauthorized extension of load up to the Financial Years 2022-23.

The matter was taken up with the management during March to April, 2023 & August to October, 2023 and reported to the Ministry in June, 2023 & October to December, 2023. The management replied that in some cases, extended load had been reduced / regularized after recovery of dues, while in remaining cases notices had been issued to the consumers.

The DAC in its meetings held on August 26, 2023 & December 14-23, 2023 directed the management to provide the record of completed action to Audit for verification within 15 days and expedite the pending action within 30 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision besides fixing responsibility.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No. 1.4.7 having financial impact of Rs.1,801.61 million. Recurrence of same irregularity is a matter of serious concern.

1.4.9 Loss due to unjustified waiving off late payment surcharge (LPS) to government /private consumers – Rs.1,987.44 million

According to rule-6 of NEPRA Licensing (Distribution) Rules 1999, “Unless provided otherwise in the distribution license, the licensee shall charge only such tariff from the consumers, including the bulk-power consumers, as is approved by the Authority pursuant to and in accordance with the NEPRA (Tariff Standards and Procedure) Rules, 1998”.

During audit of DISCOs, it was observed that the Late Payment Surcharge (LPS) amounting to Rs.1,987.44 million were charged to government and private consumers due to delay in payment of energy dues, which were waived off lateron by the field formations. Against the LPS received from consumers, the DISCOs had to set off the supplementary charges on the delayed payments of IPPs as CPPA-G was raising the invoices against the same. The DISCOs had taken up the matter of supplemental charges with NEPRA, who had directed to adjust the same against the LPS received from the consumers. Hence, waiving off LPS up to the stated extent was unjustified. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	Amount (Rs.in million)
1.	FESCO	975/2023-24	11.45
2.	GEPCO	360 & 738/2023-24	1,165.85

3.	LESCO	621 & 1003/2023-24	778.82
4.	MEPCO	613/2023-24	31.32
TOTAL			1,987.44

(Source: DISCOs MIS generated reports 2022-23)

Non-adherence to Authority's instructions resulted in unjustified waiving off Late Payment Surcharge (LPS) of Rs.1,987.44 million to government and private consumers up to the Financial Year 2022-23.

The matter was taken up with the management during September to October, 2023 and reported to the Ministry during October to December, 2023. The management replied that LPS was rightfully waived off in accordance with the rules by adopting all codal formalities.

The DAC in its meeting held on December 14-23, 2023 directed the management to submit revised reply along with justification of waiving of LPS to government consumers and get the record verified from Audit within 15 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

1.4.10 Non-recovery of excess expenditure on deposit works - Rs.1,696.03 million

According to Section-III-C (I) of Book of Financial Powers "Deposit Work shall be undertaken only after getting full amount of sanctioned work, estimates deposited with WAPDA, with an undertaking from the depositor to meet variation."

During audit of DISCOs and NTDC, it was observed that an expenditure of Rs.1,696.03 million was incurred on 288 deposit works in excess of estimated / deposited amount. The amount of excess expenditure was required to be recovered from the concerned sponsors but needful was not done. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	No. of consumers	Amount (Rs.in million)
1.	FESCO	160 & 557/2023-24	111	284.71
2.	GEPCO	251 & 294/2023-24	64	1,210.69
3.	HESCO	410/2023-24	07	5.27
4.	LESCO	441 & 701/2023-24	23	53.99
5.	MEPCO	284/2023-24	33	77.85

6.	PESCO	380/2023-24	48	31.41
----	-------	-------------	----	-------

7.	SEPCO	806/2023-24	01	8.60
8.	NTDC	607/2023-24	01	23.51
Total			288	1,696.03

(Source: Consumer Service File of DISCOs for the year 2022-23)

Non-adherence to Book of Financial Power resulted in non-recovery of excess expenditure amounting to Rs.1,696.03 million on deposit works up to the Financial Year 2022-23.

The matter was taken up with the management in August and October, 2023 and reported to the Ministry in October to December, 2023. The management replied that in some cases amount had been recovered from sponsors, while in remaining cases demand notices were issued.

The DAC in its meeting held on December 14-23, 2023 directed the management to get the record of completed action verified from Audit within a week and expedite pending action within 30 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No. 1.4.24 having financial impact of Rs.140.95 million. Recurrence of same irregularity is a matter of serious concern.

1.4.11 Non-completion of SDGs' schemes – Rs.1,673.44 million

According to Para-ii of letter No. 20 (1) PIA-I/PC/2021 dated December 28, 2022 of the Ministry of Planning, Development and Special Initiatives of Government of Pakistan, "If the project does not start functioning within 12 months of its approval or does not achieve financial close, then it will be reconsidered by the approving forum."

During audit of PESCO & FESCO, it was observed that SDGs' schemes amounting to Rs.1,673.44 million were approved from competent forum. The execution of the works was started, however, the same were not completed up to June 2023. The schemes were neither financially closed nor approval of the competent forum was sought for its continuation or otherwise.

The detail is as under;

Sr. No.	Name of Company	Draft Para No.	No. of Schemes	Amount (Rs.in million)
1.	FESCO	1132/2023-24	34	758.51
2.	PESCO	301/2023-24	570	914.3
TOTAL			604	1,673.44

(Source: Progress Report of the DISCOs for the year 2022-23)

Non-adherence to the guidelines of the Ministry of Planning, Development and Special Initiatives of Government of Pakistan resulted in non-completion of SDGs' schemes amounting to Rs.1,673.44 million up to Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that the administrative approval and funds were received in various months. The processing of estimates, procurement of material and the award of contracts was a time-consuming process, however, most of the works were completed and remaining would be completed.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to submit revised detailed reply along with verification of completed actions within 15 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

1.4.12 Non-charging/adjustment of Fuel Price Adjustment on units debited/credited to consumers – Rs.1,384.46 million

According to notifications issued by NEPRA in respect of Fuel Price Adjustments (FPA) for F.Ys. 2020-21, 2021-22 & 2022-23, FPA shall be applicable to the respective consumers and shall be shown separately in the consumers' bills on the basis of units billed to consumers. As per Para-1.3 of Commercial Procedure, "the Revenue Officer and Assistant Manager are responsible for; i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company, ii) efficient application of billing and collection procedures".

During audit of DISCOs, it was observed that 3,388.16 million units were debited to 2.106 million consumers through adjustment notes on account of detection / theft & pending units and similarly, 447.09 million units were credited to 0.307 million consumers. However, FPA was not charged on the units adjusted (Dr / Cr), which caused revenue loss of Rs.725.20 million to DISCOs and also deprived consumers from getting credit of Rs.659.26 million. It also appeared that no mechanism existed for charging the FPA on debited / credited units to consumers. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	No of Consumers	Units Debited	No of Consumers	Units Credited	Amount (Rs.in million)
1.	FESCO	79 & 1017/2023-24	0.241	96.58	0.055	112.96	325.68
2.	GEPCO	45,345 & 810/2023-24	1.165	293.68	0.142	282.62	750.08
3.	PESCO	562/2023-24	0.700	106.42	0.110	51.51	308.70
Total			2.106	3,388.16	0.307	447.09	1,384.46

(Source: DISCOs MIS generated report for the year 2020-21, 2021-22 & 2022-23)

Non-adherence to NEPRA notification resulted in non-charging / adjustment of FPA amounting to Rs.1,384.46 million on units debited / credited to consumers up to the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in October, 2023. The management of FESCO replied that FPA was being debited/credited as per prevailing practice, while GEPCO replied that inquiry committee had been constituted and PITC was directed to devise a mechanism to charge FPA. The management of PESCO replied that there was inherent limitation in MIS system.

The DAC in its meeting held on August 26, 2023 and December 14-23, 2023 directed the management of FESCO to provide the record to audit in support of reply within a week and directed the management of GEPCO to inquire the matter and submit its report to audit within a month. DAC also directed the management of PESCO to submit revised reply within 15 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No. 1.4.2 having financial impact of Rs.4,917.95 million. Recurrence of same irregularity is a matter of serious concern.

1.4.13 Non-recovery of fixed charges from consumers due to wrong application of tariff - Rs.978.21 million

According to NEPRA's tariff conditions, B-I tariff is applicable to the industrial consumers having load up to 25 kW.

During audit of DISCOs, it was observed that 3,430 industrial consumers got their load sanctioned under B-I tariff having sanctioned load less than 25 kW, whereas their connections were running illegally under tariff B-II above the load of 25 kW. Due to non-conversion of tariff of consumers from B-I to B-II, an amount of Rs.978.21 million on account of fixed charges applicable to B-II consumers could not be recovered. Resultantly, company sustained revenue loss to the stated extent. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	No. of consumers	Amount (Rs.in million)
1	FESCO	968, 970 & 971/2023-24	2,058	780.38
2	GEPCO	29,33 & 351/2023-24	836	73.67
3	IESCO	148/2023-24	15	2.30
4	LESCO	328/2023-24	424	106.36
5	MEPCO	311 & 654/2023-24	57	9.51
6	PESCO	403 & 568/2023-24	40	5.99
Total			3,430	978.21

(Source: Batch-24, 27 of DISCOs for the year 2022-23)

Non-adherence to NEPRA's tariff conditions resulted in non-recovery of fixed charges amounting to Rs.978.21 million from consumers due to wrong application of tariff up to the Financial Year 2022-23.

The matter was taken up with the management in March to April, 2023 & August to October, 2023 and reported to the Ministry in June, 2023 & October to December, 2023. The management replied that notices had been issued to the consumers.

The DAC in its meeting held on August 26 and December 14-23, 2023 directed the management to expedite the matter and get the record of completed action verified from audit within one month. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No. 1.4.27 having financial impact of Rs.117.33 million. Recurrence of same irregularity is a matter of serious concern.

1.4.14 Undue favour to citi housing scheme due to construction of grid station and transmission line at the cost of GEPCO - Rs.966.14 million

According to NEPRA Consumer Service Manual (CSM) dated January 2021, housing society / scheme having above 20 MW load would be provided with dedicated grid station and associated transmission line. As per NEPRA CSM revised June, 2020, housing society having load 15 MW and above would be provided with dedicated grid station and associated transmission line.

During audit of GSC GEPCO, it was observed that an agreement for supply of power to Citi Housing Scheme Gujranwala (Phase-I, Phase-I extension and Phase-II) with 22,492 kW (22.49 MW) load was made in July 2020. As per agreement, the sponsor had to pay 25% grid sharing cost to GEPCO at the time of approval of electrification and 25% would be recovered from individual applicants / plot owners at the time of sanctioning of individual connections. Since, the load of the said housing scheme was more than 20 MW, hence, it was liable to be provided with dedicated grid station and associated transmission line by recovering the full cost from sponsor, which was not done. Instead, GEPCO assumed construction of grid station and associated transmission line with an estimated amount of Rs.966.14 million at the cost of the Company, which was tantamount to undue favour to the said housing scheme. The work orders for the construction of both the works issued to the contractors and works were under way as on August 2023.

Violation of NEPRA Consumer Service Manual, 2021 resulted in undue favour to Citi housing scheme due to construction of grid station and transmission line of Rs.966.14 million at the cost of GEPCO up to the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that NEPRA CSM came into practice in January, 2021 and the case for external electrification of Citi Housing Gujranwala with ultimate load of 22.492 MW was sanctioned in 2018. As per the then prevailing SOPs of WAPDA, grid station was to be constructed by GEPCO after receiving 06 Acre land from the sponsor. Audit contended that the cost of construction of grid station was needed to be recovered from the consumer as the agreement for ultimate load of the said housing society was executed on July, 2020.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to provide the record in support of its stance for verification to Audit within a week. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 220/2023-24)

1.4.15 Irregular advance charging of rehabilitation charges to housing colonies and commercial plazas and their subsequent retention – Rs.717.20 million

According to Note-(xiv) of Clause-2.6 of Consumer Service Manual, 2021," "the rehabilitation charges are applicable in case of industrial category where connection is given from Common 11 kV feeder up to 1000 kW load. In other cases, the rehabilitation charges shall be as per actual cost incurred (if any) for up gradation of system for provision of connection from Common Distribution System.

During audit of FESCO, it was observed that an amount of Rs.717.20 million was recovered from 277 consumers of housing societies and commercial plazas on account of rehabilitation charges for provision of connections from Common Distribution System. The said charges were required to be recovered as per actual cost incurred (if any), but advance estimated charges were recovered and retained by the company, which was in contradiction to the provisions of the Consumer Services Manual.

Violation of provisions of the Consumer Service Manual resulted in irregular advance charging and subsequent retention of rehabilitation charges recovered from housing colonies and commercial plaza amounting to Rs.717.20 million up to Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that estimated cost of rehabilitation charges was recovered and deposited in rehabilitation account for subsequent utilization to improve HT system.

The DAC in its meeting held on December 20 & 21, 2023 DAC did not agree with reply of the management and directed to furnish case-to-case detailed analysis depicting actual utilization of rehabilitation cost recovered from consumers. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 1068/2023-24)

1.4.16 Loss due to irregular multi credits given to consumers – Rs.662.74 million

According to instructions issued by the Managing Director PEPCO vide letter dated December 01, 2007, "MD PEPCO showed his concern over the issues of excessive billing, parking of units and pilferage of electricity. Line losses due to theft of electricity with the collusion of staff are covered by bogus billing. Staff involved in theft of electricity must be imposed punishment to create deterrence."

During audit of PESCO, it was observed that irregular multi credit adjustments of Rs.662.74 million were allowed to 23,034 consumers. The times of credit allowed to consumers ranged from 02 to 10 times. This indicated that either irregular overbilling was done, which was later credited to consumers, or undue favor was extended to consumers at the cost of PESCO and receivables were decreased illegally causing loss to the Company.

Non-adherence to the instructions resulted in loss of Rs.662.735 million due to irregular multi credits given to consumers during the Financial Year 2022-23.

The matter was taken with the management in November, 2023 and reported to the Ministry in December, 2023. The management replied that CEO had approved to investigate the matter as desired by Audit for fixing responsibility besides justification of multi credits allowed to consumers.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to submit revised detailed reply along with documentary evidence in support of reply to audit within 15 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision besides expediting inquiry proceedings.

(Draft Para No. 1277/2023-24)

1.4.17 Loss of revenue due to long duration electrical interruptions on feeders - Rs.658.81 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended to date), "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose minute charge they were, to fix the cause of the loss and the amount involved".

During audit of DISCOs, it was observed that long duration electricity interruptions ranging from 01 to 34 hours were occurred on 876 feeders during whole the year. Due to these interruptions, not only the consumers of

the area suffered but DISCOs also sustained loss of Rs.658.81 million on account of revenue. Since, DISCOs were continuously paying capacity purchase price, market operating fees and NTDC UoS to CPPAG, hence, non-selling of available energy was a straight loss to them. The detail is as under: -

Sr. No.	Company	Draft Para No.	No of Feeders	Rupees (in million)
1	GEPCO	30, 735/2023-24	652	599.670
2	LESCO	331/2023-24	73	27.620
3	MEPCO	675/2023-24	151	31.520
TOTAL			876	658.81

(Source: DISCOs Powr Control Centre Reports & Correspondence files for the year 2021-22 & 2022-23)

Inefficient operational management resulted in revenue loss of Rs.658.81 million due to long duration electrical interruptions on feeders up to the Financial Year 2022-23.

The matter was taken up with the management in April & October, 2023 and reported to the Ministry in June & November, 2023. The management replied that distribution network consisted an overhead radial system, most of the feeders had huge length consisting of rural areas. Due to seasonal variation, windstorm and heavy rains, interruptions were inevitable and could not be avoided. However, due to extensive maintenance and rehabilitation activities, tripping was being controlled. The GEPCO management replied that an inquiry committee had been constituted to probe into the matter as highlighted in PDP No. 735/2023-24.

The DAC in its meetings held on December 14, 2023 to December 23, 2023 directed the management of GEPCO to submit feeder wise fact-finding report about the matter highlighted in PDP 30/2023-24 after vetting from G.M. (Technical), PPMC to audit and expedite the inquiry in PDP 735/2023-24 and submit its report to audit within 30 days. DAC directed the management of LESCO to submit revised reply and take disciplinary action against responsible(s) and get the record verified from Audit within 15 days. DAC directed the management of MEPCO to share the progress and get the record verified from audit. No further progress was intimated till the finalization of report.

Audit recommends implementation of DAC's decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No. 1.4.41 having financial impact of Rs.28.32 million. Recurrence of same irregularity is a matter of serious concern.

1.4.18 Loss due to unauthorized consumption of auxiliary energy - Rs.524.10 million

According to the instructions issued by WAPDA dated July 17, 1982 "all losses, whether of public money or of stores, shall be subjected to preliminary investigation by the office in whose charge they were, to fix the cause of the loss and the amount involved.

During audit of Manager GSO PESCO, it was observed from monthly reports that the residential colonies, offices, markets, mosques and tube wells situated in the vicinity of various grid stations were using electricity from the auxiliary supply meant for operations of grid stations only. Neither any billing nor recovery against

unauthorized auxiliary consumption was forthcoming from the record, which resulted in loss of 17.47 million units amounting to Rs.524.10 million.

Non-adherence to instructions resulted in loss of Rs.524.10 million due to unauthorized consumption of auxiliary energy up to the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that energy meters were installed in all grid station colonies under the Circle and proper billing was being regularly made to concerned Operation Divisions. Furthermore, a certificate was also enclosed on the subject matter duly signed from concerned Divisions and no market/ mosque was fed from auxiliary supply from any grid stations of PESCO. The reply was not agreed to being not substantiated with documentary evidences.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to inquire the matter in detail depicting unauthorized consumption of energy and submit its report within 30 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC’s decision.

(Draft Para No. 202/2023-24)

1.4.19 Irregular charging of overhead charges to SDGs’ electrification works - Rs.505.54 million

According to Para-viii & Para-ix of SDG guidelines issued by Cabinet Division vide dated March 09, 2020 & dated June 13, 2022 respectively, “no administrative overhead shall be charged by any agency for execution of the SDGs’ schemes”.

During audit of DISCOs, it was observed that 3,036 village electrification schemes were executed and capitalized against the funds received from the Federal Government under Sustainable Development Goals (SDGs). The administrative overheads and store handling charges to the tune of Rs.505.54 million were charged to the said capitalized SDGs’ works, which was irregular being contrary to the clear directions of Cabinet Division. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	No of Schemes	Amount (Rs.in million)
1.	GEPCO	242/2023-24	346	39.51
2.	HESCO	406/2023-24	87	5.97
3.	IESCO	224/2023-24	148	16.85
4.	PESCO	378/2023-24	2,312	430.18
5.	QESCO	529/2023-24	29	3.91

6.	SEPCO	233/2023-24	114	9.12
TOTAL			3,036	505.54

(Source: Completion and Capitalization Reports)

Violation to the SDG Guidelines issued by Cabinet Division resulted in irregular charging of overheads & store handling charges of Rs.505.54 million to SDGs' electrification works up to the Financial Year 2022-23.

The matter was taken up with the management during August to September, 2023 and reported to the Ministry during October to November, 2023. The management replied that the schemes under SDGs' program were executed as per approved PC-1 by the competent forum and administrative overhead were being charged as per SOPs/rules applicable as well as Accounting Manual of DISCOs.

The DAC in its meeting held on December 14-23, 2023 directed the management to refer the matter to Cabinet Division for regularization otherwise to exclude the cost of overheads from SDGs' works within a month. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

1.4.20 Loss due to estimated billing to industrial consumers without units and MDI – Rs.470.98 million

According to Para 6.1.3 of Consumer Service manual, "Taking snapshots of meter readings of all consumer categories is mandatory. Meter readings are taken through mobile snapshots/hand-held units to ensure correct readings. The snapshots of meter reading including net metering facility wherever applicable showing import and export units are printed on electricity bill. DISCO shall make available record of snapshots for twelve months for presenting before NEPRA, POI, Court of Law or any other competent forum if required for settlement of billing dispute raised by any consumer."

During audit of City Circle QESCO, it was observed that forty-two (42) industrial (B-2) consumers were charged with the units consumed without MDI. All these industrial consumers were running and active, which indicated that undue favor was extended to them. If load factor was applied, the said consumers were required to be billed 17.46 million units amounting to Rs.470.98 million at an average unit rate of Rs.26.98/- applicable to B-2 consumers. However, the management issued nominal bills to running industrial consumers, which resulted in loss to the company.

Non-adherence to CSM resulted in loss of Rs.470.98 million due to estimated billing to industrial consumers without units and MDI on estimated basis up to the Financial Year 2022-23.

The matter was taken up with the management in September 2023 and reported to the Ministry in November, 2023. The management replied that the billing of all industrial consumers was being taken by SDO through mobile meter reading. As per NEPRA instructions, where accurate meters were installed, the billing must be carried out on meter reading rather than load factor. Hence, no load factor was required for charging the units. Mostly consumers mentioned in the para were seasonal i.e. ice factory and cold storage etc. The crush plants were also disconnected, as per order of the Honorable Balochistan High Court.

The DAC in its meeting held on December 22 & 23, 2023 directed the management to get the record verified from audit within 15 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 462/2023-24)

1.4.21 Non-regularization of excess expenditures on capital works - Rs.389.92 million

As per accounting manual of PBF-I "Budget is allocated to all D&D offices from the total Budget approved by the BOD keeping aside on approved revised Budget for allocating any justifiable additional budget demand. Moreover, lack of regular analysis of actual expenditure in comparison with budget targets, may result in excessive spending being identified towards the end of the budgetary period, which may ultimately defy the whole purpose of budgetary process".

During audit of Project Directorate Construction LESCO, it was observed that an amount of Rs.1,780.00 million was allocated for execution of ELR/DOP works, against which an expenditure of Rs.2,169.918 million was incurred during the Financial Year 2022-23. However, the excess expenditure of Rs.389.92 million was not got regularized from the competent authority.

Non-adherence to Authority's instructions resulted in non-regularization of excess expenditure of Rs.389.92 million on capital works up to the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that the expenses would be reduced, once the work would be completed and converted into asset.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to submit revised reply and get the record verified from Audit within 15 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 618/2023-24)

1.4.22 Irregular splitting of load of M/s Zamung Textile Company – Rs.385.16 million

According to NEPRA Tariff determination, "B-4 tariff is applicable for supply to industries having sanctioned load of more than 5 MW".

According to Para-2.6.6 of Consumer Service Manual, "Connection having load above 5 MW, the cost of dedicated transformer, dedicated 11 kV Feeder and dedicated Grid Station and associated transmission line shall be recovered from them".

According to Para-5.2.3 of Consumer Service Manual, "in case of extension of load, the amount of security deposit shall be updated at prevailing rates for the entire load subject to adjustment of already paid Security Deposit".

According to Para-2.8.1 of Consumer Service Manual, "DISCO shall allow more than one industrial connection at the same premises subject to (a) having different nature of industries, (b) having same tariff category.

However, different tariff category connections may be allowed subject to satisfaction of DISCO that no misuse of tariff will take place”.

During audit of Operation Circle, Khyber, PESCO, it was observed that seven (07) B-2 and one (01) B-1 connections were given to an industrial consumer namely M/s Zamung Textile Company from two general feeders at the same premises, whereas the accumulated extended load of the consumers fell under Tariff B-4. The record revealed that the consumer was using illegal extended load since long, but neither notices were issued to the consumer, nor the illegal extended load was regularized by accumulating the load of consumer by recovering the capital cost and meter security amounting to Rs.385.16 million. It was also observed from record that there was an arrear of Rs.1.68 million against the consumer and even snapshot of meter reading was not present on a single electricity bill of the consumer. This reflected that undue favor was extended to the consumer, which caused loss to PESCO.

Non-adherence to NEPRA’s instructions resulted in irregular splitting of load of M/s Zamung Textile Company and non-recovery of capital cost and meter security amounting to Rs.385.16 million up to the Financial Year 2022-2023.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that notices had been served to all the 07 consumers to regularize their illegal extended load. In the light of notices served, the consumers approached to Director (P&D) PESCO and the cases were still under process.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to submit revised detailed reply along with documentary evidence to Audit within 15 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC’s decision.

(Draft Para No. 707/2023-24)

1.4.23 Loss due to non-recovery of capital cost from the consumers -Rs.360.21 million

According to Section-III-C (1) of WAPDA Book of Financial Powers, “deposit works shall be undertaken only after getting full amount of sanctioned work estimated deposits with WAPDA, with an undertaking from the depositor to meet any variation.”

During audit of GEPCO, it was observed that estimates of seven (07) works of different categories were sanctioned at cost of Rs.669.99 million and subsequently the same were revised to Rs.991.31 million due to increase in material cost. Accordingly, provisional revised demand notices for difference of cost amounting to Rs.360.21 million were issued to the consumers. However, neither revised cost was recovered from the consumers nor disciplinary action for delayed execution of works was taken. Hence, non-recovery of balance capital cost from the consumers resulted in loss to the stated extend.

In-efficient operational management resulted in loss due to non-recovery of capital cost of Rs.360.21 million from consumers during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that the revised demand notices had not been paid by the

consumers and connections were pending. The works would be completed after payment of revised demand notices.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to ensure recovery and get the record verified from Audit within one month. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 795/2023-24)

1.4.24 Irregular and unjustified deduction/collection of Neelum Jhelum Surcharge – Rs.342.53 million

As per the Decision of Ministry of Energy (Power Division) issued by Office Memorandum vide letter No. F No. 5/29/2016-17 dated July 02, 2018; the Neelum Jhelum Surcharge was rescinded at the achievement of COD of the whole project w.e.f December 28, 2018.

As per Para "4" of summary submitted on February 12, 2021 by Ministry of Energy (Power Division) issued by Office Memorandum vide letter No. PF No. 5/29-NJS/2020-21 dated March 24, 2021, it was decided that a) the Neelum Jhelum Surcharge already imposed on electricity consumers @ 0.10/ kWh for development of Neelum Jhelum Project may be revoked with the immediate effect. b) The NJ Surcharge collected by the DISCOs and transferred to WAPDA after December 28, 2018 i.e. the date of taking over all units of NJP. c) The NJ surcharge collected after taking over of the NJP by WAPDA may be returned to the eligible consumers/ adjusted in their forthcoming electricity bill.

During audit of CEO LESCO, it was observed that Neelum Jhelum Surcharge amounting to Rs.342.53 million was deducted from consumers up to June, 2023 in contrary to clear instructions of ECC. The amount collected from the consumers after taking over of NJP was required to be credited/adjusted to the eligible consumers, as per above ECC decision, which was not done.

Non-adherence to the ECC decision resulted in irregular and unjustified recovery of Neelum Jhelum Surcharge amounting to Rs.342.53 million up to the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that after December 2018, an amount of Rs.4,545.36 million was collected from consumers, out of which Rs.2,058.39 million was transferred to WAPDA and the remaining amount of Rs.2,486.97 million was remitted to CPPA-G. In this regard, the comprehensive reconciliation was carried out with management of Neelum Jhelum Hydro Power Company.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the matter resolved at an appropriate level. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 881 /2023-24)

1.4.25 Non-recovery of security deposit from industrial consumers - Rs.294.60 million

According to Consumer Service Manual 2021 Para 5.1.1 for all service connections, a demand notice for security deposit as per the rate approved by NEPRA shall be issued to the applicant for depositing the same in the designated bank branch.

During audit of CEO MEPCO, it was observed that two hundred and forty-three (243) industrial consumers were connected with energy system of MEPCO since long and did not pay their security deposit amounting to Rs.294.60 million against sanctioned load. The management was required to collect the security deposit as per rate approved by NEPRA.

Non-adherence to Authority/ NEPRA directions resulted in non-recovery of security deposit amounting to Rs.294.60 million from industrial consumers during the Financial Year 2022-23.

The matter was taken up with the management in November, 2023 and reported to the Ministry in December, 2023. The management replied that the connections were sanctioned / energized with recovery of security deposit but due to old record / connections and not having any computerized system, these were not updated in the master file. As the connections were already running, therefore, as per CSM, security amount could not be updated.

The DAC in its meeting held on December 20 & 21, 2023 directed the management to update the security amount and get the record verified within 30 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 939/2023-24)

1.4.26 Doubtful adjustments of units under category-F “adjustment by Internal Audit” – Rs.257.91 million

As per Data Coding Instructions, ‘F’ category is for adjustment notes by Chief Auditor WAPDA. According to Commercial Procedure Manual, Revenue Officer and Assistant Manager are responsible for implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the company and efficient application of billing and collection procedures.

During audit of CEO FESCO, it was observed that debit adjustments amounting to Rs.203.952 million and credit adjustments amounting to Rs.53.953 million were passed on to consumers through adjustment under category ‘F’. The said adjustment code was allotted only to adjustments, as pointed out by Internal Audit. On the other hand, Internal Audit FESCO was lagging behind by more than one year in audit of revenue offices. This reflected that debit and credit entries amounting to Rs.257.91 million (Rs.203.952 million Dr. + Rs.53.953 million Cr.) appearing under category-F were not pointed out by Internal Audit and hence, subsequent adjustment of the same was doubtful.

Non-adherence to the Commercial Procedure Manual resulted in doubtful adjustments of units under category-F “adjustment by Internal Audit” amounting to Rs.257.91 million during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that no loss was sustained by the Company and the procedural deviations were noted for future compliance.

The DAC in its meeting held on December 20 & 21, 2023 did not agree with reply and directed the management to inquire the matter at higher level. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 1202/2023-24)

1.4.27 Non-recovery of fixed charges from consumers due to non-installation of ToU meters - Rs.226.46 million

According to schedule of tariff, domestic and commercial consumers having sanctioned load 5 kW and above would be charged fixed charges and installed ToU meters.

During audit of DISCOs, it was observed that 8,474 domestic and commercial consumers having sanctioned load 5 kW and above were running on Single/3-Phase meters instead of ToU meters. As per NEPRA's instructions, connections having sanctioned load 5 kW and above were required to be installed with ToU meters and billing be made on consumption of peak and off-peak hours, which was not done. Hence, fixed charges amounting to Rs.107.34 million were required to be recovered from consumers. Moreover, regularization of the billing was needed after installation of ToU meters by recovering the cost of Rs.119.12 million from them. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	No. of consumers	Amount (Rs.in million)
1.	FESCO	82 & 967/2023-24	2,138	119.41
2.	GEPCO	28 & 995/2023-24	5,950	101.28
3.	MEPCO	310/2023-24	113	3.04
4.	TESCO	1049/2023-24	273	2.73
Total			8,474	226.46

(Source: CP-88A & 88L of DISCOs for the year 2022-23)

Non-adherence to schedule of tariff and NEPRA's instructions resulted in non-recovery of fixed charges million from commercial consumers due to non-installation of ToU meters involving an amount of Rs.226.46 million up to the Financial Years 2022-23.

The matter was taken up with the management in April, 2023 & August to October, 2023 and reported to the Ministry in June, 2023 & October to December, 2023. The management replied that in some cases, ToU meters had been installed.

The DAC in its meeting held on August 26, 2023 and December 14-23, 2023 directed the management to expedite installation of ToU meters and get the record verified from audit within 60 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No. 1.4.36 having financial impact of Rs.47.51 million. Recurrence of same irregularity is a matter of serious concern.

1.4.28 Non-refund of excess saving incurred on deposit work - Rs.196.92 million

According to Para-11 Clarification regarding Revised Consumer Service Manual, dated March 26, 2021 "DISCOs were required to adjust or refund the amount of unused material as per actual cost even if it is below 10%".

During audit of Project Construction Directorate, FESCO, it was observed that an amount of Rs.450.67 million was incurred on ninety (90) deposit works against estimated amount of Rs.647.60 million deposited by the sponsors. Thus, an amount of Rs.196.92 million was overcharged against the actual expenditure. The amount of excess charged/saving beyond 10% was required to be refunded to the concerned depositors upon completion of work. Hence, retaining and non-refunding the amount of receipt against deposit works since long was a clear violation of NEPRA instructions. Moreover, the saving over and above the estimated cost indicated that the estimates were not prepared according to site requirements and were unrealistic.

Non-adherence to the NEPRA's instructions and weak internal controls resulted in non-refund of excess saving of Rs.196.92 million up to the Financial Year 2022-23.

The matter was taken up with the management on October, 2023 and reported to the Ministry in November, 2023. The management replied that final position of savings to be refunded would be determined after completion/capitalization of works.

The DAC in its meeting held on December 20 & 21, 2023 directed the management to expedite the matter within 30 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 574 /2023-24)

1.4.29 Non-capitalization of cost of consumers' self-purchased transformer into books of account - Rs.194.65 million

As per DISCOs Accounting Manual, after completion, the assets are capitalized at the concerned Operation Division and Fixed Assets Register is updated accordingly.

During audit of Eastern Circle, LESCO, it was observed that one hundred and twelve (112) transformers of various capacities were self-purchased by the consumers and installed at sites against new industrial connections. However, the cost of these transformers amounting to Rs.194.65 million was not booked and capitalized into books of accounts. The failure to adopt the capitalization process of accounting manual could result understatement of

assets. Non-existent asset and incomplete asset record could cause a material misstatement in the financial statements.

Non-adherence to accounting manual resulted in non-capitalization of cost of consumer's self-purchased transformer valuing Rs.194.65 million into books of accounts up to the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in October, 2023. The management replied that cost of 112 self-purchased transformers was being capitalized in books of accounts as Capital Work in Process (CWIP).

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the record of capitalization of self-purchased transformers verified from Audit within 15 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 338/2023-24)

1.4.30 Non-recovery of risk & cost from defaulted firm – Rs.190.71 million

According to Purchase Order Clause-9 (A) iii, failure and termination “if you (manufacturer / supplier) fail to deliver the stores or any consignment thereof within specified delivery period, the purchaser shall be entitled at his option either;- iii) to cancel procurement at your risk and cost in the event of action taken under clause (ii) or (iii) above, you shall be liable for any loss which the purchaser may suffer on the account, but you shall not be entitled to any gain on repurchase made against the supply order”.

During audit of CEO MEPCO, it was observed that a purchase order of Rs.231.00 million @ Rs.192,000/- per transformer was placed upon M/s Pan Power International Pvt. Ltd. Lahore for the procurement of 1200 transformers of 50 kVA on February 08, 2021 with delivery period of 150 days. The supplier could not supply the material up to October 20, 2022 and performance bond / guarantee valuing Rs.13.51 million was forfeited. Subsequently, a purchase order amounting to Rs.424.01 million for the procurement of one thousand (1000) 50 kVA transformers @ Rs.424,010/- per T/F was placed with M/s. Pak Electron Pvt. Ltd. on May 07, 2022. This resulted in loss of Rs.190.712 million (Rs.232,010 x 822 T/F 50 kVA) to MEPCO due to increased rates and also hampered its operational activities. As M/s Pan Power International Pvt. Ltd. breached the tender conditions, hence, risk and cost amounting to Rs.190.71 million was required to be recovered from the said firm.

Non-adherence to the contractual provisions resulted in non-recovery of risk & cost amounting to Rs.190.71 million from the defaulted firm up to the Financial Year 2022-23.

The matter was taken up with the management in November, 2023 and reported to the Ministry in December, 2023. The management replied that MEPCO had filed a recovery suit in Civil Court Multan regarding the recovery of risk & cost amounting to Rs.190.30 million from M/s Pan Power International and last date of hearing was November 06, 2023.

The DAC in its meeting held on December 20 & 21, 2023 directed the management to pursue the recovery of risk and cost case vigorously and get the record verified from Audit within 60 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

1.4.31 Wasteful expenditures due to non-completion/capitalization of abandoned works - Rs.184.75 million

Accordinging Paras-4.1.3 to 4.1.6 of WAPDA Distribution Rehabilitation Guidelines September 2003, “total time for approval of work, execution and preparation of completion report will be restricted to 130 days”. As per DISCOs Accounting Manual, A-90 Form (completion report) prepared by the Deputy Manager (Construction) is certified by the Consultants and forwarded to Project Director (Construction) for capitalization.

During audit of Project Director Construction LESCO, it was observed that an expenditure amounting to Rs.184.75 million was incurred against fifty-five (55) LT proposals and sixteen (16) deposit works for the period from 2019 to 2023 but these works had not been completed yet. Moreover, neither the said works were capitalized into books of accounts nor amounts of deposit works were refunded to the donors.

Non-adherence to WAPDA Distribution Rehabilitation Guidelines resulted in wasteful expenditure of Rs.184.75 million due to non-completion/non-capitalization of abandoned works up to Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that deposit works were under process due to pendency of NOC. As soon as NOC was provided by sponsor, the work would be completed. Moreover, efforts were being made to complete the pending LT works.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the record of completed actions verified from Audit within 15 days and expedite the remaining works. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC’s decision.

(Draft Para No.628/2023-24)

1.4.32 Non-recovery of 5% E&S charges from industrial / housing colonies consumers – Rs.164.60 million

As per Section-12, Financial Implication and Delegation of Powers (Policy) of SOP of Environmental & Social Safeguards, Resettlement Policy “minimum 5% budget of total cost of project (Grid Stations, T/Lines & Colonies) to be allocated in Environmental & Social management head of own resources as well as deposit works. 5% E&S cost shall be charged for B-III, B-IV, 400 kVA connections.

During audit of CEO LESCO, it was observed that electrification estimates of 173 industrial connections under tariff B-III & B-IV amounting to Rs.2012.46 million and 95 housing colonies amounting to Rs.1,279.53 million were approved by the Planning & Development Section of LESCO without charging 5% Environmental & Social Safeguards (E&S) charges. Hence, E&S charges amounting to Rs.164.60 million neither charged nor recovered from consumers.

Non-adherence of E&S guidelines resulted in non-recovery of E&S charges amounting to Rs.164.60 million from industrial consumers and sponsors of housing colonies up to the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that LESCO was bound to recover only those charges, which were mentioned in NEPRA Consumer Service Manual 2021. Hence 5% E&S charges were not being recovered from the industrial consumers and other consumers.

The DAC in its meeting held on December 18 & 19, 2023 directed the management that the matter of deduction of 5% E&S cost might be taken up with NEPRA and report of the same be provided to Audit. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 1078/2023-24)

1.4.33 Irregular sanction for extension of load without clearing deferred amount – Rs.162.84 million

According to Para 2.14 (ii) of Consumer Service Manual, “extension of load case shall be processed subject to the condition that no arrears/ deferred amount/ installments are pending.”

During audit of CEO PESCO, it was observed that extension of load of M/s Yaar Steel Mills was sanctioned without clearing deferred amount of Rs.162.84 million. The said sanction for extension of load was against the provisions of the Consumer Service Manual and hence, considered irregular.

Non-adherence to provision of Consumer Service Manual resulted in undue favour to consumer due to irregular sanction for extension of load without clearing of deferred amount of Rs.162.84 million during the Financial Year 2022-23.

The matter was taken with the management in May, 2023 and reported to the Ministry in December, 2023. The management replied that the deferred amount related to taxes and industry was situated in the Free Tax Zone for which the case was under trial in the court. Moreover, the consumer after energization had paid on average Rs.400 million / month. Notice had also been issued to pay the dues.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to submit revised detailed reply along with documentary evidence within 15 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.1096/2023-24)

1.4.34 Loss due to less charging of load factor to tube well consumers – Rs.162.81 million

According to Para-9.2.3 of Consumer Service Manual, “The detection bill will be assessed on the basis of any of the following methods in the order of priority: i) Previous consumption/Billing History, ii) On the basis of future, undisputed consumption if no previous credible consumption is available. iii) No of detection units = Load x Load Factor x 730 x Months, where: - Load is the connected load or sanctioned load in kW whichever is higher Load Factor as per Annexure V (which is 50%), Months = period for charging detection bill 730 = Average No of hours in a month

During audit of City Circle, QESCO, it was observed that 5.931 million units amounting to Rs.162.81 million were less billed to tube well consumers due to less charging of load factor (CP-21C of June 2023 was selected on sample basis). Since the tube well consumers of City Circle were directly connected to the line without metering equipment, therefore, due to charging of less load factor in detection bills, QESCO was deprived of legitimate revenue.

Non-adherence to rules resulted in loss of Rs.162.81 million due to less charging of load factor up to the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in December, 2023. The management replied that as per instructions and direction of Ministry of Energy, the supply hours of agriculture consumers were reduced to 4 to 6 hours from 8 hours, hence, less units were charged to the agriculture consumers.

The DAC in its meeting held on December 22 & 23, 2023 directed the management to get the record verified from audit within 15 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 958/2023/24)

1.4.35 Unauthentic estimated billing to Government (Military Engineering Services) connections -- Rs.155.60 million

According to Para-6.1 of Consumer Service Manual (CSM), meter readings for all types of connections are entrusted to particular officials/ officers according to load of connections. Further, "if due to any force majeure it is not possible for DISCO to take actual meter reading, the consumer may provide meter reading snap to DISCO for carrying out actual billing or DISCO may issue a provisional bill on average basis i.e. consumption in corresponding month (s) of last year or average consumption of previous eleven months whichever is lower. In such a case, a bill along with a slab benefit will be issued as per actual meter reading upon normalization of the situation".

During audit of Operation Circle Hazara-II, PESCO, it was observed that eleven (11) government consumers (Military Engineering Services) having sanctioned load from 16 to 110 kW were being billed on estimated basis for more than two years. The meters installed at these connections were defective/ damaged and the consumers were using direct supply. The status of these meters was not changed from "active" to "defective" and 4.72 million units amounting to Rs.155.60 million were billed on estimated basis. The said billing was not made on the mechanism prescribed in the CSM and hence, cannot be termed as authentic.

Non-adherence to provisions of the Consumer Service Manual resulted in unauthentic estimated billing amounting to Rs.155.60 million to Government connections (Military Engineering Services) up to Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in November, 2023. The management replied that installation of AMR meters was in progress and after installation of meters, the question of estimated billing would be eliminated forever. Audit contended that estimated billing was in contradiction to CSM and needed investigation for fixing of responsibility.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to submit revised detailed reply along with documentary evidence to audit within 15 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 532/2023-24)

1.4.36 Extra benefits afforded to consumers by multiple credit adjustments in one billing cycle – Rs.147.73 million

According to Para-1.3 of Commercial Procedure, “the Revenue Officer and Assistant Manager are responsible for; i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company, ii) efficient application of billing and collection procedures”.

During audit of CEO FESCO, it was observed that multiple credit of Rs.147.73 million was afforded to same consumers in one billing cycle under various adjustment categories (excluding category-B). This cast a doubt on credit adjustments and caused extra benefit of Rs.147.73 million to the consumers.

Non-adherence to NEPRA Consumer Service Manual resulted in extra benefits afforded to consumers by multiple credit adjustments amounting to Rs.147.73 million in one billing cycle during the Financial Years 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that multiple credit adjustments in one billing cycle was afforded to consumers due to correction of meter reading, exemption of taxation, revision of detection and waiving of LPS.

The DAC in its meeting held on December 20 & 21, 2023 did not agree with the reply of the management and directed to inquire the matter at Manager (Customer Services) level within 30 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 1018/2023-24)

1.4.37 Loss due to non-billing of electric supply - Rs.125.32 million

According to Para-1.3 of Commercial Procedure, “the Revenue Officer and Assistant Manager are responsible for: i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company ii) efficient application of billing and collection procedure”. Moreover, Consumer Service Manual Annexure-V prescribed percentage of Load Factor for different categories of connections.

During audit of CEO SEPCO, it was observed that 0.625 million units were charged to the consumers against 4.41 million units received on four (04) feeders having 86% loss during the year 2022-23. Resultantly, Company sustained a loss of Rs.125.32 million.

Non-adherence to the provisions of commercial procedure resulted in loss of Rs.125.32 million due to non-billing of electric supply during the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in December, 2023. The management replied that out of four feeders billing of three feeders was made after correction of feeder coding and shifting of consumers and in one case, the correction was under way.

The DAC in its meeting held on December 22 & 23, 2023 directed the management to inquire the matter and submit its report to Audit within 30 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 1015/2023-24)

1.4.38 Non-consolidation of load of industrial consumer and non-recovery of detection charges – Rs.124.22 million

According to consumer service manual Para.2.6.6 “If an industrial consumer having load above 2.5 MW to 5 MW the cost of dedicated transformer and dedicated 11kV feeder be recovered.” And Para 5.2.3: - “In case of extension of load, the amount of security deposit shall be updated at prevailing rates for the entire load subject to adjustment of already paid Security Deposit.”

During audit of City Circle QESCO, it was observed that two (02) Industrial (B-3) connections were granted to M/s Mehmood Agricultural Foundry on the same location. Both the connections was running on extended load and consolidated load of both the connections were 4,004 kW. However, the management did not recover the cost of independent feeder and update their meter security; instead, both the connections were running on mixed industrial feeders. Further, both the connections were involved in theft of electricity and when the consumer was served with detection bills, the consumer approached the court of law and NEPRA. NEPRA in its decision decided that the consolidated load of consumer was 2990 kW. Moreover, as per sanctioned load, an independent feeder was required to be provided at the cost of the consumer, which was not done. Hence, neither the energy connections were disconnected nor the un-authorized extended load was regularized. The consumer had also applied for a third connection with sanctioned load of 995 kW, as evident from NEPRA's decision, which was under process at Head Office level and in that case, if the third connection load of the consumer was approved, the consumer might fell under Tariff B-4, and in case of Tariff B-4, independent Grid would be required as per CSM. However, the management neither recovered meter security, capital cost and arrears (deferred amount) of Rs.124.22 million nor the illegal extended load of consumer was regularized.

Non-adherence to rules resulted in non-consolidation of load of industrial consumer and non-recovery of detection charges amounting to Rs.124.22 million up to the Financial Year 2022-23.

The matter was taken up with the management in September 2023 and reported to the Ministry in November, 2023. The management replied that detection bill was served to the consumer on account of theft of electricity but instead of paying the bill, consumer filed petition in the High Court of Baluchistan which referred the case to NEPRA for decision. NEPRA passed decision in favor of QESCO. The consumer filed an appeal against the decision in NEPRA Tribunal, which was still pending.

The DAC in its meeting held on December 22 & 23, 2023 directed the management to pursue the matter under intimation to Audit. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 637/2023-24)

1.4.39 Non/less recovery of grid sharing charges and cost of land from consumers -Rs.80.85 million

As per Clause 2.6 sub clause (VII) and (VIII) of Consumer Service Manual, "in case of Housing Society/ Scheme/ Colony/ Multistory Building/ Commercial Plaza/ High Rise Building having ultimate load demand up to 10 MW, 100% Grid Sharing Charges including transmission line charges, 100% cost of land will be recovered @ Rs.0.855 million per MW proportionate to load".

During audit of CEO LESCO, it was observed that an amount of Rs.80.85 million was not recovered or less recovered from six (06) industrial consumers and two (02) housing societies on account of 100% grid sharing charges and cost of land @ Rs.0.855 million per MW proportionate to load. The amount was required to be recovered from industrial consumers and the sponsors of housing societies as per provisions of Consumer Service Manual, which was not done.

Non-adherence to Consumer Service Manual resulted in non/less recovery of Rs.80.85 million grid sharing charges and cost of land from industrial consumers/housing societies up to Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that NEPRA clarified vide letter dated March 15, 2022 that the industrial consumers were not required to pay grid sharing charges including transmission line charges and cost of land for the entire load in case of extension of load above 5 MW to 7.5 MW. However, these charges were only applicable for the incremental load above 5 MW up to 7.5 MW. The reply was not agreed to being not substantiated with documentary evidences.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to seek clarification from NEPRA whether in case of extension of load, grid sharing cost including transmission line charges and cost of land from industrial consumers would be recovered on entire load or incremental load and report to Audit. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 1218 /2023-24)

1.4.40 Loss due to substandard / unspecified civil works and extra expenditure on its rehabilitation - Rs.76.95 million

According to Para No 01 of Special Stipulations of work order, "the work will be carried out strictly in accordance with the approved drawings, WAPDA standard specifications and the instructions of the Engineer. According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of GSC GEPCO, it was observed that a Tower No.33 of 132 kV Double Circuit Narowal-Pasrur T/Line was in critical condition due to erosion of soil around its feet. An estimate of Rs.2.61 million (civil + electrical)

was prepared and civil work order of Rs.1.08 million issued to M/s Munir & Co. Lahore on September 23, 2019. However, in less than one year, the said newly replaced Tower could not sustain the pressure of flash floods and collapsed on July 28, 2021. Accordingly, an estimate of Rs.11.04 million was approved for replacing the Tower No.33. Though XEN T/Line proposed an inquiry for substandard civil work, but further outcome was not forthcoming from record. Despite such a substandard work, further work orders for other works were being issued to the said firm as latest one for Rs.14.14 million was issued on July 17, 2023.

Moreover, another Tower No.34 of the said D/C T/Line and two (02) Towers No.68 & 69 of Single Circuit T/Line, were initially constructed on normal foundations instead of pile foundation despite the fact that Nala Daik was running alongside. Subsequently, in order to avoid water flow of Nala Daik, the normal foundations were replaced with Pile foundations with an estimate of Rs.63.30 million.

Substandard / unspecified civil works resulted in loss of Rs.2.61 million and extra expenditure of Rs.74.34 million (Rs.11.04 + Rs.63.30 million) on its rehabilitation up to the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that the notice was served to M/s Munir & Co. on 13-10-2023 for explaining his position and an inquiry committee had been constituted.

The DAC in its meeting held on December 18 & 19, 2023 directed to inquire the matter at PPMCL level by G.M Technical and submit its report within a month. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 219/2023-24)

1.4.41 Less recovery from consumers due to application of wrong tariff - Rs.21.79 million

According to Para-1.3 of Commercial Procedure, "the Revenue Officer and Assistant Manager are responsible for: i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company ii) efficient application of billing and collection procedure".

During audit of CEO IESCO, it was observed that a consumer having reference no. 27-14631-7490596 was charged under tariff C-II whereas, the supply was used for commercial purposes as pointed out by the management. Resultantly, an amount of Rs.146.02 million was charged und tariff C-II instead of charging an amount of Rs.167.81 million under commercial tariff A-2(C), hence, an amount of Rs.21.79 million was less recovered, which was loss to the company.

Non-adherence to Commercial Procedure resulted in less recovery of Rs.21.79 million from consumers due to application of wrong tariff during the Financial Year 2022-23.

The matter was taken up with the management in November, 2023 and reported to the Ministry in December, 2023. The management replied that the connection was given as per NEPRA's decision vide dated June 17, 2021.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to get clarification from NEPRA and submit its report to Audit for verification within 15 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.1060/2023-24)

1.4.42 Irregular acceptance of material in violation of tendered technical specifications - Rs.69.62 million

According to clause-2 & 5 of Purchase Order "11 kV dropout cutout as per WAPDA Spec. DDS-49:2009 was to be supplied by the contractor and inspection of the material was to be carried out jointly by representatives of Chief Engineer (MI) Power Planning Monitoring Company (PPMC) & Chief Executive Officer (CEO) PESCO."

During audit of CEO PESCO, it was observed that a purchase order for procurement of 6,298 11 kV Dropout Cutout amounting to Rs.69.62 million was placed on M/s Vision Engineering (Pvt) Ltd, Lahore. The offered material of said supplier was rejected twice by the Inspection Committee comprising of representatives of PPMC and CEO PESCO due to non-conforming with technical specifications of the material. However, the supplier requested for local inspection instead of representative of PPMC and offered extended warranty of 3 years. Later on, the inspection clause of the Purchase Order was amended by excluding representative of PPMC from Inspection Committee and the material was accepted on the basis of test reports, which were already disapproved by PPMC. This depicted that an undue favor was accorded to the supplier by accepting material having non-conformity with tendered technical specifications by amending the respective clause.

Violation of tendered technical specifications resulted in irregular acceptance of material amounting to Rs.69.62 million during the Financial Year 2022-23.

The matter was taken with the management in November, 2023 and reported to the Ministry in November, 2023. The management replied that due to lapse of sufficient time in inspection process by CE(MI) PPMC, and urgent requirement of the item for pending developmental works amendment in inspection was made. Extended warranty for 3-year was obtained from M/s Vision Engineering Pvt., Ltd. Applicable LD would also be deducted by Finance Director, PESCO.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to inquire the matter at PPMC level within 30 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 840/2023-24)

1.4.43 Irregular provision of new connections to defaulters having arrears - Rs.60.62 million

According to Para-1.3 of Commercial Procedure, "the Revenue Officer and Assistant Manager are responsible for: i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company ii) efficient application of billing and collection procedure".

During audit of CEO HESCO, it was observed that four hundred and nineteen (419) consumers defaulted the payment of electricity dues amounting to Rs.60.62 million. However, electricity was being supplied through another connection at the same premises and with same name. The provision of new electricity connection to the defaulters without recovery of outstanding energy dues was irregular and unjustified.

Non-adherence to the rules resulted in illegal provision of new connections to energy defaulters having arrears amounting to Rs.60.62 million up to the Financial Year 2022-23

The matter was taken up with the management in October 2023 and reported to the Ministry in November, 2023. The management replied that new connections were given to the existing consumers on the same premises having separate portions according to Consumer Service Manual. However, efforts were being taken for recovery of defaulting amount.

The DAC in its meeting held on December 22 & 23, 2023 directed the management to inquire the matter at CSD level and submit report to Audit within 30 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 787/2023-24)

1.4.44 Irregular approval of external electrification of housing societies without independent feeder – Rs.60 million

According to GM (PE&S) WAPDA letter dated October 06, 1998, “a situation may arise when even with all rehabilitation possible the ultimate load demand up to 2500 kW is not possible to consider from the existing 11 kV feeder, then an independent feeder is the only solution at the expense of the Sponsoring Agency including the cost of the Gird-end Breaker.”

During audit of CEO PESCO, it was observed that external electrification of two (02) housing societies were sanctioned on mix feeders without recovering the cost of independent feeders amounting to Rs.60 million. As per aforementioned letter of General Manager (PE&S), the permissible limit of voltage drop is 5% and technical loss is 3.5% for granting a housing society external electrification with ultimate load demand up to 2500 kW from an existing feeder. However, PESCO approved the connections on such feeders, which were already overloaded and far beyond the permissible limit and even after rehabilitation (re-conductoring), the load of feeders did not come within the range of permissible limit of 5% for voltage drop and 3.5% for technical losses. Hence, undue favour was extended to consumers which caused financial loss to PESCO due to non-recovery of independent feeders' cost and Grid-end breakers' cost.

Non-adherence to Authority instructions resulted in irregular approval of external electrification of housing societies without independent feeder amounting to Rs.60 million during the Financial Year 2022-23.

The matter was taken with the management in November, 2023 and reported to the Ministry in December, 2023. The management replied that the maximum permissible voltage drop & AEL were 5% & 3%, however, where these parameters were hard to maintain, then existing system should be compared to the proposed facility and if substantial benefits in terms of reduction in energy & voltage drop could be achieved, the HT proposal might be carried out. It was done in both the cases as in Afzal Garden case, the Voltage drop & AEL reduced from the existing figures of 21.96% to 19.48% and 9.59% to 6.42%, where as in the Sher Ali Garden, the voltage reduced from 27.72 % to 26.71% and AEL decreased from 13.16% to 11.13%.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to submit revised detailed reply within 15 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 1187/2023-24)

1.4.45 Unjustified charging of meter rent to consumers – Rs.50.58 million

According to Rule-6 of NEPRA Licensing (Distribution) Rules 1999, “unless provided otherwise in the distribution license, the licensee shall charge only such tariff from the consumers, including the bulk-power consumers, as is approved by the Authority pursuant to and in accordance with the NEPRA (Tariff Standards and Procedure) Rules, 1998”.

During audit of CEO FESCO, it was observed that monthly meter rent amounting to Rs.50.58 million was charged to 295,497 consumers. Furthermore, it was observed that rate of charging of meter rent was not uniform and consumers were being charged from Rs.01 to Rs.2,190. The charging of monthly meter rent to consumers was irregular, as there was no such provision in the Consumer Service Manual.

Non-adherence to NEPRA's instructions resulted in unjustified charging of meter rent amounting to Rs.50.58 million to consumers during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that the policy for charging of meter rent was applied to those connections which were installed free of cost and the matter had already been referred to BoD FESCO for necessary directions. Audit contended that charging of meter rent for indefinite period was not covered under any rules & regulations of NEPRA.

The DAC in its meeting held on December 20 & 21, 2023 directed the management to take up the matter with NEPRA for necessary directions within 15 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 1200/2023-24)

1.4.46 Non-recovery of cost of independent grid stations from consumers - Rs.50.00 million

According to Consumer Service Manual section 2.6 (6) and industrial consumer applying load Above 5 MW was required to provide: i) Dedicated Transformer(s), ii) Dedicated 11 kV Feeder(s) & iii) Dedicated Grid Station and associated transmission line. The consumers may be allowed extension of load beyond 05 MW from the DISCO's owned grid station subject to availability of load in the grid and capacity in the 11 kV existing dedicated feeder. In such a case the consumer will bear 100% grid sharing charges including transmission line charges and 100% cost of land proportionate to load. However, only such consumers be allowed extension of load beyond 05 MW to 7.5 MW whose connection is at least three (3) years old.

During audit of MEPCO and HESCO, it was observed that three (03) industrial consumers qualified for provision of independent grid stations due to extension of load more than 5,000 kW; however, no action was taken

for installation of independent grid station. Hence, undue favour of Rs.50.00 million was extended to the consumers due to non-recovery of the cost of independent grid stations. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	No. of Cases	Amount (Rs.in million)
1.	MEPCO	677/2023-24	2	50.00
2.	HESCO	1291/2023-24	1	0.00
TOTAL			3	50.00

(Source: Batch-24 of DISCOs)

Non-adherence to NEPRA’s instructions resulted in non-recovery of cost of independent grid stations amounting to Rs.50.00 million from consumers up to the Financial Year 2022-23.

The matter was taken up with the management in September and October, 2023 and reported to the Ministry in November and December, 2023. The management of MEPCO replied that the connections had separate portions and their entrances were also on different roads while the management of HESCO replied that condition for 3 years old connection was relaxed by NEPRA and the case was approved by competent authority by recovering all applicable charges.

The DAC in its meeting held on December 14 to 23, 2023 directed the management of MEPCO and HESCO to inquire the matter within 30 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC’s decision.

1.4.47 Misuse of tariff by changing nature of industry – Rs.47.75 million

According to Para-2.6.7 of Consumer Service Manual, “Steel furnaces having sanctioned load up to 5 MW will pay the cost of dedicated transform(s) and dedicated 11 kV feeder(s).” Para 7.5.1 states, “The consumer shall, in no case use the connection for the purpose other than for which it was originally sanctioned. In case of violation, the consumer is liable for disconnection and legal action.” And according to Para-7.5.2, “DISCO shall serve seven days clear notice to the consumer who is found misusing his/her sanctioned tariff. However, DISCO shall immediately change the tariff and shall determine the difference of charges of the previous period of misuse to be recovered from consumer. However, in the absence of any documentary proof, the maximum period of such charges shall not be more than two billing cycles.

During audit of Operation Circle, Hazara-II, PESCO, it was observed that an industrial consumer M/s Kunhar Flour Mill bearing A/C No.30-26731-0000300 was involved in theft of electricity and was misusing tariff because the connection was used for steel furnace purposes instead of flour mill purposes. The record also revealed that consumer was using extended load illegally and its extended load fell under B-3 Tariff instead of B-2. The consumer had a huge arrear of Rs.28.27 million as well. Although, the consumer was disconnected and the case was under trial, however, timely action of recovering independent feeder cost, updating meter security of B-3 Tariff and recovery of arrear amounting to Rs.47.75 million was not made from consumer causing revenue loss to PESCO.

Non-adherence to rules resulted in loss of Rs.47.75 million due to misuse of tariff by changing nature of industry up to June 2023.

The matter was taken up with the management in August, 2023 and reported to the Ministry in November, 2023. The management replied that the notice regarding change in the nature of industry had already been issued and after serving the notice, the connection had been disconnected. Moreover, Security of Rs.928,620/- had been adjusted and shifted to Batch-36. The case had been referred to Deputy Collector, Mansehra for recovery of arrear amount.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to submit revised detailed reply along with documentary evidence to audit within 15 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 503 /2023-24)

1.4.48 Non-refund / credit of excess units charged to consumers - Rs.44.23 million

According to Commercial Procedure, "Revenue Officer is responsible for: i) Implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company ii) Efficient application of billing and collection procedures".

During audit of Operation Circle Khyber PESCO, it was observed that various energy meters were removed from consumers' sites and sent to M&T Lab for checking their accuracy / consumption data analysis. As per M&T data retrieval results, 4.713 million units were found consumed by consumers whereas the consumers were charged with 6.187 million units, hence, 1.475 million units amounting to Rs.44.23 million were excessively charged. The excess charged units were required to be refunded / credited to the concerned consumers, which was not done.

Non-adherence to Commercial Procedure resulted in non-refund / credit of excess charged units amounting to Rs.44.23 million to consumers up to the Financial Year 2022-2023.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that Manager (M&T) had been asked for provision of account number wise detail as and when the same received from, reply would be submitted to audit.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to submit revised detailed reply within 15 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 556/2023-24)

1.4.49 Loss due to less recovery of rehabilitation charges from consumers – Rs.40.88 million

According to provision 2.6(xiv) of Consumer Service Manual, the rehabilitation charges are applicable in case of industrial category where connection is given from common 11 kV feeder up to 1000 kW as per following rate:

Description	Rate (Rs.per kW)
15 kW to 40 kW	250
41 kW to 100 kW	400
101 kW to 500 kW	1200
501 kW to 1000 kW	3000

During audit of GEPCO and LESCO, it was observed that the estimates of five hundred and thirty-four (534) new/extension of load of industrial connections were framed by calculating rehabilitation charges on slab basis instead of applied load, hence, undue benefit was given by less calculation of rehabilitation charges. Resultantly, companies sustained loss due to less recovery of rehabilitation charges amounting to Rs.40.88 million. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	No. of Consumers	Amount (Rs.in million)
1.	GEPCO	22 & 692/2023-24	355	22.67
2.	LESCO	330/2023-24	179	18.21
TOTAL			534	40.88

(Source: Consumer Service Files for the FY 2022-23)

Violation of the provision of Consumer Service Manual resulted in loss amounting to Rs.40.88 million due to less recovery of rehabilitation charges from consumers up to the Financial Year 2022-23.

The matter was taken up with the management in April, 2023 & September to October, 2023 and reported to the Ministry in June, 2023 & October to November, 2023. The management replied that rehabilitation charges were calculated slab wise as per NEPRA CSM, 2021 and as per clarification of GM Operation, WAPDA. The reply was not tenable as the amount of the said charges was calculated on incremental slabs instead of particular flat slab of the applied load.

The DAC in its meeting held on August 26 and December 14-23, 2023 directed the management to seek clarification from NEPRA and share it with Audit expeditiously. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

1.4.50 Non-capitalization of Earthquake Reconstruction & Rehabilitation Authority (ERRA) works – Rs.38.60 million

As per paras 4.1.3 to 4.1.6 of Distribution Rehabilitation Guidelines September 2003 “total time for approval of work, execution and preparation of completion report will be restricted to 130 days.”

During audit of Operation Circle Hazara-II PESCO, it was observed from trial balance of the City Division, Mansehra that a huge amount of Rs.38.60 million was shown as work in process. When the trial balances of previous years i.e. 2019-20 to 2021-22 were scrutinized, the same figures were present there too. It was further observed that the material amounting to Rs.26.22 million was drawn for reconstruction of damages caused by disastrous earthquake on October 8, 2005 and an expenditure of Rs.12.38 million on account of contract works was also incurred. However, these works were not completed and still appearing as work in process.

Non-adherence to rules resulted in non-capitalization of ERRA works amounting to Rs.38.60 million up to June 2023.

The matter was taken up with the management in August, 2023 and reported to the Ministry in November, 2023. The management replied that request for conducting the inquiry for non-capitalization of ERRA works had been sent to the CEO PESCO Peshawar.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to submit revised detailed reply along with findings of inquiry to audit within 15 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 505/2023-24)

1.4.51 Irregular approval for construction of 11 kV feeder without conducting technical / feasibility study - Rs.38.53 million

As per Para-4.1.2 (ii) of Distribution Rehabilitation Guidelines “load flow studies of proposed situation of feeders (with and without capacitor) should be carried at peak load (without growth) by using FDRANA as PSS-Adept software”

During audit of CEO TESCO, it was observed that a new 11 kV Mantoi feeder with total length of 46.5 KM at South Waziristan Tribal District was initially proposed at a cost of Rs.51.49 million. However, due to paucity of funds, the approval was made for construction of fragmented portion of said new feeder up to 18.3 KM at a cost of Rs.38.53 million but no technical / feasibility studies were conducted to evaluate the viability of new feeder viz load forecasting, benefit/cost analysis and fulfillment of future expansion plans. Hence, the approval and execution of new 11 kV Mantoi feeder without technical/feasibility studies was irregular.

Non-adherence to Rehabilitation Guidelines resulted in irregular approval for construction of 11 kV feeder of Rs.38.53 million without conducting technical / feasibility study during the Financial Year 2022-23.

The matter was taken up with management in October, 2023 and reported to the Ministry in December, 2023. The Management replied that the technical study was conducted using SynerGee software indicating that the losses were within acceptable limits and the feeder was deemed feasible.

The DAC in its meeting held on December 14 & 15, 2023 observed that the feeder had been constructed for fragmented portion and the full envisaged benefits could not be reaped. DAC also directed the management to provide load flow study along with benefits achieved due to energization of fragmented feeder to audit. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 887/2023-24)

1.4.52 Irregular excess charging of installation charges on consumer's self-purchased transformers – Rs.34.46 million

According to Consumer Service Manual 2021 (Para-2.7), in cases where work is required to be carried out by DISCO and there is shortage of material; DISCO may ask the applicant to procure required material. Material procured by the applicant shall be inspected and the applicant will be charged 8% installation charges of the material cost.

During audit of DISCOs, it was observed that the consumers were overcharged with installation fees totaling Rs.34.46 million up to 23% of the estimated cost of self-purchased transformers. This excessive charging occurred because the standard 8% installation fee on the invoiced cost of self-purchased transformers was not applied, leading to higher expenses for consumers.

The detail is as under:

Sr. No.	Name of Company	Draft Para No.	Amount (Rs.in million)
1.	GEPCO	25/2023-24	9.91
2.	LESCO	372/2023-24	23.06
3.	MEPCO	639/2023-24	1.491
Total			34.46

(Source: Consumer Service Files for the FY 2022-23)

Violation of the provisions of the Consumer Service Manual resulted in irregular excess charging of installation charges amounting to Rs.34.46 million from consumers with regard to self-purchased transformers up to the Financial Years 2021-22.

The matter was taken up with the management in April, 2023 and reported to the Ministry in June, 2023. The management replied that it did not charge any irregular / excess installation charges on consumers' self-purchased T/Fs.

The DAC in its meeting held on December 14 to 23, 2023 directed the management to get the record in support of reply verified from Audit within 15 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

1.4.53 Non-adjustment of credit units retrieved by M&T to consumers – Rs.30.65 million

According to Para-4.3.2 (c) of Consumer Service Manual, data of impugned meter shall be retrieved and actual consumption as per retrieved data shall be charged to the consumer after issuing a notice to the consumer and already charged bills issued on average basis shall be adjusted.

During audit of FESCO & GEPCO, it was observed from data retrieval reports of 1,725 defective meters that 1.35 million units amounting to Rs.30.65 million were excess charged to the consumers. The excess units charged were required to be credited to the respective consumers but the same was not done, which not only caused concealment of line losses but also resulted in exaggerated recovery position. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	Amount (Rs.in million)
---------	-----------------	----------------	---------------------------

1.	FESCO	161 /2023-24	5.323
2.	GEPCO	23 & 361/2023-24	25.330
TOTAL			30.65

(Source: M&T Reports for the FY 2022-23)

Violation of the provisions of the Consumer Service Manual resulted in non-adjustment of credit units amounting to Rs.30.65 million to consumers as retrieved by M&T during the Financial Years 2019-20 to 2021-22.

The matter was taken up with the management in April, 2023 and reported to the Ministry in June, 2023. The management replied that these meters were replaced due to slowness, burning, software issues, opening of meters and display issues. The refund on the basis of retrieved data could not be relied upon and matter would be dealt with in the light of outcome of investigation at sub divisional level.

The DAC in its meeting held on December 14 to 23, 2023 directed the management to inquire the matter at CEO level and submit its report to Audit within 30 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision besides fixing responsibility.

1.4.54 Non-recovery of capital cost from the consumer – Rs.29.32 million

As per clause 2.4.7 of Consumer Service Manual “payment of demand notices for capital cost/ connection charges and security deposits (where work is to be carried out by the sponsor or by DISCO) may be allowed in installments on request of the applicant. However, if during that period escalation in cost of material occurs, the same shall be borne by the applicant”.

During audit of CEO LESCO, it was observed that M/s. Mughal Allay applied for extension of load from 4.95 MW to 25 MW with change of name to M/s Indus Engineering (Pvt) Ltd under tariff B-IV. Subsequently, demand notice for capital cost of Rs.211.41 million was issued to the consumer. The consumer requested for installments and two (02) demand notices for Rs.100.00 million and Rs.111.405 million were issued respectively. The consumer deposited 1st installment of Rs.100.00 million on August 23, 2022 and further requested to adjust refundable balance of Rs.72.062 million of his sister concerns i.e. M/s Mughal Iron and M/s. Steel Industries Ltd. In response to his request, LESCO management issued a fresh demand notice on September 08, 2022 on account of difference of 2nd installment amounting to Rs.29.324 million (Rs.101,405,330 – Rs.72,081,693) for payment within one month. But the consumer failed to deposit the 2nd installment of Rs.29.324 million up till October, 2023. No action was taken by the management, as neither the demand notice was cancelled nor the connection was disconnected.

Non-adherence to Consumer Service Manual resulted in non-recovery of Rs.29.32 million from the consumer on account of capital cost up to the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that work had already been stopped by PD GSC. However, remaining work would start after payment of fresh demand notice.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to issue fresh demand notice to consumer with fresh rates and to get the deposited amount verified from Audit. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 998/2023-24)

1.4.55 Loss due to non-recovery of independent feeder cost from Steel Furnaces – Rs.28.373 million

According to Para-c of Secretary WAPDA letter No.863-80/DD/(R&CP)/55716 dated August 25, 2000, "The connections for all types of steel furnaces, irrespective of sanctioned load, will be given through independent feeders." As per Para 2.6.7 of Consumer Service Manual-2021, "steel furnaces having sanctioned load up to 5 MW will pay the cost of dedicated transformer(s) and dedicated 11 kV feeder(s)."

During audit of Operation Circle Hazara-II PESCO, it was observed that electricity connections of two (02) steel furnaces (M/s Muhammad Arshad and M/s Waris Ali) were sanctioned from the existing 11 kV feeders instead of dedicated 11 kV feeders. Resultantly, cost of independent feeders amounting to Rs.28.373 million could not be recovered from the said consumers.

Non-adherence to rules resulted in loss of Rs.28.373 million due to non-recovery of independent feeder cost from Steel Furnaces up to the Financial Year 2022–23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that while sanctioning of the connection of M/s Muhammad Arshad, NEPRA's instructions were not available in NEPRA's Consumer Service Manual, 2019. The reply was not tenable as in the light of prevailing directions of Authority/ NEPRA, both the connections of steel furnaces were required to be sanctioned from dedicated 11 kV feeders.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to submit revised detailed reply along with documentary evidence to Audit within 15 days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 404 /2023-24)

1.4.56 Loss due to revision of estimate of bogus completed work - Rs.26.601 million

According to Para-10 of General Financial Rules, "every public officer is expected to exercise same vigilance in respect of expenditure incurred from public money as a person of ordinary prudence would exercise in respect of expenditure of his own money, according to canons of financial propriety and probity".

During audit of Project Construction MEPCO, it was observed that M/s Saleem Const. received 100% payment against stringing work, whereas, the contractor completed only 30% physical work at site. Subsequently, an inquiry committee was constituted to probe the matter. The inquiry committee finalized the inquiry on April 16, 2022 and recommended disciplinary action against XEN, SDO and LS. However, the recommendations of committee were not implemented. Moreover, estimate of the same work was revised, which increased its cost from Rs.30.386 million to Rs.56.988 million with a difference of Rs.26.60 million. The difference of Rs.26.60 million was required to be recovered from the delinquents.

Non-adherence to the General Financial Rules resulted in loss due to revision of estimate of bogus completed work amounting to Rs-26.601 million during the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in October, 2023. The management replied that an inquiry committee was constituted, which submitted its findings and recommended some actions against the delinquents.

The DAC in its meeting held on December 20 & 21, 2023 directed the management to get the record verified within 15 days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 283/2023-24)

1.4.57 Extra cost borne by GEPCO due to non-clearance / non-provision of right of way by sponsor of housing scheme - Rs.24.04 million

According to Clause-23 of supply of power agreement, "Right of Way for in and out arrangements for 132 kV transmission and 11 kV feeders shall be provided by sponsor to GEPCO without any objection. As per Clause-29, "if the sponsor is found acting in contravention of agreement or any of his acts adjudged or liable to be adjudged prejudicial to any of the clauses contained herein or any other instructions issued from time to time, GEPCO reserved the right to revoke this agreement unilaterally and is also authorized to cancel the approval regarding electrification of the said housing scheme". As per Clause-34, "sponsor shall make sure that GEPCO have complete rights to use all the roads accessible at this land and also at the land under possession of GEPCO".

During audit of GSC GEPCO, it was observed that an agreement for supply of power to City Housing Scheme, Gujranwala was made in July 2020. Construction of 132 kV in & out T/Line was the responsibility of GEPCO at its cost whereas provision of Right of Way rested with the Sponsor. Technical sanction for 0.49 km route with estimate of Rs.26.57 million was approved. Accordingly, a work order of Rs.11.59 million was issued on November 21, 2022 but the work was hampered due to RoW issue. The sponsor neither got the RoW cleared nor permitted to use its territory for route of feeding T/Line. Instead of invoking Clause-29 for annulment of agreement and cancellation of electrification approval, the GEPCO revised the profile / route plan, which caused increase in length of T/Line from 0.49 km to 0.91 km and estimated cost from 26.57 million to Rs.50.61 million. Thus, GEPCO sustained extra cost of Rs.24.04 million due to default of Sponsor in fulfilling its contractual obligations.

Non-adherence to supply of power agreement resulted in extra cost of Rs.24.04 million borne by GEPCO due to non-clearance / non-provision of right of way by sponsor of housing scheme up to the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that the 1st route of T/line was proposed through agriculture land which was not the property of City Housing Society and due to ROW, the route of the T/Line was revised. As the grid station was GEPCO's property, hence, the construction of feeding T/line was the responsibility of GEPCO. Audit contended that due to default of the sponsor in clearing RoW, GEPCO had to bear extra expenditure.

The DAC in its meeting held on December 18 & 19, 2023 directed to inquire the matter at PPMCL level by G.M Technical and submit its report within a month. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 221/2023-24)

1.4.58 Non-recovery of cost of independent feeder from consumers - Rs.23.08 million

According to NEPRA tariff determination issued vide letter dated December 24, 2020, "B-3 tariff is applicable for supply to Industries having sanctioned load of more than 500 kW up to and including 5000 kW and the supply under this Tariff shall not be available to a prospective consumer unless he provides, to the satisfaction and approval of the Company, his own Transformer, Circuit Breakers and other necessary equipment as part of the dedicated distribution system for receiving and controlling the supply, or, alternatively pays to the Company for all apparatus and equipment if so provided and installed by the Company. The recovery of the cost of service connection shall be regulated by the NEPRA eligibility criteria."

During audit of Operation Circle Muzaffargarh MEPCO, it was observed that three (03) industrial consumer bearing reference Nos. 27-15731-0719201, 27-15733-0869707 & 27-15735-0346803 were running load more than their sanctioned load without approval of the competent authority. However, notices to these consumers were not issued. Moreover, the sanctioned load required to be provided an independent feeder at the cost of the consumer, which was not done. Hence, neither the energy connections were disconnected nor the un-authorized extended load was regularized.

Non-adherence to the operational rules resulted in undue favour of Rs.23.08 million to the consumer on account of non-regularization of connection according to the sanctioned/extended load up to the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management replied that the notices were served to consumers for regularization of load. After expiry of notice time period, further action would be taken against them as per SOPs.

The DAC in its meeting held on December 20 & 21, 2023 directed the management to expedite recovery from concerned consumers within 60 days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 676/2023-24)

1.4.59 Loss due to delayed approval and execution of external Electrification work – Rs.22.36 million

According to Rule-2A(a) of public sector companies Corporate Governance Rules, 2013 “the business of the public Sector Company is carried on with integrity, objectivity, due case and professional skills appropriate to the nature and scale of its activities.

According to clause 2.10.2 of Consumer Service Manual “Time period for various steps for processing new connections applications of different categories as mentioned above in Annexure-III”.

During audit of CEO GEPCO, it was observed that the consumer paid demand notice of Rs.38.59 million on November 29, 2021 against external electrification work of Sunny Garden Housing Scheme within due date. But Chief Engineer (P&E) issued revised demand notice on August 12, 2022 amounting to Rs.22.36 million to the consumer due to increase in cost of material which was not paid by the sponsor. The consumer complained the same to Chairman BoD for non-execution of external electrification of work within the stipulated time frame mentioned in CSM (Consumer Service Manual). The matter was inquired by GEPCO and inquiry committee recommended that the delay was mainly on the part of GEPCO management due to lack of coordination among the Planning and Execution, Finance Directorate, Project Director Construction and Manager Material Management. The disciplinary actions were recommended against the delinquents of construction and planning staff / officers who failed in timely submission and approval of revised demand notice at that time, which caused undue delay to consumer. Moreover, inquiry committee recommended to redress the consumer subject to the availability of material at old rates. This act of the management deprived GEPCO from its due funds amounting to Rs.22.36 and there was no documentary evidence regarding implementation of recommendations of inquiry committee’s report.

Non-adherence to public sector companies Corporate Governance Rules, 2013 and Consumer Service Manual resulted in loss of revenue of Rs.22.36 million due to delayed approval and execution of work during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that the Chief Law Officer (CLO) GEPCO was asked on October 13, 2023 that inquiry report had not identified the delinquents for initiation of disciplinary action and inquiry report had been returned to CLO for needful action.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to re-inquire the matter expeditiously and provide its report to Audit within a month. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC’s decision.

(Draft Para No. 745/2023-24)

1.4.60 Irregular payment on account of transportation of electrical material – Rs.21.436 million

According to Schedule-B to Bid (Special Condition) clause-19 “The quoted unit rate should include charges for transportation (including loading, unloading and stacking etc) of all goods/material as per BoQ.

During audit of Project Directorate GSC SEPCO, it was observed that six (6) contracts valuing Rs.219.225 million were awarded to the contractors for construction and electrical works at different locations. However, it was noticed that the bidder quoted their bids prices amounting to Rs.21.436 million exclusive of transportation charges in BoQ in violation to the special condition of the contract. Hence, transportation cost amounting to Rs.21.436 million paid to the contractors was irregular.

Non-adherence to the special condition of the contract resulted in irregular payment of Rs.21.436 million to the contractor up to the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in October, 2023. The management replied that no payment was made separately on account of transportation to contractors beyond the BoQ/Work Order, as all the transportation of all material included in BoQ was quoted by contractors and accordingly the payment was made to the contractors as per BoQ.

The DAC in its meeting held on December 22 & 23, 2023 did not agree with stance of the management and directed to inquire the matter and submit report to Audit within 30 days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 375/2023-24)

1.4.61 Non-recovery of shifting/relocation charges of 132 kV T/L from the consumer/sponsor - Rs.19.96 million

According to NEPRA/MEPCO Consumer Service Manual Clause 3.1(a), "the shifting/relocation/addition of the facility (overhead or underground) shall be carried out at the cost of the sponsoring agency and not the affected consumer(s) or MEPCO" and further as per Clause 3.1(b), "If the consumer requires the relocation of an overhead or an underground service connection for convenience, because of construction, or otherwise obstructing access to the service connection, the MEPCO shall, at the consumer's expense, relocate its service connection".

During audit of CEO MEPCO, it was observed that on the request of NAB, a work of shifting/re-routing of 132 kV transmission line ensuring over the land purchased by NAB Multan was approved with an estimated cost of Rs.19.96 million under MEPCO's own resources without recovery of cost from the consumer in violation of SoPs.

Violation of the departmental Rules and regulator's directions resulted in loss of Rs.19.96 million due to non-recovery of shifting/re-routing charges from the consumer/sponsor during the Financial Year 2019-20.

The matter was taken up with the management in September, 2020 and reported to the Ministry in October, 2020. The management replied that the work was executed under MEPCO's own resources after approval of BoD, the said work was executed under its own resources. The reply was not tenable as in the light of CSM, the said work was required to be executed at consumer's expenses.

The DAC in its meeting held on December 20 & 21, 2023 directed the management to get the record verified from Audit within 15 days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

1.4.62 Loss due to frequent replacement of energy meters of selective consumers - Rs.18.084 million

The Manager Operation Vehari Circle MEPCO vide letter No. 6481-82 dated March 31, 2022 directed all Executive Engineers, Operation Divisions to check the consumption history, current meter, connected load, data retrieval of removed meters of all account numbers.

During audit of Operational Circle Vehari MEPCO, it was observed that 2,690 single and three phase energy meters of the selective consumers were changed through multiple Meter Change Orders (MCO) ranging from 2 times to 3 times. Neither the cost of energy meters was received from the consumers nor the said energy meters were got checked from M&T/ S&I for proper technical analysis. The replacement of meters caused loss of Rs.18.084 million to the company during the Financial Year 2022-23.

Non-implementation of the instruction of Authority resulted in replacement of energy meters of selective consumers during the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that 2,690 3-Phase / Single Phase defective meters were replaced two or more times in a year w.e.f January, 2022 to January, 2023 under NEPRA Consumer Service Manual January, 2021 Clause 4.4 which mentioned that "cost of meter was to be borne by DISCO (MEPCO) in case of meter Defective / Damaged / Burnt/ Display washed / internal fault / weathering effect etc. not due to consumer's fault".

The DAC in its meeting held on December 20 & 21, 2023 directed the management to share the M&T Report to audit for verification within 15 days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

1.4.63 Unjustified approval and execution of LT Proposal works - Rs.17.93 million

As per Project Director (Construction) memo dated November 30, 2022, administrative/ technical approval, sanction is accorded with following terms & conditions "the mentioned proposals have not been prepared to beneficial to any individual consumers and it is not prepared to provide electricity to new villages/ new abadies/ housing scheme or any other work falling under the head Deposit Work."

During audit of Project Directorate Construction HESCO, it was observed that eleven (11) LT proposals/ rehabilitating proposals of Rs.17.93 million were approved and executed under the head of DOP/ELR. However, it was revealed that extension of LT lines seemed to provide the supply to the un-electrified area and provided electricity to new villages and new abadies which fell under the head of deposit works. Such extension of LT lines also led to the use of unlawful means for pilferage of electricity through use of direct hooks on LT distribution lines. Hence, LT proposals executed in violation of prevailing guidelines and used as means for new electrification were considered unjustified.

Non-adherence to Authority instructions resulted in unjustified execution of LT proposals of Rs.17.93 million during the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in December, 2023. The management replied that details of works would be obtained to dig out facts in each case.

The DAC in its meeting held on December 22 & 23, 2023 directed the management to submit revised reply along with justifications after getting the details within 15 days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 1278/2023-24)

1.4.64 Recurring loss due to illegal electrification of New University Model Housing Society and non-recovery of arrears – Rs.11.52 million

According to Para-III (1) of Guidelines for enforcing the responsibility for losses sustained by the authority through fraud or negligence of individuals, 1982, "All losses, whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved."

During audit of Operation Circle PESCO, it was observed that a housing society namely New University Model Housing Society at Jalozei under Pubbi-II Sub-Division) was illegally energized by installing one 50 kVA Transformer, four (04) HT Structures with two single phase meters from 11 kV Sheikhan feeder with the connivance of PESCO employees. The society was established on the premises of Internally Displaced Persons (IDPs) Camp/Previously Afghan refugees camp Jalozei, where HT/LT Poles existed and were not removed by PESCO's field formation and there was also a huge arrear of Rs.11.52 million pending against the premises/area. PESCO authorities had conducted an inquiry but implementation of its recommendation was not forthcoming from record. Resultantly, PESCO faced recurring loss along with non-recovery of arrears.

Non-adherence to Authority's instructions resulted in recurring loss due to illegal electrification of New University Model Housing Society and non-recovery of arrears amounting to Rs.11.52 million up to the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that the case was investigated through inquiry No. 11725 by PESCO H/Q and disciplinary action against the officials at fault was under process in PESCO H/Q. However, Rs.3,510,620/- was paid in UBL Pabbi by the consumer. Commissioner Afghan Refugees was also approached for recovery vide letter dated December 15, 2023.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to submit revised detailed reply along with documentary evidence in support of reply to Audit within 15 days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 552/2023-24)

1.4.65 Unjustified execution of electrification work providing undue benefits to housing schemes - Rs.8.778 million

As per guidelines the administrative/ technical approval sanction is accorded with following terms & conditions “the mentioned proposals have not been prepared to beneficial to any individual consumers and it is not prepared to provide electricity to housing scheme or any other work falling under the head Deposit Work.”

During audit of CEO HESCO, it was observed that eleven (11) LT proposals for reconductoring of Aerial Bundled Cable and other electrification work were approved by Chief Engineering (P&E) with estimated cost of Rs.8.778 million. The subject works were carried out in different housing societies/colonies under the head of ELR/DOP at company’s cost. Audit is of the view that execution of such works was required to be executed on cost deposit basis instead company’s cost which was unjustified.

Non-adherence to the instructions resulted in unjustified execution of electrification work providing undue benefits to housing schemes valuing Rs.8.778 million during the Financial Year 2022-23.

The matter was taken up with the management in October 2023 and reported to the Ministry in December, 2023. The management replied that as per NEPRA’s instruction issued in CSM, after completion of electrification works by PD Const. HESCO, the said housing schemes were energized / handed over to concerned operation formation(s), after which the metering on individual basis had been carried out by the concerned operation staff. The O&M of electrification network had been also carried out by concerned operation staff. Hence, rehabilitation works inside the housing scheme could be carried out at the expense of HESCO.

The DAC in its meeting held on December 22 & 23, 2023 directed the management to get the stance verified in support of reply from Audit within 15 days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC’s decision.

(Draft Para No. 1293/2023-24)

1.4.66 Non-recovery of capital cost and security deposit from the consumer against EOL – Rs.6.47 million

As per Consumer Service Manual Clause-2.4.7, Payment of demand notices for capital cost/ connection charges and security deposit (where work is to be carried out by the sponsor or by DISCO) may be allowed in installments on request of the applicant. However, if during that period escalation in cost of material occurs, the same shall be borne by the applicant. No mark- up shall be levied by the DISCO (DISCO to insert its name) for payment of demand notices in installments. The DISCO shall provide connection within the stipulated time period as given in Annexure-III after receipt of full payment from the consumer/applicant.

During audit of CEO GEPCO, it was observed that provisional demand notices of 03 installments of security deposit and capital cost of Rs.9.701 million were issued to the consumer M/s. Haji Siddique Gujjar and Sons Steel Furnace against EOL from 1800 kW to 3000 kW. The consumer paid only 1st installment of Rs.3.234 million within due date and remaining two installments of Rs.6.47 million were not paid within due dates. However, neither provisional DNs were canceled nor recovery of remaining cost of material and security of

Rs.6.47 million was effected from the consumer. Hence, ultimately, delayed recovery caused escalation in cost of material and system constraints due to non-regularization of EOL.

Inefficient operational management resulted in non-recovery of capital cost and security deposit from the consumer against EoL for Rs.6.47 million during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that the consumer had paid two installments of Rs.3,234,000 each and 3rd installment of Rs.3,233,000 was due for payment for which a notice had been issued on November 30, 2023. The work would be executed after complete payment of installments and connections would be energized after issuance of SCO.

The DAC in its meeting held on December 18 & 19, 2023 **directed the management to get the record of completed action verified from Audit within a week and complete the pending action within a month expeditiously.** No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 693/2023-24)

1.4.67 Non/ less recovery of capital cost from housing societies due to less assessment of ultimate load – Rs.5.918 million

The load assessment of housing societies was required to be carried out in the light of Annexure-VI of Consumer Service Manual-2021.

During audit of CEO PESCO, it was observed that the load of two (02) housing societies was sanctioned without following the load assessment criteria of NEPRA and ultimate load of these housing societies was less assessed. Resultantly an amount of Rs.5.918 million on account of capital cost was not/ less recovered from the said housing societies.

Non-adherence to provisions of the Consumer Service Manual resulted in non/ less recovery of capital cost amounting to Rs.5.918 million from housing societies due to less assessment of ultimate load during the Financial Year 2022-23.

The matter was taken with the management in May, 2023 and reported to the Ministry in December, 2023. The management replied that a load criterion was basically based on number of lights, fans, power plugs etc., so for different type of plots, assessed load would be different.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to submit revised detailed reply along with documentary evidence to Audit within 15 days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.1057/2023-24)

1.4.68 Illegal removal of transformers for illegal repairing through private workshop - Rs.5.2 million

According to instructions issued by GM (HR), PEPCO letter dated August 16, 2001 Para 2 “all DISCOs to immediately stop the repair of transformers from private workshops and SE/XEN must be made responsible for any such repair in future in their jurisdiction.”

During audit of CEO MEPCO, it was observed that a 630 kVA transformer was removed with the connivance of field staff for getting it repaired from a private workshop i.e. Transfocare (Pvt) Limited. The said workshop was raided by Manager (M&S) MEPCO alongwith local police and found that four (04) transformers of different capacities including 630 kVA one valuing of Rs.5.2 million were lying in workshop for illegal repair. Audit holds that the involvement of operation staff could not be ruled out for illegal execution of repair work. Neither FIR against concerned persons of Institute of Southern Punjab (ISP) and owner of Private repairing workshop was filed nor action against SE/XEN was taken as required under/instructions.

Non-observance of rules resulted in illegal removal of transformers valuing Rs.5.2 million for illegal repair through private workshop during the Financial Year 2022-23.

The matter was taken up with the management in November, 2023 and reported to the Ministry in December, 2023. The management replied that M/s Transfocare (Transformer Reclamation Factory) was an authorized transformers’ reclamation factory, whose registration/pre-qualification under category M-1 for repair of distribution transformer was granted by Secretary Pre-Qualification Committee Material Management MEPCO Multan on January 13, 2014.

The DAC in its meeting held on December 20 & 21, 2023 directed the management to inquire the matter and submit its report to audit within 30 days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC’s decision.

(Draft Para No. 894/2023-24)

1.4.69 Loss due to unjustified execution of electrification works giving undue benefit to industrial consumers - Rs.4.47 million

According to the instructions issued by WAPDA dated July 17, 1982, “All losses, whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved.”

During audit of Project Directorate Construction HESCO, it was observed that an estimate for rehabilitation/maintenance work on branch of 11 kV Hoosri feeder was approved with cost of Rs.4.47 million on September 17, 2021 and completed in June, 2023. The subject estimate was sent to Circle Manager, M&T as it involved the shifting of 15 industrial connections. The Circle Manager, M&T visited the site and noted observation that, “The above estimate work is giving benefits to 15 industrial connection/consumers without any approval for shifting of connections & without payment of demand notice, which is unjustified, therefore, the work should be carried out under the head of deposit work”. However, work was executed under maintenance head (own source) which was unjustified and loss to the company.

Non-adherence to Authority’s instructions resulted in loss of Rs.4.47 million due to unjustified execution of electrification works giving undue benefits to industrial consumers, during the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in October, 2023. The management replied that no undue benefit was given to industrial consumers. The estimate of 11 kV Hoosri feeder was approved under DOP after completion of all codal formalities.

The DAC in its meeting held on December 22 & 23, 2023 directed to inquire the matter by G.M. (Operation) and submit its report to Audit within 30 days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 408/2023-24)

1.4.70 Illegal electrification of a private housing society - Rs.4.28 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of CEO LESCO, it was observed that a 25 kV transformer was sanctioned for electrification of a Havaily at village Kahna Nau Lahore; however, the subject land was acquired by a housing society which established a new block that was not approved for electrification by LESCO. The management of society illegally replaced 25 kVA transformer with 100 kVA transformer without obtaining the permission/approval from LESCO and provided electricity to 41 houses with the collaboration of field staff. The concerned officials failed to point out the subject irregularities which not only resulted in illegal electrification of housing society but also caused theft of electricity.

Non-adherence to the Authority's guidelines resulted in illegal electrification of private housing society amounting to Rs.4.28 million during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that 25 kW transformer was installed at village Shahzada Kahna Nau, Lahore. Subsequently, the said area was illegally electrified by the private housing society i.e. Al-Jannat Housing Scheme by replacing 25 kVA transformer with 100 kVA transformer and it also installed 15 Poles. However, with the help of police, the said transformer was removed. The FIR bearing No. 7131/22 dated September 21, 2023 was lodged against the management of the society. Moreover, disciplinary case was also recommended for illegal electrification of housing society.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to take departmental action against the responsible and get the record verified from Audit. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 842/2023-24)

1.4.71 Irregular charging of material cost after completion & energization of transmission line - Rs.4.19 million

According to GEPCO's Accounting Manual, after completion, the assets are transferred to the concerned division of GSO Circle, which in turn capitalize the asset and Fixed Assets Register is updated accordingly. In this regard, A90 Form is prepared and approved by DM GSC, certified by the Consultants and forwarded to Office of P.D GSC. AB-161 Form (Fixed Assets Cost Sheet) is prepared for each project that is being capitalized while ensuring the following points: - Account Heads are assigned to the Fixed Assets being capitalized, Quantity of Fixed Assets, amount of each asset and name of division of GSO Circle to whom fixed assets are going to be transferred etc. After issuance of debit advice(s), LPS is prepared for posting to Trial Balance and Transfer of Fixed Assets to the concerned division of GSO Circle is posted in Trial Balance.

During audit of GSC GEPCO, it was observed that a 132 kV Grid Station Gujrat Transmission Line Tee-Off point to Wazirabad Grid Station was approved with revised estimate of Rs.151.73 million and was completed and energized on July 09, 2022. Later, electrical equipment amounting to Rs.4.19 million was drawn from warehouse through SR No. 146652 in August 2022 and charged to the said already energized transmission line. Moreover, allocation order did not bear the name of the work / project against which the allocation of material was made.

Non-adherence to GEPCO's Accounting Manual resulted in irregular charging of material cost of Rs.4.19 million after completion & energization of transmission line during the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that the line was only energized but not capitalized, therefore, the additional material could be charged.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to provide the record in support of reply to Audit for verification within a week. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 292/2023-24)

1.4.72 Loss due to illegal installation of transformers and poles at housing society and petrol pump – Rs.2.32 million

According to Para-III (1) of guidelines for enforcing the responsibility for losses sustained by the authority through fraud or negligence of individuals, 1982, "All losses, whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved."

During audit of CEO PESCO, it was observed that an inquiry was conducted regarding installation of illegal transformers and HT/LT poles at a housing society and petrol pump amounting to Rs.2.32 million. But implementation of the inquiry report's recommendation was not forthcoming from the record. Moreover, proper inquiry was not conducted to find out the actual reasons and extent of losses for fixing responsibility.

Non-adherence to Authority's Guidelines resulted in loss of Rs.2.32 million due to illegal installation of transformers and poles at housing society and petrol pump during the Financial Year 2022-23.

The matter was taken with the management in November, 2023 and reported to the Ministry in December, 2023. The management replied that the matter of housing society was inquired through inquiry committee and FIR was lodged against the owner. Material was in the custody of police and penalties had been imposed on PESCO employees. The matter of 50 kVA transformer was reported by the S&I and on the basis of fact-finding report and recommendations, actions had been taken against employees.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to get the record verified from Audit in support of reply within 15 days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.1136/2023-24)

1.4.73 Unjustified inclusion of consultancy charges in the estimates of village electrification schemes under SDGs & CMDP - Rs.1.78 million

According to Para-4(IX) of Guidelines issued through Notification of Cabinet Division Islamabad dated June 13, 2022 for implementation of the Sustainable Development Goals (SDGs), "Expenditure shall not be incurred on purchase of equipment (if not part of scheme), vehicles, fixtures, salaries, printing of diaries/calendars/banners, holding of official meetings and dinners/parties etc. similarly, no administrative overheads shall be charged by any agency for execution of the SDGs' schemes."

In Project Directorate Construction HESCO, 183 works of village electrification schemes costing Rs.258.663 million were completed under Sustainable Development Goals (SDGs) & Chief Minister's Development Programme (CMDP) during Financial Year 2022-23. The scrutiny of estimates revealed that consultancy charges @0.64% amounting to Rs.1.78 million were included in the estimates of these works which was unjustified, as no consultant was engaged by the management.

Non-adherence to Cabinet Division's guidelines resulted in unjustified inclusion of consultancy charges in the estimates village electrification schemes under SDGs & CMDP valuing Rs.1.78 million during the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in October, 2023. The management replied that estimates were prepared and approved as per practice in vogue by inclusion of consultancy charges being 3rd party's charges for vetting of estimates in all DISCOs. During the process of approval of estimates, the agreement for hiring of consultants could not be finalized in HESCO. The amount for inclusion of consultancy charges would be surrendered after approval of competent authority.

The DAC in its meeting held on December 22 & 23, 2023 directed the management to show that amount of consultancy included in PC-1 and get the record verified from audit within 15 days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 414/2023-24)

1.4.74 Loss due to irregular double/triple credits to consumers – Rs.1.75 million

According to instructions issued by the Managing Director PEPCO vide letter dated December 01, 2007, “Strict disciplinary action, without any exception, shall be taken against the officers and staff found involved in the overbilling”. As per Memorandum of understanding (MOU) signed between Ministry of Water & Power and DISCOs, “Adjustment / bill corrections will be rationalized / minimized to less than 0.01% of total billing”.

During audit of Operation Circle Khyber PESCO, it was observed that irregular double/triple credit adjustments of 62,078 units amounting to Rs.1.752 million were allowed to twenty-three (23) consumers as revealed from inquiry order dated August 30, 2022. This indicated that undue favor was extended to consumers causing loss to the company.

Non-adherence to Authority’s instructions resulted in loss due to irregular double/triple credits to consumers amounting to Rs.1.75 million up to the Financial Years 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that the inquiry No. 12458 dated October 25, 2023 had already been constituted to probe into matter of double/triple credit to the consumers, inquiry committee recommended disciplinary action against 11 officers/officials. Letters of Expanation issued to all the officers/officials, which were under process. Audit would be informed and revised reply would be submitted after its decision.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to submit revised detailed reply along with documentary evidence in support of reply to Audit within 15 days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC’s decision.

(Draft Para No. 567/2023-24)

1.4.75 Non-recovery of grid sharing charges from Commercial Plaza – Rs.1.38 million

According to Clause-2.14 of Consumer Service Manual (CSM) 2021, “in case of extension of load/ reduction of load, the consumer should provide and pay payment of capital cost (if applicable) and updating of security deposit.” According to Clause-2.6.3 of Consumer Service Manual (CSM) 2021, “50% grid sharing charges @ Rs.4,474 shall be recovered from Multi-storey Building/Commercial Plaza/High Rise Building having ultimate load demand up to 10 MW.”

During audit of CEO PESCO, it was observed that load of a commercial plaza was reduced from 904 kW to 480 kW. However, capital cost amounting to Rs.1.38 million on account of 50% grid sharing charges was not recovered from the consumer. Moreover, the test report obtained at the time of reduction of load was doubtful, as details of required load was not stated in ultimate load requirement.

Violation of the provisions of the Consumer Service Manual resulted in non-recovery of grid sharing cost from commercial plaza amounting to Rs.1.38 million during the Financial Year 2022-23.

The matter was taken with the management in November, 2023 and reported to the Ministry in December, 2023. The management replied that during initial sanctioning of 904 kW for one point supply, no sharing cost was involved as per SOP of that time. Now, after reduction of load from 904 to 480 kW, tariff billing was changed from one point supply to individual billing. After energization of the reduced load, the billing would be done by

the concerned operation field on an individual basis. So, the grid sharing charges would be recovered, if any, by the operation formation.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to submit revised detailed reply along with documentary evidence to Audit within 15 days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.1056/2023-24)

1.4.76 Loss due to payment of penal interest against delayed payments for purchase of state land - Rs.1.33 million

According to Rule 5 (a) (i) of Public Sector Companies (Corporate Governance) Rules 2013, "the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders."

During audit of PMU MEPCO, it was observed that an amount of Rs.1.33 million @13.50% on account of penal interest was paid due to delay in payment of original amount of Rs.43.42 million for purchase of land for construction of 132 kV grid station Khanewal-II. Chief Engineer (Development) PMU received challan for original payment on June 10, 2021 but due to delay of BoD meetings approval for payment was accorded in 181st meeting held on January 19, 2022. The payment was made on January 22, 2022 after lapse of almost seven months. The delay on the part of management and BoD caused loss of Rs.1.33 million as penal interest due to delayed payment.

Non-observance of Corporate Governance Rules resulted in loss of Rs.1.33 million due to payment of penal interest against delayed payments for purchase of state land during the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in December, 2023. The management replied that an inquiry was conducted by the management to probe the matter which concluded that no officers / officials was responsible for inordinate delay in submission of case to BoD MEPCO and delay after approval of BoD as well as execution of contract. The delay took place to complete the necessary procedural steps.

The DAC in its meeting held on December 20 & 21, 2023 directed the management to inquire the matter and submit its recommendations to Audit within 30 days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 1287/2023-24)

1.4.77 Loss due to application of wrong tariff - Rs.1.28 million

According to Rule 5(5) of Public Sector Companies (Corporate Governance) Rules, 2013, “the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders.”

During audit of CEO IESCO, it was observed that two (2) consumers were billed under wrong tariff. One consumer having reference number 25-14357-6457100 was charged under tariff B1 instead of under tariff A-2c while another consumer having reference number 28-14358-6442605 was charged under tariff D-2b instead of A-2c. Hence, an amount of Rs.1.28 million was less recovered from consumers due to wrong application of tariff.

Non-adherence to Corporate Governance rules resulted in loss of Rs.1.278 million due to wrong application tariff during the Financial Year 2022-23

The matter was taken up with the management in November, 2023 and reported to the Ministry in December, 2023. The management replied that tariff of the consumers had been changed to A-2 (C).

The DAC in its meeting held on December 14 & 15, 2023 directed the management to get the record verified from Audit within 15 days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC’s decision.

(Draft Para No.1102/2023-24)

1.4.78 Irregular working of private persons in operation subdivisions with the connivance of FESCO employees

According to Rule-5(5) of Public Sector Companies (Corporate Governance) Rules, 2013, “The Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders.”

During audit of CEO FESCO, it was observed that Vigilance Directorate of Power Planning and Monitoring Company (PPMC) reported working of twenty-one (21) private persons as linemen/meter readers in operational subdivisions. Moreover, a fatal accident of a private person while working on LT line was also reported by the said Directorate. This warranted a detailed inquiry of matter for taking disciplinary actions against the FESCO employees responsible for connivance with private persons but the same was not done.

Non-adherence to the provisions of corporate governance rules resulted in irregular working of private persons in operation subdivisions with the connivance of FESCO staff during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that incident of fatal accident was investigated by Standing Committee on investigation of Fatal/ Non-Fatal accidents and officers / officials held responsible were penalized according to E&D Rules. Audit contended that working of private persons in operation divisions of FESCO as reported by Vigilance Directorate of PPMCL needed to be investigated for taking strict actions against FESCO employees responsible for connivance with private persons.

The DAC in its meeting held on December 20 & 21, 2023 did not agree with the management reply and directed to investigate the matter for taking strict disciplinary actions against the official (s) / officer (s) held responsible within 30 days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 948/2023-24)

1.4.79 Loss of energy due to illegal electrification by the consumers

According to Rule-5(5) of Public Sector Companies (Corporate Governance) Rules, 2013, "The Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders."

During audit of CEO IESCO, it was observed that two consumers' transformers and HT /LT poles were installed without the approval of IESCO on plotting area at Khasra No.392, 1080 etc., at Mouza Phulgharan, BharaKahu, Islamabad. FIA raided at sight and initiated an inquiry, the outcome of which was still awaited.

Non-adherence to Corporate Governance Rules resulted in loss of energy due to illegal electrification of consumers during the Financial Year 2022-23.

The matter was taken up with the management in November, 2023 and reported to the Ministry in December, 2023. The management replied that the illegal electrification was carried out by the owner of the Society / Plotting area. However, the owner of said plotting area approached C.E (P&E) IESCO for proper sanction of external electrification.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to get the record verified from Audit in support of reply within 15 days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.961/2023-24)

Concluding Recommendations

Unsatisfactory operational management constitutes an area of significant internal control lapses in the distribution companies. It entails both financial losses as well as operational in-efficiency in the power sector. Strict adherence to established standards and SoPs for tariff assessment, load management, extension of load and installation of additional equipment are needed to address the issue. Prompt action against all those responsible for the subject operational shortcomings is also required to be taken across the board. Furthermore, efforts are needed to expedite recoveries identified by Audit.

1.5 Unsatisfactory Asset Management

The companies are managing assets having worth billions of rupees. Further, every year additional assets are continuously being replaced/upgraded to meet the growing electricity demands of the country. Each entity has

a designated Material Management Department to manage the allocation and utilization of electrical equipment for different works and for their record keeping at different stores. In this context, gaps in the asset management practices are a major gray area and a significant operational challenge for the distribution companies.

The Material Management data is partially automated across the DISCOs/NTDC and use of manual forms and sheets remain entrenched in the companies. There are various anomalies in the manual record keeping processes. For example, there are differences between material issued from stores and those installed at sites. Return of surplus material to stores is commonly found wanting. The final utilization of material is not properly maintained on different occasions. Transfer of installed material from site A to site B is also based on manual records with no system-based reconciliation. Thus, there is an overall lack of transparency and accuracy in the material management process creating an environment vulnerable to irregular/illegal practices in the DISCOs/NTDC having financial implication and creating organizational in-efficiencies.

Moreover, allied aspects of asset management have entailed timely disposal of unserviceable material as well as rationalization of store items. Unnecessary purchase of material without planning and forecasting has resulted not only in blockage of company funds but also the material is losing its shelf-life and warranty without ever being put to use.

On the above lines, audit has analyzed the asset management issues in the DISCOs/NTDC from different aspects: firstly, at company level and secondly on sample basis at operation / circle level to highlight the in-efficiencies, lack of transparency, irregularities and internal control lapses incurred by the companies as illustrated in the following paras:

1.5.1 Loss due to payment of interest on delayed payment to PMLTC on account of HVDC transmission line charges – Rs.49,070.92 million

As per Section 9.4 (a) (iii) at any time following the Commercial Operations Date on or after first (1st) Business Day of each month, the Company may submit an invoice, complete in all respects, to the purchaser stating any interest payable hereunder on an amount not paid by the due and payable date, showing the calculation of such claimed interest in reasonable detail.

During audit of General Manager HVDC (NTDC) Lahore, M/s Pak Matiari-Lahore Transmission Company (PMLTC) invoiced Rs.1,338.59 million to NTDC on account of transmission charges, and Rs.47,732.33 million interest charges, which was piling up day by day. As per agreement, NTDC was responsible to pay delayed payment charges and interest charges which was Rs.49,070.92 million to PMLTC. This state of affairs showed the poor performance of the company resulting in loss to stated extent.

Non-adherence to the contract clause resulted in loss of Rs.49,070.92 million due to payment of interest on delayed payment to PMLTC on account of HVDC transmission line charges during the Financial Year 2022-23.

The matter was reported to the management in September 2023 and reported to the Ministry in November, 2023. The management replied that Interest on Account of delayed payments by PMLTC had been invoiced by NTDC to CPPA-G.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to submit the revised reply and get the record verified from audit within thirty (30) days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No. 1.6.3 having financial impact of Rs.21,956.85 million. Recurrence of same irregularity is a matter of serious concern.

(Draft Para No. 616/2023-24)

1.5.2 Loss due to damage of electrical material – Rs.9,362.04 million

According to Rule-5(5) of Public Sector Companies Corporate Governance Rules-2013, “the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders”.

During audit of DISCOs and NTDC, it was observed that electrical material comprising distribution transformers and other items valuing Rs.9,362.04 million were damaged. In most of the cases, the administrative action was neither initiated nor finalized to find out the reasons for fixing responsibility. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	Amount (Rs.in million)
1.	FESCO	585/2021-22,167,1108,1129 & 1142/2023-24	209.37
2.	GEPCO	35,36 & 353/2023-24	371.34
3.	HESCO	792/2023-24	470.94
4.	IESCO	140,146 & 228/2023-24	381.87
5.	MEPCO	938/2023-24	182.83
6.	PESCO	388,553 & 1058/2023-24	4,863.27
7.	QESCO	455 & 1113/2023-24	1012.62
8.	SEPCO	18 & 588/2023-24	1678.74
9.	TESCO	190/2023-24	5.67
10.	NTDC	560 & 579/2023-24	185.39
TOTAL			9,362.04

(Source: Progress Reports of Damages of DISCOs)

Non-adherence to the rules resulted in loss of Rs.9,362.04 million due to damage of electrical material up to the Financial Year 2022-23.

The matter was taken up with the management during March to April, 2023 & August to October, 2023 and reported to the Ministry during June, 2023 & October to December, 2023. The management replied that in some cases, inquiry committees were concluded and held no one responsible for damages, while in other cases, the inquiry committees had been constituted.

The DAC in its meeting held on August 26 & September 09, 2023 and December 14-23, 2023 directed the management to provide the revised reply case to case basis, expedite the inquiry proceedings and submit its reports to audit within a month. As regards the MEPCO, DAC directed to inquire the matter at PPMCL level and submit its report to audit within 30 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No. 1.5.5 having financial impact of Rs.5,767.35 million. Recurrence of same irregularity is a matter of serious concern.

1.5.3 Non-return of dismantled / healthy electrical material to store – Rs.2,126.30 million

According to Para-3.1 (Section-12) of WAPDA Distribution Stores Manual, it is the responsibility of the SDO to ensure that damaged or otherwise unserviceable material is returned to the stores as soon as possible. As per Para-75 of WAPDA Accounting Manual 1978, on completion of the work, the excess material will be returned to godown or transferred to another work.

During audit of DISCOs, it was observed that electrical material valuing Rs.2,126.30 million was dismantled from various works. The dismantled material was required to be returned to store but needful was not done. No departmental action was taken against the quarter concerned for non-return of material to store. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	Amount (Rs.in million)
1.	GEPCO	244, 248, 252 & 356/2023-24	118.24
2.	HESCO	411/2023-24	12.14
3.	IESCO	151, 225 & 227/223-24	83.40
4.	LESCO	804/2023-24	9.74
5.	MEPCO	286 & 901/2023-24	95.28

6.	PESCO	381, 399, 852 & 927/2023-24	55.65
7.	QESCO	08, 391, 425, 463 & 867/2023-24	1,650.06
8.	SEPCO	234/2023-24	2.38
9.	TESCO	827, 841 & 1091/2023-24	29.97
10.	NTDC	487/2023-24	69.44
TOTAL			2,126.30

(Source: Completion Reports / A-90)

Non-adherence to Distribution Stores / Accounting Manual resulted in non-return of dismantled electrical material amounting to Rs.2,126.30 million to store up to the Financial Year 2022-23.

The matter was taken up with the management in March to June, 2023 & August to October, 2023 and reported to the Ministry in June, 2023 & October to December, 2023. The management replied that in some cases the material had been returned, while in remaining cases the material would be returned to store.

The DAC in its meetings held on September & October 09, 2023 and December 14-23, 2023 directed the management to get the record of completed action verified from audit within a week and to complete the pending action within a month expeditiously. No further progress was intimated till finalization of the report.

Audit recommends that the management needs to implement DAC's decision.

1.5.4 Blockage of funds due to non-completion / capitalization of works - Rs.554.45 million

According to Paras-4.1.3 to 4.1.6 of WAPDA Distribution Rehabilitation Guidelines September 2003, "total time for approval of work, execution and preparation of completion report will be restricted to 130 days". As per DISCOs Accounting Manual, A-90 Form (Completion Report) prepared by the Deputy Manager (Construction) / Deputy Manager (GSC) is certified by the Consultants and forwarded to Project Director (Construction) / Project Director (GSC) for capitalization.

During audit of GEPCO and HESCO, it was observed that 154 LT proposals and grid station worth Rs.554.45 million were either lying incomplete or completed but not capitalized. The said works were initiated to reduce distribution losses, improve the efficiency of transmission / operational system and extend the electricity facility to the people of respective areas. Due to non-completion / capitalization of the said works, desired benefits could not be achieved. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	No. of works	Amount (Rs.in million)
1.	GEPCO	367/2023-24	153	177.62
2.	HESCO	722/2023-24	01	376.83
TOTAL			154	554.45

(Source: Progress Reports of DISCOs)

Non-adherence to WAPDA Distribution Rehabilitation Guidelines resulted in blockage of funds amounting to Rs.554.45 million due to non-completion / capitalization of works up to the Financial Year 2020-23.

The matter was taken up with the management September, 2023 and reported to the Ministry during October to November, 2023. The management replied that some of the works had been fully/partially completed and remaining portion of the works was pending due to non-availability of material, public hindrance and ROW problems. It was further added that 132 kV Grid station Sakhi Wahab was commissioned with one power transformer and other power transformer would be commissioned as per requirement of load.

The DAC in its meeting held on December 14-23, 2023 directed the management to expedite the matter and record of completed action be provided to audit for verification within a month. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No. 1.5.3 having financial impact of Rs.10,150.21 million. Recurrence of same irregularity is a matter of serious concern.

1.5.5 Wasteful expenditure incurred on pay and allowances of employees of defunct power plant Kotri - Rs.546.569 million

According to Rule-5(5) of Public Sector Companies Corporate Governance Rules-2013, "the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders".

During audit of GENCO Holding Company Limited, Cabinet Committee on Energy had given approval for closure of GTPS Kotri Power Plant immediately on 21st September, 2020. The employees of kotri plant were declared surplus and adjusted in HESCO. However, the employees of Kotri Power Plant took stay order from Sindh High Court despite closure of plant and 287 employees were still posted in Kotri Power Plant. A payment of Rs.546.569 million had been paid to these employees on account of pay and allowances. Hence, payment of huge expenditure on account of pay and allowances to the idle staff after the closure of power plant was wasteful.

Non-adherence to Corporate Governance Rules resulted in Wasteful expenditure of Rs.546.569 million incurred on pay and allowances of employees of defunct power plant Kotri up to the Financial Year 2022-23.

The matter, first raised with management in September 2023 and then reported to the Ministry in November 2023, revolves around GTPS Kotri employees under JPCL Management. Despite a Stay Order, they remained under the company's management, making JPCL liable for their salaries. This obligation persisted throughout the status quo and was reinforced by the Sindh High Court's stay order in C.P No: 3346/2021 dated May 27, 2021.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to pursue the court case vigorously for early finalization. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 598/2023-24)

1.5.6 Blockage of funds due to non-utilization of augmented transformers - Rs.380.00 million

As per Para-5 of Memorandum bearing No.C/78/13384-584, dated January 17, 1978, relating to irregularities in purchases of stores and equipment provides that the material is required to be purchased in view of its maximum utilization in the near future.

During audit of GSO PESCO Peshawar, 20 power transformers of various capacity valuing Rs.380.000 million were lying at various grid stations for augmentation purpose but the same were not utilized. Unnecessary retention of transformers was not only blocking the funds but also their cost was deteriorating with the passage of time.

Non-adherence to the authority's instructions resulted in non-utilization of transformers as well as blockage of funds amounting to Rs.380.000 million.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that the PESCO management had strategized the utilization of the replaced 20/26 MVA transformers for upcoming sub-projects and four 10/13 MVA transformers had been offered to other DISCOs on cost deposit basis.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to submit revised reply and provide utilization plan of transformers lying for augmentation within 15 days to audit. No further progress was intimated till the finalization of the report. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.200/2023-24)

1.5.7 Blockage of funds due to unnecessary purchase of electrical material - Rs.282.98 million

According to Para-5 of memorandum dated January 17, 1978, relating to irregularities in purchases of stores and equipment, "purchases should be made only of such items and in such quantities as are required for a specific work. In no case, should these purchases be made for storing an item for an indefinite period."

During audit of DISCOs, electrical material of different nature valuing Rs.282.98 million were lying spared/unutilized in regional/field Stores since long. Thus, Company's funds were blocked due to irrational purchase of electrical material. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	Amount (Rs.in million)
1.	MEPCO	1296/2023-24	248.016
2.	QESCO	179/2023-24	34.959
TOTAL			282.975

(Source: Stock Inventory Report of DISCOs for the year 2022-23)

Non-adherence to authority instructions resulted in blockage of funds due to unnecessary purchase of electrical material valuing Rs.282.97 million up to the Financial Year 2022-23.

The matter was taken up with the management in August & November, 2023 and reported to the Ministry in October & December, 2023. The MEPCO management replied that most of the material had been utilized. The QESCO management replied that these were slow moving items and would be utilized in due course of time.

The DAC in its meeting held on December 20 to 23, 2023 directed the MEPCO to get verify the record of completed action and expedite the balance material vigorously. As regards to QESCO, DAC directed the management to inquire the matter and submit its recommendation to audit within 30 days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

1.5.8 Delay in repairing of damaged power transformers - Rs.178.00 million

According to the instructions issued by WAPDA dated July 17, 1982, "All losses, whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of Manager GSO PESCO Peshawar, five (05) Power Transformer of different capacities had been with manufacturers for repair since long but the said Power Transformers were not received back even after payment of 50% charges. Audit is of the view that delay in repairing of such valuable and highly desired transformers may cause financial loss as well as deterioration in the cost of precious assets.

Non-adherence to authority's instructions resulted in delay of repairing the highly valuable power transformers.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that delay in repairing of power transformers with PEL was mainly due to closure of LC by GoP; whereas on the other hand, due to ongoing privatization process of M/S HEC, the delay in repair of the said power transformers occurred which was inevitable.

The DAC in its meeting held on December 14 & 15, 2023 directed to finalize the matter within 15 days and get the record verified from audit. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC’s decision.

(Draft Para No. 199/2023-24)

1.5.9 Loss due to shortage of electrical material / transformers’ parts – Rs.142.37 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), “all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

During audit of DISCOs and NTDC, it was observed that 3,810 damaged distribution transformers of different capacities were physically checked by the inspection committee and shortage of copper winding & oil was pointed out. Moreover, shortage of electrical material was also pointed out in stock verification reports of NTDC. Hence, companies sustained loss of Rs.142.37 million due to shortage of material. Neither any departmental inquiry was conducted, nor any action taken against the responsible persons. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	No of Transformers Checked	Amount (Rs.in million)
1.	FESCO	963/2023-24	483	2.67
2.	GEPCO	324, 355 & 689/2023-24	1,620	4.55
3.	LESCO	904/2023-24	247	25.79
4.	MEPCO	437, 911 & 919/2023-24	1,361	63.06
5.	SEPCO	585/2023-24	99	22.16
6.	NTDC	132 & 471/2023-24	0	24.14
TOTAL			3,810	142.37

(Source: Transformer Reclamation Workshop list of DISCOs)

Non-adherence to rules resulted in loss of Rs.142.37 million due to shortage of electrical material / transformers’ parts up to the Financial Year 2022-23.

The matter was taken up with the management in August to November, 2023 and reported to Ministry in October to December, 2023. The management replied that in some cases, recovery had been effected and inquiry was also under process.

The DAC in its meeting held on August 26, 2023 and December 14-23, 2023 directed the management to inquire the matter, expedite the recovery and get the record of completed action verified from audit within 30 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No. 1.4.26 having financial impact of Rs.139.33 million. Recurrence of same irregularity is a matter of serious concern.

1.5.10 Loss due to missing transformers with allied material and non-recovery of fixed charges from crush machines – Rs.61.32 million

According to the instructions issued by WAPDA dated July 17, 1982, "all losses whether of public money or of Stores, shall be subjected to preliminary investigation by the officer in whose charge they were to fix the cause of the loss and the amount involved."

During audit of Operation Circle Attock IESCO, arrear of fixed charges amounting to Rs.13.88 million was outstanding against fifty-three (53) crush machines of Margalla and Sangjani Sub-Division of Attock Circle, which were disconnected on the directions of Honorable Supreme Court during 2016. However, proper EROs were not implemented to remove and return transformers and allied material amounting to Rs.47.447 million to store. It was also observed from the departmental communication that the meters, transformers and allied material of these consumers were not found on the site when the reading staff approached the site for reading of Batch No.27.

Resultantly, IESCO was put into loss of Rs.61.32 million in shape of non-recovery of arrear (fixed charges) on one hand and theft of material from the site on the other hand.

Non-adherence to authority's instruction/rules resulted in loss due to missing transformers with allied material and non-recovery of fixed charges from crush machines amounting to Rs.61.32 million up to Financial Year 2021-22.

The matter was taken up with the management in March, 2023 and reported to the Ministry in June, 2023. The management intimated that the reply would be given after checking/consulting of record.

The DAC in its meeting held on October 09, 2023 directed the management to submit revised consumer-wise reply providing detail of recovery of minimum charges and status of other actions within 07 days. No further progress was intimated till the finalization of the report.

Audit recommends that the management needs to investigate the matter at higher level for fixing responsibility upon the person(s) at fault besides insuring recovery of arrears and material.

(Draft Para No.149/2023-24)

1.5.11 Loss due to non-repair of defective power transformers - Rs.47.80 million

According to Para-5 (5) of Public Sector Companies (Corporate Governance) Rules, 2013 “the board shall establish a system of sound internal control, which will be effectively implemented at all levels within the public sector company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders.

During audit of GSO SEPCO, three (3) 31.5/40 MVA PEL make Power Transformers were tested by P&I but results of Capacitance and Dissipation Factor (C&DF) and insulation resistance became abnormal & beyond permissible limits. As a precautionary measure, these power transformers were isolated from the system in December, 2017 and March, 2021 so as to save them for possible damages. The defective Power transformers were required to be repaired so as to bring back in operation. M/s PEL offered to repair these transformers at cost of Rs.14.90 million in October, 2019 but the matter remained undecided. Later on, PEL increased its rate to Rs.14.90 million per transformer totalling Rs.44.70 million in June 2021, which was again revised to Rs.20.90 million per transformer with total cost of Rs.62.70 million. M/s PTESU offered to repair these transformers at total cost of Rs.9.885 million in August, 2021 and Rs.20.736 million during October, 2021.

Non-decision of the management regarding repair of these transformers even after elapsing a period of almost five years increased the repair cost.

Weak operational management resulted in loss due to non-repair of defective power transformers amounting to Rs.47.80 million up to the Financial Year 2021-22.

The matter was taken up with the management in March, 2023 and reported to the Ministry in June, 2023. The management replied that the case was put-up before Procurement Committee, SEPCO BOD for approval in its meeting held on November 28, 2022. Committee deferred the agenda with the directions to provide the detailed report of powers transformers purchased (LOT-wise) installed and expiry of warranty period. Subsequently attending the queries, the case was resubmitted to the Company’s Secretary on April 12, 2023 for presenting the case before Procurement Committee.

The DAC in its meetings held on September 09, 2023 directed the management to pursue the case with the BoD. No further progress was intimated till the finalization of the report.

Audit recommends that the management needs to implement DAC’s decision.

(Draft Para No.16/2023-24)

1.5.12 Extra expenditure incurred on rent of office building - Rs.36.638 million

According to Rule-5(5) of Public Sector Companies Corporate Governance Rules-2013, “the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders”.

During audit of GENCO Holding Company Limited Islamabad, rental space of 4480 square feet was available at 1st floor of Evacuee Trust Complex at the rate of Rs.90/sq ft which was revised to Rs.108.90/ sq ft.

However, GHCL signed a lease agreement of three years from January, 2017 to December 2019 with Overseas Pakistan Foundation for hiring office space for 4032 square feet area at Rs.150/sq ft which was revised from January 2020 to December 2022 at a rate of Rs.187.5/ sq ft. In this way, GHCL paid extra payment of Rs.36.638 million on account of rent of office space for GHCL by not availing the cheaper rent rates.

Non-adherence to Corporate Governance Rules resulted in extra expenditure incurred on rent of office building amounting to Rs.36.638 million up to the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management replied that office acquired at Evacuee Trust Complex was @ Rs.108 per Sqft exclusive of energy and water charges. Whereas, OPF was acquired @ Rs.187.5 per sqft inclusive of electricity, water, gas charges and huge parking space for vehicles.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to submit revised reply along with detailed justification within one month. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 600/2023-24)

1.5.13 Non-replacement of rejected material by suppliers – Rs.35.99 million

According to Clause-11 (iii) & (iv) of the Purchase Order, “if the stores are rejected, the supplier may submit stores in replacement of those rejected but re-submission will not mean extension of delivery period and on final rejection, the Purchaser shall have right either to purchase rejected goods at the cost & expenses of Supplier or to terminate the contract and recover the loss the Purchaser may thereby incurs/forfeits 10% Performance Security.”

During audit of GENCO-II, three (03) purchase orders were issued to the different suppliers for procurement of material valuing Rs.35.99 million. The said material in all three purchase orders was received in stores but the same was rejected by the inspection committees. However, in the light of provisions of purchase orders, the rejected material was neither got replaced from the suppliers nor certain punitive actions was taken against the said suppliers by the management.

Non-adherence to the provisions of Purchase Orders resulted in non-replacement of rejected material by suppliers amounting to Rs.35.99 million during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that in one case, the material had been replaced, while in remaining two cases, the banks were approached for encashment of performance guarantee, but one firm lodged a complaint to Federal Ombudsman Karachi and the case file of other firm was moved for cancellation of P.O. Further progress would be intimated to audit accordingly.

The DAC in its meeting held on December 22 & 23, 2023 **directed the management to get the record of completed action verified from audit within a week and expedite the pending actions.** No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para.765/2023/24)

1.5.14 Blockage of repairable power transformer – Rs.33.53 million

As per clause 10.2 (c) of general provision of SOP for grid system operation and maintenance, it is the primary responsibility of each employee of the NTDC&DISCOs to keep the NTDC&DISCOs system and its component apparatus/equipment in safe operating condition within their design parameters.

During audit of Technical Services NTDC, Lahore alongwith Chief Engineer TSG (North) NTDC, Lahore, 160 MVA power transformer amounting to Rs.33.53 million was manufactured in 1997 and commissioned at the Grid station Kala Shah Kaku on 28.08.1999. The said transformer was tripped on 20th June, 2010 due to damage of 132 kV red phase of 132 /11 kV transformer T4. The damaged transformer was lying in the switchyard since 2010 due to unavailability of space at repair bay of PTESU. The TSG Directorate after a lapse of 10 years conducted the physical inspection to submit the technical report on reparability of the subject damaged transformer on 09th December, 2020. As per their assessment, the transformer was repairable and the tentative cost of repair was about Rs.18.00 million excluding transportation, external accessories and other imported material of transformer etc. Furthermore, the damaged transformer had not been shifted to PTESU work shop till March, 2023.

The management totally failed to perform its duties of technical inspection to determine the actual loss even after lapse of 13 years.

Non-adherence to the instruction of SOP of grid system operation and maintenance resulted in blockage of repairable 160 MVA power transformers amounting to Rs.33.529 million up to the Financial Year 2021-22.

The matter was taken up with the management in March, 2023 and reported to the Ministry in June, 2023. The management replied that due to restrictions under Covid-19 pandemic, transformer could not be shifted to the PTESU Lahore. However, HEC Hattar had been requested to provide estimates/ quotations for the repair of the said transformer, which was still awaited. The management also appraised that inquiry was under process.

The DAC in its meetings held on August 26, 2023 directed the management to complete this inquiry within 30 days and share its result with audit. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 125/2023-24)

1.5.15 Non-return/non-write off of loss due to damages of flood and heavy wind storm - Rs.31.98 million

According to Para-III(3) of Guidelines for enforcing the responsibility for losses sustained by the authority through fraud or negligence of individuals, 1982, "When the preliminary investigation shows that the loss is not due to theft, fraud or neglect it will be written off by the competent authority in consultation with the manager Finance concerned or his local representative."

During audit of TESCO, various electrical material worth Rs.31.98 million was damaged due to flood and heavy wind storm. However, TESCO Authority neither conducted preliminary investigation / inquiries to assess the existed material on the site of damage, nor any action was taken to write off the loss.

Non-adherence to Authority Guidelines resulted in loss of Rs.31.98 million due to non-return / non-write off of loss due to damages due to flood, heavy wind storms up to the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that the matter was being taken up with concerned quarters and the progress would be shared with audit.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to inquire the matter and the appropriate action under the rules within 30 days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 985/2023-24)

1.5.16 Misuse of vehicles due to attachment with Ministry/other offices and officers posted at head quarter caused unauthorized expenditure on account of POL - Rs.21.28 million

According to Corporate Governance Rules (5) The Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders. As per GM (HR) NTDC letter No. GM(HR)/DDS/AM(TPT)/1955-65 dated November 18, 2022 "NTDC vehicles allocated / attached / provided from NTDC H/Q Pool to BPS-17 & 18 officers (Working under H/Q NTDC) are hereby detached and further attached with transport pool H/Q NTDC, Lahore with immediate effect".

During audit of NTDC, twelve (12) vehicles were attached with the Ministry of Energy/other offices and thirteen (13) vehicles were attached with the officers (BPS-17 & 18) of NTDC, who were performing their duties in Head Quarter NTDC. The attachment of said vehicles was un-justified/illegal which resulted in unauthorized/irregular expenditure of Rs.21.28 million on account of POL charges. The detail is as under:

Sr. No.	Draft Para No.	Amount (Rs.in million)
1.	828 /2023-24	14.18
2.	979/2023-24	7.10
TOTAL		21.28

(Source: Vehicle Register of NTDC for the year 2022-23)

Non-adherence to rules resulted misuse of vehicles due to attachment with ministry/other offices and officers posted at head quarter caused unauthorized expenditure on account of POL amounting to Rs.21.28 million up to the Financial Year 2022-23.

The matter was taken up with the management in November, 2023 and reported to the Ministry in November & December, 2023. The management replied that being superior office and supervisory authority, vehicles were attached with Ministry of Energy (Power Division) Islamabad on temporary basis in order to meet with the exigency of work and office orders regarding detachment of vehicles from officers of NTDC were withdrawn by ab-initio by the issuing authority.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to justify attachment of vehicles under relevant rules and get its stance verified with documentary evidences from Audit within 30 days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No. 1.13.27 having financial impact of Rs.29.54 million. Recurrence of same irregularity is a matter of serious concern.

1.5.17 Non-utilization of saving against completed schemes - Rs.14.92 million

According to Clause 4(vi) of Revised Guidelines for Sustainable Development Goals Achievement Program (SAP) issued through Notification of Cabinet Division Islamabad dated June 13, 2022, Savings against the schemes completed can be utilized against new schemes under SAP in the same District.

During audit of Project Directorate (Construction) HESCO, an amount of Rs.14.923 million was saved out of execution of village electrification schemes under Sustainable Development Goals against the completed schemes for the Financial Year 2020-21. These funds were required to be utilized against new schemes but the management neither utilized these funds nor surrendered. Audit maintained that the non-utilization of funds occurred due to weak internal controls and inadequate oversight mechanism for enforcing relevant rules and regulations.

Non-adherence to Cabinet Division guidelines resulted in non-utilization of saving amounting to Rs.14.92 million against completed schemes during the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in October, 2023. The management replied that funds of village electrification schemes were allocated under SDGs during 2020-21 for District Badin against 52 schemes. Eleven schemes were incomplete due to right of way problems, the final positions of funds/savings (if any) would be worked out after completion of all schemes and savings if found would be utilized against fresh schemes.

The DAC in its meeting held on December 22 & 23, 2023 directed the management to expedite the completion of pending schemes and get the record verified from Audit. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 405/2023-24)

1.5.18 Loss due to non-repair of defective 20/26 MVA power transformer - Rs.13.97 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), “all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

During audit of GSO Circle SEPCO, one (1) No. 20/26 MVA Transformer (Iran) make Power Transformer became defective on 19.8.2018 at 132 kV Grid Station Pano Akil. The defective Power transformer was required to be repaired so as to bring back in operation. In August, 2020 the management decided not to get it repaired, keeping in view its previous history of damage. However, in November, 2021, the management again decided to repair the subject transformer from PTESU Workshop.

Inefficient decision making of the management caused non-shifting of transformer for repair even after lapse a period of more than four years.

Non-adherence to Authority’s instruction resulted in loss of Rs.13.97 million due to non-repair of defective power transformer up to the Financial Year 2021-22.

The matter was taken up with the management in March, 2023 and reported to the Ministry in June, 2023. The management replied that PD GSC had approached PTESU Workshop Kot Lakhpat for repair of Power Transformer and it would be repaired within one month.

The DAC in its meetings held on September 09, 2023 directed the management to initiate inquiry at management level under monitoring of CEO and submit the report to audit within 30 days. No further progress was intimated till the finalization of the report.

Audit recommends that the management needs to implement DAC’s decision.

(Draft Para No. 11/2023-24)

1.5.19 Irregular drawl of material after completion of works - Rs.13.14 million

According to Para-2.2 of Distribution Store Manual, the material in excess of requirement must not be drawn.

During audit of Project Construction GEPCO, ten (10) electrification works under the head deposit & SDG works were completed up to September, 2021 to December, 2022 and in some of the cases M/s BARQAAB Consultants had carried out physical verification and prepared A-90 (completion reports). Subsequently, electrical material amounting to Rs.13.14 million was drawn through Store requisition against the said completed works as evident from SRs and Material Site Account. Since the said works were completed, hence, drawl of material against them was irregular.

Non-adherence to GEPCO’s Accounting Manual resulted in irregular drawl of material of Rs.13.14 million after completion of works up to the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in October, 2023. The management replied that all the XENs were directed to adjust the material of completed works drawn from store within least possible time.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to inquire the matter for fixing responsibility and submit its report within a month. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC’s decision.

(Draft Para No.255/2023-24)

1.5.20 Non-recovery of rent from occupants / contractor – Rs.13.00 million

According to Director (Services) PEPCO office letter dated January 19 2010, “no one is competent to accord permission for unauthorized retention of official accommodation beyond admissible period according to instructions in vogue and recovery of market rent shall be effected from the employees who retained accommodation beyond admissibility”.

During audit of DISCOs & GENCO-II, it was observed that an amount of Rs.13.00 million was recoverable from 204 occupants / contractor on account of rent of accommodation. Neither the accommodations got vacated from these occupants nor rent of Rs.13.00 million was recovered from them. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	No. of Occupants	Amount (Rs.in million)
1.	LESCO	910/2023-24	1	1.42
2.	QESCO	05/2023-24	49	3.80
3.	GENCO-II	1093/2023-24	151	5.46
4.	NTDC	561/2023-24	3	2.32
TOTAL			204	13.00

(Source: Correspondence files of formation)

Violation of the instructions resulted in non-recovery of Rs.13.00 million on account of rent from occupants / contractor up to the Financial Year 2022-23.

The matter was taken up with the management in March to October, 2023 and reported to the Ministry during June to December, 2023. The management replied that efforts were being made for recovery of rent.

The DAC in its meetings held on December 14, 2023 to December 23, 2023 directed the management to expedite the recovery of renal charges and get the completed actions verified from audit within 60 days. No further progress was reported till the finalization of report.

Audit recommends implementation of DAC's decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No. 1.13.18 having financial impact of Rs.106.14 million. Recurrence of same irregularity is a matter of serious concern.

1.5.21 Loss due to leakage of newly installed 160 MVA Auto Transformer - Rs.12.960 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of Project Directorate EHV-I NTDC Islamabad, a 160 MVA Auto Transformer T-7 was recently installed in 220 kV Grid Station NTDC Sangjani, Islamabad and commissioned on April 14, 2022. However, Chief Engineer, A.M (North) highlighted excessive oil leakage from radiator tubes since its commissioning of subject cited transformer. The oil leakage was so excessive that large number of oil drums were being topped up after every 40 days in transformer with oil valuing of Rs.12.96 million. That shows serious concerns regarding the quality of such costly transformers and required to be inquired, which was not done by the management.

Non-adherence to Authority instructions resulted in loss of Rs.12.96 million due to leakage of newly installed 160 MVA Auto Transformer at 220 kV Grid Station Sangjani up to the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in November, 2023. The management replied that the said transformer was already repaired and was allocated for installation at 220kV grid Station Sangjani to attend NTDC system constraint. During the erection activities, no leakage issue was observed and transformer was successfully commissioned on April 14, 2022 and handed over to the AM North Formation.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the record verified from audit in support of reply within 15 days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 726/2023-24)

1.5.22 Loss on account of abandoning the constructed tower foundation due to poor planning & coordination with Irrigation Department – Rs.12.60 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of Project Directorate EHV-I NTDC Islamabad, a Contract No. 3217 (R3)-1C Phase-II (Lot-I) Transmission Scheme for Dispersal of Power from Neelum Jhelum Hydropower Project and construction of 500 kV Double Circuit Quad Bundle Transmission Line was awarded to M/s NCL-AEL JV Lahore. Tower No. 118 was installed in Jalalpur Canal without any planning / communication with irrigation department. Though the relocation of Tower No. 118 was under discussion between NTDC and Irrigation Department, yet the contractor M/s Ghulam Rasool & Company dismantled Tower No. 118 as foundations were creating hindrance in the canal's construction activities. Due to poor Planning & Coordination with irrigation department, NTDC had to bear loss of Rs.12.60 million on account of construction of foundation.

Non-adherence to Authority Guidelines resulted in loss of Rs.12.60 million on account of abandoning the constructed tower foundation due to poor planning & coordination with Irrigation Department up to the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in November, 2023. The management replied that the Transmission Line route was finalized on February 19, 2018, with tower stacking on February 15, 2019, and construction starting February 18, 2019. No canal markers were reported by the survey team, and neither landowners nor the Irrigation Department mentioned a proposed canal. Foundation construction began on April 25 and finished on June 28, 2019, without interference. Despite ROW issues and ongoing correspondence with the Irrigation Department, no action had been taken by the irrigation authorities regarding the canal's impact on the tower's location.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to hold inquiry and get it verified from audit within fifteen (15) days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 594/2023-24)

1.5.23 Loss due to replacement of substandard Disc Insulators - Rs.11.80 million

According to Section-III (1) of WAPDA Guidelines for enforcing Responsibility for losses due to fraud, theft or negligence of individuals, 1982, All losses whether of public money or of stores shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved.

During audit of EHV-II NTDC Multan, three (03) contracts valuing Rs.11.80 million were awarded to different contractors for replacement of Electrical Equipment Manufacturing Company (EMCO) made Disc Insulators with China Make Disc Insulators for evacuation of power from wind power plants situated in Jhampir / Gharo. Chief Engineer (EHV-II) NTDC, Hyderabad reported that existing installed EMCO make disc insulators were creating problems and causing frequent tripping / break down due to the failure of 80/100 KN Fog Type Disc Insulators and replaced the inferior quality with better quality of disc insulators. Hence, NTDC sustained a loss of Rs.11.80 million due to replacement of substandard disc insulators.

Non-adherence to the authority's instructions resulted in loss of Rs.11.80 million due to replacement of substandard disc insulators during the Financial Years 2021-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management replied that the insulators for the 220 & 132kV Jhampir Substation transmission lines were procured by NTDC following PPRA rules and tested as per IEC/NTDC/WAPDA standards. Despite no specific study on trippings, environmental factors like increased pollution had caused issues. NTDC resolved quality concerns with supplier EMCO, resulting in a compensation of Rs.83,000,000 and return of faulty insulators for analysis, necessitating replacements on the transmission line.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the record verified from audit in support of reply within 15 days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 636/2023-24)

1.5.24 Irregular drawl of material after completion of works - Rs.10.19 million

According to Para-2.2 of Distribution Store Manual, the material in excess of requirement must not be drawn.

During audit of Project Construction Directorate FESCO, eleven (11) electrification works under the head deposit & SDG works and LT Proposals were completed and handing/taking over of work and capitalized accordingly. Completion reports (A-90s) of all works had been prepared and vetted by consultants. However, it was noticed that subsequently, electrical material amounting to Rs.10.19 million was drawn through Store Requisition against the said completed works as evident from Job Cards. Since the said works were completed, hence, drawal of material against them was irregular.

Non-adherence to FESCO's Accounting Manual resulted in irregular drawl of material amounting to Rs.10.19 million after completion of works during the Financial Years 2021-23.

The matter was taken up with the management on October, 2023 and reported to the Ministry in November, 2023. The management replied that major material was drawn before completion of works and only less/ excess material as pointed out by M/s BARQAAB had been returned/ drawn from store after completion.

The DAC in its meeting held on December 20 & 21, 2023 DAC did not agree with reply of the management and directed to inquire the matter at Technical Director level for fixing of responsibility within 30 days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 537/2023-24)

1.5.25 Excess expenditure incurred after completion of Grid Station - Rs.5.69 million

According to Rule-2A (a) of public sector companies corporate Governance Rule 2013 regarding sound and prudent management “the business of the Public Sector Company is carried out with integrity, objectivity, due care and the professional skills appropriate to the nature and scale of its activities”.

During audit of GSC FESCO, 132 kV Grid Station Allied Faisalabad was completed and energized on March 29, 2023 whereas G&M Operation FESCO directed for emergent civil work for up-gradation and security of residents: i) Construction of boundary wall to separate new grid station area from residential colony, ii) Earth filling behind control house building to avoid accumulation rain water and iii) Alternate approach roads to grid. The estimate was prepared on the basis of measurement taken by Sub-Engineer Civil for above civil work worth Rs.4,947,704/-. This civil work was not included in the list of approved works by the competent authority, while the estimate was prepared only on the verbal directions of high ups. The work was done / estimate prepared on the sweet will of FESCO officer and tender was floated for above work and bidder M/s Faizan Building & Developer offered lowest rate 14.99% above BoQ worth Rs.5,689,359/-. The preparation of estimate for civil work after completion of grid station could not be admitted in audit.

Non-adherence to Corporate Governance Rules resulted in excess expenditure incurred after completion of grid station worth Rs.5.69 million during the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in November, 2023. The management replied that the works were carried out for safety / efficient operation of grid station.

The DAC in its meeting held on December 20 & 21, 2023 directed the management to inquire the matter for fixing responsibility with 30 days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC’s decision.

(Draft Para No. 515/2023-24)

1.5.26 Non-adjustment / regularization of surplus material installed in excess of drawl – Rs.5.18 million

According to Para-2.2 of Distribution Store Manual, the material in excess of requirement must not be drawn. As per Para-75 of WAPDA Accounting Manual, 1978, “on completion of the ‘work’, the excess material will be returned to go down or transferred to another work”.

During audit of Project Construction GEPCO, forty-three (43) completed electrical works, M/s BARQAAB Consultants had pointed out surplus installation of material valuing Rs.5.18 million in excess of actual drawn from store. This state of affairs was evident that either the surplus material was arranged from unknown sources or transferred from another work. The matter of surplus installation of material needed to be regularized / adjusted, which was not done.

Weak inventory management resulted in non-adjustment / regularization of surplus material valuing Rs.5.18 million installed in excess of drawl up to the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in October, 2023. The management replied that material of Rs.0.98 million was returned to store leaving material of Rs.4.20 million pending.

The DAC in its meeting held on December 18 & 19, 2023 **directed the management to get the record of completed action verified from audit within a week and complete the pending action within a month expeditiously.** No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.249/2023-24)

1.5.27 Recurring loss per month due to negligence of GHCL - Rs.3.272 million

According to Rule-5(5) of Public Sector Companies Corporate Governance Rules-2013, "the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders".

During audit of GENCO Holding Company Limited, operations of Lakhra Power Plant (GENCO-IV) were suspended on 20 July 2017 due to fire incident and remained suspended till date. All the staff posted at power plant was required to be posted/adjusted to other projects of power sector. However, 59 employees of BPS 1 to BPS 17 having monthly financial impact of Rs.3.271 million were engaged with defunct project. Due to poor handling of matters by GHCL, the staff was retained and sister organizations were asked to give loan to Fluidized Bed Combustor (FBC) Lakhra. An amount of Rs.1,840.647 million was taken as loan/financial assistance from other formation/finance division for payment of salaries to idle staff of defunct power plant. This state of affairs exhibited a failure on the part of GHCL being supervisory company of all GENCOs.

Non-adherence to the Corporate Governance Rules resulted in recurring loss of Rs.3.272 million per month due to negligence of GHCL up to the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management replied that Cabinet Committee on Energy declared LPGCL Lakhra as close and defunct, resultantly, all the employees became Surplus and were adjusted in Distribution companies.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to get the record in support of reply verified from audit within one month. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 599/2023-24)

1.5.28 Loss due to transportation charges for replacement of under warranty damaged power transformer - Rs.2.35 million

According to Rule-2A (a) of public sector companies corporate Governance Rule 2013 regarding sound and prudent management, the business of the Public Sector Company is carried out with integrity, objectivity, due care and the professional skills appropriate to the nature and scale of its activities.

During audit of XEN (GSC) TESCO, Peshawar a 20/26 MVA under warranty power transformer (T-2) was damaged at 132 kV grid station Jamrud. The damaged transformer was replaced through a private company

and payment of Rs.2.35 million was made. It was the responsibility of manufacturer to get the under-warranty transformer replaced and repaired at his own cost. The incurrence of huge amount was quite unjustified and needed to be recovered from the manufacturer.

Non-adherence to rules resulted in loss due to payment of replacement charges amounting to Rs.2.35 million during Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in October, 2023. The Management replied that the said Power Transformer was replaced with new one in an urgency situation due to malfunctioning of said Power Transformer and to restore the supply to district administration, army installations, hospitals, industrials, commercial & domestic consumers.

The DAC in its meeting held on December 14 & 15, 2023 directed the management that the under warranty damaged transformers must be replaced at the cost of contractor and in this context the provisions of contract were needed to be pursued. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 287/2023-24)

1.5.29 Double / excess drawl of electrical material – Rs.1.14 million

According to Para-4.5 (Section-8) of Distribution Stores Manual, “the Line Superintendent will use the materials on the job for which he drew and will record the consumption in his Electrical Measurement Book (EMB) / Material at Site Register (MSR) showing any materials left after the work has been completed”.

During audit of Operation Circle Sialkot GEPCO, electrical material valuing Rs.1.14 million was drawn twice / excess by field staff from stores for installation at the same site of work. This state of affairs was alarming and led to misappropriation of material.

Weak inventory controls resulted in double / excess drawl of electrical material amounting to Rs.1.14 million up to the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in October, 2023. The management replied that excess material of Rs.0.57 million had been returned to store, in one case of Rs.0.48 million, concerned LS had died and return of material of Rs.0.09 million was under process. Moreover, an inquiry committee had been constituted on December 15, 2023.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to expedite the inquiry and submit its report to audit within a month. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 358/2023-24)

Concluding Recommendations

Unsatisfactory asset management is a significant issue prevailing in the working of the DISCOs and other relevant entities / formations. It has created an environment for mal-practices and irregularities in their business. Practical steps from senior management of entities are required, on a sustainable basis, to ensure real-time and transparent recording of assets and asset management processes. In addition, careful objective planning is needed to avoid over-stocking. Lastly, inquiries for fixing of responsibility and affecting the recoveries may be held against cases highlighted by audit to ensure improvement in the system.

1.6 Contract Mismanagement and Procurement Shortcomings

The business process of DISCOs/NTDC entailed undertaking high-value contracts throughout the year. These included large-scale procurements of electrical equipment (transformers, poles etc.), distribution network expansion / repair works, general civil works and IT purchases. Significant donor-funded contracts were also executed. Prudence in contract making was essential to ensure that the contract works were completed within timeline with due regards to desired quality.

Contract mismanagement reflected anomalies and shortcomings present in contract process starting from the bid preparation stage till the work completion point. This included instances where open competition was not observed, the bid evaluation was not transparent, reserve price assessment carried out with little research, and cartelization among contractors was not tackled properly. Once lapses occurred at the contract award stage, it led to further irregularities during work execution.

Some of the issues linked with work execution included abnormal Extension of Time approvals (EOT) and short deduction of LD charges. In such cases the EOT was processed after the completion time of the contract rendering it unjustified. Short deduction of LD charges deprived the companies from due recovery.

Delays in execution of project-works not only resulted in cost overruns but more critically constituted a business failure case for the companies whereby the companies were unable to enhance/improve their business infrastructure from the desired project works. This meant that other activities linked with infrastructure development such as control over line losses also suffered.

Additionally, contract mismanagement also included aspects of unsatisfactory equipment testing and non-renewal/acquiring of performance/bank guarantees, non-adjustment of contractor advances etc. Unsatisfactory testing led to procurement of substandard material suffering from frequent faults. Non-adjustment of advances meant high-risk of overpayment to the contractor while non-renewal of performance guarantee implied that the company had not secured its interest if the contractor defaults against the contract terms.

On the above lines, audit has analyzed the combined issue of contract mismanagement and procurement shortcomings found in the DISCOs/NTDC/ GENCOs, on a sample analysis basis to highlight the inefficiencies, lack of transparency, irregularities and internal control lapses which is illustrated in the following paras:

1.6.1 Irregular award of contract to a non-responsive/disqualified bidder - Rs.57,722.20 million

According to clause 4.2(a) of section-III of qualification criteria and requirements of prequalification documents for 765 kV D/C Dasu-mansehra-Isalmabad overhead transmission line the bidder of Lot-I was required

to have “contracts for Plant design, supply, installation, testing and commissioning of EHV (380 kV or higher voltage) overhead transmission line (OHTL), each of minimum value of US\$ 100,000,000 and with accumulative length not less than 130 KM”.

During audit of MP&M NTDC, a contract for Plant Design, Supply & Installation of 765 kV Hexa Bundle D/C Dasu-Mansehra-Islamabad transmission line (Dasu-Mansehra 157 KM) DASU-TL-01-Lot-I was awarded to M/s Sino Hydro Corporation at a contract price of total PKR 57,722.20 million (USD 23,061,109 + CNY 848,602,596 + PKR 30,304,368,141). The contract was awarded by Chief Engineer /PD Dasu and evaluated by GOPA International Energy Consultants Germany and evaluation was revised by General Manager P&CM. M/s Sino Hydro Corporation was the lowest bidder among the four (04) bidders according to bid evaluation report. During bid evaluation another firm, M/s Toper Consultants submitted a complaint to Federal Secretary, Power Division and claimed mis-representation of facts by M/s Sino Hydro Corporation. Ministry of Energy (Power Division) vide letter dated July 07, 2022 established that for Lot-I of subject contract, M/s. Sino Hydro had not executed a project worth US\$ 300 million and did not have requisite experience. Surprisingly NTDC, instead of blacklisting the bidder on mis-representation of facts, awarded the contract to a non-qualified bidder.

Non-adherence to the provision of pre-qualification criteria resulted in irregular award of contract to a non-responsive/disqualified bidder amounting to Rs.57,722.20 million during the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management replied that there was no irregular award of contract to a non-responsive/disqualified bidder as whole procurement process was done under stringent supervision of World Bank and World Bank Procurement Guidelines referred in Loan Agreement signed by GoP and World Bank. The Contract was awarded on merit and NTDC saved USD 26 Million by awarding the contract to the lowest evaluated responsive bidder. Audit contended that the said matter had also been taken up by Senate Standing Committee.

The DAC in its meeting held on December 18 & 19, 2023 pended the para till the final decision of Senate Standing Committee.

Audit recommends implementation of DAC’s decision.

(Draft Para No.592/2023-24)

1.6.2 Non-recovery of liquidated damages from contractors / suppliers – Rs.16,146.40 million

According to Clauses of the Contracts, “the rate of liquidated damages is 0.05% to 0.10% for each day of delay in completion of the works subject to a maximum of 10% of contract price”.

During audit of DISCOs, NTDC and NPPMC, it was observed that 101 contracts/purchase orders were issued to contractors/suppliers for execution of different types of works/supply of material. The contractors/suppliers could not complete the works/deliver the material within stipulated period hence, they were liable to pay the liquidated damages of Rs.16,146.40 million but the same were not recovered. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	No. of cases	Amount
---------	-----------------	----------------	--------------	--------

				(Rs.in million)
1.	FESCO	421,1105 & 1281/2023-24	23	291.26
2.	GEPCO	296 & 732/2023-24	03	10.22
3.	HESCO	631/2023-24	02	4.35
4.	LESCO	315 & 1002/2023-24	12	48.93
5.	MEPCO	1283/2023-24	01	1.11
6.	PESCO	886,889,915 & 997/2023-24	25	46.63
7.	SEPCO	238 & 662/2023-24	25	47.68
8.	NTDC	134,488,546,596,755,845 & 1306/2023-24	09	926.94
9.	NPPMC	823/2023-24	01	1,4769.28
Total			101	16,146.40

(Source: Contractor Ledger of the Formations)

Non-adherence to the provisions of Purchase Orders resulted in non-recovery of LD charges from supplier amounting to Rs.16,146.40 million during the Financial Year 2022-23.

The matter was taken up with the management in March to June, 2023 & August to November, 2023 and reported to the Ministry in June, 2023 & October to December, 2023. The management stated that in some cases either the L.D. had been recovered or would be recovered while in few cases L.D. was not recoverable/EOT granted.

The DAC in its meeting held on December 14-23, 2023 directed the management to get the record of completed action verified from audit within 15 days and expedite the pending actions. The DAC directed the management of MEPCO and PESCO to inquire the matter raised in Para No.1283/2023-24 & 886/2023-24 and submit its report to audit within 30 days. DAC also directed to inquire the matter highlighted in Para No.997/2023-24 (PESCO) at C.E. (MI) PPMC level within 30 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No. 1.6.9 having financial impact of Rs.2,738.73 million. Recurrence of same irregularity is a matter of serious concern.

1.6.3 Loss due to taking of less volume of gas from gas supplier – Rs.11,235.59 million

According to Para-10.1 of Gas Sales Agreement for Kandhkot Gas Field between Pakistan Petroleum Limited (Seller) and Central Power Generation Company Limited (Buyer), the Buyer shall accept and pay for a

minimum annual quantity of Specification Gas equal to 72.5% (Take-or-Pay) of the adjusted Annual Contract Quantity (Take-or-Pay Quantity) and if the buyer takes less than the Take-or-Pay Quantity then, it shall nonetheless pay for the Take-or-Pay Quantity.”

During audit of GENCO-II, gas taken from M/s Pakistan Petroleum Limited (PPL) remained less than the minimum Take-or-Pay Quantity as prescribed in the Gas Sales Agreement. Resultantly, M/s PPL raised invoices of Rs.11,235.59 million for the period November, 2017 to August, 2023 against GENCO-II which was straight forward loss to the company.

Violation of provisions of the Gas Sales Agreement resulted in loss due to taking of less volume of gas from gas supplier Rs.11,235.59 million up to the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that on the directions of PAC, two meetings were held in Ministry of Energy and the original claim of PPL amounting to Rs.13.461 billion was reduced to Rs.6.18 billion by Ministry of Energy under Co-Chairmanship of Secretary Power and Secretary Petroleum. The less gas off takes were due to decision of CCoE dated September 10, 2020 regarding immediate closure of CPGCL old blocks. CPGCL invoked Force Majeure clause of GSA, as soon as copy of decision was received. Audit contended that no record was provided.

The DAC in its meeting held on December 22 & 23, 2023 directed the management to provide the record in support of reply to audit for verification within a week. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC’s decision.

(Draft Para No.1012/2023/24)

1.6.4 Irregular procurement of electrical material from single pre-qualified bidders through splitting quantity into lots and price matching – Rs.7,130.36 million

According to Rule-38B (1) of PPRA, “the procuring agency shall consider single bid in goods, works and services provided that except unsolicited proposal, in case of pre-qualification proceedings single bid shall not be entertained”. According to Rule-9 of PPRA, “a procuring agency shall announce in an appropriate manner all proposed procurements for each Financial Year and shall proceed accordingly without any splitting or regrouping of the procurements so planned”.

During audit of CEO FESCO, twenty-three (23) tenders for procurement of different types of electrical material were called from pre-qualified bidders by splitting quantities in lots. In response single bidders quoted rates against individual lots of the tendered quantities. Subsequently seventy-three (73) purchase orders valuing Rs.7,130.36 million were awarded to these single pre-qualified bidders through matching price of the lowest lot with other lots of the tender. The award of purchase orders was irregular as entertaining single bid of pre-qualified bidders through splitting of planned procurement was not allowed by PPRA.

Violation of provisions of PPRA rules resulted in irregular procurement of electrical material from single pre-qualified bidders through splitting quantity into lots and price matching valuing Rs.7,130.36 million during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that splitting of material into lots were permitted under PPRA Rules. Audit contended that in case of pre-qualification proceedings, entertaining single bid was prohibited under PPRA Rules.

The DAC in its meeting held on December 20 & 21, 2023 DAC did not agree with reply and directed the management to get clarification of Rule 38 B-(1) from PPRA within 15 days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.1198/2023-24)

1.6.5 Cost overrun in upgradation/extension of NTDC'S SCADA & telecom system - Rs.5,411.00 million

According to PC-1 of Upgradation / Extension of NTDC'S SCADA & Telecom System approved by ECNEC on March 07, 2018 Clause 12.a "The project to be commenced during the year 2016-17 and to be completed by 2019-20".

During audit of Telecommunication NTDC, Lahore, project for Upgradation / Extension of NTDC'S SCADA & Telecom System was proposed to be completed by 2019-20 but the said project was still under progress. The cost as estimated in the original PC-I had been increased from Rs.11,638.00 million to Rs.15,168.00 million and the contract was awarded at a cost of Rs.17,049.00 million. Due to non-following the timelines, the cost of the said project increased to Rs.5,411.00 million.

Non-adherence to implementation schedule as mentioned in PC-I resulted in cost overrun amounting to Rs.5,411.00 million in upgradation/extension of the up to the Financial Years 2021-22.

The matter was taken up with the management in March, 2023 and reported to the Ministry in June, 2023. The management replied that PC-I was approved by ECNEC in March, 2018. Tender was floated in July, 2018 however, none of the bidders came out to be technically responsive. Retendering was done in May 2019, bids were opened in September, 2019, in which three bidders participated and evaluation report was submitted to ADB for concurrence in February, 2020. ADB took around 4-5 months for vetting the evaluation report and issued NOL on May 22, 2020. Consequently, after financial bid opening on June 09, 2020, the NOA was issued in January 20, 2021. Scheduled completion date is June, 2024.

The DAC in its meetings held on August 26, 2023 directed the management to conduct an inquiry for fixing responsibility and submit fact finding report duly vetting by G.M. (Technical) NTDC to audit within 30 days. FurtherFurther progress was not intimated till finalization of report.

Audit recommends that the management needs to implement DAC's decision besides fixing responsibility.

(Draft Para No.73/2023-24)

1.6.6 Irregular award of contract to a blacklisted contractor – Rs.5,077.76 million

According to clause 2.1.3 of NTDC's SOP for blacklisting of contractor, the causes and reasons to be taken into consideration for debarment blacklisting of any firm/supplier/ contractor/ consultant/ individual firm/ Bidder

if, the firm/ supplier/ contractor is blacklisted by any Government department in Pakistan, or it is established that the firm is involved in any kind of corruption or corrupt practices anywhere in the world.

During audit of MP&M NTDC, Lahore, a contract for procurement of Insulators for 500 kV D/C quad bundle transmission line from HUBCO power plant to Jamshoro sub-station (Lot- I, II & III) was awarded to M/s. Suzhou Porcelain Insulator works, China at a contract price of Rs.5,077.76 million (US\$ 17.755 million). During bid evaluation stage, it was informed by another contractor/firm that M/s. Suzhou Porcelain, China was blacklisted by State Grid Company of China due to involvement in corruption and corrupt practices. Chief Engineer Design T/Line had also informed this fact while evaluating the bid and asked General Manager P&CM to look into the matter. Despite taking into consideration, the quarter concerned totally ignored the blacklisting of contractor and awarded the contract to a blacklisted firm/contractor.

Non-adherence to the provisions of SOP resulted in irregular award of contract amounting to Rs.5,077.76 million to a blacklisted contractor during the Financial Year 2022-23.

The matter was taken up with the management in September, 2022 and reported to the Ministry in November, 2023. It was replied that NTDC checked the web link provided in the complaint letter which redirected to the webpage of State Grid Corporation of China (SGCC). However, the webpage did not reveal any information regarding blacklisted or debarred companies by SGCC. Despite the aforementioned facts, Chief Engineer MP&M NTDC inquired SGCC about blacklisting of M/s Suzhou China through official letter and Emails, but no response from SGCC received till to date.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the stance verified with documentary evidence from audit within 30 days. No further progress was intimated till finalization of the report.

Audit recommends to inquire the matter besides implementation of DAC's decision.

(Draft Para No.468/2023-24)

1.6.7 Non-recovery/adjustment of Liquidated Damages from Independent Power Producers (IPPs) - Rs.5,036.37 million

According to Section 9.4 (c) of PPA that each party shall have the right to set off any amounts due and payable by it to the other party under this agreement against any and all amounts then due and payable to it by the other party under this agreement. Such rights of set off shall relate only to amounts that are then due and payable to and by a party and are undisputed or have been determined to be payable by the Expert through arbitration under Article 18.

During audit of CPPA-G, Islamabad, liquidated damages of Rs.5,036.37 million on account of short fall of energy were imposed on IPPs and Government Owned Power Generation Companies.

However, neither LD charges were recovered nor the amounts set off against payables of Power Generators.

Non-adherence to PPA clauses resulted in non-recovery / adjustment of liquidated damages of Rs.5,036.37 million from Power Generators up to the Financial Year 2021-22.

The matter was taken up with the management in May, 2023 and reported to the Ministry in June, 2023. The management replied that amount would be recovered from Power Generators and got verified from audit accordingly. Further progress was not intimated till finalization of report.

The DAC in its meeting held on October 09, 2023 directed the management to submit revised reply in tabular form showing reconciliation of LDs and their recovery status to audit within 07 days. No further progress was intimated till the finalization of the report.

Audit recommends that the management needs to look into the matter besides ensuring the recovery/adjustment of LD charges from IPPs.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No. 3.1.8.5.9 having financial impact of Rs.3,719 million. Recurrence of same irregularity is a matter of serious concern.

(Draft Para No.100/2023-24)

1.6.8 Irregular Procurement of Energy from Tavanir without approval of NEPRA Rs.4,750.006 million

According to provision-6 of NEPRA Notification (S.R.O.549(1)/2017 dated June 22, 2017 regarding NEPRA (Import of Electric Power) Regulations,2017 decision dated August 29, 2017, no amendment in terms and conditions of the PPA, affecting the rates or their conditions, shall be made except with prior approval of the Authority.

During audit of CPPA-G, Islamabad, an amendment No.7 to the contract dated November 06, 2002 between CPPA & Tavanir, Iran for supply of 104 MW Electricity made on January 01, 2022 for extension of tariff from January 01, 2022 to December 31, 2024 pursuant to NEPRA Import of Electric Power Regulation,2017 (IEPR-2017).

Thus, electricity of Rs.4,750.006 million was procured during the year 2021-22 from Tavanir without approval of amendment No.7 from NEPRA is termed as irregular.

Non-adherence to NEPRA Import of Electric Power Regulations,2017 resulted in irregular procurement of energy from Tavanir without approval of NEPRA Rs.4,750.006 million during the Financial Year 2021-22.

The matter was taken up with the management in May, 2023 and reported to the Ministry in June, 2023. The management replied that NEPRA in principle has passed on the cost of purchase of electricity from Iran to the consumers under the relevant FCA for the relevant months. The approval of NEPRA, once approved would be provided to audit.

The DAC in its meeting held on October 09, 2023 directed the management to provide the record in support of reply to Audit for verification within seven days. No further progress was intimated till the finalization of the report.

Audit recommends that the management needs to look into the matter besides ensuring the approval of 7th amendment from NEPRA.

(Draft Para No. 109/2023-24)

1.6.9 Non-forfeiture of bank / performance guarantees / securities – Rs.4,069.37 million

As per clause 15 A (1) of the Purchase order, if the contractor fails to supply the goods within the time specified the contracting officer have the right to forfeit the security/ performance guarantee.

During audit of DISCOs, GENCO-II and PPIB, it was observed that in thirty-four (34) cases, the contractors/suppliers failed to complete the works/deliver the material within stipulated time period. Neither the bank / performance guarantees / securities amounting to Rs.4,069.37 million submitted by the contractors/suppliers were forfeited nor any action was taken against them as per contractual provisions. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	No of cases	Amount (Rs.in million)
1	FESCO	514/2023-24	01	1.39
2	GEPCO	214/2023-24	06	202.68
3	HESCO	786/2023-24	03	72.00
4	LESCO	265 & 1298/2023-24	12	59.35
5	MEPCO	439 & 525/2023-24	08	76.81
6	PESCO	851/2023-24	02	8.14
7	GENCO-II	696/2023-24	01	1.71
8	PPIB	64/2023-24	01	3,647.29
TOTAL			34	4,069.37

(Source: Purchase Orders of the DISCOs)

Non-adherence to the contract/purchase order clauses resulted in non-forfeiture of bank/performance guarantees/securities amounting to Rs.4,069.37 million up to the Financial Year 2022-23.

The matter was taken up with the management during March, 2023 & August to November, 2023 and reported to the Ministry during June, 2023 & October to December, 2023. The management replied that in some cases either the performance guarantee would be forfeited of L.D. would be recovered. In few cases the matter was subjudice.

The DAC in its meeting held on December 14-23, 2023 directed the management to get the record of completed action verified from audit within 15 days and expedite the pending actions. As regard the MEPCO, DAC directed to inquire the matter at G.M. (Tech) PPMCL level within 30 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No. 1.6.17 having financial impact of Rs.753.24 million. Recurrence of same irregularity is a matter of serious concern.

1.6.10 Unjustified award of purchase orders to single bidders in violation of PPRA Rules Rs.2,656.14 million

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

Rule-21 of Public Procurement Regularity Authority Rules provides that the “the procurement agencies shall engage in open competitive bidding”.

During audit of CEO LESCO, twenty-seven (27) purchase orders amounting to Rs.2,656.14 million were awarded to the suppliers. However, the evaluation reports revealed that these purchase orders were awarded to the single bidders without open competition and in violation of PPRA Rules.

Violation of PPRA’s Rules resulted in unjustified award of purchase orders Rs.2,656.14 million to single bidder during the Financial Year 2022-23.

The matter was taken up with the management in October 2023 and reported to the Ministry in December, 2023. The management replied that Rule-21 of PPRA Rule, 2004 “Open Competitive Bidding” allows the procurement from single bidder if it meets the evaluation criteria expressed in the tender notice. So, all the tenders were awarded to single responsive bidders in the light of Rule-21 of PPRA 2004

The DAC in its meeting held on December 18 & 19, 2023 did not agree with reply and directed the management to get clarification of Rule 38 B-(1) from PPRA within 15 days. The DAC in its meeting held on December 18 & 19, 2023 upheld the earlier decision. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC’s decision.

(Draft Para No.1304/2023-24)

1.6.11 Irregular Payment to General Electric - Rs.2,445.21 million

According to National Electricity Policy 2021 para 6.2.1 Ministry of Energy (Power Division) shall be responsible, among other matters, for monitoring the implementation of the National Electricity Policy and National Electricity Plan.

During audit of Ministry of Energy, Power Division Islamabad, CPGCL GENCO-II signed a contractual service agreement with M/s GE USA in September 2017 for Gas Turbines Frame 9FA GE make installed at 747 MW CCPP Guddu. The Ministry of Energy (Power Division) directed to clear the payments of M/s GE USA against rehabilitation / maintenance of GT-14 machine. Since matter of recoveries of Rs.10.8 billion plus cost of maintenance of GT-14 amount purchase order USD 32 million was taken up by Senate Standing committee and issued serious concerns over the payment of maintenance of GT-14 in its meeting held on 22 November 2022 which was issued after the issuance of letter by Ministry of Energy, therefore, this payment of Rs.2,445.21 million (US\$ 8.54 million) was irregular and unjustified.

Non-adherence to policy resulted in irregular payment of Rs.2445.21 million (US\$ 8.54 million) to General Electric during the Financial Year 2021-22

The matter was taken up with the management in March, 2023 and reported to the in June, 2023. The management replied that this payment was part of a Contractual Service Agreement (CSA) from 2017 for maintaining

gas turbines in the 747 MW CCPP Guddu. Although payments totaling 9.6 million USD faced delays, the Board approved a payment release of USD 4,753,344 to GE for CSA and other services. CPGCL paid USD 4,423,642.130 as per the CSA.

The DAC in its meeting held on October 17, 2023 directed the management to conduct an inquiry by constituting an inquiry committee by taking senior representatives of CPGCL and PPMCL as its members and its report be shared with audit within 30 days. No further progress was intimated till the finalization of the report.

Audit recommends that the management needs to implement DAC’s decision.

(Draft Para No.116/2020-21)

1.6.12 Undue favor to contractors by approving change of manufacturers for major equipment in violation of contractual provisions – Rs.2,259.21 million

According to Bid Evaluation Reports of Contracts ADB-05-2009 and No. ADB-41-2009, “the contractors were required to provide telecommunication main equipment from M/s ABB Switzerland in construction of Bandala Substation and ABB Sweden Circuit Breakers, being preferred choice, in construction of Rohri Grid Station. As per minutes of pre-award meeting for Contract No. ADB-67R-2012 of Mansehra Substation, the change of manufacturer from the approved one in the contract agreement will not principally be changed except in case of unavoidable circumstances. As per Contract No. ADB-65(R)-2012 Package-2, in unavoidable circumstance, prior approval of the Project Manager shall be obtained by the contractor for assigning any manufacturing work to a manufacturer not named as such in the contract. As per Letter of Acceptance for Contract No. ADB-41-2009, the protection, telecommunication and control system SCADA including RTU shall be of ABB Sweden make. As per contract No. WB-07E-2020 and WB-08A-2020, there was no policy and clause to change the manufacturer of equipments.

During audit of NTDC, six (06) contracts for construction of Switchgear Plant/Substation/ Grid Station were awarded to contractors. Later on, the contractors had requested for change of manufacturers of major equipment (Annex-V) valuing Rs.2,259.21 million from that provided in contracts, which was accepted by NTDC without establishing unavoidable circumstances on the part of the contractors and without keeping in view the cost impact / variance arising thereof due to technology used / level of workmanship applied etc. Hence, the change of manufacturer was irregular. Detail is as under:

Sr. No.	Draft Para No.	Contract No.	Amount (Rs.in million)
1.	1182/ 2023-24	WB-07E-2020	1,321.74
2.	1191/ 2023-24	ADB-05-2009, ADB-41-2009, ADB-67R-2012, ADB-65R-2012 Package-2	-

3.	1225/ 2023-24	WB-08A-2020	937.47
Total			2,259.21

(Source: Contract Correspondence file)

Non-adherence to Bid Evaluation Reports, Contractual Clauses, Letter of Acceptance and minutes of pre-award meeting resulted in undue favor to the contractors by approving change of manufacturers for major equipment valuing Rs.2,259.21 million up to the Financial Year 2019-20.

The matter was taken up with the management in September 2020, August 2023 & October 2023 and reported to the Ministry in December 2020 & December 2023. The management replied that the change of manufacturers was approved in order to avoid delay in execution as the approved manufacturers were unable to supply the material within the scheduled project timelines. Further, the cost impact due to change of manufacturers was not considered as the contract was awarded on EPC basis and contractor was responsible for supply of material without any additional cost impact. Audit did not agree with the management reply as the unavoidable circumstances necessitating for change of manufacturers were not established before approval. In fact the contractor failed to comply with the contractual obligations regarding timely submitting of technical design / data of the approved offered equipments for which the employer was not responsible. Moreover, the cost impact should have been kept in view while approving change of manufacturer.

The DAC in its meeting held on April 12, 2021 and December 18 & 19, 2023 did not agree with the reply and directed the management to inquire the matter and submit its report within 30 days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC's decision.

1.6.13 Non-removal of discrepancies at newly constructed grid stations - Rs.1,957.00 million

According to Rule-2A(a) of public sector companies corporate Governance Rule 2013 regarding sound and prudent management, the business of the Public Sector Company is carried out with integrity, objectivity, due care and the professional skills appropriate to the nature and scale of its activities.

During audit of DISCOs and NTDC, it was observed that the discrepancies were reported time and again at newly constructed 03 132 kV grid stations. However, these efforts were not made to get the discrepancies removed from contractors. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	No of cases	Amount (Rs.in million)
1.	MEPCO	1280/2023-24	01	43.91
2.	TESCO	195/2023-24	01	1,790.09
3.	NTDC	495/2023-24	01	123.00

	Total	03	1,957.00
--	--------------	-----------	-----------------

(Source: Contract Correspondence file)

Non-adherence to instructions resulted in non-removal of discrepancies that can create complications in the smooth running of system and may cause Company’s valuable assets at risk amounting to Rs.1,957.00 million up to the Financial Years 2018-23.

The matter was taken up with the management during June to September, 2023 and reported to the Ministry in October to December, 2023. The management replied that the certain payments of the contractors were withheld and, in some cases, the discrepancies had either been removed or would be got removed.

The DAC in its meeting held on December 14-23, 2023 directed the management to get the completed action verified from audit within 15 days and expedite the completion of pending actions. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC’s decision.

1.6.14 Non-deduction of Liquidated Damages from contractor - Rs.1,449.46 million

As per Contract Agreement Section 9.3 Liquidated damages “if the seller is in breach of its obligation under Section 4.1(b) to achieve the commercial operation date by the required commercial operation date the seller shall pay the purchaser as liquidated damages as amount equal to two and half dollars (2.50\$) per kW of the contract capacity for each month thereafter until the commercial operations date is actually achieved.” Moreover, as per Act 2 Wind Project letter dated October 17, 2021 “required Commercial Operation Date was to be achieved within 15 months starting from the date of Financial Closing Date”

During audit of AEDB, Commercial Operation Date of one Wind and three Solar projects could not be achieved on the dates stipulated in the Power Purchase Agreements. Resultantly, liquidated damages amounting to Rs.1,449.46 million were required to be recovered from the respective default IPPs but the same was not done.

Non-adherence to agreement clause resulted in non-deduction of liquidated damages from contractors amounting to Rs.1,449.46 million up to Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that the imposition of LDs due to delay in achievement of Commercial Operations Date (COD) fell under the EPA signed between Project Company and CPPAG. Therefore, CPPAG was responsible for imposing and recovering the LD.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to obtain the reply and relevant documents from CPPAG and provide the same to Audit within 15 days. No further progress was intimated till the finalization of the report.

Audit recommends implementation of DAC’s decision.

(Draft Para No.762/2023-24)

1.6.15 Irregular award of contract to M/s Chint involved in collusive practice – CNY 65.86 million + Rs.172.90 million

According to Clause-3.1 (b) & 3.1 (a) (iv) of Section I, “The proposal of the bidder will be rejected if determined engaged, directly or through an agent, in corrupt, fraudulent, collusive, or coercive practice” and “collusive practice” means an arrangement between two or more parties designed to achieve an improper purpose, including influencing improperly the actions of another party.”

As per Clause-4.3 (d) of Section I, “A bidder shall not have a conflict of interest. All bidders found to have a conflict of interest shall be disqualified. A bidder may be considered to be in a conflict of interest with one or more parties in this bidding process if; they have a relationship with each other, directly or through common third parties, that puts them in a position to have access to material information about or improperly influence the bid of another bidder, or influence the decisions of the employer regarding this bidding process.

During audit of NTDC, an EPC Contract No. ADB-67-R-2012 valuing CNY 65.86 million + Rs.172.90 million for 220 kV AIS Substation Mansehra was awarded to M/s Chint Electric Company Ltd. on March 13, 2015. A probe into the award process of the said contract revealed that M/s NEIE-Holley (JV) China was also a participant among others including M/s Chint Electric Co. Ltd. China. The pre-bid clarifications sought by M/s NEIE-Holley (JV) China and M/s Chint Electric Co. Ltd. China vide their letters dated June 18, 2014 & June 19, 2014 respectively contained the same contents, clarifications, words, sequence, format and matter without any difference of a single word. The 100% identical contents of both the letters were sufficient enough to witness for collusion by both the bidders. Instead of rejecting their bids and taking appropriate action against both the bidders involved in collusive practices (corrupt practices) and conflict of interest, the contract was awarded to M/s Chint Electric Co. Ltd.

Non-adherence to the clauses of Bidding documents framed on the ADBs procurement guidelines resulted in irregular award of contract valuing CNY 65.86 million + Rs.172.90 million to M/s Chint involved in collusive practice up to the Financial Year 2019-20.

The matter was taken up with the management on September 25, 2020 and reported to the Ministry on December 29, 2020. The management replied that no pre-defined mechanism existed in the bidding documents for establishing collusion between two prospective bidders at pre-bid stage. Audit contended that 100% identical contents of letters was sufficient enough to prove collusion by the bidders for which appropriate action in the light of provisions of bidding documents should have been initiated.

The DAC in its meeting held on April 12, 2021 did not agree with the reply and directed the management to provide detailed / revised reply. The DAC in its meeting held on December 18 & 19, 2023 upheld the earlier decision. Further progress was not reported till finalization of the report. No reply was furnished till finalization of the report.

Audit recommends that the management needs to inquire the matter for not taking action against the bidders involved in collusive practice and the persons who awarded the contract to M/s Chint.

(Draft Para No.1178/2023-24)

1.6.16 Irregular award of contract due to defective bid evaluation for construction of Mansehra Grid Station – Rs.1,317.94 million

According to Clause 2.4.1 of Bidding Documents of Tender No.ADB-67-R-2012, “the bidder must have experience in the role of manufacturer, contractor, subcontractor, or management contractor for at least last 15 years prior to the application submission deadline”.

As per Clause 2.4.2, “the contractor / bidder must have within the last ten (10) years, supplied and commissioned at least two (02) substation with at least one (01) project outside his own country with experience in supply, installation, testing & commissioning of 220 kV or higher voltage substation with A.I.S plant with major equipment like auto-transformers, circuit breakers, instrument transformers, disconnectors, etc and these substations shall have been operating successfully for at least three (03) consecutive years as on bid opening date.

During audit of NTDC, an EPC Contract No.ADB-67-R-2012 valuing of Rs.1,317.94 million (CNY 65.86 million + Rs.172.90 million) for procurement of 220 kV AIS Substation Mansehra was awarded to M/s Chint Electric Company Ltd. on March 13, 2015. The scrutiny of award process disclosed that said contractor lacked general experience of almost 05 years at the time of bid closing date and was not an Engineering construction enterprise being registered as “Non-Engineering Construction” enterprise on February 04, 2010.

Non-adherence to the clauses of Bidding Documents resulted in irregular award of contract valuing of Rs.1,317.94 million due to defective bid evaluation for construction of Mansehra Grid Station up to the Financial Year 2019-20.

The matter was taken up with the management on September 25, 2020 and reported to the Ministry on December 29, 2020. The management replied that the bidder was evaluated in the light of Clauses 2.4.1 & 2.4.2 of bidding documents and post bid clarifications from the bidder. Furthermore, there was no requirement of business license to ascertain general or specific experience of bidder and the same were ascertained from the contracts mentioned / completed by the bidder. The bidder’s current commitments were also checked in the light of bidding documents and NOL issued by ADB after reviewing the BER / addressing the complaints. Audit did not agree with the reply as non-availability of complete record of evaluation / document was incomprehensible.

The DAC in its meeting held on April 12, 2021 directed the management to constitute fact finding committee and submit its report to Audit under the signature of MD NTDC. The DAC in its meeting held on December 18 & 19, 2023 upheld the earlier decision. No further progress was reported till finalization of the report.

Audit recommends that the management needs to implement DAC’s decision.

(Draft Para No.1207/2023-24)

1.6.17 Non-execution of works at the risk & cost of the contractors - Rs.1,223.37 million

According to conditions of contract Para (4) (Suspension of work), If the contract shall fail to do any such work as aforesaid required by the Engineer, the Employer shall be entitled to carry out such work by his own workmen or by their contractors and if such work is work which the contractor should have carried out at the contractor’s own cost shall be entitled to recover from the contractor the cost thereof or may deduct the same from any monies due or that become due to the contractor.

During audit of GSC TESCO, four (04) Work Orders amounting to Rs.1223.37 million were awarded to different contractors. The contractors were required to complete the work within stipulated time period. Instead of completing the work, the contractors abandoned the works at site. The remaining works were to be executed at the risk & cost of the original contractors contractually but the same was not done departmentally. Contractors were warned time and again but works were not done. Neither securities were forfeited nor firms blacklisted.

The violation of Contract Provision/Clause resulted in non-execution of work at the risk & cost of the original contract amounting to Rs.1223.37 million up to the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in October, 2023. The Management replied that TESCO GSC Division Peshawar had already deducted the LD charges for the delay caused by the contractors.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to get the record verified from audit in support of reply. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.180/2023-24)

1.6.18 Mis-procurement on account of hiring of consultancy services through quotations/amendments in existing consultancy contracts – Rs.1,174.87million

According to Rule-20 of PPRA Rules, 2004, the procuring agencies shall use open competitive bidding as the principal method for the procurement of goods, services and works". As per Rule-42(b), A procuring agency shall engage in quotation based method of procurement only if the following conditions exist, namely:- (i) the cost of object of procurement is below the prescribed limit of one hundred thousand rupees, (ii) the object of the procurement has standard specifications; (iii) minimum of three quotations have been obtained. As per Rule-40, "Save as otherwise provided there shall be no negotiations with the bidder having submitted the lowest evaluated bid or with any other bidder".

During audit of NTDC, six (06) consultancy contracts were awarded to M/s NESPAK and BARQAAB for construction / supervision of transmission lines / grid stations. Four (04) consultancy contracts amounting to Rs.531.68 million were awarded through quotations instead of open competitive bidding and agreeing at 10% rebate after negotiation in two (02) contracts. Moreover, in two (02) consultancy contracts additional consultancy services amounting to Rs.643.19 million for other projects were acquired through amendments in existing contracts. Hence, procurement of consultancy services through quotations / negotiations / amendments in existing contracts instead of open competitive bidding was against the PPRA Rules.

Non-adherence to PPRA Rules resulted in mis-procurement on account of hiring of consultancy services amounting to Rs.1,174.87 million up to the Financial Year 2019-20.

The matter was taken up with the management on September 25, 2020 and reported to the Ministry on December 29, 2020. The management replied that BOD NTDC had given approval for award of consultancy services through quotations. Moreover, in order to save the time and cost, the services of NESPAK / BARQAAB were hired through quotations as the said firms were major consultants for power projects. This practice had been stopped now.

The DAC in its meeting held on April 12, 2021 did not agree with the management reply and directed to constitute fact finding committee and submit its report to Audit under the signature of MD NTDC. The DAC in its meeting held on December 18 & 19, 2023 upheld the earlier decision. No further progress was reported till finalization of the report.

Audit recommends that the management needs to implement DAC's decision.

(Draft Para No.1084/2023-24)

1.6.19 Inordinate delay in finalization of EOT claims of contractors / consultants – Rs.992.21 million

As per GCC Contract Clause 40.2 of section-7, the contractor shall submit to the project manager a notice of a claim for an extension of time for completion, together with particular of the event or circumstances justifying such extension as soon as reasonably practicable after the commencement of such event or circumstances. As soon as reasonably practicable after receipt of such notice and supporting particulars of claim, the employer and the contractor shall agree upon the period of such extension. According to contract clause of consultancy agreement, the consultant shall inform the client of circumstances and probable effects and the increase shall be regarded as additional services and the client shall extend the time for completion of services accordingly.

During audit of NTDC, the contractors M/s Siemens, M/s Potential Engineers (Pvt) Limited and M/s ICC (Pvt) Limited lodged EoT claims of Rs.230.43 million and Rs.299.50 million due to delayed completion of Grid Stations / Transmission Lines so that their earlier deducted LD & retention money could be released. Moreover, the consultancy firm, M/s Barqaab also lodged EoT claims of Rs.462.28 million pertaining to eleven (11) Grid Stations / Transmission Lines projects. Despite elapsing of considerable time and even after expiry of defect liability period and loan closure, the EoT claims of the said contractors / consultant could not be decided.

Inefficient contract management resulted in inordinate delay in finalization of EOT claims of Rs.992.21 million pertaining to contractors / consultant up to the Financial Year 2019-20.

The matter was taken up with the management on September 25, 2020 and reported to the Ministry on December 29, 2020. The management replied that where EoT was not granted, 10% LD was deducted. However, a few EoT cases were still under process and LD would be recovered if EoT not granted. Audit contended that the reply was incomprehensible as the inordinate delay in deciding the EOT claims even after expiry of DLP period reflected poor contract management.

The DAC in its meeting held on April 12, 2021 directed the management to submit EoT cases to BoD for early decision. The DAC in its meeting held on December 18 & 19, 2023 upheld the earlier decision. No further progress was reported till finalization of the report.

Audit recommends that the management needs to implement DAC's decision.

(Draft Para No.1210/2023-24)

1.6.20 Mis-procurement due to award of EPC contract of Rohri Grid Station to a non-responsive bidder –Rs.960.11 million

According to Qualification Criteria of Bidding Documents of 220 kV Grid Station Rohri, "The prospective bidder should have general experience of 15 years under contracts in the role of manufacturer, contractor, sub-

contractor or management contractor for at least 15 years. Further the prospective bidder should have specific experience of 10 years or more in supply, installation, testing & commissioning of 220 kV or higher voltage substations with AIS plant and have commissioned at least two substations with successful operation for at least three (03) years as on bid opening date.”

During audit of NTDC, an EPC Contract No. ADB-41-2009 for procurement of 220 kV AIS Rohri Grid Station was awarded to M/s Chint Electric Company Ltd. on January 18, 2010. As per bidding documents, the bidder should have general and specific experience of 15 & 10 years respectively. However, M/s Chint did not have required experiences due to its establishment in January 02, 2004 as evident from Business License of Enterprise Legal Entity issued by Shanghai Administrative Bureau of Industry and Commerce. This was sufficient enough to declare the said company non-responsive but the same was not done and contract was awarded to it.

Violation of provisions of Bidding Documents resulted in mis-procurement valuing of Rs.960.11 million (RMB 60.17 Million + Rs.177.23 million) due to award of EPC contract of Rohri Grid Station to a non-responsive bidder up to the Financial Year 2019-20.

The matter was taken up with the management on September 25, 2020 and reported to the Ministry on December 29, 2020. The management replied that the company was a member of Chint Group Corporation, China, which was incorporated and started its operation in 1994. The company had a vast experience of EPC contracts and dealt in design, manufacturing, supply, installation, testing and commissioning of high voltage power equipment/plant. There was no information to the contrary available with NTDC to decide otherwise at the time of award. Audit did not agree with the reply as the date of establishment of Chint Electric Company Ltd. was January 02, 2004, hence, it could not fulfill the required experience criterion.

The DAC in its meeting held on April 12, 2021 directed the management to constitute fact finding committee and submit its report to Audit under the signature of MD NTDC. The DAC in its meeting held on December 18 & 19, 2023 upheld the earlier decision. No further progress was reported till finalization of the report.

Audit recommends that the management needs to implement DAC’s decision.

(Draft Para No. 1204/2023-24)

1.6.21 Irregular award of purchase order for power transformers due to deficient bid evaluation - Rs.904.18 million

According to Bidding Documents Section-IV, Sr No. 12 of ‘Schedule of Qualification of Bidders’, “banking reference, name of banks and addresses may be given to whom references regarding finance at capability of the bidder may be made”. As per Clause-9.1 (i & iii) of Tender Conditions Section-III, “Bids are liable to be rejected forthwith if the bidder does not submit the required documents - the bid is submitted on other than the prescribed form or is incomplete or conditional. As per Form-06, “the seller accepts full responsibility and strict liability for making any false declaration, not making full disclosure, misrepresenting facts or taking any action likely to defeat the purpose of this declaration, representation and warranty. It agrees that any contract, right, interest, privilege or other obligation or benefit obtained or procured as aforesaid shall, without

prejudice to any other right and remedies available to GOP/WAPDA/GEPCO under any law, contract or other instrument, be voidable at the option of GOP/WAPDA/GEPCO.

During audit of PMU GEPCO, a tender No.STG-NCB-1 for procurement of six (06) 40 MVA Power Transformers was opened on June 29, 2022 for evaluating the bids of three (03) participants. M/s Validus Engineering Karachi JV Elsewedy Electric for Electrical Products Egypt was declared lowest responsive bidder subject to perform fresh type test in Technical & Financial Bid Evaluation Reports and Purchase Order No.STG-22-13 of Rs.904.18 million placed upon the said firm on October 12, 2022.

Scrutiny of technical / financial proposals / information along with bidding documents submitted by the said firm and bid evaluation report revealed some of the following grave discrepancies / shortcomings & irregularities: -

- The 'Bank Certificate' and 'Comfort Letter' of HBL for providing overdraft / credit facilities seemed glaringly fake being devoid of mentioning the bank branch name, address, correspondence no. & date, seal of bank, signature / name of senior bank manager except bearing on two vague stamps and signatures of officers. Moreover, M/s Validas Engineering (Pvt) Ltd was running in continuous loss and its chartered accountant showed its concern about the company's ability to continue as a going concern.
- A Joint Venture Agreement between Validus Engineering and Elsewedy Electric signed on June 21, 2022 could not be held valid as the laws governing for this JV were Egyptian instead of Pakistani.
- The Power of Attorney under the said JV had nominated M/s Validus Engineering Pvt. Ltd as partner in charge but its legality was not confirmed as neither the same was notarized by any legal authority nor its country of origin was known and only photo copy provided instead of original one.
- Another Power of Attorney for Signatory of Bid on Pakistani Stamp Paper was also provided, which appeared to be vague as a date of June 01, 2022 was stamped thereon meaning thereby that Power of Attorney was made earlier than the JV as the same was signed on June 21, 2022. Moreover, it was neither notarized by any legal authority nor any signature specimen of nominated & authorized persons and no any witnesses were mentioned thereon and a photocopy was provided instead of original one.

Even while getting approval of BoD for Notification of Award, it was certified that the performance of the said bidder remained satisfactory with GEPCO and it had not defaulted any term / condition of bidding documents in respect of any assigned work during the last year. However, this certificate was contrary to the factual position and misleading as the said firm had already defaulted by not making delivery of 05 Power Transformers under previously issued P.O No.STG-21-32 after expiry of delivery period on September 10, 2022. Now, the delivery period of both the POs (earlier issued and new one) had long been expired but not a single transformer was provided by the said firm as on August, 2023.

Procurement mismanagement resulted in irregular award of purchase order of Rs.904.18 million due to deficient bid evaluation by accepting fake bank credit confirmation letter, vague JV agreement & doubtful power of attorney during the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that HBL had authenticated the comfort letter & Bank Certificate. No dispute regarding JV agreement was observed during currency of contract. As the firm had failed to supply the material, the bank had been requested vide office letter No. 4310-14 dated December 08, 2023 to forfeit the bid guarantee. The reply was not agreed to as a mis-procurement can cause considerable damage in shape of delay, time & cost overrun, which had now been proved in this instant case as the said bidder defaulted for providing the Transformer. Had the bid evaluation been made with professional due care by analyzing the information / documents as per bidding documents and past performance of the said bidder, such an untoward situation could have been avoided.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to provide the record in support of its stance for verification to audit within a week. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.240/2023-24)

1.6.22 Non-replacement of defective Porcelain Disc Insulators supplied by M/s Dalian China – Rs.874.27 million

According to the instructions issued by WAPDA dated July 17, 1982, “all losses, whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

During audit of NTDC, an inquiry was conducted on disc insulators supplied by M/s Dalian under Contract No GTS-02 and WPP-08. The inquiry committee pointed out that the Fog type Disc Insulators failed during type testing but even then the same were accepted, which turned out to be defective during operation. The inquiry committee recommended that all the Disc Insulators supplied by the M/s Dalian in the said as well as other contracts including ADB-53, 65R-2012 & 3263 be got replaced. The said manufacturer had also supplied the disc insulators valuing of Rs.874.27 million (RMB 52.32 million) in contract ADB-65R-2012, hence, the same needed to be got replaced from the said firm, which was not done.

Non-adherence to the recommendations of the inquiry committee resulted in non-replacement of defective Porcelain Disc Insulators valuing of Rs.874.27 million supplied by M/s Dalian China up to the Financial Year 2019-20.

The matter was taken up with the management on September 25, 2020 and reported to the Ministry on December 29, 2020. The management replied that the engineer / project manager had not recommended any adverse action against the contractor. Audit contended that the disc insulators supplied by the said contractor under the contract ADB-53, 65R-2012 & 3263 should have been replaced as recommended by the inquiry committee.

The DAC in its meeting held on April 12, 2021 did not agree with the reply and directed the management to provide detailed / revised reply. The DAC in its meeting held on December 18 & 19 upheld the earlier decision. No reply was furnished till finalization of the report.

Audit recommends that the management needs to ensure replacement of defective disc insulators provided by M/s Dalian in all the projects by observing all the required testing procedures expeditiously.

(Draft Para No.1125/2023-24)

1.6.23 Mis-procurement due to deficient bid evaluation and accepting the bid for power transformers fraught with inconsistencies to bidding documents - Rs.786.42 million

According to IB-22.2, IB.11.1 (Ia) & IB-3A (a-7) of Bidding Documents for Tender No. ICB-24/2021-22, “all Appendices and Schedules to Bid are to be properly completed (filled-in) and signed”. The purchaser reserves the right to reject the proposal, if the qualification details are incomplete, ambiguous or the bidder is found not qualified to satisfactorily perform the contract. The Appendices should be completed as per prescribed format. As per IB-3A (a)6 (i, ii, iii), “audited financial standalone statements for last 03 years shall be submitted by the Bidder showing positive ‘Net Worth’ and minimum average annual turnover for the last 03 years not less than the bid price with Appendix - H & I by each JV partner. Information to be submitted in Appendix-J (Bank Certificate should be given by each of JV members in proportion to their financial participation) & App-K. All JV partners shall combine meet the requisite criteria with the lead partner and other partner meeting not less than 40% and 25% respectively. As per IB-3.1 (e) & Appendix-A, “comfort letter should be given by each of the JV members and certificate should be on the letter head of bank in Pakistan”. As per IB-3A (a) 1 (i,ii) & 3 (i), “in case of JV, at least any one partner should fulfill the experience pertaining to the individual’s obligations in respect of manufacturing or supplying as per JV agreement between the parties. App-F (Summary of operational experience with operational certificate) should be filled-in.

During audit of PMU GEPCO, a tender No.STG-ICB-24 for procurement of five (05) 40 MVA Power Transformers was opened on January 01, 2022 for evaluating the bids of two (02) participants. M/s. Validus Engg. JV Elsewedy Transformer Karachi was declared lowest responsive bidder subject to perform fresh type test in Technical & Financial Bid Evaluation Reports and Purchase Order No.STG-21-32 of Rs.786.42 million for procurement of six (06) power transformer placed upon the said firm on April 14, 2022.

Scrutiny of technical / financial proposals / information along with bidding documents submitted by the said firm and bid evaluation report revealed some of the following grave discrepancies / shortcomings & irregularities: -

- i. Prescribed Appendices H (Financial Data) & I (Annual Turnover Data) were neither filled-in nor provided as original with ‘ORIGINAL’ set of bids, however, in 2nd set of ‘COPY’ of bids only photocopies of unfilled appendices available.
- ii. Last three (03) years audited financial standalone statements i.e. balance sheet with notes, Profit & Loss A/cs, cash flow statements of EACH of the JV Partners dully substantiating the information / data filled-in Appendices H & I were also not provided. Appendices H & I were not filled in.

- iii. As per Appendix-J & Appen-A1, EACH of the JV members needed to provide from Scheduled Bank in Pakistan a 'BANK CERTIFICATE' to meet the working capital requirement and 'COMFORT LETTER' to provide/extend banking facility. However, only one JV partner M/s Validus Engg had provided the same.
- iv. Alteration in both the Bank Certificate & Comfort Letter was made allegedly to that specified in the prescribed formats in Appen-J & A1 by inserting the conditional paragraphs.
- v. The bank certificate and comfort letter issued by HBL in respect of M/s Validus Engineering for providing overdraft / credit facilities to the extent of Rs.1000 million to meet the working capital requirement and provision of banking facilities seemed glaringly fake due to being devoid of mentioning the bank branch name, address, correspondence no. Stamp of the bank, signature / name of senior bank manager except bearing on two vague stamps and signatures of officers even date on comfort letter was not mentioned. Moreover, the financial statements of M/s Validas Engineering (Pvt) Ltd (available in other purchase order) showed its running in continuous loss and its chartered accountant showed its concern about the company's ability to continue as a going concern.
- vi. The 05 years Manufacturer's Experience of supply record and Performance Certificate containing summary of operational experience as prescribed in Appendices E & F were not filled-in with the required data / information in relevant columns / fields. As per JV Clause 2.2 the scope of work of M/s Validus was defined as manufacturing and supply, hence, all the manufacturing and successful operating experiences of M/s Validus should have been provided instead of M/s Elsewedy. Worth mentioning here that M/s Validus had no such experiences.
- vii. The Joint Venture Agreement between Validus Engineering and Elsewedy Transformers signed on January 10, 2022 could not be held valid and acceptable as the laws governing for this JV were Egyptian instead of Pakistani.
- viii. The Power of Attorney under the said JV had nominated M/s Validus Engineering Pvt Ltd as partner in charge but its legality was not confirmed being neither notarized by any legal authority nor its country of origin was known and no date of signing mentioned thereon.
- ix. Another Power of Attorney for Signatory of Bid on Pakistani Stamp Paper was also provided, which appeared to be vague as a date of January 07, 2022 was stamped thereon meaning thereby that the Power of Attorney was made earlier than the JV as the same was signed on January 10, 2022. Moreover, no any signature specimen of nominated & authorized persons and no any witnesses were mentioned thereon.

The bid evaluation lacked immensely the due professional scrutiny as cursorily and casually declaring technical / financial position satisfactory without detailed analysis, confirming / authenticating the bidder's provided information with bidding requirements / documents was against the IB 32.1(1). Moreover, subsequently, another P.O No.STG-22-13 of Rs.904.18 million for supply

of 06 transformers was placed upon the said firm on October 12, 2022 but the supplier failed to supply the transformers and the bank was requested to forfeit its bid guarantee.

Deficient bid evaluation caused mis-procurement by accepting the bid for power transformers fraught with inconsistencies to bidding documents and issuance of Purchase Order amounting to Rs.786.42 million thereof up to the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that the information for the prescribed forms was provided by the bidders in their bid on the prescribed GEPCO format. The Bidders had submitted last 3-years audited financial statements for each of the JV-Partners. The GEPCO had received confirmations in original from HBL regarding Authenticity of Bank Certificate & Comfort Letter. The 05 years manufacturing experience of M/S Elsewedy was sufficient. The manufacturer had supplied all the Power Transformers to GEPCO and the contract had been finalized successfully. Therefore, legality of the required documents was no more required. The reply was not agreed to as Appendices H (Financial Data) & I (Annual Turnover Data) were not filled in with financial information, hence, in absence of the same, Positive Net Worth & Annual Turnover could not be confirmed. The other JV Partner M/s Elswedy did not provide Bank Certificate and Comfort Letter. The Manufacturer's Experience and Performance summary as prescribed in Appendices E & F were not filled-in with the required data / information in relevant columns / fields, which seemed deliberately as the documents attached pertained to M/s Elsewedy did not conform to the required experiences. As per JV Clause 2.2 the scope of work of M/s Validus was defined as manufacturing and supply, hence, all the manufacturing and successful operating experiences of M/s Validus should have been provided instead of M/s Elsewedy. The receipt of material can not absolve the very legality of documents provided by the bidder.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to provide the record in support of its stance for verification to audit within a week. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.239/2023-24)

1.6.24 Inclusion of deficient financial eligibility criteria in bidding documents - Rs.768.15 million

According to Financial Competence and Access to financial Resources (appendix –M) of Standard Bidding Documents for procurement of civil works Single Stage-Two Envelopes (SSTE) Bidding Procedure, “the bidder must demonstrate access to, or availability of, financial resources such as liquid assets, unencumbered real assets, line of credits, and other financial means, other than any contractual advance payments, to meet the financial requirements of the contract in the amount of his bid. As a minimum the bidder must show that his resources, in term of at least his latest years working capital and line of credits, will be adequate to cover and amount equivalent to his bid price and current work commitments”.

During audit of GSC LESCO, sixty-six (66) contracts valuing Rs.768.15 million were awarded to the contractors on the basis of evaluation of only average annual turnover as per income tax returns of last two years, which was contrary to the standard bidding documents. However, the standard bidding documents require determining the financial health of the bidder on the basis of working capital and line credits and average annual

turnover of the bidder. This showed that bidding documents of these contracts were framed in contrary to the standard bidding documents. Hence, contracts awarded to the contractors were irregular due to inclusion of deficient financial eligibility criteria in bidding documents.

Non-adherence to Standard Bidding Documents resulted in inclusion of deficient financial eligibility criteria in bidding documents amounting to Rs.768.15 million during the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that as per advice of the Audit, the financial health of the contractor would be determined on the basis of Working Capital, Line Credit and Average Turnover of the contractor in future.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to submit revised reply along with justification and get the record verified from Audit within 15 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.443/2023-24)

1.6.25 Irregular award of contract by setting aside the discrepancies pointed out by Central Contract Cell (CCC) regarding qualification of bidder – Rs.732.86 million

According to MoW&P letter dated December 22, 2009, Bid Evaluation Reports of Tenders are to be reviewed and vetted by Central Contract Cell (CCC). Further, the project authority recommended award of contract subject to the scrutiny and authenticity of the evidences of qualification criteria by the consultant NTDC and CCC.

During audit of NTDC, Chief Engineer Design NTDC carried out the bid evaluation for the Tender No. ADB-05-2009 for procurement of 220 kV & 132 kV Gas Insulated Switchgear (GIS) Plant at Bandala and recommended award of contract to M/s Xian Electric Engineering Co. Ltd. China subject to scrutiny and authenticity of the evidences of qualification criteria of the said bidder by the consultant and Central Contract Cell NTDC.

The CCC pointed out severe discrepancies regarding the qualification of the said lowest evaluated bidder and did not recommend award of contract. Instead of attending the reservation of CCC, the contract was awarded to the said bidder vide BoD NTDC notification dated December 23, 2009 for an amount of Rs.732.86 million (RMB 57.581 million + Rs.36.70 million). The award of contract was irregular as the same was not substantiated with the recommendations of CCC.

Violation of directions of Ministry of W&P and recommendations of Project Authority resulted in irregular award of contract valuing of Rs.732.86 million up to the Financial Year 2019-20.

The matter was taken up with the management on September 25, 2020 and reported to the Ministry on December 29, 2020. The management replied that CCC was mandated to review the BER and the Board had authority, if considered necessary, to revert the BER and issue instructions on the basis of CCC's comments or might accord approval. Further the contract was awarded with the concurrence of ADB.

The DAC in its meeting held on April 12, 2021 did not agree with the reply and directed the management to provide detailed / revised reply. The DAC in its meeting held on December 18 & 19, 2023 upheld the earlier decision. No reply was furnished till finalization of the report.

Audit recommends that management needs to inquire the matter of irregular award of contract besides implementing DAC's decision.

(Draft Para No. 1037/2023-24)

1.6.26 Loss due to procurement of 40 MVA Power transformer at higher rates – Rs.656.37 million

According to rule-4 Principles of procurements of PPRA rules, 2004: - "Procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical."

During audit of TESCO, 40 MVA Power Transformer amounting to Rs.656.37 million was procured. A single bidder participated and offered the rate of Rs.112.200 million per transformer which was 26.16% higher than the LOI issued by MEPCO on 13th September, 2021 in which rate of the same transformer was Rs.88.300 million. TESCO management didn't observe the economy aspect while placing purchase order which caused extra financial burden of Rs.23.100 million (111.400 – 88.300). Thus, this state of affairs put the company into a loss of Rs.656.37 million.

Non-adherence to rules resulted in loss due to procurement of 40 MVA Power transformers at higher rates amounting to Rs.656.37 million during the Financial Year 2021-22.

The matter was taken up with the management in September, 2022 and reported to the Ministry in June, 2023. The management replied that bidding was held on open competition basis in which only a single bidder participated. The bid was duly evaluated and rates thoroughly analyzed in view of PPRA rule No.38. Approval was accorded when all aspects were properly considered. Reply was not tenable because power Transformer was procured at higher rate.

The DAC in its meeting held on October 09, 2023 directed the management to submit revised reply providing the detail of MEPCO and TESCO bids showing inflation CPI, LME and Dollar exchange rate effect to audit within one week. No further progress was reported till finalization of the report.

Audit recommends implementation of the DAC's decision.

(Draft Para No.111/2023-24)

1.6.27 Loss due to substandard procurement of power transformers from M/s PEL - Rs.540.00 million

According to Clause 39.2 Section-I (ITB) requires that the bidder / manufacturer having bad experience including damaging of power transformer supplied in the past is liable for rejection which is application on their bid.

During audit of GSO PESCO, thirty-one (31) No. of PEL make power transformers of different capacities were damaged during 2016-17 to 2022-23. A number of inquiries were constituted to probe into the cause of damage of Power transformers. The inquiry committees in their recommendations stated that frequent damages of PEL make power transformers were purely due to manufacturing fault and in future, there should be no procurement from M/s PEL. Due to purchase of substandard material, Company had to sustain loss of Rs.540 million.

Non-adherence to instructions resulted in loss of Rs.540 million due to procurement of substandard power transformers.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that currently eight (08) power transformers were under repair and the repair was being conducted free of cost by M/s PEL. The objected power transformers had completed their useful life during the warranty period and most of transformers were procured in 2012. The repaired transformers had been handed over to PESCO for reinstallation and were duly energized. Meanwhile the procurement of power transformers from PEL was halted. However, PEL conducted fresh type test which were approved by Chief Engineer (SS Design) NTDC. After submitting fresh type test reports by PEL, procurement from PEL was initiated like other DISCOs according to PPRA rules. Audit contended that damage of transformers due to manufacturing fault warranted detailed inquiry for fixing responsibility of loss.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to inquire the matter for fixing responsibility within 30 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.197/2023-24)

1.6.28 Loss due to purchase of substandard material - Rs.535.86 million

According to Corporate Governance Section (5) "The Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders"

During audit of CEO IESCO, two purchase orders were placed on M/s Skypower for purchase of 1,481 transformers of 25 kVA and 50 kVA. Out of the total installed transformers, 150 distribution transformers got damaged either immediately or within 15 days. The ratio of damage within 15 days of installation was above 10% of the purchase order which was unjustified. This ratio may further increase with actual number of transformers installed at site or installed transformers are tested at full load. The matter regarding poor quality of transformers was also pointed out by Executive Engineer (E), RE-II construction division IESCO, Chakwal, Project Director, Construction, IESCO and Chief Engineer (MM).

Non-adherence to Corporate Rules resulted in loss due to purchase of substandard material Rs.535.86 million during the Financial Year 2022-23.

The matter was taken up with the management in November, 2023 and reported to the Ministry in December, 2023. The management replied that procurement was strictly done by IESCO was in conformity with the Standard Design & Specifications formulated by Standard & Specification NTDC, Lahore.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to inquire the matter and submit its recommendations to audit. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.1104/2023-24)

1.6.29 Loss due to award of contract to 2nd lowest bidder caused by defective bid evaluation -Rs.530.043 million

According to Rule-5 (5) of Public Sector Companies Corporate Governance Rule 2013, “the Board shall establish a system of sound internal control, which shall be effectively implemented within Public Sector Corporate to ensure compliance with the fundamental principles of probity and propriety: objectivity, integrity and honesty and relationship with stakeholders.” According to Rule 2 (h) of the Public Procurement Rules, 2004, “most advantageous bid” means,- (i) a bid or proposal for goods, works or services that after meeting the eligibility or qualification criteria, is found substantially responsive to the terms and conditions as set out in the bidding or request for proposals document; and (ii) evaluated as the highest ranked bid or proposal on the basis of cost or quality or qualification or any combination thereof, as specified in the bidding documents or request for proposal documents which shall be in conformity with the selection techniques to be issued by the Authority.

During Thematic Audit of procurement and material management in NTDC, it was observed that M/s SiChuan YiBin Global Group Co. Ltd. (SYGG) was declared as lowest responsive bidder with quoted price of Rs.1,789.325 million against Tender No. NPP-04M(R)-2020 regarding Design, Manufacturing & Supply of complete hardware strings including Pre-RTV coated Disc. Insulators (porcelain or toughened glass) for 500 kV D/C Q/B T/Line for evacuation of power from K-2/ K-3 Nuclear Power Plants. However, the 2nd lowest bidder M/s Sediver SAS France went to NTDC Grievance Redressal Committee (GRC) against qualification of 1st lowest bidder. Resultantly, the GRC vide its report dated May, 2021, on the basis of Chief Engineer T/Line Design letter dated April 12, 2021 regarding non-conforming of authenticity of performance certificate of POWERGRID, India, declared the 1st lowest bidder non-responsive. However, in this regard, the response of 1st lowest bidder dated June 18, 2021 regarding provision of Performance Report from POWERGRID was not taken into account and contract amounting to Rs.2,319.368 million was awarded to 2nd lowest bidder M/s Sediver SAS France on July 01, 2021. Resultantly the public exchequer suffered loss of Rs.530.043 million due to award of contract to 2nd lowest bidder.

It is pertinent to mention that the procedure adopted for getting authenticity of performance certificate submitted earlier by 1st lowest bidder i.e. M/s SYGG with its bid was incorrect as authenticity of said certificate was sought from Corporate Office of POWERGRID, Dehli instead of issuing authority i.e. Regional Office of POWERGRID, Nagpur.

The said issue was also taken with NTDC by PPRA on July 15, 2021, however, outcomes in this regard was not made known to Audit. Further, the GRC report Tender against Tender NPP-04M (R)-2020 dated May, 2021 concluded with remarks that “irregularities in the bid evaluation process of have been observed.” However, neither the bidding process was annulled nor responsibility against irregularities in bid evaluation process was fixed upon delinquent (s).

Violation Public Sector Companies Corporate Governance Rule 2013 and PPRA Rules resulted in loss amounting to Rs.530.043 million due to award of contract to 2nd lowest bidder caused by defective bid evaluation up to the Financial Year 2022-23.

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that SYGG, the lowest bidder, was disqualified for submitting a fake certificate, violating clause 35.1 of the bidding documents. Their later attempt to provide a different certificate didn't change their non-responsive status. The case is currently under investigation by FIA Lahore (Inquiry No. 70/2023). Audit contends that expeditious efforts be made to pursue the case with FIA.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to pursue the case with FIA. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC's decision.

(Draft Para No.1159/2023-24)

1.6.30 Undue benefit extended to the contractor through allowing price adjustment - Rs.510.75 million

According to clause 70.1 of special conditions of contract, price adjustment (increase or decrease of cost) was not allowed, as the entire clause 70.1 was deleted from the contract.

During audit of (MP&M), NTDC, Lahore, a contract (No.NPP-03C-2019) of civil works for erection, stringing, testing & commissioning of 500 kV D/C quad bundle transmission line for interconnection of K-2/K-3 nuclear power plants with 500 kV S/C port Qasim-Matiari transmission line was awarded to M/s. ICC Pvt Ltd, Lahore during September, 2020. Further an amount of Rs.510.75 million was paid to the contractor on account of price adjustment (escalation) during the month of February and March, 2023. In original contract no price adjustment was allowed to the contractor. Subsequently price adjustment was allowed to the contractor with the approval of BOD during September, 2022 (after lapse of 2 years of award), which was against the interest of NTDC. This state of affairs showed that an undue benefit was extended to the contractor in shape of price adjustment.

Non-adherence to contractual provisions resulted in undue benefit extended to the contractor in shape of price adjustment amounting to Rs.510.75 million during the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. It was replied by the management that the amount of Rs.510.75 million, taken by audit was not correct since the actual amount is Rs.52,747,717/- (52.7 million). Moreover, the decision regarding price adjustment in NPP- 03C-2019 which was a fixed price contract, was a commercial decision. The decision of Board of Directors (NTDC) was in compliance with the guidance of Planning Commission and Pakistan Engineering Council.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the stance verified with documentary evidence within 30 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.472/2023-24)

1.6.31 Irregular award of contract beyond limitation/Powers - Rs.503.76 million

According to instructions issued by Deputy Managing Director vide letter No. DMD/AD&M/ NTDC/- 9702 dated January 29, 2019: - Chief Engineer (MP &M) NTDC shall undertake henceforth all pre-award of

contract activities in all types of tenders/procurement of goods, works and services financed by International Financing institutes or through NTDC own resources having estimated value of above Rs.60 million.

During audit of Project Directorate EHV-I NTDC, it was observed from record that four (4) tenders were floated and contracts worth of Rs.503.76 million were awarded to M/s Al-Hussain Traders Contractors and Potential Engineers Pvt. Ltd by Project Director EHV-1 Lahore in violation of authority instructions which was irregular.

Non-adherence of authority instructions resulting into irregular award of contracts beyond limitation/Powers - Rs.503.76 million up to the Financial Year 2022-23.

The matter was discussed with the management in June, 2023 and reported to the Ministry in November, 2023. The contracts were awarded to different contractors after completing the codal formalities through tendering process and approval of competent authority to float the tenders beyond the limit of 60 million.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get approval of next higher authority within fifteen (15) days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 493/2023-24)

1.6.32 Loss due to non-award of contract during bid validity period – Rs.489.70million

According to Rule-5(5) of Public Sector Companies Corporate Governance Rule 2013, “the Board shall establish a system of sound internal control, which shall be effectively implemented within Public Sector Corporate to ensure compliance with the fundamental principles of probity and propriety: objectivity, integrity and honesty and relationship with stakeholders.”

During Thematic Audit of procurement and material management in NTDC, it was observed that Technical Bid Evaluation Report for bids against Tender-TLM-11-2021 for procurement of AAAC Greely Conductor for 500 kV Double Quad Bundle Transmission Line was opened on May 27, 2021, and approved by MD NTDC on October 05, 2021. The bid validity period of the subject tender was 150 days from bid opening. Since the bid validity period was near to expire, the two (02) technically responsive bidders i.e. M/s Henan Tong-Da Cable Co. Ltd. and M/s Jiangsu Zhongtian Technology Ltd. (ZTT) were asked for extension in bid validity period but both the bidders refused to extend the bid validity period. Resultantly the bidding process was annulled on December 08, 2021 and re-tendering for procurement of said material under Tender TLM-11R-2021 was floated and contract was awarded to M/s Fast Cables having lowest evaluated landed cost of Rs.5,327.437 million. However, the landed cost of one of technically responsive bidder i.e. M/s Henan Tong-Da Cable Co. Ltd. in the previous tender, TLM-11-2021 was Rs.4,837.737 million. (calculated from the 2% bid security of bidder i.e. CNY 2.300 million at conversion rate of Rs.24 as on April 30, 2021). Resultantly loss to the tune of Rs.489.7 million was suffered to the company due to non-award of contract under TLM-11-2021 during the bid validity period. It is pertinent to mention here that an inquiry committee to probe into reasons behind inordinate delay and subsequent scrapping of tendering process for procurement of AAAC Greely Conductor vide Tender No. TLM-09M-2019 and TLM-11-2021 was constituted on January 26, 2022. However, the outcomes of the said inquiry report were not forthcoming from the record.

Non-adherence to the provisions of the Public Sector Governance Rules resulted in loss of Rs.489.7 million due to non-award of contract during bid validity period up to the Financial Year 2022-23.

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that tenders TLM-09M and TLM-11 were floated, evaluated & processed during COVID-19 pandemic which is the reason for delay in contract award and refusal of bidders to extend bid validities owing to price volatility & market uncertainty during the pandemic, leading to scrapping of these tenders. The reply was not tenable as the NTDC hasn't achieved milestones for effective procurement.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to inquire the matter and share inquiry report with audit. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC's decision.

(Draft Para No.1157/2023-24)

1.6.33 Loss due to non-encashment of performance/mobilization advance guarantees of the contractor - Rs.350.54 million

According to the clause 63.1 (b-ii) and 63.1(d) of general conditions of contract, "without forgoing the rights / remedies / authorities available with the employer engineer, including but not limited to (1) offsetting of any due payments under the contract (2) recovery of any cost / losses incurred (or to be incurred) by the employer for completion of works. (3) Encashment / adjustment of guarantees provided by contractor".

During audit of MP&M NTDC, a contract was awarded to M/s. ICC Pvt. Ltd against Tender No. NPP-03C-2019 and accordingly the contract agreement was signed on 22nd September, 2020. As per agreement, the contractor provided performance guarantee amounting to Rs.184.522 million and mobilization advance guarantee of Rs.166.018 million. On the basis of consecutively defaulting in execution and completion of work within the stipulated time of completion, NTDC terminated the contract on June 30, 2023. According to the contractual provisions, the performance guarantee and mobilization advance guarantee was required to be encashed immediately, but the same was not done due to negligence of the management and the guarantees were expired.

Non-adherence to the contractual provisions resulted in loss of Rs.350.54 million due to non-encashment of performance and mobilization advance guarantees up to the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management replied that BoD NTDC vide its notification dated November 03, 2023 had ratified to award the remaining work of the subject contract to M/s ICC Pvt. Ltd. again. In this regard amendment was under process and as soon as the amendment was issued, PG will be extended by the contractor and the same would be presented to Audit. Audit contended that the management failed in adhering the contractual provisions.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to submit detailed revised reply. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.544 /2023-24)

1.6.34 Irregular acceptance of material without type testing - Rs.349.82 million

According to Clause 26.1 of special conditions of contract, “all goods covered by the contract shall be subject to type testing / pre shipment inspection / Factory Acceptance Tests (FATs) in line with the requirements of relevant specifications”.

During audit of MP&M NTDC, a contract No.ADB-109-2021 (Lot-IV) for procurement of substation equipment was awarded to M/s. Grid Solution SAS, France at a contract price of Euro 2.345 million. All the material was subject to acceptable type test reports. As per requirement of contractual provisions and prevailing practice, the Factory Acceptance Tests (FATs) of the offered equipment was required to be performed after complete type test performance as per NTDC type test policy / technical specifications. However, in this case the supplier was allowed to perform online FATs before execution of type testing and on the basis of online FATs the material / equipment was received. This state of affairs clearly showed that management had extended an undue favour to contractor/supplier by relaxing the type test requirement and put the interest of NTDC at risk.

Non-adherence to contract provisions resulted in irregular acceptance of material without type testing value Rs.349.82 million during the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management replied that the online performance of FATs prior to type testing was as per NTDC type test policy 2019. Moreover, the ADB loan against subject contract was going to expire on June 30, 2023. Therefore, keeping in view the timeline of loan and on the request of contractor, this office sought approval from the Competent Authority to conduct online FATs prior to type testing subject to full responsibility of the contractor to provide compliant type test reports.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get verified the stance with documentary evidence from Audit within 30 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC’s decision.

(Draft Para No.720 /2023-24)

1.6.35 Irregular release of Liquidated Damages Charges – Rs.344.18 million

As per Clause-45.5 of Contract ADB-14-2019, “Rules of procedure for arbitration proceedings”: a) any dispute, controversy or claim arising out of or relating to the contract, or breach, termination or invalidity thereof, shall be settled by arbitration in accordance with the UNCITRAL Arbitration Rules as at present in force. b) Contracts with contractors being nationals of the Employer’s country: any dispute between the Employer and a Contractor who is a national of the employer’s country arising in connection with the present Contract shall be referred to adjudication or arbitration in accordance with the laws of the Employer’s country. In either of the above cases, the venue of the arbitration shall be Pakistan. According to clause 6 of notification of award of contract No. GS-02(R2)-2019, “the liquidated damages shall be 0.05% of total contract price per day of delay. The maximum amount of liquidated damages shall be ten percent (10%) of the contract price”.

During audit of NTDC, two (02) contracts i.e. No. ADB-14-2009 and GSO-02(R2)-2019 for Design, Supply, Installation of Static Var Compensator (SVC) at 220 kV New Kotlakhpat Grid Station and Supply of

material for steel structure were awarded to M/s ABB Consortium and M/s Arabian International Company respectively. Both the contractors failed to complete the works within stipulated time period. Resultantly, liquidated damages (LD) charges amounting to Rs.343.15 million were deducted. However, later on the said deducted liquidated charges were released to the contractors. The release of LD charges was not covered under the provisions of contract agreements. Further NTDC has to bear exchange rate loss of Rs.1.032 million due to release of LD to M/s Arabian International Company at subsequent higher exchange rate. Detail is as under:

Sr. No.	Draft Para No.	Contract No.	Name of Contractor	Amount (Rs.in million)
1.	754/ 2023-24	ADB-14-2009	M/s ABB Consortium	279.50
2.	951/ 2023-24	GSO-02(R2)-2019	M/s Arabian International Company	64.68
Total				344.18

(Source: Contract Correspondence file)

Non-adherence to provisions of Contracts Agreement resulted in irregular release of liquidated damages charges to the contractors amounting to Rs.343.15 million and loss of Rs.1.032 million due to release of LD at subsequent higher exchange rate up to the Financial Year 2022-23.

The matter was taken up with the management in June, 2023 and reported to the Ministry in November & December 2023. The management replied that LD charges were released to M/s ABB Consortium after approval of EOT from BOD whereas LD charges were released M/s Arabian International Company after grant of interim EOT and approval of final EOT was under the process of approval.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get EOT granted to M/s ABB Consortium verified from audit within fifteen (15) days. As regard to release of LD to M/s Arabian International Company, the DAC directed the management to inquire the matter and submit report to Audit within 30 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

1.6.36 Undue favour to supplier due to change in delivery schedule of material – Rs.314.41 million

According to Letter of Intents (LOI) issued vide No.286 dated February 09, 2022 Clause-B(b): - "Firm will submit requirements of UDIL certificate to PITC within 15 days from the date of issuance of LOI under intimation to PESCO". Further, as per Clause-F: "The time taken for improvement in samples and resubmission of drawings will not entitle the manufacturer to claim extension in delivery period on this account".

During audit of CEO PESCO, a Purchase Order No. 0701789 dated July 05, 2022 for procurement of 12,499 whole current 3-phase meters amounting to Rs.314.41 million was issued to M/s Micro Tech Industries Pvt. Ltd. The scrutiny of record revealed that the firm was bound to submit requirements for UDIL Certificate within 15 days of issuance of LOI and delay in obtaining prototype approval from NTDC would not entail in

extension of delivery period. However, firm provided the UDIL Certificate after lapse of 90 days and took 110 days in obtaining prototype approval from NTDC. Hence in the light of provisions of LOI and special conditions of the contract, 2% Bid money was required to be confiscated but contrary to this PESCO authorities extended undue favour to supplier by amending delivery schedule from “date of issuance of P.O” to “date of obtaining prototype approval”. The said amendment was in contradiction to the provisions of LOI & Special Condition of Bidding Documents which resulted in escaping supplier from confiscation of bid security/ deduction of liquidated damages.

Non-adherence to Bidding documents and Purchase Order resulted in undue favour to supplier due to change in delivery schedule of material amounting to Rs.314.41 million during the Financial Year 2022-23.

The matter was taken with the management in May, 2023 and reported to the Ministry in December, 2023. The management replied that BOD PESCO was apprised about delay in provision of UDIL certification by the supplier and amendment in delivery schedule was accorded by the competent authority. Audit contended that the management failed in adhering to the provisions of bidding documents.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to submit revised detailed reply along with justification within 15 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC’s decision.

(Draft Para No.1240/2023-24)

1.6.37 Irregular award of purchase order to non-responsive bidder due to defective bid evaluation – Rs.306.22 million

According to Clause-15(iv) of General / Special Conditions for Bidding against Tender-2205/2022-23 for procurement of Three Phase Whole Current Static Meters, “the prototype approval obtained by the firm more than three years back from the date of opening of tender will not be accepted”. According to publication of Tender Notice 2276 for procurement of LT Steel Structure, “bids were called from the bidders having valid prototype approval”.

During audit of CEO FESCO, the validity of prototype approvals of two (02) bidders was expired before the time of opening of the bids. Hence, the bids of these bidders were required to be rejected but contrary to this, purchase orders bearing No.1314 and 1429 for supply of Three Phase Whole Current Static Meters and LT Steel Structure valuing Rs.280.613 million and Rs.25.611 were awarded to M/s. Intelligent Metering System and M/s. AH Associates respectively. The award of purchase orders to non-responsive bidders was against the provisions of bidding documents and hence cannot be termed as regular.

Violation of the provisions of the bidding documents resulted in irregular award of purchase orders valuing Rs.306.22 million to non-responsive bidder due to defective bid evaluation during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that both the bidders had valid prototype approvals at the time of issuance of tender documents. Audit contended that prototype approvals of the bidders had expired on bid opening date.

The DAC in its meeting held on December 20 & 21, 2023 directed the management to get its stance verified in the light of relevant provisions of tender documents / purchase order from Audit within a week. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC’s decision.

1.6.38 Un-justified renewal of standby letter of credit (SBLC) in favour of Omini Power Pvt Ltd – Rs.242.00 million

According to Para-5 (5) of Public Sector Companies Corporate Governance Rules, 2013 “the board shall establish a system of sound internal control, which will be effectively implemented at all levels within the public sector company, to ensure compliance with the fundamental principles of probity and propriety, objectivity, integrity and honesty and relationship with the stakeholders”.

During audit of CEO HESCO, Standby Letter of Credit (SBLC) for an amount of Rs.242.00 million was renewed in favour of M/s. Omini Power Pvt Ltd. Despite the fact that an amount of Rs.368.00 million was lying pending for recovery from the said Small Power Producer (SPP). The matter for recovery for Rs.368.00 million was under arbitration. Audit held the renewal of SBLC unjustified as the amount was already recoverable from the supplier.

Non-adherence to Corporate Governance Rules resulted in un-justified renewal of standby letter of credit in favour of Omini Power Pvt. Ltd amounting to Rs.242.00 million during the Financial Year 2020-21.

The matter was discussed with the management in September, 2021 and reported to the Ministry in December, 2021. The management replied that an inquiry committee had been constituted vide office order dated November 22, 2023.

The DAC in its meeting held on December 22 & 23, 2023 upheld the decision of previous DAC wherein direction was given to inquire the matter at PPMCL level and further directed the management to share a schedule of recovery. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC’s decision.

(Draft Para No.611/2021-22)

1.6.39 Non-completion of work at risk and cost of the contractor – Rs.219.41 million

According to clause 35.1.b of conditions of contract, “In the event the Purchaser terminates the Contract in whole or pursuant to GCC clause 35.1(a), the Purchaser may procure upon such terms and in such manner as it deems appropriate, goods or related services similar to those undelivered or not performed, and the supplier shall be liable to the purchaser for any additional costs for such similar goods or related services. However, the supplier shall continue performance of the contract to the extent not terminated”.

During audit of MP&M NTDC, Lahore, a contract No.ADB-105R(Lot-2)2021 was awarded to M/s. Zibo Taiguang Electric Equipment China for procurement of goods at a contract price of Rs.219.41 million (US\$ 767,184.00). Subsequently the contract was terminated due to contractor’s failure to discharge contractual obligations during the month of August 2023. According to the provisions of contract performance guarantee valuing Rs.22.624 million of the contractor M/s. Zibo Taiguang Electric Equipment, China was encashed but no further action i.e. completion of work at risk and cost of the contractor was forthcoming from record.

Non-adherence to Contract Clauses resulted in non-completion of work at risk and cost of the contractor amounting to Rs.219.41 million up to the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in December, 2023. The management replied that the Performance Guarantee of the contractor has been encashed and the case for its blacklisting was under process. Furthermore, the retendering for the said material had not been initiated and subsequent claims, if any, would be lodged afterwards.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the stance with documentary evidence verified from audit within 30 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.1123 /2023-24)

1.6.40 Avoidable expenditure on temporary Rohri grid station due to non-execution of contract as per schedule completion period – Rs.204.97 million

According to Appendix-4 (Time Schedule) of Contract signed on January 18, 2010 for procurement of AIS Plant for 220 kV Rohri Substation (ADB-41-2009), "the completion period of the project was 420 days from the Effective Date."

During audit of NTDC, a Contract No. ADB-41-2009 for Procurement of 220 kV AIS Rohri Grid Station was awarded to M/s Chint Electric Company Ltd. on January 18, 2010 with completion period of 420 days from the effective date of contract. The said Grid Station was to be constructed for dispersal of power from 225 MW Engro Energy & 175 MW Fauji Foundation Power Plants. However, the construction work of New Grid Station Rohri could not be started in time even after award of contract. Subsequently, an expenditure of Rs.204.97 million was incurred for construction of temporary grid station. Had the construction activities for new grid stations been started in time, an expenditure of Rs.204.97 million incurred on temporary grid could have been avoided.

Project mismanagement resulted in avoidable expenditure of Rs.204.97 million on temporary Rohri grid station due to non-execution of contract as per schedule completion period up to the Financial Year 2019-20.

The matter was taken up with the management on September 25, 2020 and reported to the Ministry on December 29, 2020. The management replied that the temporary grid was constructed as per phase-I program under tight time schedule for power evacuation from powerhouses through M/s Chint; the main EPC contractor in order to avoid heavy penalties. Audit contended that instead of getting the work of new Rohri grid executed from M/s Chint, the execution of the work of temporary Rohri grid from the same contractor was incomprehensible. Moreover, there was no provision existed in PC-I for expenditure on temporary grid station.

The DAC in its meeting held on April 12, 2021 directed the management to constitute fact finding committee and submit its report to Audit under the signature of MD NTDC. The DAC in its meeting held on December 18 & 19, 2023 upheld the earlier decision. No further progress was reported till finalization of the report.

Audit recommends that the management needs to implement DAC's decision.

(Draft Para No.1038/2023-24)

1.6.41 Non-adjustment/receipt back of material given on loan basis to contractors - Rs.163.50 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), “all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

During audit of Project Directorate EHV-I NTDC, it was observed that the electrical material valuing Rs.163.50 million was issued on loan basis to contractors under different contracts. The equipment/material was lent to contractors with the undertaking to return the same. In addition, the surplus material was also required to be returned to store. However, adjustment/ receipt back of said electrical material from contractor was not forthcoming from record even after a considerable period.

Non-adherence to guidelines resulted in non-recovery of lent electrical material from contractor Rs.163.50 million.

The matter was reported to the management in August, 2023 and reported to the Ministry in November, 2023. The management replied that the observation is a duplicate of PDP-376/2023-24 and the surplus material allocated on loan basis to contractor has been returned to the designated warehouse vide MRNs.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the record verified from audit in support of reply within 15 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC’s decision.

(Draft Para No.500/2023-24)

1.6.42 Inordinate delay in awarding of Tender/Purchase Order - Rs.133.79 million

According to Rule-5(5) of Public Sector Companies Corporate Governance Rules-2013, “the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders”.

During audit of PMU MEPCO, a tender No.65/2020 was opened on August 12, 2021 for procurement of seventy-two (72) 132 kV SF6 Gas Circuit Breakers. Two firms participated in this tender namely M/s Saddique Sons Engineers Lahore & M/s M.K Engineering Works-Shahzad Enterprises. The firms quoted bid price amounting to Rs.2.793 and 2.938 million per unit respectively. The case was presented in Procurement and Disposal Committee on January 17, 2022. The committee deferred the case for next meeting. The case was again presented in committee and recommendations of committee were awaited. Meanwhile, MEPCO management requested the firms to further extend the bid validity period but the firm refused. Resultantly, MEPCO management had to scrap the tender and floated a special tender (ICB) 02/2022 opened on May 31, 2022 for procurement of same item/material. Only M/s Saddique Sons Engineering Lahore participated in tendering process, quoted the bid price of Rs.4.367 million per unit for the same circuit breakers and purchase order was awarded to the firm. Thus, MEPCO sustained a loss of Rs.133.79 million due to BoD’s wrong decision of retendering.

Non-adherence to Corporate Governance Rules resulted in loss of Rs.133.79 million due to inordinate delay in awarding of Tender/Purchase Order during the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that evaluation was carried out by 3rd party i.e. Chief Engineer (SS Design) NTDC. The first lowest bidder M/s Siddique Sons Engineering Lahore offered 132 kV Circuit breakers manufactured by M/s Jiangsu Rugao China and as per technical bid evaluation report clause No. 8, M/s Jiangsu Rugao China was debarred by African Development Bank for twenty (20) months from June 14, 2020 to February 13, 2022. Moreover, the original bid validity of the tender expired on 09.01.2022 and M/s Siddique Sons Engineering Lahore refused to extend its bid validity in view of debarment of M/s Jiangsu Rugao. Due to this reason, the contract could not have been awarded to M/s Siddique Sons Engineering Lahore. The 2nd lowest bidder was M/s M.K. Engineering – Shahzad Enterprises submitted fake 3rd party inspection report against previous MEPCO purchase. The matter was discussed in MEPCO BOD and as per legal opinion of legal advisor the tender was scrapped.

The DAC in its meeting held on December 20 & 21, 2023 directed the management to inquire the matter by G.M. (Tech.) and submit report to audit within 30 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.433/2023-24)

1.6.43 Loss due to rebidding for construction of Mansehra Grid Station – Rs.129.09 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of NTDC, Tender No.ADB-67-2012 for the procurement of 220 kV AIS Substation Mansehra, was declared mis-procurement by the Asian Development Bank Procurement Committee due to Non-adherence to paragraph 1.12 of ADB's Procurement Guidelines. Resultantly, NTDC gone into rebidding through Tender No. 67-R-2012 and the contract was awarded to the lowest bidder with Rs.1,317.94 million, which was 129.07 million higher than the lowest bid of Rs.1,188.85 million received in earlier Tender ADB-67-2012. Had the professional vigilance been exercised by observing the ADB's Procurement Guidelines in the process of Tender No.67-2012, NTDC rebidding could have been avoided by saving time and loss of Rs.129.09 million due to higher bid price.

Non-adherence to the ADB Procurement Guidelines resulted in loss of Rs.129.09 million due to rebidding for construction of Mansehra Grid Station up to the Financial Year 2019-20.

The matter was taken up with the management on September 25, 2020 and reported to the Ministry on December 29, 2020. The management replied that the Mansehra Grid was situated in "Seismic Zone" for which no bidder had experience and they submitted their bids as per normal drawings. The change in price was due to civil works, which had to be executed as per the site requirements i.e. Seismic Zone. Audit contended that mis-procurement declared by ADB caused rebidding for which responsibility needed to be fixed.

The DAC in its meeting held on April 12, 2021 directed the management to constitute fact finding committee and submit its report to Audit under the signature of MD NTDC. No further progress was reported till finalization of the report.

Audit recommends that the management needs to implement DAC's decision.

(Draft Para No.1194/2023-24)

1.6.44 Damaged foundations jeopardizing the towers installed at Nandipur Pusroor T/Line - Rs.100.00 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of GSC GEPCO, a 132 kV Double Circuit Nandipur - Pasrur T/Line was constructed during 2014 in order to dispersal of power from 525 MW Combined Cycle Power Plant Nandipur. GSO formation on April 17, 2023 reported that the soil and foundation work of three (03) Towers No.11, 17 & 18 installed at the said T/Line had been demolished rendering them into critical condition and exposing to near collapse. Accordingly, installation of Tubular Poles was suggested with estimated amount of Rs.100 million, which was approved by CEO with the direction to take action against SDO/XEN who did not protect the GEPCO property. However, the status of departmental inquiry for fixing the responsibility and quantifying the loss was not evident from record.

Poor project management resulted in damaged foundations jeopardizing the towers installed at Nandipur - Pusroor T/Line amounting to Rs.100 million during the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that the site was visited by XEN TLC after reporting by GSO formation and he decided that the towers in questions were in healthy condition and there was no need to replace towers with poles. The GSC Formation had not conducted the work.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to share the inquiry report with audit in the light of CEO's direction to take action against SDO/XEN. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.322/2023-24)

1.6.45 Loss due to non-forfeiture of bid securities of bidders involved in corrupt and fraudulent practices – Rs.98.00 million

According to clause-19.6 (d) of Section-II: Bidding Data and Appendices, "the bid securities of the bidder (s) found involved in corrupt and fraudulent practices shall be forfeited." According to clause 1.1 of Section-IV, Part-I: General Conditions of Contract, "corrupt and fraudulent practices include *misrepresentation of facts* in order to influence a procurement process."

During Thematic Audit of procurement and material management in NTDC, it was observed that the bids of M/s Shandong Ruitai Glass Insulators Co. Ltd. China, M/s Nanjing Electric Group Co. Ltd. China and M/s Sichuan Yibin Global Group Co. Ltd. (SYGG), China against Tender No. TLM-10-2020 were rejected during bid evaluation process due to submission of false/ materially inaccurate information. Since the act of misrepresentation of facts in order to influence a procurement process fall under the ambit of corrupt and fraudulent practices, the bid securities of these bidders amounting to Rs.98.00 million were required to be forfeited. But neither bid securities of the said bidders were forfeited nor the said bidders were blacklisted/ debarred.

Violation of provisions of bidding documents resulted in loss due to non-forfeiture of bid securities of the bidders involved in corrupt and fraudulent practices valuing Rs.98.00 up to the Financial Year 2022-23.

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that same observations were taken previously and DP-954/2020-21 had already been framed. The reply was not tenable as the said DP was not related with this observation as it was framed based on another contractor.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to inquire the matter and submit report to audit within 30 days. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC's decision.

(Draft Para No.1216/2023-24)

1.6.46 Non-replacement of defective / out-of-order material under warranty period - Rs.97.51million

According to Clause-9 of Purchase Order, 'the supplier will furnish a warranty certificate, certifying that goods supplied conform exactly to the specifications laid down in the contract and are brand new and that in the event of the material being found defective or not conforming to the specifications / particulars governing supply at the time of delivery and for a period of 12-months from the date of completion of supply, he will be held responsible for all losses and that unacceptable goods shall be substituted with the acceptable at their expense & cost.

During audit of FESCO & MEPCO, electrical material and equipment worth Rs.713.74 million were defective / damaged under warranty period and not got replaced from the manufacturers / suppliers. The detail is as under:

Sr. No.	Company	Draft Para No.	Amount (Rs.in million)
1.	FESCO	1107/2023-24	75.91
2.	MEPCO	524, 900/2023-24	21.60
TOTAL			97.51

(Source: Purchase Order file)

Non-adherence to warranty clause of purchase order resulted in non-replacement of defective / out of order electrical material worth Rs.97.51 million under warranty period from manufacturers / suppliers up to the Financial Year 2022-23.

Audit was of the view that not getting under warranty goods replaced well in time showed unsatisfactory maintenance of Company assets by the DISCOs.

The matter was taken up with the management in August & November, 2023 and reported to the Ministry in November & December, 2023. The management replied that some of the material had been received from suppliers / manufacturers and efforts were being made to receive the remaining material.

The DAC in its meetings held on December 14, 2023 to December 23, 2023 directed the management to get the record of completed action verified from audit within a week and expedite the pending action. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

1.6.47 Irregular award of Purchase order to black listed firm M/s Pan Power – Rs.95.53 million

As per PPRA Rule 19(b), if the bidder fails to perform contractual obligations during execution or breaches the contract due to his capability to perform or otherwise the bidder can be declared black listed and debarred for participation of public procurement for a period of not more than three years.

During audit of CEO LESCO, a tender for procurement of 200 x 15kVA transformers was opened on January 19, 2023. A single bidder M/s Pan Power international (Pvt) Ltd, Lahore participated in the bidding process and after evaluation, the purchase order amounting to Rs.95.53 million was awarded to the same supplier on April 14, 2023. Furthermore, it was revealed that a purchase order dated February 8, 2021 for supply of 50 kVA distribution transformers was awarded to the same firm but it failed to supply the ordered transformers to MEPCO. Resultantly M/s. Pan Power international Pvt Ltd Lahore was declared black listed on November 15, 2022 and was debarred for a period of three years as per PPRA Rule, 19(b) by MEPCO. Therefore, the issuance of purchase order to a black listed firm was irregular.

Non-adherence to PPRA Rules resulted in irregular award of purchase order of Rs.95.53 million to a black listed firm during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that the firm M/S Pan Power filed a writ petition in Islamabad High Court. The Court suspended the blacklisting and the order in review passed by PPRA. So, in the light of the order passed by the Islamabad High Court this office considered M/s. Pan Power (Pvt) limited in the subject tender No.2952. Audit contended that the order of black listing was cancelled not suspended.

The DAC in its meeting held on December 18 & 19, 2023 accepted the stance of audit and directed that as per the order of the High Court, the matter of black listing of firm was suspended not cancelled. The DAC further directed LESCO that matter might be inquired within 30 days and reported to audit. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

1.6.48 Mis-procurement of 11 kV Steel Pins for Steel due to collusive practice / cartelization of bidders - Rs.91.608 million

According to Rule-2 (f), Definitions, of Public Procurement Rules-2004, “corrupt and fraudulent practices” includes the offering, giving, receiving, or soliciting of anything of value to influence the action of a public official or the supplier or contractor in the procurement process or in contract execution to the detriment of the procuring agencies; or misrepresentation of facts in order to influence a procurement process or the execution of a contract, collusive practices among bidders (prior to or after bid submission) designed to establish bid prices at artificial, non-competitive levels and to deprive the procuring agencies of the benefits of free and open competition and any request for, or solicitation of anything of value by any public official in the course of the exercise of his duty”.

During audit of CEO MEPCO, a tender No.07/23 for supply of 100,000 11 kV Steel Pins for steel Cross Arms having split up into four (04) Lots each for 25000 was opened on July 27, 2022. Six firms participated, and offered their rates for different lots, M/s A.M Associated and M/s Bajwa Engineering Industries were declared as non-responsive by the Technical Evaluation Committee, after that other three firms voluntarily reduced their rates to Rs.783 per item equivalent to the rate quoted by the lowest bidder. Astonishingly, the competitors quoted the same rate, which was clearly evident of their collusive practice / cartelization to distort open competition, for which no action was taken by the management. Instead, four purchase orders amounting to Rs.91.608 million were placed upon the said firms. Had the tender not been split up into lots, the manufacturers could not have taken the advantage of their dominant position by offering collusive rates.

Non-adherence to authority instructions resulted in mis-procurement of 11 kV Steel Pins for Steel amounting to Rs.91.608 million due to collusive practice / cartelization of bidders during the Financial Year 2022-23.

The matter was taken up with the management in November, 2023 and reported to the Ministry in December, 2023. The management replied that that six (06) various firms quoted for single item (in four different lots) with different rates which showed a very healthy competition. Out of them M/s Kamran Engineering quoted lowest rate of Rs.783 each. Accordingly remaining three (03) firms voluntarily revised their tender rate as Rs.783 each by their own & accordingly the case was processed.

The DAC in its meeting held on December 20 & 21, 2023 directed the management to get the record verified from audit within 15 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC’s decision.

1.6.49 Irregular hiring of legal services in violation of PPRA-Rules and violation of direction of the Regulator by not charging the same as part of Market Operation Fee - Rs.91.23 million

According to Rules-20 and 21 of Public Procurement Rules that open competitive bidding be used as a principal method of procurement for goods, services, and works for items costing more than five hundred thousand Rupees”.

During audit of CPPA-G, Islamabad, CPPAG incurred an amount Rs.91.23 million as legal charges for hiring legal counsel without open competitive bidding which was violation of PPRA rules 2004. This amount included all legal cost both local and international, including travelling and other costs related to legal cases.

The Regulator directed CPPA-G in determination of Market Operation Fee for the Financial Year 2021-22 to make legal fee as part of its market operation fee rather than making it a part of capacity cost bill charged to DISCOs but compliance of the same was not done.

Non-adherence to PPRA Rules resulted in irregular hiring of legal services in violation of PPRA Rules and direction of the regulator for not charging the same as part of Market Operation Fee amounting to Rs.91.23 million up to the Financial Year 2021-22.

The matter was taken up with the management in May, 2023 and reported to the Ministry in June, 2023. The management replied that CPPA-G was engaged in the local and international legal proceedings being an agent of DISCOs, the litigation charges incurred by CPPA-G on behalf of DISCOs were passed on to DISCOs in accordance with the Article III of the Power Procurement Agency Agreement (PPAA) between CPPA-G and DISCOs dated June 03, 2015. The reply was not tenable as Regulator directed CPPAG in determination of Market Operation Fee to make legal fee as part of its market operation fee rather than making it a part of capacity costs bill charged to DISCOs but compliance of the same was not done. Further, without competitive bidding, hiring of legal counsel was unjustified.

The DAC in its meeting held on October 09, 2023 directed the management to provide the record in support of reply to audit within 07 days. No further progress was reported till finalization of the report.

Audit recommends that the NEPRA needs to review its hiring policies for external counsels to ensure that these are transparent and based on objective criteria based on a competitive selection process that ensures impartiality and objectivity.

(Draft Para No.105/2023-24)

1.6.50 Loss due to procurement of HT PC Spun Poles at higher rates - Rs.86.392 million

According to clause-38-B(I&2) of PPRA Rules, the procuring agency shall consider single bid in goods, works and services if it- (a) meets the evaluation criteria, ensures compliance of specifications and other terms & conditions expressed in advertisement or bid solicitation documents; (b) is not in conflict with any provision of the Ordinance; (c) conforms to the technical specifications; (d) has financial conformance in terms of rate reasonability: Provided that except unsolicited proposal, in case of pre-qualification proceedings single bid shall not be entertained. (2) The procuring agency shall make a decision with due diligence and in compliance with general principles of procurement like economy, efficiency and value for money.

During audit of CEO GEPCO, a tender for procurement of 8000 HT PC Spun Poles through four (04) Lots was opened on March 08, 2022 and single bidders had offered their rates ranging from Rs.30,100 to Rs.30,990 per pole in each Lot. The Bid Evaluation Committee (BEC) held the rates lower by comparing them with the rates received in FESCO and SEPCO in their tenders opened on May 17, 2022 & May 11, 2022 respectively. This rate analysis was inappropriate being made with subsequent / future tenders' rates instead of considering the same on the basis of past months' rates as GEPCO's tender was opened in March, 2022 whereas FESCO & SEPCO tenders opened in May, 2022. Even the BEC did not consider the estimated market rate of Rs.21,322 per pole as assessed

by GEPCO Civil formation for the said Tender. The above scenario indicated that procurement was made at higher rates and Company was put into loss of Rs.86.392 million.

Irrational rate analysis resulted in loss of Rs.86.392 million due to procurement of HT PC Spun Poles at higher rates during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that in each Lot single bidder had participated and Purchase Orders issued after conforming technical specification, rate reasonability and after due diligence in line with PPRA Rules. The rates of components used in the manufacturing of Spun Poles i.e. Steel, Cement, Crush and Sand in which steel wire was an imported item increased up to 24.80% from last tender whereas rate of issued P. Os increased 21.92% to 24%.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to inquire the matter and submit its report to audit within a month. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.1074/2023-24)

1.6.51 Irregular award of contract agreement - Rs.73.66 million

As per contract agreement clause 17 (A) (i) - "If the contractor (Supplier) fails to supply the goods within the time period, the purchaser will have the right to forfeit the security Bond/Guarantee (Performance Bond).

As per clause-4 of letter of intent dated September 24, 2021 the supplier is required to submit performance bond/Guarantee for Rs.7.36 million being 10% of value of contract agreement within 15 days i.e. October 06, 2021.

During audit of PMU FESCO, a LOI was issued to M/s. Shahzad Enterprises for the procurement of material of Rs.73.661 million. As per LOI, supplier was required to submit performance guarantee up to October 06, 2021, but the same was submitted by the supplier on June 23, 2022. Delay of fourteen (14) months in submitting performance guarantee showed irresponsible behavior by the management in procurement of important material. The management neither forfeited bid neither security nor performance guarantee valuing Rs.7.36 million from supplier. This deliberate delay in deciding the matter to cancel the LOI and forfeiture of bid security not only affected the different works of FESCO due to non-availability of said material but also caused huge financial loss to the company in form of price escalation. Resultantly the management sustained a loss of Rs.7.36 million.

Non-adherence to contract clause resulted in Irregular award of contract agreement- Rs.73.66 million during the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that contract was awarded to the supplier after receipt of performance guarantee.

The DAC in its meeting held on December 20 & 21, 2023 directed the management to inquire the matter within 30 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.415/2023-24)

1.6.52 Loss due to irrational decision of Procurement Committee of BoD -Rs.70.00 million

According to Clauses-4(3) of Public Sector Companies (Corporate Governance) Rules, 2013, “the chief executive is responsible for the management of the Public Sector Company and for its procedures in financial and other matters, subject to the oversight and directions of the Board, in accordance with the Act and these rules. His responsibilities include implementation of strategies and policies approved by the Board, making appropriate arrangements to ensure that funds and resources are properly safeguarded and are used economically, efficiently, and effectively and in accordance with all statutory obligations”.

During audit of CEO QESCO, it was observed that two (2) tenders No.1641 & 1728 for procurement of 13,090 (8090+5000) Automatic Meter Reading (AMR) meters were opened on January 10, 2022 & October 24, 2022. However, inordinate delay was observed in issuing the 1st purchase order as the same was approved by BoD on November 21, 2022 i.e after elapsing 10 months. Consequently the 2nd PO was approved on February 17, 2023 while the prices in market were rampant and per meter cost increased by Rs.14,000/-. Resultantly, the company had to bear extra cost of Rs.70 million (5000 meters x Rs.14,000 per meter), which could have been avoided if the first tender been concluded timely.

Non-adherence to the provisions of Corporate Governance Rules-2013 and PPRA-2004 resulted in loss of Rs.70.00 million due to irrational decision of Procurement Committee of BoD QESCO during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that tender T-1641 was part of procurement plan for FY 2021-2022, whereas tender T-1726 for procurement of the AMR meters was part of procurement plan for FY 2022-2023. The quoted / opened rates had been approved. As QESCO was procuring AMR meters for the first time so detail deliberations on various aspects were made by BoD. Audit contended that inordinate delay in issuing purchase orders reflected poor contract management.

The DAC in its meeting held on December 22 & 23, 2023 directed the management to inquire the matter by C.E. PMU QESCO and submit its recommendations to audit within 30 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC’s decision.

(Draft Para No.1079/2023-24)

1.6.53 Irregular award of contract - Rs.47.254 million

As per standard bidding documents IB. 14 clause 14.5 “the original and all copies of the bid shall be typed or written in indelible ink and shall be signed by a person or persons duly authorized to sign (in the case of copies photostats are also acceptable). This shall be indicated by submitting a written Power of Attorney authorizing the signatory of the bidder to act for and on behalf of the bidder. All pages of the bid shall be initialed and the official seal be affixed by the person or persons signing the bid”.

During audit of GSC SEPCO, a contract amounting to Rs.47.254 million was awarded to M/S Ansaries Engineers on August 16, 2018 for construction of tower foundation, piling, erection, stringing and testing of T/L feed for Bhirya Road Grid station (Lot-II). In this regard tender was floated for said work on July 19, 2018 in which

four (4) bidders participated. After technical & financial evaluation M/S Ansaries Engineering was declared the lowest responsive bidder with bid price of Rs.47.254 million by the Tender evaluation committee. However, from the forthcoming record, it was noticed that the contractor's quoted bid price seemed to be tempered/forged/overwritten which was tantamount to extending undue favour to the contractor.

Non-adherence to the authority's instructions resulted in irregular award of contract amounting to Rs.47.254 million during the financial period 2021-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in October, 2023. The management replied that tender opened in the presence of tender opening committee and work was awarded to lowest responsive bidder. Regarding question of tempering/overwriting it was informed that after opening of bids the transparent tape was pasted on the quoted rates of all bidders to avoid the tempering of actual bid which was spread due to passage of time. It was clearly checked that the area where transparent tape pasted looked as if ink was spread there and it was different from the area where tape not pasted.

The DAC in its meeting held on December 22 & 23, 2023 directed the management to get the stance verified from Audit within 15 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.343/2023-24)

1.6.54 Irregular award of contract to non-responsive bidder – Rs.42.43 million

According to Clause 20.1 of Section-1 (Instructions to Bidder) of Bidding Documents for Tender No. 10A-2007 for Civil Works, Erection, Testing & Commissioning of Extension Work at 500 kV Sheikhpura (Lahore) and 500 kV Gatti (Faisalabad) Substation, "Bids shall remain valid for the period specified in the Bidding Documents after the bid submission deadline prescribed by the employer. A bid valid for a shorter period shall be rejected by the employer as Non-responsive."

During audit of NTDC, award of Contract under Tender ADB-10A-2007 could not be made to M/s Potential Engineers (Pvt) as the ADB had refused to recommend the same due to deficient bid validity period i.e. 26 days. On refusal from ADB, NTDC decided to execute the said works from own resources and the contract for execution of Civil Works, Erection, Testing & Commissioning of Extension Work at 500 kV Sheikhpura (Lahore) and 500 kV Gatti (Faisalabad) Substation was awarded on March 17, 2008 to M/s Potential Engineer (Pvt) Ltd at total contract price of Rs.42.43 million. Since the M/s Potential Engineers Pvt was non-responsive in the light of Clause 20.1 of Section-1 (Instructions to Bidder) of Bidding Documents due to shorter bid validity period, the award of contract to the said bidder could not be termed as regular.

Non-adherence to the provisions of bidding documents resulted in irregular award of contract valuing Rs.42.43 million to a non-responsive bidder up to the Financial Year 2019-20.

The matter was taken up with the management on September 25, 2020 and reported to the Ministry on December 29, 2020. The management replied that the deficiency in the validity of bid was ignored under the provision of Clause 19.4 Section-I of the bidding document, specially in the context when there was no other bid having required work experience and contract was awarded on the recommendations of Chief Engineer Design

NTDC. Audit contended that the contract was awarded to a non-responsive bidder by violating the provisions of the bidding documents.

The DAC in its meetings held on April 12, 2021 did not agree with the reply and directed the management to provide detailed / revised reply. The DAC in its meeting held on December 18 & 19, 2023 upheld the earlier decision. No reply was furnished till finalization of the report.

Audit recommends that the management needs to inquire the matter regarding award of contract to a non-responsive bidder in violation of provisions of bidding documents besides implementing DAC's decision.

(Draft Para No.1196/2023-24)

1.6.55 Irregular award of contract - Rs.39.99 million

According to Rule-34 (2) of PPRA, "the procuring agency before invitation for re-bidding shall assess the reasons for rejection and may revise specifications, evaluation criteria or any other condition for bidders as it may deem necessary".

During audit of GENCO-II, a Purchase Order No. 2341 dated July 22, 2023 for supply of air inlet filters valuing Rs.39.99 million was awarded to M/s Qaim Automotive Manufacturing (Pvt) Ltd. Before award of said purchase order, two (2) tenders for procurement of the same material were scrapped due to non-conformance of tendered technical specifications by the bidders. Further, in both scrapped tenders, M/s Qaim Automotive was declared as non-responsive. However, at the time of evaluation of 3rd tender, the bid of the said bidder was accepted on the basis of same technical specifications which were already turned down.

Non-adherence to PPRA Rules resulted in irregular award of contract Rs.39.99 million during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that in both the tenders, the material offered by M/s Qaim Filters Karachi was different in grade/make against the material mentioned in the bidding documents; hence, the firm was declared technically non-responsive. In third Tender T-1328, the said bidder again participated and offered equivalent material. The said firm was declared technically responsive and P.O was issued.

The DAC in its meeting held on December 22 & 23, 2023 directed the management to inquire the matter and submit its report within 30 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.741/2023/24)

1.6.56 Loss due to imprudent contract management for non-award of contract to lowest evaluated bidder - Rs.39.51 million

As per para 2(H) of PPRA Rules 2004 "most advantageous bid" means;- i) A bid or proposal for goods, works or services that after meeting the eligibility or qualification criteria, is found substantially responsive to the terms and conditions as set out in the bidding or request for proposals document; and ii) Evaluated as the highest ranked bid or proposal on the basis of cost or quality or qualification or any combination thereof, as specified in

the bidding documents or request for proposal documents which shall be in conformity with the selection techniques to be issued by the Authority”

During audit of CEO TESCO Peshawar, a tender for rehabilitation of 132 kV Grid Station Razmak with an estimated cost of Rs.66.96 million was opened on January 24, 2023. M/s Mian Ghazi Enterprises was declared the lowest evaluated bidder (both in commercial and technical aspects) with a bid price of Rs.59.594 million which was 11% below the estimated cost. The evaluation committee recommended the award of contract to M/s Mian Ghazi Enterprises. However, the contract was not awarded to the lowest evaluated bidder (M/s Mian Ghazi Enterprises) and the tender was cancelled. Subsequently, the tender for same work i.e rehabilitation of 132 kV Grid Station Razmak was called for with estimated cost of Rs.66.96 million and opened on March 09, 2023. M/s Mian Ghazi Enterprises was again declared the lowest evaluated bidder with quoted bid of Rs.100.37 million which was 49.90% above the estimated cost. M/s Mian Ghazi Enterprises voluntarily reduced the amount to Rs.99.099 million (48 % above the estimated cost) and the contract was awarded to the bidder. The imprudent contract and financial management resulted in award of contract at higher rates to the extent of Rs.39.51 million which was loss to the company.

Non-adherence to PPRA rules resulted in loss of Rs.39.506 million due to non-award of contract to the lowest evaluated bidder during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that at first bidding documents/estimate were sent to 3rd party consultant for final evaluation. In response it was submitted that the rates were not justified and quality of work would be compromised, therefore, the work was retendered.

The DAC in its meeting held on December 14 & 15, 2023 observed that the contractor was initially evaluated on technical and financial basis and was declared successful. The evaluation of consultant on speculative basis could not be termed appropriate. DAC also directed the management to inquire the matter at PPMC level and submit its recommendations to audit. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC’s decision.

(Draft Para No.834/2023-24)

1.6.57 Unsatisfactory performance of M/s EMCO Industries Ltd due to purchase of material - Rs.34.58 million

According to PPRA Rule Section (4) Principles of Procurements. Procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process was efficient and economical.

During audit of PMU FESCO, the Disc insulators 100-KN (fog type) and 80-KN (Normal type) were procured from M/s EMCO Industries Ltd.against contract agreement No. 123 dated January 10, 2018 and contract agreement no. 165 dated June 25, 2019 and utilized on different works of FESCO. From the date of receipt of material in question to FESCO warehouse till May 27, 2022, nothing was stated from FESCO management about performance of the said material and performance guarantee was released to the supplier. The supplier requested vide its letter dated May 27, 2022 regarding performance certificate of its material, inresponse to which FESCO issued performance certificate vide letter No. 4822 dated July 19, 2022 and declared the performance of said material unsatisfactory. Due to expiry of warranty period, the said material could not be replaced form the

contractor. Despite unsatisfactory performance of material, the FESCO awarded contract dated April 15, 2022 for the same material from same supplier i.e., M/s EMCO Industries Ltd. at Rs.2.98 per unit with total contract price was Rs.34.58 million.

Non-adherence to instructions resulted in unsatisfactory performance of M/s EMCO Industries Ltd due to purchase of material Rs.34.58 million during the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that Disc Insulators had been issued against different works and no complaint regarding unsatisfactory performance had so far been received.

The DAC in its meeting held on December 20 & 21, 2023 directed the management to inquire the matter at G.M Technical level within 30 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.417/2023-24)

1.6.58 Loss due to non-invoking of Variation Clause of Purchase Orders – Rs.33.00 million

According to clause-B-(ii) of Special Conditions for Purchase Order, "FESCO reserves the right to increase/ decrease the quantities up to 15% through variation order/ repeat order after issuance of purchase order during the currency of the contract (currency of the contract means delivery of last consignment in concerned store).

During audit of CEO FESCO, variation clause for increase of quantities up to 15% was not invoked in three (03) purchase orders for procurement of 25 kVA transformer, 200 kVA transformer and Bi-Directional 3-Phase Static Meter and additional required quantities of the said material were procured through new purchase orders at higher rates. Resultantly the company suffered loss to the tune of Rs.33.00 million due to subsequent procurement of material at higher cost.

Non-adherence to the provisions of the Purchase Orders resulted in loss of Rs.33.00 million during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that variation orders were not issued in existing purchase orders due to unsatisfactory performance of suppliers and fresh purchase orders were placed to different lowest evaluated responsive bidders.

The DAC in its meeting held on December 20 & 21, 2023 did not agree with reply of the management and directed to furnish detailed revised reply within a week. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 936/2023-24)

1.6.59 Unnecessary purchase of vehicles - Rs.28.82 million

According to the Section (5) of Corporate Governance Rules "The Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure

compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders.”

During audit of CEO IESCO, it was observed that six single cabin vehicles amounting to Rs.28.82 million were purchased for operations formation for maintenance purposes and were required to be allocated to the field line staff. But these vehicles were allocated to the executives instead of the line staff. Therefore, expenditure on these vehicles was un-necessary and unjustified.

Non-adherence to authority’s instructions resulted in unnecessary purchase of vehicles valuing Rs.28.82 million during the Financial Year 2022-23.

The matter was taken up with the management in November, 2023 and reported to the Ministry in December, 2023. The management replied that single cabin pickups had been allocated in IESCO Head office for important projects namely AMI (01 No) & MIRAD (03) and 01 each for Planning Directorate and PR Directorate.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to get the record verified from audit along with justification of allocation to departments. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC’s decision.

(Draft Para No.945/2023-24)

1.6.60 Purchase of faulty material from M/s Power Electronics (Pvt.) Ltd. - Rs.28.68 million

As per Clause-9 of Contract Agreement, “the contractor will be held responsible for all losses incurred during warranty guarantee period.

During audit of GSC FESCO, various discrepancies were observed while installation of Control Panels and Relay Panels at three Grid Station namely 132 kV Grid Station Old Thermal Power, Jhakkar, Allied and Steam Power. These discrepancies occurred due to faulty / substandard Control Panels & Relay Panels which could cause damage to Grid Stations, valuable equipment and failure of supply. The said material was purchased by FESCO management vide two (02) contract agreements i.e. 247 dated November 11, 2021 and 264 dated December 16, 2021 worth Rs.28.68 million from M/s Power Electronics Pakistan Private Limited, and discrepancies were not got removed from the manufactures as per warranty clause of Purchase Order.

Non-adherence to the Contract clause resulted in loss of Rs.28.68 million due to purchase of faulty material during the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in November, 2023. The management replied that discrepancies had been rectified by the supplier before commissioning of projects.

The DAC in its meeting held on December 20 & 21, 2023 DAC did not agree with the reply of management and directed to inquire the matter at Technical Director level within 30 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC’s decision.

(Draft Para No.519/2023-24)

1.6.61 Unjustified payment to the contractor for supply and placing of river run gravel against the specification of BoQ in switchyard area – Rs.25.71 million

According to Sr. No. 2(j) of Schedule 1 of BoQ of Contract No. ADB-72R-2016 (Package-I, Lot-II) for Civil Works, Erection, Testing and Commission at 220 kV Grid Stations at D.I Khan, “the contractor was required to supply and place river run gravel 40 to 50 mm sized (in 200mm thick layer) including toe wall (if required) in switchyard area as specified and as directed by the Engineer.”

During audit of NTDC, a Contract No.ADB-72R-2016 (Package-I, Lot-II) for Civil Works, Erection, Testing and Commission at 220 kV Grid Stations at D.I Khan was awarded to M/s PEL. However, the said contractor supplied and placed river run gravel of 20mm to 75mm size instead of 40 to 50 mm size at switchyard area. The supply and placing of river run gravel other than the specified and quoted size as stated in BoQ was against the provision of contract. Hence an amount of Rs.25.71 million paid in this regard was unjustified.

Non-adherence to the specifications of BoQ for supply and placing of river run gravel resulted in unjustified payment of Rs.25.71 million to the contractor at D.I Khan Substation up to the Financial Year 2019-20.

The matter was taken up with the management on September 25, 2020 and reported to the Ministry on December 29, 2020. The management replied that the contractor had completed gravel work in the light of contract by providing gravel size of 20 to 75 mm. Audit contended that according to Sr. No. 2(j) of Schedule 1 of BoQ of contract, the contractor was required to supply and place river run gravel 40 to 50 mm sized instead of 20 mm to 75 mm.

The DAC in its meeting held on April 12, 2021 did not agree with the reply and directed the management to provide detailed / revised reply. The DAC in its meeting held on December 18 & 19, 2023 upheld the earlier decision. No reply was furnished till finalization of the report.

Audit recommends that the management needs to inquire the matter besides expediting provision of river run gravel as per the size quoted in the BoQ.

(Draft Para No.1086/2023-24)

1.6.62 Irregular payment of earth filling & carriage due to deficient / unauthentic recording in Measurement Book (MB) - Rs.23.17 million

According to Conditions of Contract Clause-53 Volume-I, Instructions to Tenderers, “the engineer shall determine by a measurement the value in accordance with the contract of work done in accordance with the contract. For the purpose of measuring such permanent work as is to be measured by records and drawings the engineer’s representative shall prepare records and drawing month by month of such work and the contractor shall attend to examine and agree such records and drawings with the engineer’s representative. As per Clause-17, “the contractor shall be responsible for the true and proper setting-out of the works in relation to original points lines and levels of reference given by the engineer in writing and for the correctness of the position levels dimensions and alignment of all parts of the works. The contractor shall carefully protect and preserve all bench-marks, sight-rails pegs and other things used in setting out the works”.

During audit of GSC GEPCO, the entire civil work of 132 kV consumer Grid Station Tannery Zone, Sialkot was got completed on March 28, 2023 through M/s R&S Enterprises (JV) M. Abubakar Trader under Tender No.07/2021-22. A new contract under Tender No.12/2022-23 amounting to Rs.29.16 million (without PST) for earth filling with carriage at the said grid station was awarded to the same contractor on November 21, 2022 with date of commencement as on April 26, 2023. The scrutiny of payment of 2nd & 3rd running bill amounting to Rs.23.17 million revealed the following irregularities: -

- Both the 2nd & 3rd running bills were prepared / recorded by Sub- Engineer (BS-14) and counter checked by SDO (17) by the same person, which was against the internal checks / controls.
- At page-74 of MB No.61 (3rd running bill), the measurements for filling, watering and reaming of earth under floors with carriage were recorded but it was not mentioned in “Particulars Column” where the filling of earth was done, yet bill was pre-audited and passed for payment of Rs.5.94 million.
- Similarly, in 2nd running bill, the major measurement of 14,123.95 CUM was recorded against the “Right Side” which was totally incomprehensible as to whose & which “Right Side was filled in with earth. However, the 2nd running bill of Rs.17.23 million was checked, pre-audited and passed for payment.

Besides the above pointed out irregularities with the payment of civil work, some important documents for ascertaining the pertinence / authenticity of the awarded work were also not forthcoming from the record. It is also noteworthy that the earth filling was commenced after completion of main civil work of entire grid station instead of doing during construction. Hence, the aforementioned glaring irregularities, spoke volume against the authenticity / genuineness of the execution of earth filling work, its measurement and payment.

Poor project management resulted in irregular payment of Rs.23.17 million on account of earth filling & carriage due to deficient / unauthentic recording in measurement book during the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that due to non-availability of SDO (Civil), PD (GSC) had assigned the duties of SDO (Civil) to the Sub Engineer (Civil). The measurement of earth filling was shown in particular column of MB No.61 and the Qty mentioned in Page-71 of MB No.61 of measurement 14123.95 CUM in right side of MB was correct. The Grid Layout (GLO) of Grid Station was prepared and handed over to concerned contractor & earth filling estimate was prepared according to site requirement.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to inquire the matter at PPMCL level by G.M Technical and submit its report within a month. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC’s decision.

(Draft Para No.215/2023-24)

1.6.63 Loss due to non-inclusion of standard clause of variation of quantity in Purchase orders in violation of National Standard Procurement Documents – Rs.20.98 million

According to directions issued by PPRA vide SRO 370 (I)/2022 dated March 02, 2022, “the procuring agencies shall use National Standard Procurement Documents for national/ international competitive bidding.

According to Clause- 40.1 of Section-II (Instruction to Bidders ITBs) of Standard Bidding Documents for Procurement of General Goods, “The Procuring Agency reserves the right at the time of contract award to increase or decrease the quantity of goods or related services originally specified in these Bidding Documents (schedule of requirements) provided this does not exceed by percentage indicated in the BDs, without any change in unit price or other terms and conditions of the Bid and Bidding Documents.

According to Clause- 40.1 of Section-III (Bid Data Sheet) of Standard Bidding Documents for Procurement of General Goods, “Percentage for quantity increase or decrease is required to be mentioned at the time of Award of Contract”.

During audit of CEO FESCO, eight (08) tenders for procurement of electrical material comprising SID Cable 2/C 10mm, 11 kV Disc Insulator, ACSR Rabbit Conductor and ACSR Osprey Conductor were floated by excluding standard clause of variation of quantity in the bidding documents/POs. This restrained the company from procurement of recurring electrical material at economical prices through Variation Orders. Resultantly the said material was procured at higher cost of Rs.20.98 million through subsequent award of new purchase orders.

Violation of direction of PPRA and provisions of national standard procurement documents resulted in loss of Rs.20.98 million due to non-inclusion of standard clause of variation of quantity in bidding documents/ PO’s during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that 15 % variation of increase/ decrease in quantity before placing of LOI/ PO was incorporated in the bidding documents. Audit contended that variation in quantity before issuance of LOI/ PO was useless and in the light of National Standard Procurement Documents of PEC, 15% variation in quantity during the currency of purchase order was required to be incorporated.

The DAC in its meeting held on December 20 & 21, 2023 DAC did not agree with the reply of management and directed to inquire the matter jointly at CEO and CFO level. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC’s decision.

(Draft Para No.930/2023-24)

1.6.64 Un-justified award of civil works in excess of BoQ - Rs.20.22 million

According to Central Public Works Code Para 65 “When the expenditure upon a work exceeds, or is found likely to exceed, the amount administratively approved for it by more than 10 percent, or the limit prescribed in paragraphs 60 and 61, whichever is less, a revised administrative approval must be obtained from the authority competent to approve the cost, as so enhanced”

During audit of GSO Circle QESCO, eighteen (18) civil works were completed in excess of approved BoQ value amounting to Rs.20.22 million. The BoQ value remained 60% above on average as compared to the value on which contracts were awarded. Neither justification was recorded nor comparison with other DISCOs or rate

comparison from market was conducted and merely revision of rates in noting sheet was put up for approval from CEO QESCO.

Non-adherence to CPW code para 65 resulted in un-justified award of contract in excess of BoQ amounting to Rs.20.22 million during the Financial Years 2018-19 to 2021-22.

The matter was taken up with the management in March, 2023 and reported to the Ministry in June, 2023. The management replied that estimates were framed by the Assistant Engineer (Civil) on the basis of schedule of rates 2013. After lapse of so many years the rates were increased appreciably due to hike in the prices The contractors’ quoted rates in accordance with market prevailing rates and also by adding their own premium. The Administrative approvals were accorded as per estimate; however, the final approval by the competent authority covered all aspects of case approvals.

The DAC in its meetings held on September 09, 2023 directed the management to initiate inquiry and share it with audit within 30 days. No further progress was reported till finalization of the report.

Audit recommends that the management needs to implement DAC’s decision.

(Draft Para No. 02/2023-24)

1.6.65 Loss due to award of new work order for earth filling & its carriage instead of issuing variation order / considering in revised work order- Rs.15.34 million

According to Clause-48 (1) Volume-I, Instructions to Tenderers, “the engineer shall make any variation of the form quality or quantity of the work or any part thereof that may in his opinion be necessary and for that purpose or if for any other reason it shall in his opinion be desirable shall have power to order the contractor to do and the contractor shall do any of the following:- (a) increase or decrease the quantity of any work included in the contract, (b) omit any such work, (c) change the character of quality or kind of such work, (d) change the levels lines position and dimensions of any part of the works and no such variation shall in any way vitiate or invalidate the contract but the value (if any) shall be taken into account in ascertaining the amount of the contract.”

During audit of GSC GEPCO, a contract under Tender No.07/2021-22 amounting to Rs.64.37 million (without PST) for construction of boundary wall, control house building, transformer / line / PT bays, metering room, transformer ways and roads at 132 kV consumer Grid Station Tannery Zone, Sialkot was awarded to M/s R&S Enterprises (JV) M. Abubakar Trader F/abad on December 16, 2021. In BoQ for civil works, the following two (02) items were included: -

BoQ item No with description	Qty	Rate
H-14 Filling, watering and ramming earth	435 CUM	Rs.173.51
H-15 Carriage of earth leads-5 km	435 CUM	Rs.191.16

The work was completed on March 28, 2023; however, the estimate of the work was revised due to increased / decreased quantities as per site requirement. Accordingly, a revised contract / work order amounting to Rs.75.86 million (with increase in scope of work) in continuation to the said original contract was issued on July 31, 2023. However, both the said BoQ items were excluded from the said contract and a new contract with increased quantity and rates was awarded separately with total amount of Rs.29.16 million (without PST) to the same contractor on November 21, 2022. The detail is as under: -

BoQ item No with description	Qty	Rate
H-14 Filling, watering and ramming earth	37890.08 CUM	Rs.404.704133
H-15 Carriage of earth leads-5 km	37890.08 CUM	Rs.364.951459

When the original work order was revised due to variation of decrease & increase in quantities of BoQ items then both the said BoQ items, with already awarded rates, should have been included / considered therein. Deletion of the same from the scope of original as well as revised work order and procured through another contract with increased quantity and rates from the same Contractor caused loss of Rs.15.34 million to GEPCO.

Contract mismanagement resulted in loss of Rs.15.34 million due to award of new work order for earth filling & its carriage instead of issuing variation order / considering in revised work order during the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that the earth filling work was not included in the already awarded work. The work was awarded to MS R&S enterprises according to PPRRA Rules and also approved by the BoD GEPCO. The cost of work was borne by depositor and all the expenditure was the responsibility of sponsors.

The DAC in its meeting held on December 18 & 19, 2023 directed to inquire the matter at PPMCL level by G.M Technical and submit its report within a month. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.216/2023-24)

1.6.66 Loss due to issuance of tender to 2nd lowest bidder - Rs.15.08 million

As per Rule 38 of Public Procurement Rules 2004, "The bidder with the lowest evaluated bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government shall be awarded the procurement contract, within the original or extended period of bid validity".

During audit of PMU FESCO, a tender for the purchase of 132 kV D/C Tower type ZM-1 along with all allied accessories under Lot-1 was awarded to M/s Siddique Sons, the 2nd lowest bidder with quoted price of Rs.1.78 million per unit instead of Associated Technologies who quoted lowest price of Rs.1.74 million per unit. As a result, the management sustained a loss of Rs.15.08 million due to purchase at higher rate by rejecting M/s Associated Technologies for minor reason i.e. price schedule not properly signed.

Non-adherence to PPRA Rules resulted in loss of Rs.15.08 million due to issuance of tender to 2nd lowest bidder during the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that contract was awarded to the 2nd lowest bidder due non-responsiveness of the 1st lowest bidder and grievance of the said bidder was rejected by the Grievance Redressal Committee.

The DAC in its meeting held on December 20 & 21, 2023 directed the management to inquire the matter within 30 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.416/2023-24)

1.6.67 Loss due to award of contract at exorbitant rates ignoring the 2nd lowest evaluated bidder - Rs.12.41 million

As per Rule-4 of PPRA Rules 2004, Principles of Procurement; - "Procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical".

During audit of CEO TESCO, two (02) tenders for construction of protection wall between power transformers and allied Civil Works at 132 kV Grid Station Bara and for rehabilitation of residential quarters, internal roads and boundary wall at 132 kV Grid Station Bara District Khyber with estimated cost of Rs.10.990 million and Rs.7.298 million respectively were opened on February 09, 2022. M/s Nadeem Construction Company was evaluated the lowest bidder for a cost of Rs.11.539 million and Rs.6.569 million which was 5% above and 10% below respectively and the work order was awarded to M/s Nadeem construction company. However, the contractor did not take up the work and the Cash Deposit Receipt (CDR) was forfeited. The 2nd lowest bidder (M/s ASG Brothers Construction and M/s Shinwari) accepted the offer to execute the work at quoted price of Rs.13.73 million and Rs.8.759 million (25% & 20% above the BoQ) respectively. However, the contract was not awarded to the 2nd lowest bidder despite the increasing trend of material rates and without rate analysis and the work was retendered. Subsequent to retendering the contractor M/s Fida Muhammad & Sons and M/s Shinwari Construction Company was declared the lowest evaluated bidder with a quoted price of Rs.21.41 million and Rs.13.49 million which was 94.85% and 84.83% above respectively and the work was awarded. Non-award of contract to the erstwhile 2nd lowest bidder resulted in extra cost of Rs.12.41 million which was loss to the company.

Non-adherence to PPRA rules resulted in imprudent and injudicious award of contract at exorbitant rate causing loss of Rs.12.41 million to the company during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that on refusal of 1st lowest bidder, the works were retendered.

The DAC in its meeting held on December 14 & 15, 2023 observed that due diligence was not performed by the management keeping in view the raising price trend and the request of 2nd lowest bidders were ignored and subsequently the contracts were awarded at much higher rates. DAC directed the management to inquire the matter at PPMC level and get the report finalized within a month. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

1.6.68 Irregular payment to consultants due to violation of PPRA Rules - Rs.11.44 million

As per Establishment Division O.M. 4/2/90-RI dated December 05, 1990, no reemployment beyond the age of superannuation shall be allowed except in very exceptional cases for which approval of Prime Minister would need to be detained. i) The Ministries / Division are advised not to initiate cases of re-employment of Civil Servant beyond the age of superannuation unless that is considered unavoidable due to non-availability of his replacement and the importance and sensitivity of the job. ii) Engagement of retired officers as Consultants / Advisor etc. shall require prior permission of the Government in variably i.e. Establishment Division in case of retired Civilian Officer. iii) As per PPRA Rules 20 the procuring agencies shall use open competition bidding as the principal method of procurement for good services and works.

During audit of Technical Services NTDC Lahore, two (02) officers were appointed / reappointed as advisors/consultants in TSG NTDC Lahore after superannuation on contract basis without prior approval / permission of Establishment Division, Government of Pakistan.

This was against the instructions of Establishment Division, Government of Pakistan and PPRA Act. 2004, which resulted in undue nepotism / favoritism to the retired officers on the cost of Authority. As such an amount of Rs.11.44 million on account of consultancy charges had been paid to the retired officers/consultants, which was quite unjustified.

Non-adherence to Government Instruction and violation of PPRA Rules resulted in irregular hiring of consultants and unjustified payment of Rs.11.44 million for consultancy charges during the Financial Years 2017-18 and 2021-22.

The matter was taken up with the management in March, 2023 and reported to the Ministry in June, 2023. The management replied that the application of PPRA Rules as observed by audit was not relevant as PPRA Rule No. 05 clearly stipulated that "whenever these rules are in conflict with an obligation or commitment of the Federal Government arising out of and international treaty or an agreement with a State or States, or any international financial institution the provisions of such international treaty or agreement shall prevail to the extent of such conflict." Approval of Managing Director NTDC was obtained for hiring of consultants on contract basis as per the nature of job, the instant case did not fall under the category of re-employment.

The DAC in its meetings held on August 26, 2023 directed the management to provide guidelines / documents of donor and get it verified from audit within 15 days. No further progress was reported till finalization of the report.

Audit recommends that the management needs to implement DAC's decision.

1.6.69 Irregular payment to contractor - Rs.11.01 million

According to instruction of Manager Material Management HESCO Hyderabad issued vide letter No. HESCO/MMM/P&P/192/18271-78 dated April 04, 2023 to the Chief Financial Officer and Project Manager regarding withheld/Stoppage of Payment of M/s Syed's Group Hyderabad.

During audit of GSC HESCO, M/s Syed Group Hyderabad failed to supply the required cell phones within stipulated time period against purchase order No. 02-0037 dated September 08, 2022. Moreover, the said contractor also breached the contractual obligation by cancelling the performance guarantee. Subsequently, instructions were issued on April 04, 2023 vide letter No. No. HESCO/MMM/P&P/ 192/18271-78 regarding withheld/stoppage the payment to said contractor. However, payment of Rs.11.01 million was paid to the contractor against his 1st running bill on May 31, 2023 on account of another work for construction of electrical equipment foundation, cable trenches and allied work at 132 kV Grid Station at Kunri.

Non-adherence to authority instructions/directions resulted in irregular payment to contractor of Rs.11.01 million during Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management replied that the payment was made to contractor on account of work done by the contractor in accordance with terms and condition of work order /contract agreement after concurrence of Manager Material Management who had no objection to process the payment of contractor.

The DAC in its meeting held on December 22 & 23, 2023 directed to inquire the matter at CEO level and submit report to Audit within 30 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.684/2023-24)

1.6.70 Loss due to mis-management in the tendering process - Rs.9.99 million

As per Clause 11.3 of Section-II (Instructions to Bidders) regarding documents establishing bidder's eligibility and qualifications, the documentary evidence to establish that the bidder / manufacturer has manufacturing / operational experience of material specified in this tender or of higher ratings as per Qualification & Experience Criteria mentioned in the Section-I (iv) anywhere in the field.

During audit of PMU MEPCO, a same tender for the procurement of 70 No. 11 kV Outgoing Panels 25KA, 630A under MEPCO's own resources was floated twice and opened on June 13, 2019 and August 29, 2019. In both cases, M/s. Pak Electron Limited (PEL) Lahore stand lowest offering the rate of Rs.1,168,000/- & Rs.1,400,000/- per Outgoing Panel respectively. As per bid evaluation report, award of purchase order was not made to M/s PEL by declaring it non-responsive due to un-satisfactory field performance and tenders were scrapped by the competent authority and called for re-tendering. Third time the same tender was floated and opened on September 20, 2019 and again M/s Pak Electron Limited (PEL) was 1st lowest bidder with offer rate of Rs.1,290,000/-. After evaluation, the Purchase Order amounting to Rs.105.651 million dated November 07, 2019 was issued to M/s. PEL, the same manufacture which was rejected twice due to un-satisfactory performance, at higher rates. Hence, MEPCO sustained a loss of Rs.9.99 million (Rs.1,290,000 – Rs.1,168,000 x 70 + Rs.1.45 million GST) due to mis-management in the tendering process and purchase of Outgoing Panels at exorbitant rate.

Non-adherence to the rules resulted in loss of Rs.9.99 million due to award of purchase order at higher rates ignoring the 1st lowest bidder in the first tender during the Financial Year 2019-20.

The matter was taken up with the management in July, 2020 and reported to the Ministry in November, 2020. The management replied that there were initially some issues in the 11 kV Panels supplied by M/s PEL in

MEPCO which were rectified by the firm and performance was satisfactory as per S.E. (GSO) Multan. However, no issues were highlighted by LESCO during evaluation.

The DAC in its meeting held on December 20 & 21, 2023 directed the management to inquire the matter and submit its report to audit within 30 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.324/2020-21)

1.6.71 Wastage of ERRA funds allocated for reconstruction of 60 KM, 33 kV Line Balakot to Naran – Rs.9.688 million

According to Para-III (1) of guidelines for enforcing the responsibility for losses sustained by the authority through fraud or negligence of individuals, 1982, "All losses, whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of Operation Circle Hazara-II PESCO, a 33 kV transmission line supplying electricity to Kaghan & Naran was damaged due to earthquake in 2005. A contract was awarded to M/s S.A Construction Peshawar on July 24, 2008 with estimated cost of Rs.8.228 million for reconstruction work on deposit basis through ERRA funds. The work was required to be completed within 365 calendar days which was extended up to May 21, 2010 on the plea that PESCO had not procured the accessories under ADB Loan. The contractor erected 880 HT structures without stringing of conductor and other installation. PESCO paid an amount of Rs.7.515 million to the contractor M/s S.A Construction (PVT) Peshawar for the erection of structures; however, further execution of work under the ERRA fund was stopped on the directions of Chief Engineer/Technical Director PESCO on September 28, 2021. Meanwhile Manager (MM) PESCO procured 189 KM ACSR Dog Conductor, but the material was not issued for completion of work and work remained incomplete. After ten years an inquiry committee was constituted on May 06, 2020 to probe the factual position regarding reconstruction of 60 Km 33 kV line. The committee visited the site of work and found that there were only 636 HT structures installed instead of 880 structures. Later on, a work order amounting to Rs.12.212 million was prepared by P&E in 2021 and work was completed in 2022 by bifurcating 11 kV Balakot feeder. The inquiry committee also proposed that the matter of stopping of work should further be investigated. It was pertinent to mention that the person who started and stopped the work was the same person holding charge of the posts of PD ERRA & Manager (Operation) Hazara Circle Abbottabad. The above scenario depicted that whole work was mismanaged and caused wastage of public resources.

Non-adherence to rules resulted in wastage of ERRA funds allocated for reconstruction of 60 Km, 33 kV Line Balakot to Naran – Rs.9.688 million up to the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in November, 2023. The management replied that the matter had been referred to the CEO PESCO Peshawar for conducting inquiry into the matter vide SE (ops) PESCO Hazara-II circle letter No. 12399 dated December 18, 2023. As and when the inquiry was completed, audit would be informed accordingly.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to submit revised detailed reply along with documentary evidence to audit within 15 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision and provision of inquiry report.

(Draft Para No.501/2023-24)

1.6.72 Non-clearance of punch list items and non-renewal of performance guarantee – Rs.9.310 million

According to Contract Agreement, “there is a Defect Liability Period (DLP) of 365 days during which the Contractor remains responsible for rectification of all the outstanding defects / punch list item”.

During audit of Project Directorate EHV-I NTDC, a work order was awarded to contractor to M/s Al-Hussain Traders Contractors on February 15, 2022. A MoU was signed on January 13, 2022 regarding clearance of DC grounding and DC mixing fault in 220V DC distribution with the contractor but neither the faults were cleared nor the punch list items were attended up till now. Furthermore, the performance guarantee submitted by the contractor was also expired on April 28, 2023.

Non-adherence to the contract agreement resulted in non-clearance of punch list items and non-renewal of performance guarantee up to Financial Year 2022-23.

The matter was reported to the management in June, 2023 and reported to the Ministry in November, 2023. The management replied that the observation is duplicate of PDP-495/2023-24, further the issues of DC grounding as per signed MOU on January 13, 2022 has been rectified. Final Retention Money of the contractor is available with this office, hence, no need to renew the performance guarantee.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the record verified from audit in support of reply within 15 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.492 /2023-24)

1.6.73 Irregular award of contract to the 2nd lowest bidder - Rs.8.83 million

As per Rule-2(f), Definitions, of Public Procurement Rules-2004, “corrupt and fraudulent practices” the action of a public official or the supplier or contractor in the procurement process or in contract execution to the detriment of the procuring agencies; or misrepresentation of facts in order to influence a procurement process or the execution of a contract, collusive practices among bidders (prior to or after bid submission) designed to establish bid prices at artificial, non-competitive levels and to deprive the procuring agencies of the benefits of free and open competition and any request for, or solicitation of anything of value by any public official in the course of the exercise of his duty.

During audit of GSC HESCO, a work order for construction of electrical equipment foundation cable trenches & extension of 11 kV Switch Room for 01 No. Transformer Bay and other allied work at 132 kV Grid Station Kohsar Hyderabad was issued to the 2nd lowest bidder i.e. M/s Zaidi's Group Hyderabad. The M/s Zaidi's Group's actually quoted bid price in the tender form was Rs.9.26 million but it was changed to Rs.8.83 million by tempering the bidding documents. Hence, the award of contract to the 2nd lowest bidder was irregular.

Non-adherence to the PPRA rules-2004 resulted in irregular award of contract to the 2nd lowest bidder valuing Rs.8.83 million during the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management replied that tender was opened on March 07, 2023 in the presence of bidder's representative, the readout price of M/s Zaidi's Group by bid opening committee was Rs.8.83 million. The contract was awarded to the lowest evaluated bidder declared by bid evaluation committee i.e. M/s Zaidi's Group Hyderabad at price of Rs.8.83 million.

The DAC in its meeting held on December 22 & 23, 2023 directed the management to inquire the matter and submit report to Audit within 30 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.626/2023/24)

1.6.74 Irregular award of work order for construction of transformer bay due to deficient bid evaluation – Rs.8.57 million

According to Para-2 (ii) & (iv) of advertisement for Tender No.09/2022-23, "Contractor who has completed same nature of work for the amount of Rs.3.00 million during the last five (05) years – Contractor to provide the performance certificate working with GSC GEPCO from concerned XEN's GSC GEPCO along with bid. As per Para-05 (ii) of the advertisement, "in addition to experience mentioned at Sr No.02, the bidder has to submit documents (same nature of work order) / company profile / bank statement showing 25% balance amount of work (for Tender-09) which prove that bidder has been involved in the Grid Station work for the last five (05) years and has sound financial position".

During audit of GSC GEPCO, a Tender No.09/2022-23 for construction of one (01) transformer bay along with allied works & extension of yard at 132 kV G/Station at Cantt Sialkot was opened on August 23, 2022. Scrutiny of Bid Evaluation Report and bid forms / documents submitted by the contractor revealed some of the following grave discrepancies / shortcomings & irregularities: -

- It was mentioned at Para-5.1 (iii) of Bid Evaluation Report (BER) that the firm had provided the copy of same nature of work order No.7158-61 for Rs.4.766 million issued by P.D GSC LESCO whereas no such work order was available in bidding documents submitted by the bidder. The work orders attached with the bids had not fulfilled the condition of completion of same nature of work of 03 million and within last 05 years, hence, violation of Para-2 (ii) of tender requirements was committed.
- In Para-5.1 (vii) of BER, it was observed that the firm had provided the company profile which did not demonstrate sound financial as well as technical knowledge and expertise; hence, bidding requirement at Para-05 (ii) could not be fulfilled.
- No performance certificate working with GSC GEPCO from concerned XEN's GSC GEPCO was found available with bid; hence, Para-2 (IV) of bidding requirement could not be adhered to.

Despite having such a grave departure to bidding requirements, the bidder was declared technically responsive in BER and work order amounting to Rs.8.57 million was awarded to M/s A. Rehman Construction Company Kasur on September 14, 2022.

Deficient bid evaluation resulted in irregular award of work order amounting to Rs.11.36 million to a contractor having no sound financial, technical knowledge and expertise during the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that the work order No. 7158-61 was available in contractor's profile. The word "not" was wrongly mentioned due to typing mistake and the convener of BER had signed the BER without the word "not". The firm first time participated in tender, therefore, there was no need of performance certificate from GSC GEPCO.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to submit revised reply to audit within a week and if the reply was not found justified by Audit, then hold an inquiry. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.293/2023-24)

1.6.75 Loss due to substandard civil work of pile foundation of tower and extra expenditure incurred thereof - Rs.8.29 million

According to Para-1 of Special Stipulations of work order dated November 09, 2015, "the work will be carried out strictly in accordance with the drawing / design / specifications, terms and conditions as laid down in the tender documents". According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of GSC GEPCO, a work order amounting to Rs.6.41 million for construction of pile foundations for tubular poles & ZM towers for 132 kV Sahowala – Gohadpur T/Line was awarded to M/s Zahid & Company on November 09, 2015, which was completed on January 15, 2016. After energizing the said T/Line in March 2022, the GSO division pointed out a major discrepancy of dangerously tilted foundation of one (01) SPG pole at location No.03. Accordingly, the GSC surveyed the site and proposed for installation of new SPG Pole with pile foundation at the same location with an estimated cost of Rs.7.09 million and civil work order was issued on March 03, 2023. Although disciplinary action against the then SDO Civil GSC & Civil Overseer was initiated on August 27, 2022 but outcome was not forthcoming from record. Moreover, no action was taken against the said contractor for substandard pile foundation civil work, which not only jeopardized the buildings & human life but also caused loss / wastage of Rs.1.20 million on account of construction cost of tilted foundation and extra expenditure of Rs.7.09 million to set right the bad workmanship.

Ineffective supervision of construction activities resulted in loss of Rs.1.20 million due to substandard civil work of pile foundation of tower and extra expenditure of Rs.7.09 million incurred thereof during the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that an inquiry committee was constituted on March 22, 2023 to probe the matter regarding slackness that caused the tilting of pile foundation constructed by M/s Zahid & Co.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to expedite the inquiry and submit its report to Audit within a month. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.218 /2023-24)

1.6.76 Undue favour to suppliers due to non-invoking risk & cost clause of purchase orders - Rs.7.32 million

According to Clause-9 (ii) of the Purchase Order, "if the supplier fails to deliver the stores of any consignment thereof within the specified delivery period, the purchaser shall be entitled to purchase the undelivered stores from elsewhere, without notice, at risk and cost of the supplier. According to Clause-11 (IV) of the Purchase Order, "on final rejection the Purchases shall have the right to purchase the rejected goods at the cost & expenses of supplier."

During audit of GENCO-II, two (02) purchase orders valuing Rs.14.19 million were awarded for supply of material to two different suppliers. However, the material valuing Rs.7.32 million was not delivered/rejected by inspection committee after inspection. Hence, as per the provision of purchase orders, the rejected/ undelivered material was required to be procured at the risk and cost of the supplier but the same was not done.

Non-adherence to the provisions of purchase orders resulted in undue favour to suppliers due to non-invoking risk and cost clause of contract amounting to Rs.7.32 million during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that in purchase order No.2097/T-1129, the firm had requested to release the partial payment against the goods/items accepted, hence, the amended P.O was issued. The rejected items were deleted by imposing penalty charges at the maximum 10% of total amount of un-accepted rejected items and remaining accepted items were taken on stock. As regards the P. O No.2345, the firm failed to execute the contract, therefore the remaining quantity of 85.5 M. Tons of Caustic Soda Liquid was got cancelled/deleted by forfeiting 10% performance security of Rs.793,260/-. Hence, performance security of undelivered material i.e. Rs.988,969/- (195,709 + 793,260) was forfeited.

The DAC in its meeting held on December 22 & 23, 2023 directed to inquire the matter at GHCL level and submit its report within 30 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.859/2023/24)

1.6.77 Un-justified payment due to incomplete and sub-standard civil work - Rs.7.02 million

According to Corporate Governance Rules Section (5) "The Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders"

During audit of CEO IESCO, a civil work was awarded for construction of an officer's residence Cat-III. The contractor did not complete the work as per BoQ. In order to complete the remaining work, an estimate of Rs.7.02 million was made. However, an inquiry was conducted in this context wherein it was recommended that contractor was required to complete the remaining work in all aspects within the defect liability period.

Non-adherence to rules resulted in un-justified payment due to incomplete and sub-standard civil work Rs.7.02 million during the Financial Year 2022-23.

The matter was taken up with the management in November, 2023 and reported to the Ministry in December, 2023. The management replied that an inquiry was constituted to probe into the matter regarding incomplete construction of officer Residence cat-III at 132 K/V G/Station Gujar. Contractor was found guilty and had been banned. However, re-inquiry was constituted which was under process.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to pursue the finalization of inquiry process and submit its recommendations to audit. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.1274/2023-24)

1.6.78 Irregular procurement of material – Rs.6.32 million

According to bidding documents and purchase order, it was specified that required material must be supplied from manufacturer Hunan XEMC Changsha Pumps works Co. Ltd, China and specification of material would not be deviated from original.

During audit of GENCO-II, a purchase order for procurement of spare parts circulating water pump was issued on March 18, 2021. But in goods declaration and commercial invoice, the name of manufacturer and specification required by employer was not mentioned. Furthermore, material was received without a warranty certificate. The acceptance of the material with such discrepancies was violation of the contractual clause and led to purchase of the substandard material which put the company into a loss to the stated extent.

Non-adherence to terms and condition resulted in irregular procurement of material valuing Rs.6.32 million during the Financial Year 2021-22.

The matter was taken up with the management in September, 2022 and reported to the Ministry in December, 2022. The management replied that in compliance to DAC's directives issued in its meeting held on December 30, 2022 to January 04, 2023, the CTO GHCL had submitted the report on February 26, 2023 and concluded that all the shipping documents were present in the file and during the study of the documents, a minor discrepancy had been found in supplier invoice and other documents as the manufacturer name was erroneously missing but Part Number and other information were present according to P.O specification. The G.D (Bill of Entry), Bill of Landing and Warranty certificate were present. The material was found new and seemed defect free.

The DAC in its meeting held on December 22 & 23, 2023 directed the management to get the compliance of DAC's directives issued in its meeting held on December 30, 2022 to January 04, 2023 verified from audit within a week. DAC in its said meeting directed the CTO GHCL to get the quality of material vetted as to whether it was up to the mark and specification or not and thereof submit report within 15 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.950/2022-23)

1.6.79 Irregular/Unjustified award of contract in violation of PPRA Rules - Rs.5.43 million

As per rule-42(B) of PPRA Rules 2020, “A procuring agency shall engage in this method of procurement only if, where the value of procurement is more than one hundred thousand Pakistani Rupee but does not exceed five hundred thousand Pakistani Rupee, the procuring agency may engage in procurement through request for three quotations from GST registered firms, original equipment manufacturers or authorized dealers, without resorting to bidding.

During audit of GSC TESCO, two (02) contracts for transportation, erection and installation of 20/26 MVA power transformer at 132 kV Grid Station Landi Kotal” and construction of 132 kV Grid Station Jamrud were awarded irregularly to M/S. Nimra & Company and M/S. Khyber International respectively on quotation basis instead of Tendering. Award of contract on quotation basis instead of open competitive bidding/ tendering process was violation of PPRA rules and needed to be justified.

Non-adherence to the PPRA Rules resulted in irregular/unjustified award of contract valuing Rs.5.43 million during the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in October, 2023. The management replied that the work orders were placed under PPRA rules 2004 clause 42 (C) (direct contracting) to complete the work on emergent basis.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to get the emergency fora approved from the authority as per the provisions of PPRA Rules and to get the record verified from audit in support of reply within 15 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC’s decision.

(Draft Para No.186/2023-24)

1.6.80 Undue favor extended in appointment of Deputy Director (Tariff) - Rs.4.94 million

According to the Section 10 of NEPRA Service Rules (NSR) that appointment to the various posts shall strictly be made on an All-Pakistan in accordance with the merit and provincial/ regional quotas prescribed by the Federal Government for announced vacancies from time to time except for the posts of Director and above which shall be filled in through promotion. The posts in each grade shall be considered separately for the purposes of allocation of prescribed merit and provincial/ regional quotas for which qualified candidates are not available shall be carried forward except for the posts in NSG-1&2, which may otherwise be filled on local basis.

During audit of NEPRA, Islamabad, it was observed that Mr. Muhammad Safdar joined NEPRA in 2002 as Computer Operator. Later, in 2015, NEPRA advertised the post of Deputy Director-Tariff against which Mr. Muhammad Safdar was selected against Punjab quota which was clear violation of NEPRA Service Rules. Moreover, advertisement stated the eligibility as 10 years post qualification experience, wherein the requisite qualification was CA/CMA/MBA (Finance). Mr. Safdar did MBA from Virtual University in 2010, therefore, his post qualification experience fell short by 05 years. Later on, Mr. Muhammad Safdar was promoted to the post of Director w.e.f. May 18, 2022 despite the fact that he did not have required experience and was not recommended

by Human Resource Department of NEPRA but promoted as Director by Authority in violation of NEPRA Service Rules.

Non-adherence to National Electric Power Regulatory Authority Service Rules resulted in undue favor amounting to Rs.4.94 million extended in appointment of Deputy Director Tariff by violating Provincial Quota and then promoting him without required experience up to the Financial Year 2021-22.

The matter was taken up with management in March, 2023 and reported to the Cabinet Division in June, 2023. The management explained that it has been decided to place the reported matter before the Authority, immediately.

The DAC in its meeting held on January 16, 2024 pended the para with the direction to NEPRA to share the findings of NEPRA Authority about instant case. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC's decision.

(Draft Para No.63/2023-24)

1.6.81 Irregular conversion of single cabin pick-up into double cabin - Rs.4.15 million

According to Rule-5(5) of Public Sector Companies Corporate Governance Rules-2013, "the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders".

During audit of TESCO, two (02) purchase orders dated September 27, 2022 and October 06, 2022 respectively were issued to M/s Razmak Industries for conversion of single cabin pick up into double cabin at a cost of Rs.4.15 million (Rs.2.07 million each). The original approval for purchase of single cabin was issued from management which was not produced at the time of execution of Audit. The single cabin was normally purchased with the contention to be used in the dispensation of official field duties. However, subsequently, the single cabin vehicles were converted into double cabin to facilitate the officers instead to be used in field.

Non-adherence to Corporate Governance Rules resulted in irregular conversion of single cabin vehicle into double cabin vehicle at a cost of Rs.4.15 million during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The Management replied that the said vehicles were purchased in order to facilitate TESCO employee in the performance of their official duties. Original double cabin pickups were expensive to the tune of Rs.3 million each; hence, an alternative solution as to the requirement had to be conversion of the single cabin vehicles into double ones from a standard firm in compliance of PPRA Rules keeping in view the financial position of the company, TESCO were unable to make payment to Toyota as they demanded advance amount against double cabin.

The DAC in its meeting held on December 14 & 15, 2023 observed that initially approval was sought from competent forum for single cabin for operational purpose and subsequently the same were converted without the approval of same forum. DAC also directed the management to take approval for conversion of vehicles from original competent forum and get the record verified from audit. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.825/2023-24)

1.6.82 Loss due to sub-standard work of boundary wall - Rs.3.78 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of CEO IESCO, a work for construction of boundary wall around IESCO was awarded to M/s Gulmeer & Sons vide work order No.672-78 dated February 14, 2018 amounting to Rs.8.06 million. The work was completed by the contractor and all the payment was released after fulfilling codal formalities. Thereafter, this boundary wall of IESCO collapsed during the rainfall at monsoon in July, 2022. Therefore, work order for reconstruction of the fallen / cracked boundary wall and duct for sewerage line was awarded to M/s Behram construction company vide work order No.4958-63 dated November 18, 2022 amounting to Rs.3.78 million.

Non-adherence to Corporate Governance rules resulted in extra expenditure amounting to Rs.3.78 million due to sub-standard work of boundary wall during the Financial Year 2022-23.

The matter was taken up with the management in November, 2023 and reported to the Ministry in December, 2023. The management replied that inquiry committee was re-constituted to probe into the matter regarding collapse boundary wall, vide Director (Confidential) IESCO office order dated September 04, 2023. Proceeding of inquiry committee was underway.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to pursue the finalization of inquiry process and submit its recommendations to audit. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.1275/2023-24)

1.6.83 Irregular award of contract by undue favour extended to the second lowest bidder - Rs.3.58 million

According to Clause-48(04) of PPRA Rules - Redressal of grievances by the procuring agency, "in case, the complaint is filed against the technical evaluation report, the Grievance Redressal Committee (GRC) shall suspend the procurement proceedings".

During audit of GSC MEPCO, a tender No.25/GSC (2022-23) for attending emergency work at tower location No.38 of 132 kV Transmission line from 500 kV Grid Station DG Khan – 132 kV Grid Station Shah Sadar Din (Break down) was issued. Two bidders i.e. M/s I.H. Malik and M/s AQ Construction participated and quoted Rs.3.63 million and Rs.2.80 million respectively. The bid evaluation committee (BEC) declared both the bidders technically and financially responsive. M/s A.Q Construction company was the lowest bidder but 2nd lowest bidder M/s IH Malik submitted his grievance to MEPCO Grievance Committee. The Grievance Committee observed that M/s A.Q Construction company was not technically responsive. Hence, the contract was awarded to the 2nd lowest

bidder M/s I.H Malik, which was irregular as the GRC should have suspended the procurement but they referred the case back to CEO and submitted two (02) proposals. The tender was awarded to the 2nd lowest bidder without the approval of CEO and concurrence of Technical Bid Evaluation Committee.

Non-adherence to PPRA Rules resulted in irregular award of contract amounting to Rs.3.58 million due to undue favour extended to the second lowest bidder during the Financial Year 2022-23.

The matter was taken up with management in August, 2023 and reported to the Ministry in December, 2023. The management replied that M/s. A.Q. Construction Company Kotri was technically non-responsive and there was no need to refer back the case to technical evaluation committee for concurrence. Furthermore, the work was awarded to responsive bidder after getting decision / approval from the GM (Tech) / CE (Dev) PMU MEPCO being competent authority.

The DAC in its meeting held on December 20 & 21, 2023 directed the management to get the record verified from audit within 15 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.1228/2023-24)

1.6.84 Loss due to sub-standard procurement of Isolators under Contract No. WOR-10 Lot-III - Rs.3.40 million

According to clause 2.4 Preventive Maintenance Program of SOP for grid system operation and maintenance, the responsibility of carrying out maintenance work always lies with the owner of the equipment, e.g., NTDC/DISCOs. The company is under an obligation to observe all the valid safety rules, technical rules/procedures and specifications. The specifications of maintenance work must be based on certain requirements, standards, specifications and the guidelines supplied by the manufacturer, local experience, etc.

As per Section 3, maintenance schedule and checks/tests of isolators/disconnect switches (bus bar and line) of SOP for grid system operation and maintenance should be done on yearly basis.

During audit of NTDC TSG (North) Lahore, six (6) Pinggao China make 245 kV isolators were procured under contract No. WOR-10 Lot-III amounting to Rs.3.398 million and installed in 2006 in 220 kV Grid station Nishatabad Faisalabad. As per SOP, the schedule and check test of Isolator should be done on yearly basis. Contrary to instructions, the TSG technical team visited grid station NTDC, Nishatabad Faisalabad for the inspection of isolator on July 15, 2020 after fourteen years. TSG department concluded that the six (06) isolators installed in 2006 got pre-mature degradation. In order to ensure system reliability and continuity of the electric supply, the team recommended allocation of the higher rating six (06) new isolators to the grid station.

Had the yearly inspection of grid system operation and maintenance been carried out by TSG department, the faulty isolators could have been pointed out to the manufacturer within warranty period and got replaced free of cost from the manufacturer and loss of Rs.3.40 million could have been avoided.

Non-adherence to the SOP or grid system operation and maintenance resulted in loss of Rs.3.40 due to non-replacement of faulty isolators within warranty period up to the Financial Year 2021-22.

The matter was taken up with the management in March, 2023 and reported to the Ministry in June, 2023. The management replied that as per the request of Deputy Manager 220 kV Grid station Nishatabad, Faisalabad,

the detailed inspection of 02 Line isolators and 04 Bus bar isolators installed at 220 kV Grid Station Nishatabad, Faisalabad was carried out by the CE TSG-N NTDC Lahore and it was recommended to replace the isolators.

The DAC in its meetings held on August 26, 2023 directed the management to conduct an inquiry and submit it to audit duly vetted by G.M (TS) PPMC within 30 days. No further progress was reported till finalization of the report.

Audit recommends that the management needs to implement DAC's decision besides fixing responsibility.

(Draft Para No.124/2023-24)

1.6.85 Irregular award of contract - Rs.3.330 million

As per tender document clause 17 "cutting/ overwriting/ using fluid on the bid is strictly prohibited and may tantamount to rejection of bid"

During audit of CEO MEPCO, a tender No.35/23 regarding supply of 1000 No. double arming bolts 14" three bidders/ suppliers were participated and M/s Malik & Sons was declared the lowest responsive bidder and work order awarded. During scrutiny of bidding documents, it was found that the bidder submitted bid at a cost Rs.299.00 per double arming bolts 14" but after cutting on per unit cost, it increased to Rs.333 per bolt and the same was accepted by the management in violation of the tender clause.

Non-adherence to the above rules resulted in irregular purchase order awarded to the contractor amounting to Rs.3.330 million during the Financial Year 2022-23.

The matter was taken up with the management in November, 2023 and reported to the Ministry in December, 2023. The management replied that tender was opened under single stage one envelope bidding procedure as per PPRA rule. The bid opening committee at the time of bid opening observed and noted the single line cutting on the bid whereas the same was signed & stamped by the bidder received in the sealed envelope. The tender opening committee went through the contents of the bid and no observation / objection was given by competitors / other bidders & they signed the comparative statement. The said bid is the lowest bid as well.

The DAC in its meeting held on December 20 & 21, 2023 directed the management to inquire the matter at G.M. (Tech) PPMC level and submit its recommendations to audit within 30 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.912/2023-24)

1.6.86 Non-award of Purchase Order to 1st lowest bidder and subsequent procurement of material having deficient shelf life from 2nd lowest bidder – Rs.2.796 million

According to Rule-36 (a), "each bid shall comprise one single envelope containing, separately, financial proposal and technical proposal (if any) and all bids received shall be opened and evaluated in the manner prescribed in the bidding document." According to description of material stated in tender documents "Chinamake material having minimum shelf life of 1.5 year" was required.

During audit of GENCO-II, Tender No. T-1287 for procurement of Sodium Hexameta Phosphate (China make having shelf life of 1.5 years), floated on single stage single envelop basis, was opened on January 01, 2021. In the said tender M/s Al-Noor Chemical Co. Karachi and M/s Atlantic Chemicals & Engineering Services, Lahore stood 1st lowest and 2nd lowest bidders respectively. However, after opening of tender, samples of the material to be offered were called from both the bidders. On the basis of sample analysis, the 1st lowest bidder was declared technically non-responsive and purchase order valuing Rs.2.796 million was issued to M/s Atlantic on June 15, 2022 with delivery period of 90 days. The said material was delivered on September 08, 2022, inspected on December 12, 2022 and taken on stock on January 18, 2023.

Audit held that the determination of technical responsiveness of bidders, through samples analysis, after opening of financial bids was irregular as the said process was not prescribed in the bidding documents. Further the material supplied by the 2nd lowest bidder was deficient of minimum required shelf life of 1.5 years as the expiry date stated in the Certificate of Analysis provided by manufacturer M/s Hubei Xingfa Chemicals Group Co. Ltd. China was September 07, 2023.

Non-adherence to the provisions of the tender documents resulted in irregular procurement of material having deficient shelf-life from the 2nd lowest bidding valuing Rs.2.796 million during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that placing of P.O to the 2nd lowest bidder was on technical grounds as the samples of demanded material of 1st lowest bidders was tested as 59% instead of 68% as per BoQ of tender whereas purity of 2nd lowest bidder was 68%, which met the requirement of BoQ.

The DAC in its meeting held on December 22 & 23, 2023 directed to inquire the matter at GHCL level and submit its report within 30 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.694/2023-24)

1.6.87 Irregular issuance of Purchase Order to non-responsive bidder - Rs.2.76 million

According to Rule-36 (a), "each bid shall be evaluated in the manner prescribed in the bidding document." According to Annex-B to Tender No. 1320, (i) offers not in conformity with the tender specification likely to ignored/ rejected; (ii) conditional offer shall not be considered/ accepted; (iii) the tenderers must indicate the validity period, which should not be less than 90 days from the date of opening of tender; (iv) offered rates will be inclusive of all Govt taxes and will be firm and final.

During audit of GENCO-II, tender No.1320 for procurement of 45 M.T Caustic Soda was opened on May 09, 2022. The only participated bidder i.e. M/s Ittehad Chemicals Limited offered conditional price with deficient bid validity period. Hence, in the light of provisions of tender documents, the bid was required to be rejected by declaring it as non-responsive. But contrary to this purchase order No.2335 valuing Rs.2.76 million was issued to the said bidder on July 01,2022.

Violation of the PPRA Rules and provisions of the bidding documents resulted in irregular issuance of purchase order to non-responsive bidder valuing Rs.2.76 million during the Financial Year 2022-23.

The matter was discussed with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that the bid validity of the only firm M/s. Ittehad Chemicals was 15 days instead of 90 days as per bidding documents which was subsequently extended on request of CPGCL for 30 days by the firm on the grounds of frequent enhancement in the prices of electricity, RLNG and Fuel which ultimately resulted in increase of price of material. The demanded material was procured from the said firm in the best interest of company to avoid the forced shutdown, which could cause the big generation loss.

The DAC in its meeting held on December 22 & 23, 2023 directed to inquire the matter at GHCL level and submit its report within 30 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.1227/2023-24)

1.6.88 Irregular award of contract to non-responsive evaluated bidder and undue favor for alteration in quoted bid price - Rs.2.35 million

According to PPRA Rules 29 Evaluation Criteria "procuring agencies shall formulate an appropriate evaluation criterion listing all the relevant information against which a bid is to be evaluated. Such evaluation criteria shall form an integral part of the bidding documents. Failure to provide for unambiguous evaluation criteria in the bidding documents shall amount to mis-procurement.

During audit of TESCO, tender for replacement of unhealthy 20/26 MVA Power Transformer & reconstruction of power transformer foundation at 132 kV Grid Station Landi Kotal District with estimated cost of Rs.2.40 million was opened on February 09, 2022 and M/s ASG Brothers Construction who quoted price of Rs.2.35 million was the lowest bidder. However, M/s ASG Brothers Construction was declared non-responsive due to non-experience as required under Notice Inviting Tenders (NIT). Despite being declared non-responsive, the contract was awarded to M/s ASG Brothers at a cost of Rs.2.35 million, despite the fact that M/s ASG in its submitted bid had quoted "less 15%" below on total amount" which comes to Rs.2.0 million. However, the same was altered through cutting which was tantamount to forgery. Thus, undue favour was also extended to the bidder through alteration in the quoted bid for an amount of Rs.0.35 million besides award of contract.

Non-adherence to PPRA Rules resulted in irregular award of contract to non-responsive bidder and alteration of quoted bid for an amount of Rs.2.35 million during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that the work was successfully and efficiently completed in the best interest of company.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to inquire the matter at PPMC level for award of contract to non-responsive bidder and alteration in the quoted rates. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.1047/2023-24)

1.6.89 Undue favour to the contractor in violation of PPRA Rules – Rs.2.12 million

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

During audit of PMU MEPCO, supply of 11 K.V/ 132 K.V lightening arresters, two firms purchased tender documents and put their rates for supply of above material. M/s EMCO Industries Lahore put rates for Sr. 2 (i) & (ii) and M/s Mutahir Metal works Lahore put both rates in Sr. No. 01 & 02. The technical evaluation committee declared both firms as responsive bidders. In financial evaluation, the committee declared M/s EMCO Industries Lahore as the 1st lowest bidder for Sr. No. 2 and M/s Mutahir Metal works Lahore the 2nd lowest bidder. As per comparative statement, M/s Mutahir Metal works Lahore was the 1st lowest responsive bidder (Sr. No. 2 (i) & (ii) by quoting price of Rs.20.176 million) but purchase order was issued to M/s EMCO Industries Lahore at higher rate and M/s EMCO provided only 02 items at Rs.22.30 million instead of entire material as per tender and M/s Mutahir metal would have provided entire material as per tender in Rs.22.48 million. Resultantly, MEPCO sustained a loss of Rs.2.12 million in violation of PPRA Rules.

Non-adherence to PPRA rules resulted in undue favour to the contractor in violation of PPRA Rules amounting to Rs.2.12 million during the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in December, 2023. The management replied that grievance filed by M/s Mutahir Metal Works was not genuine and the decision of financial evaluation committee was declared correct by MEPCO grievance redressal committee and consequently the contract was awarded to the most advantageous bidder and material had been delivered to MEPCO.

The DAC in its meeting held on December 20 & 21, 2023 directed the management to inquire the matter and submit its recommendations to audit within 30 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC’s decision.

(Draft Para No.1286/2023-24)

1.6.90 Irregular procurement through quotation - Rs.2.07 million

According to PPRA Rules Definition clause-g “Emergency” means natural calamities, disasters, accidents, war and operational emergency which may give rise to abnormal situation requiring prompt and immediate action to limit or avoid damage to person, property or the environment and according to PPRA Rule C Clause-V procurement in case of emergency could be made provided that the procuring agencies shall specify appropriate fora vested with necessary authority to declare an emergency.

During audit of TESCO, four (04) 8-meter leg extension for EG type tower (single) was procured against Purchase Order dated June 17, 2020 from M/s Specialist Group of Industries Limited valuing Rs.2.07 million through quotations instead of issuing tender. It was revealed that there was no emergency that material had to be procured through quotation. Therefore, procurement of four (04) 8-meters leg extension for EG type towers was irregular as material was procured through quotations.

Non-adherence to the provision of PPRA Rules resulted in illegal procurement through quotations valuing Rs.2.07 million during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that the procurement was made in extreme emergency as Energy Department of KPK was pressing hard for earlier completion of 132 kV transmission line from 132 kV Kohat grid Station to Kacha Pakka T/Off Point. The reply was not agreed to as in case of emergency, the approval was needed to be obtained from emergency FORA.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to get the emergency FORA approved from the competent authority as per provisions of the PPRA rules and get the record verified from audit. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.1053/2023-24)

1.6.91 Loss due to non-return of electrical material on loan basis by EPC contractor - Rs.1.55 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of EHV-II NTDC Hyderabad, a Contract No. WB-03-2019 for the Design, Supply, Installation, Testing and Commissioning of Augmentation works at 500 kV Grid Station (New) Multan & 220 kV Grid Station Vehari was awarded to M/s Ak-AY Elektrik Dis. Turkey on turnkey basis. During the execution phase, the contractor requested for electrical material on loan basis and subsequently the material was allocated. The EPC contractor did not return the electrical material valuing Rs.1.546 million despite laps of 10 months.

Non-adherence to guidelines resulted in loss due to non-return of electrical material on loan basis by EPC contractor Rs.1.55 million up to the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that the contractor had placed the Purchase Order of the loan-based material which would be delivered to NTDC's designated Warehouse and Audit would be informed, accordingly.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to pursue the matter and get the record verified from audit within sixty (60) days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.657/2023-24)

1.6.92 Irregular hiring of services of External Auditors without concurrence of Auditor-General of Pakistan

According to guidelines / letter dated January 02, 2002 issued by the Auditor-General of Pakistan in accordance with the provisions of Section 15(1) of the Auditor-General's (Functions, powers and terms and conditions of Service) Ordinance, 2001, the auditors should be appointed in consultation with Auditor-General of Pakistan and rotated after every 5 years. Instructions were issued in compliance of Finance Division's letter dated March 25, 1981.

During audit of DISCOs, GENCOs, NTDC, PPMC, PPIB, AEDB, CPPA-G, NEPRA, NPPMC and GHCL, it was observed that the services of external auditor were hired for statutory audit of the accounts of the companies. However, concurrence for the appointment of Chartered Accountant firm from o/o the Auditor-General of Pakistan was require to be obtained which was not done. Audit was of the view that the appointment of the external auditor without the concurrence of the Auditor-General of Pakistan was irregular / unjustified.

Sr. No.	Name of Company	Draft Para No.
1.	FESCO, GEPCO, GHCL, GENCO-I, GENCO-II, HESCO, IESCO, LESCO, MEPCO, PESCO, QESCO, SEPCO, TESCO, NTDC, PPMC, PPIB, AEDB, CPPA-G, NEPRA & NPPMC	1320, 1321, 1322, 1323, 1324, 1325, 1326, 1327, 1328, 1329, 1330, 1331, 1332, 1333, 1334, 1335, 1336, 1337, 1338 & 1340/2023-24

Non-adherence to the guidelines resulted in irregular hiring of services of External Auditors without concurrence of Auditor-General of Pakistan during the Financial Year 2023-24.

The matter was reported to the management and Ministry on December 29, 2023 but no reply was received.

Audit recommends that the management needs to look into the matter for justification.

1.7 Unsatisfactory Project Management

The companies undertake different mega projects comprising of a series of sub-tasks and works. Depending upon the complexity of the project, different works were executed either through company's own project offices or through collaboration with EPC contractors for delivery of specific goods / services / tasks. Based on their projected financial outlay, PC-1 form was formally made for these projects and their approval was sought from the relevant government forum. Generally, in DISCOs/NTDC, the projects are aimed at enhancing and improving the electricity transmission / distribution system and allied assets of the companies. These projects represent the strategic milestones which were set by the government for the attainment of desired goals and outcomes in the power sector.

Unsatisfactory project management refers to all such shortcomings and lapses on account of which the project could not be executed in a timely, transparent and efficient manner. Lack of project planning and poor feasibility led to projects getting stuck up during execution. Delays in finalization of project documents, allocation of land, timely arrangement of financial resources etc led to significant cost overruns for a subject project. On the other hand, myopic need / unrealistic growth assessment of the projects led to mere procurement exercises with surplus stock getting piled up in the DISCOs/NTDC.

During course of completion of project, as the requirement and cost of a project changed, the revision of the PC-1 was mandated which in many cases was not sought making the project expense irregular and void of due administrative sanction.

Moreover, project completion reports were delayed/not prepared for completed projects which implied that management could not objectively review whether the project had been executed in a successful manner, due processes adopted and envisaged benefits materialized or not.

On the above lines, audit has analyzed the issues of unsatisfactory project management in the DISCOs/NTDC/GENCOs, on a sample analysis basis to highlight the in-efficiencies, lack of transparency, irregularities and internal control lapses which are illustrated in the following paras:

1.7.1 Delay in achieving the financial / technical benefits due to non-execution of Lalian G/S Project - Rs.3,014.94 million

According to PC-I of 220 kV Lalian Grid Station along with In/Out Transmission Lines, the commissioning date of the G/S was set as June, 2013 with the certain financial / technical benefits comprising annual profit earning, reduction in system losses, reduction in overloading and increasing the voltage level at nearby grid stations and 132 kV transmission lines.

During audit of NTDC, a project comprising 220 kV Lalian Grid Station along with in/out Transmission lines was approved in PC-I with estimated cost of Rs.1581 million and commissioning in June, 2013. The project was to be financed through the ADB (MFF-I) Tranche-IV Loan No.3203. However, despite lapse of seven (07) years and closure of ADB loan, the project could not be executed just for want of acquisition of land. Had the said project been executed, annual profit earning of Rs.2,703.25 million, reduction in system losses amounting to Rs.311.69 million together with other technical / social and economic benefits (Annex-IX) could have been achieved as envisaged in PC-I.

Poor project management resulted in delay in achieving the financial / technical benefits amounting to Rs.3,014.94 million due to non-execution of Lalian G/S Project up to the Financial Year 2019-20.

The matter was taken up with the management on September 25, 2020 and reported to the Ministry on December 29, 2020. The management replied that three (03) sites were selected successively but could not be acquired due to land reserved for forest and litigation of land owners. Now the fourth site was under acquisition and construction of grid station would be started in February, 2021 with completion period of 12 months. Audit contended that non-acquisition of land even after elapsing a period of about eight years beyond the commissioning date of PC-I reflected poor project management.

The DAC in its meeting held on April 12, 2021 did not agree with the management reply and directed to submit revised reply duly signed by MD NTDC containing project wise break up with date of completion / commissioning, calculation of delay, time / cost overrun and its impact as per PC-I. The DAC in its meeting held on December 18 & 19, 2023 upheld the earlier decision. No further progress was intimated till finalization of the report.

Audit recommends that the management needs to inquire the matter regarding non-execution of Lalian G/Station project and delay in reaping the financial & technical benefits of Rs.3,014.94 million.

(Draft Para No.1313/2023-24)

1.7.2 Illegitimate expenditure undertaken beyond the approved scope of the project - Rs.1,572.042 million

According to Para-6.11 of Manual for Development Projects issued by Ministry of Planning, Development and Reform (Govt. of Pakistan), "Once PC-I is approved, the executing agency is required to implement the project in accordance with the PC-I. It has no authority to change and modify any approved parameter of the project on its own. If the sponsoring agency feels that the project could not be implemented in accordance with the approved parameters, a revised PC-I be submitted for approval of the competent forum immediately. No expenditure may be undertaken beyond the approved scope and cost of the project, and if done, it would be considered as illegitimate expenditure."

During audit of NTDC, the project "New 220 kV Bandala Grid Station (2x160MV PTs) with 10 KM 220 kV Gatti-Kala Shah Kaku D/C In/ Out Transmission Line" was approved by ECNEC. According to approved scope of PC-I, the existing site of 132 kV Bandala grid station was to be utilized for construction of 220 kV grid station and new 2 X 160 MVA transformers along with 10 KM transmission lines was to be constructed. But contrary to this, the site of 220 kV grid station along with length of transmission line were changed by NTDC on its own. Further, three (03) 160 MVA transformers against 02 were installed. The revision of approved scope of work without approval from the competent forum was irregular and expenditure of Rs.1,572.042 million in this regard cannot be termed as legitimate.

Violation of the provisions of Manual for Development Projects, issued by Ministry of Planning, Development and Reform (Govt. of Pakistan), resulted in illegitimate expenditure of 1,572.042 million on construction of New 220 kV Bandala Grid Station and transmission line.

The matter was taken up with the management on September 25, 2020 and reported to Ministry on December 29, 2020. The management replied that the new 220 kV Banda Grid Station was to be constructed in the existing premises of 132 kV Bandala Grid Station as per PC-I. Later on, at detailed designing stage, it was revealed that the new GS could not be accommodated in the existing GS and new site was selected accordingly. As per provisions of PC-I, two transformers were installed in 2014 but three bays were constructed to accommodate the future enhancement, hence the third one was installed in 2019 to meet the growing demand. Audit contended that the deviation from parameters / scope of the project as approved in PC-I and expenditure incurred thereon was against the government instructions.

The DAC in its meeting held on April 12, 2021 did not agree with the management reply and directed to submit revised reply. The DAC in its meeting held on December 18 & 19, 2023 upheld the earlier decision. No further progress was intimated till the finalization of report.

Audit recommends that the management needs to inquire the matter for illegitimate expenditure incurred in violation of instructions of Ministry of Planning, Development and Reform (Govt. of Pakistan) besides implementing DAC's decision.

(Draft Para No.1120/2023-24)

1.7.3 Un-necessary/excess purchase of earth rods – Rs.661.12 millions

According to Para-5 of WAPDA office memorandum dated January 17, 1978 on irregularities of purchases of stores and equipment, purchases should be made only of such items and in such quantities as are required for a specific work. In no case should these purchases be made for storing an item for indefinite period.

During audit of CEO IESCO, 147,224 HT/ LT Steel Structures and 511,032 Earth Rods were purchased during the period from February 2018 to September 2023 & November, 2019 to October, 2023 respectively for installation on different locations. It is worth mentioning here that one HT/LT Steel Structures required only one Earth Rod for earthing. Previously purchased Earth Rods were not installed at sites and NEPRA had already taken serious view on non-installation of earth rods. Therefore, the Purchase of 336,000 Earth Rods amounting to Rs.661.12 million in excess of requirement was unnecessary and unjustified.

Non-adherence to the authority's instruction/rules resulted in un-necessary/excess purchase of earth rods amounting to Rs.661.12 million up to the Financial Year 2022-23.

The matter was taken up with the management in November, 2023 and reported to the Ministry in December, 2023. The management replied that earth rods were purchased on the directions of NEPRA.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to investigate the excess purchase of earth rods at PPMC level and provide report to audit within 30 days. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC's decision.

(Draft Para No.1339/2023-24)

1.7.4 Loss due to defects in Mari-Guddu Gas Pipeline – Rs.243.48 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of GENCO-II, 27.54 GWH units valuing Rs.243.48 million were less generated during the period started from April 12, 2019 to July 17, 2019 due to pin-hole leakages from 20-inch dia 60 km long Mari-Guddu gas pipeline. However, neither the matter was investigated nor responsibility of loss was fixed.

Non-adherence to the Authority's instruction resulted in loss due to pin-hole leakages from gas pipeline amounting to Rs.243.48 million up to the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that the gas pipe line was installed in 1984-85 and useful time period of this line had expired. CPGCL successfully attended the pinhole leakages within shortest possible time and got the gas supply restored.

The DAC in its meeting held on December 22 & 23, 2023 directed the management to inquire the matter and submit its report within 30 days. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC's decision.

(Draft Para No.743/2023/24)

1.7.5 Irregular excess expenditure on SDG schemes - Rs.82.542 million

As per para-C (i) of Deposit work "Deposit work shall be undertaken only after getting full amount of sanctioned work. Estimate deposited with WAPDA, with an undertaking from the depositor to meet variation.

During audit of CEO FESCO, 152 SDG schemes with estimated cost of Rs.151.97 million were executed by incurring expenditure of Rs.234.38 million. Hence, an excess expenditure of Rs.82.542 million was incurred against the estimated amount. Further analysis of executed works revealed that ratio of excess expenditure was 41% to 111%. The excess expenditure was required to be regularized besides recovery from the sponsor, which was not done.

Non-adherence to rules resulted in non-recovery of excess expenditure on SDG schemes Rs.82.542 million up to the Financial Years 2021-23.

The matter was taken up with the management on October, 2023 and reported to the Ministry in November, 2023. The management replied that all the works were completed within permissible limits of + 10% and final position of the expenditure would be determined after completion/ capitalization of all works.

The DAC in its meeting held on December 20 & 21, 2023 DAC did not agree with reply of the management and directed to inquire the matter at Technical Director's level for fixing of responsibility within 30 days. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC's decision.

(Draft Para No.576/2023-24)

1.7.6 Loss due to inordinate delay in tendering process - Rs.60.58 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of NTDC, an inquiry committee was constituted by GM HR to probe into the matter of delay in tendering process of construction of boundary wall around 220/132 kV Electrode station Khipro, District Sanghar. While going through the inquiry report, it transpired that land for subject work was handed over to NTDC during January 2019. But the contract for construction of boundary wall was awarded during June 2022 with a delay of almost 41 months which caused not only time over run but the cost overrun was also observed to the tune of Rs.60.58 million (difference of cost of project due to retendering). Surprisingly, the committee after establishing

the facts relating to delay caused by different offices of NTDC had not recommended any responsibility/action against any office/officer. This state of affairs showed that an undue favour was extended by inquiry committee to the responsible at cost of loss to NTDC amounting to Rs.60.58 million.

Non-adherence to rules resulted in loss of Rs.60.58 million due to inordinate delay in tendering process during the Financial Year 2022-23.

The matter was taken up with the management in November, 2023 and reported to the Ministry in December, 2023. The management replied that the committee in its report had pointed out different offices/departments for major delays. However, it was also intimated by the inquiry committee that before fixing responsibility, it was important to take into account: i) The situation of the Covid-19 pandemic during 2020. ii) Lack of indigenous expertise by NTDC Project in Pakistan, and NTDC was mainly dependent on Owner's Engineer i.e., M/s Barqaab & M/s HATCH. iii) Lack of clarity among different stakeholders regarding scope of work. Furthermore, the implementation/ execution of 660kV Matiari-Lahore HVDC Line project was not effected in anyway by delay in construction of this boundary wall.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to re-inquire the matter at DMD level and submit report within 30 days. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC's decision.

(Draft Para No.954/2023-24)

1.7.7 Substantial loss to the company due to defective construction of transmission line Muzaffargarh - DG Khan by the contractor – Rs.48.95 million

As per SE GSO Letter No 8179-83/SCADA dated June 28, 2022, "it is pertinent to mention here that the discrepancies pertaining to new installed towers of new Muzaffargarh- DG Khan Transmission Line section (MD1, MD&, MD 11) along with one tower BR-2 if 132 kV Bahawalpur-AP East are on part of GSC." Moreover, SE (GSO) Multan intimated to PD GSC Multan vide NO 14622-27 dated December 23, 2022 that discrepancies were still exist.

During audit of GSC MEPCO, a work was awarded to M/s I.H Malik & Company, initially, at the cost of Rs.36.24 million vide work order No. 8194-98 dated April 08, 2015 and work was delayed at the part of company. Afterwards in 2018, an addendum-2 was issued by PD GSC Multan dated March 06, 2018, and its cost increased to Rs.48.95 million with direction to immediately start the work and complete within time. Sub Divisional Officer T/L, (C) reported that the site was handed over to the contractor M/s I.H Malik on March 16, 2018 and the same would be the date of commencement. In January, 2019, XEN (T&G) of PD GSC vide dated January 04, 2019 reported that the subject line had been completed and ready for patrolling to point out any discrepancy. After patrolling XEN SS&TL Division GSO Muzaffargarh clearly stated that M/s I.H Malik was not in a position to complete the job as per specifications and standard of MEPCO. Likewise XEN T&G division GSC Multan endorsed the discrepancies to the said contractor vide dated January 21, 2019. XEN SS&TL GSO Multan again requested to remove discrepancies on the above stated line work vide dated January 27, 2022. Despite, several correspondences and requests to the contractor, the defects were still there up to June, 2023. It is pertinent to mention here, that a fatal accident involving Muhammad Rashid, Assistant Line Man (ALM) SS&TL Muzaffargarh had also occurred due to these discrepancies on this line. An inquiry committee was constituted to probe the fatal accident as per directives of the MD PPMC Islamabad. In fact-finding report of the inquiry committee, they recommended at point-iv that high level technical inquiry committee be

constituted at MEPCO level to probe into the matter of irregularities as mentioned in the findings to fix the responsibility for poor quality of construction of 132 kV transmission line Muzaffargarh - DG Khan. All the deliberated situation apprehended that the contractor M/s I.H Malik did the low quality work and was unable to complete the job which not only put the lives of MEPCO line staff at risk but also financial loss of Rs.48.95 million due to defective work.

Poor mismanagement resulted in loss of Rs.48.95 million to the company due to defective construction by contractor up to the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that as per directions of GM (HR) PPMC a high-level technical committee was constituted vide CEO MEPCO O/O No. 1306/20176-80 dated December 20, 2022. The inquiry committee had done the inquiry. The progress achieved in this regard would be communicated to audit in due course.

The DAC in its meeting held on December 20 & 21, 2023 directed the management to get the record verified from audit within 15 days. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC's decision.

(Draft Para No. 434/2023-24)

1.7.8 Unjustified expenditure incurred on Surface Drainages already covered in original scope of work - Rs.47.21 million

According to Note-3 to Bill of Quantity of Contracts ADB-72R-2016 (Package-I, Lot-I), ADB-72R-2016 (Package-I, Lot-II) & ADB-72R-2016 (Package-II), for Civil Works, Erection, Testing and Commission at 220 kV Grid Stations at Chakdara, D.I Khan & Nowshera Substations, "Switchyard trenches shall be provided with gradual slope for proper disposal/ drainage of rain water keeping in view the safety of other equipment in the switchyard."

During audit of NTDC, the Contracts No. ADB-72R-2016 for Civil Works, Erection, Testing and Commission at 220 kV Grid Stations at Chakdara, D.I Khan & Nowshera were awarded to the contractors. However, there was no provision of "Surface Water Drainage" in the original scope of work of these contracts. According to Bill of Quantity of the said contracts, switchyard trenches were to be provided by the contractor with gradual slope for proper disposal / drainage of rain water. Hence, the drawings of the switchyard trenches were required to be prepared / amended by keeping in view the disposal / drainage of rain water. But contrary to this, the scope of work was increased by including separate Surface Drainages and amount of contracts were increased through variation orders amounting 47.21 million (Rs.13.51 million, 16.13 million & 17.57 million for Chakdara, D.I Khan & Nowshera Substations respectively). Since the contractors were required to construct switchyard trenches by accommodating the rain water too, inclusion of new component of surface drainages with financial implication of Rs.47.21 million was not justified. Had the drawings of switchyards trenches amended by taking into account the disposal of rain water, an amount of Rs.47.21 million could have been saved.

Non-revision / modification of drawings for switchyard trenches in the light of BoQ for accommodating rain water resulted in unjustified expenditure of Rs.47.21 million incurred on Surface Drainages at Chakdara, D.I Khan & Nowshera Substations up to the Financial Year 2019-20.

The matter was taken up with the management on September 25, 2020 and reported to the Ministry on December 29, 2020. The management replied that separate surface drainage was required in the grid stations for excess flow of rain water in order to protect the cables in the trenches. Audit contended that according to Note-3 to Bill of Quantity, the contractor was responsible for provision of switchyard trenches for proper disposal / drainage of rain water by keeping in view the safety of other equipment in the switchyard.

The DAC in its meeting held on April 12, 2021 did not agree with the reply and directed the management to provide detailed / revised reply. The DAC in its meeting held on December 18 & 19, 2023 upheld the earlier decision. No reply was furnished till finalization of the report.

Audit recommends that the management needs to inquire the matter of extra financial burden on public exchequer due to non-adherence to the provisions of Bill of Quantity besides implementing DAC's decision.

(Draft Para No. 1042/2023-24)

1.7.9 Loss due to payment of detention charges – Rs.42.01 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of MP&M, NTDC, Lahore, an amount of Rs.42.01 million was paid on account of detention charges due to late clearance of material from port. No action was taken by the management regarding delay in clearance of material and authority sustained a loss up to the stated extent.

Non-adherence to Authority's Guidelines resulted in loss due to payment of detention charges of Rs.42.01 million due to delay clearance of material from port up to the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management replied that detention charges amounting to Rs.42.01 million charged on NTDC against Consignment No. MPM-257, MPM-265 & MPM-275 due to plenty of technical & Non-technical obstacles. The delay in provision of the Bank and Consignee Endorsed Documents to CC&L office by the consignee delayed the Delivery Order (D/O) issued by shipping line and the clearance was delayed, resultantly. The delay was also caused due to Non-availability of Consignments Fund. The extra time spent in arranging reduced custom duty/taxes benefits from customs after filing GD.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to inquire the matter within 30 days. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC's decision.

(Draft Para No. 849/2023-24)

1.7.10 Irregular capital expenditure incurred /capitalized against projects ledger without inclusion and approval of project in PC-I - Rs.34.94 million

As per PBF-2 (Capital Expenditure Budget) of DISCOs Accounting Manual, concerned department assess the capital expenditure requirements for the next year. In order to assess the capital expenditure requirements of next year for the preparation of estimated capital budget, PC-I of DOP, ELR, STG and other projects along with other sources is issued by the concerned departments.

During audit of GSC LESCO, three (03) Civil Works amounting to Rs.34.941 million were executed relating to construction of Brick Masonry wall at 132 kV G/S DHA-T Sector and OPF Housing Society. The expenditure of these works was capitalized under these works and debited to GSO Directorate. However, neither these works of 132 kV Grid Station were included in PC-I of STG-7&STG-8 nor approval of construction of 132 kV G/S was accorded by the competent authority. Hence, in the absence of works in PC-I and approval from the competent authority, capital expenditure incurred and capitalized under project ledgers was irregular.

Non-adherence to Accounting Manual resulted in irregular capital expenditure incurred /capitalized amounting to Rs.34.94 million against projects ledger without inclusion and approval of project in PC-I up to the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in November, 2023. The management replied that the expenditure Rs.135.75 million on three works had incurred on account of “Miscellaneous/Construction of Boundary Wall / Leveling Dressing of Grid Station GSO Emergency Grid Station works and any unforeseen expenditure etc.” Moreover, the construction of said boundary walls was commenced after the approval of Competent Authority.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the record verify in support of reply within 15 days. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC’s decision.

(Draft Para No. 634/2023-24)

1.7.11 Loss due to non-recovery of rent on account of stringing T&P/Machinery from the contractor – Rs.7.45 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), “all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

During audit of Project Directorate EHV-I NTDC, Islamabad, stringing T&P/Machinery was handed over to five (05) contractors on rental basis in 2019 from NTDC store. A period of more than four (04) years was elapsed, but neither rental charges amounting to Rs.7.45 million were recovered from the contractors nor material was received back. Resultantly, the company sustained loss to the stated extent.

Non-adherence to the Authority’s Instruction resulted in loss of Rs.7.45 million due to non-recovery of rent on account of stringing T&P/Machinery up to the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in November, 2023. The management replied that NTDC had issued final notice to all four contractors for recovery of rental charges and T&P items cost. NTDC had sufficient amount of retention money/running invoices of the contract and would be adjusted against retention money.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to recover or adjust the rent and get the record verified from audit within thirty (30) days. No further progress was reported till

finalization
of
the report.

Audit recommends the implementation of DAC's decision.

(Draft Para No. 595/2023-24)

1.7.12 Loss due to unjustified payment to third party consultant - Rs.1.70 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (as amended up to January, 2014), "all losses whether of public money or of store, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of PMU FESCO, an amount of Rs.1.70 million was paid to M/s EnMasse (Pvt.) limited on account of consultancy services fee against contract agreement No. 9857 dated June 20, 2022 to decide the extension of time (EOT) case of M/S Pinggao Group China. The Pinggao Group China was entrusted for procurement of Design, Supply and Installation for conversion of existing Air Insulated Switch Gear from 66 kV to the level of 132 kV at four No. Grid Stations vide contract No. ADB-trench-III-FESCO-02-2015 re-tendering dated May 24, 2016 and the Project was delayed up to 243 days as per FESCO. Due to delay, the liquidated damages worth Rs.97.104 million was deducted from Pinggao Group China. As the contractor applied for extension of time, the case was forwarded to Board of Directors (BOD) for decision. BOD decided for hiring of third-party consultant to decide the extension of time case. As per direction, consultant M/s EnMasse (Pvt.) Limited was hired to decide the case for extension of time (EOT) and the case was decided by the consultant in favour of Pinggao Group China and the consultant completely negated the version of FESCO Management and decided that only 17 days delay occurred due to fault of FESCO Management instead of 243 days. Consultant recommended for extension of time (EOT). As per consultant's recommendations, BOD granted extension of time (EOT) which resulted in refund of LD to M/S Pinggao Group of China amounting to Rs.97.104 million. The whole case was decided in favour of contractor M/S Pinggao Group of China but the consultancy charges were paid from FESCO funds. Audit holds that the payment should have been made by the M/S Pinggao and the matter of payment to consultant should have been decided between FESCO and Pinggao before written agreement with the consultant. Due to payment to consultant, FESCO sustained loss of Rs.1.70 million which could have been saved with timely decision.

Non-adherence to the rules/regulations of the Authority resulted in Loss due to unjustified payment to third party consultant amounting to Rs.1.70 million during the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in November, 2023. The management replied that in order to settle EOT issue of contractor, third party consultant was hired on the recommendations of the BOD FESCO.

The DAC in its meeting held on December 20 & 21, 2023 DAC did not agree with reply of management and directed to inquire the matter at FD/ CFO FESCO level within 30 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 730/2023-24)

1.7.13 Irregular appointment of Project Director ERP- Rs.1.50 million

As per directions of establishment division, Government of Pakistan dated 08 March, 2011, Prime Minister has been pleased to direct that measures should be taken to authenticate degrees/certificates of all Federal Government Employees of respective Ministries/Divisions, their attached departments, subordinate offices and autonomous bodies under their administrative control. As first step, the degrees/certificates of employees of both Federal Government as well as autonomous/semi-autonomous bodies/corporations working in BPS-17 to BPS-22 may be got verified from the concerned universities and the HEC.

During audit of NTDC, Mr. Faisal Ahmed Hashmi was appointed as Project Director (ERP) NTDC with salary package of Rs.500,000/- per month in September, 2022. But the required experience certificates were missing at the time of evaluation/short listing of candidates and mentioned in evaluation sheet as well. The said candidate had not qualified interview even, but he was selected as Project Director (ERP), which needs justification.

Non-adherence to direction of establishment division resulted in irregular appointment of Project Director (ERP) costing Rs.1.50 million during the Financial Year 2022-23.

The matter was taken up with the management in June, 2023 and reported to the Ministry in December, 2023. The management replied that requisite missing documents i.e Educational Degrees & Experience Certificates of Mr. Faisal Ahmed Hashmi Project Director ERP, were available for verification of record.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to inquire the matter within 30 days. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC's decision.

(Draft Para No. 916 /2023-24)

1.7.14 Inordinate delay in completion of Mansehra Grid Station due to incomplete and delayed submission of Technical Data / Drawings

According to Clause-2.5 Section 6-Employer's Requirement, "the manufacturer/ supplier shall submit copies of all drawings and technical data to employer for approval within 30 days of the issuance of the Notification of Award.

During audit of NTDC, Notification of Award for turnkey Contract No. ADB-67R-2012 valuing CNY 65.86 million + Rs.172.90 million for design, manufacturing, supply, erection, testing and commissioning of 220 kV Substation Mansehra was issued to M/s Chint Electric Co. Ltd. on February 13, 2015 and subsequently contract was signed on March 13, 2015. The contractor was liable for furnishing all drawings and technical data to the employer for approval within 30 days of the issuance of Notification of Award. Contrarily, the contractor failed to adhere to the time lines for furnishing the drawings and technical data. The first submittal for SLD, equipment layout and section drawing were received on May 11, 2015 i.e. after elapse of almost 03 months. The contractor could not furnish complete drawings / data even after elapse of two years from the date of issuance of NOA as depicted by CE MP&M letter CE/MP&M/ DP/Dm-II/AM-I/26965-69 dated April 03, 2017. Resultantly, the said grid station could not be completed within its scheduled completion period. This scenario also put a question mark on the capability of the contractor for execution of turnkey projects.

Non-adherence to the contractual timelines for submission of drawings / technical data resulted in inordinate delay in completion of 220 kV Grid Station, Mansehra up to the Financial Year 2019-20.

The matter was taken up with the management on September 25, 2020 and reported to the Ministry on December 29, 2020. The management replied that it had been a practice of NTDC to include in contract a general blank timelines of approval for complete technical data / drawings (within 30 days from NOA), whereas the same was not followed being practically impossible. Audit contended that the contractor failed to adhere to contractual provisions regarding timely furnishing of drawings and technical data.

The DAC in its meeting held on April 12, 2021 did not agree with the reply and directed the management to provide detailed / revised reply. The DAC in its meeting held on December 18 & 19, 2023 upheld the earlier decision. No reply was furnished till finalization of the report.

Audit recommends that the management needs to inquire the matter regarding submission of incomplete and delayed drawings / technical data that caused inordinate delay in completion of project besides implementing DAC's decision.

(Draft Para No. 1040/2023-24)

1.7.15 Mis-procurement due to deficient bid evaluation and leakage of confidential bidding information of mega project of 600 KM Jamshoro-R.Y Khan T/Line and Grid Stations

According to Para 2.47 of ADB's Procurement Guidelines, "After the public opening of bids, information relating to the examination, clarification, and evaluation of bids and recommendations concerning awards shall not be disclosed to bidders or other persons not officially concerned with this process until the publication of contract award".

During audit of NTDC, a tender No.ADB-65-2010 for package-I & Package-II for 500 kV Transmission Lines 3rd Circuit Jamshoro-Moro-Daduto Rahim Yar Khan (600 km) and 500 kV Switching Station at Moro & extension works at existing 500 kV Substations at Jamshoro, Dadu& Rahim Yar Khan was opened on May 21, 2011 and May 23, 2011 respectively. A consultancy contract valuing Rs.435.92 million was signed with M/s NESPAK on March 06, 2010 w.e.f November 16, 2009, which was amended up to Rs.960.08 million. The Bid Evaluation Reports (BER) for both the Packages made by the NESPAK were sent to ADB on November 22, 2011, which were not approved by ADB due to discrepancies / deviations with ITB clauses, incomplete information and incomplete technical evaluation. The ADB during loan review mission on April 16-24, 2012 showed its grave concern over leakage of confidential information pertaining to BER, inconsistencies in BER, non-determination of non-conformities into major or minor deviations and application of conflict of interest and advised for supplementary BER. Accordingly the SBERs were prepared by NTDC but the SBER only for Package-II was submitted to ADB on July 02, 2012 which remained unapproved as the issues raised in original BER were still not fully addressed. Instead of addressing the same and providing the SBER of Package-I to ADB, the bidding process for package-I was annulled / scrapped unilaterally by NTDC on September 06, 2012 without seeking prior concurrence of ADB. After publication of the annulment of Package-I, ADB was apprised accordingly vide letter dated September 11, 2012 but astonishingly the same was withdrawn on the very next day i.e. September 12, 2012 abruptly by NTDC. Instead of going for post annulment concurrence of ADB, the NTDC now with changed stance conveyed its desire on September 12, 2012 for seeking concurrence of ADB for annulling of both the packages due to allegations of leakage of BERs and lot of presentations about transparency of BE process. This grave

contradiction on the part of NTDC was beyond comprehension. Without waiting for concurrence, Package-II was also annulled by publication on September 28, 2012 unilaterally by NTDC. The ADB vehemently rejected the NTDC's proposal for annulment and declared it mis-procurement due to systematic breaches in the confidentiality, NTDC's unilateral decision to cancel procurement of both the packages without seeking ADBs no objection, inconsistent application of ITB, NTDC's inability to provide clarification and issues pertaining to NTDCs approach to ITB.

Violation of ADB's Procurement Guidelines resulted in mis-procurement due to deficient bid evaluation and leakage of confidential bidding information of mega project of 600 KM Jamshoro-R.Y Khan T/Line and Grid Stations up to the Financial Year 2019-20.

The matter was taken up with the management on September 25, 2020 and reported to the Ministry on December 29, 2020. The management replied that the bidding process was declared as mis-procurement by ADB and advised to proceed for rebidding. As regards the annulment of the bidding process, the BoD NTDC had constituted an inquiry committee vide notification dated November 11, 2012. Audit contended that documentary evidence for fixing responsibility upon the delinquents causing mis-procurement was needed to be furnished.

The DAC in its meeting held on April 12, 2021 directed the management to provide detailed / revised reply. The DAC in its meeting held on December 18 & 19 upheld the earlier decision. No reply was furnished till finalization of the report.

Audit recommends that the matter needs to be inquired at Ministry level for fixing responsibility regarding mis-procurement laden with the said grave issues afflicting the bidding process of ADB65-2010. Moreover, the management also needs to implement DAC's decision.

(Draft Para No. 1116/2023-24)

1.7.16 Non-preparation of revised PC-I(s) for cost overrun projects

According to Para 6.13 of the Manual for Development Projects (Revised 2019) of Ministry of Planning, Development and Reform, Government of Pakistan, "as per the direction of the ECNEC, if the project cannot be completed with 15 per cent increase in the cost, the executing agency should immediately prepare the revised PC-I and submit for approval of the competent forum".

During audit of NTDC, seven (07) projects comprising Transmission Lines/Grid Stations were executed under MFF-I ADB Loan. The actual cost incurred on the said projects remained more than 15% of the cost approved in PC-I. However, revised PC-I(s) were not prepared for approval of Planning Commission. The detail is as under:-

Sl. No.	ADB Loan No.	Tranche No.	Description of Projects	PC-I	Capitalized cost	Increase in cost	%age Increase
			New 500 kV D.G. Khan G/S with T/Lines	467	10052.64	5585.64	125.04
			New 220 kV Rohri G/S with T/Lines	877	7285.21	2438.21	30.90
3311	28462289	III	220 kV transmission line from the GHAZI Breda substation to the Muzaffargarh substation.	533	698.79	165.79	31.11
			and (ii) In/Out arrangement between the Udh-Expansion plant and Muzaffargarh 500 kV power plant	508	3234.12	726.12	28.95
			New 220 kV transmission line for 220/132 kV G/S	1007	1504.12	497.12	49.37
				050.27	1580.53	675.53	74.64

Non-adherence to Manual for Development Projects resulted in non-preparation of revised PC-I(s) in respect of the projects having cost increased beyond 15% than original PC-I up to the Financial Year 2019-20.

The matter was taken up with the management on September 25, 2020 and reported to the Ministry on December 29, 2020. The management replied that in past, there had been no practice of preparing revised PC-I of any project(s), however recently it had been made necessary to revise the same where applicable and would be complied in future. Audit contended that being a mandatory requirement of Planning Commission, the PC-I(s) was needed to be revised, where the cost of the projects increased by more than 15%.

The DAC in its meeting held on April 12, 2021 did not agree with the management reply and directed to submit revised reply. The DAC in its meeting held on December 18 & 19 upheld the earlier decision. No reply was furnished till finalization of the report.

Audit recommends that the management needs to inquire the matter regarding non-preparation of revised PC-I(s) besides ensuring their preparation and submission to Planning Commission expeditiously. Moreover, the management also needs to implement DAC's decision.

(Draft Para No.1139/2023-24)

Concluding Recommendations

Project management is a reflection of the professionalism with which the relevant field experts can carry out mega assignments. The above-mentioned shortcomings in project management reflect poor institutional work of the company and imply that the company's long-term targets envisaged through such projects were not being achieved. It is proposed that the ministry may look into the project-based shortcomings to identify control lapses and facilitate improvements in the project work of the companies.

1.8 Theft / Misappropriation / Fraud

As in any organization, theft, misappropriation or fraud incidents highlight material lapses and failures present in the respective organization. The subject issue indicates malpractices existing in the concerned organization, causing the financial losses as well as being a source of significant operational in-efficiencies.

In the following paras, audit has stated on a sample test check basis its findings on the issue.

1.8.1 Loss due to embezzlement of funds / material - Rs.1,579.48 million

According to instructions issued by WAPDA dated July 17,1982 all losses whether of public money or of stores shall be subjected to preliminary investigation by the officer in whose charge they were to fix the cause of the loss and the amount involved.

During audit of DISCOs, it was observed that funds and material amounting to Rs.1,579.48 million were embezzled by the official(s)/officer(s). In most of the cases departmental inquiries were concluded and certain responsibilities / penalties were fixed upon the delinquents whereas in some cases the matter was under investigation in FIA and NAB. However, neither the funds / material were recovered nor the recovery of penalty amounts was forthcoming from record. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	Amount (Rs.in million)
1	FESCO	1143/2023-24	0.72
2	GEPCO	281,528,667 & 803/2023-24	37.79
3	IESCO	944/2023-24	2.66
4	HESCO	779/2023-24	1,534.65
5	NTDC	981/2023-24	3.66
TOTAL			1,579.48

(Source: DISCOs Disciplinary / Inquiry Files)

Non-implementation of recommendations of the inquiry reports resulted in no-recovery of embezzled amount of Rs.1,579.48 million as well non-initiation of disciplinary actions against the delinquent (s) during the Financial Year 2022-23.

The matter was taken up with the management during October to November, 2023 and reported to the Ministry during November and December, 2023. The management replied that the departmental inquiries were conducted and legal course of action was taken. The disciplinary proceedings and charging of penalties were either completed or under process. It was added that in few cases, the recovery was effected from the employees.

The DAC in its meeting held on December 14-23, 2023 directed the management to get the record of completed action verified from audit, expedite the remaining cases vigorously as per SOPs and finalize the inquiries within 30 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

1.8.2 Loss due to theft of electrical material - Rs.461.83 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of DISCOs, it was observed that electrical material valuing Rs.461.83 million was stolen by unknown culprits in 980 cases. Though FIRs were lodged with the concerned police station(s) but no administrative inquiry / action was carried out / finalized for fixing responsibility and deciding the fate of loss. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	No. of cases	Amount (Rs.in million)
1.	FESCO	78,88,159,534,972 & 1145/2023-24	183	33.08
2.	GEPCO	39,254,357 & 688/2023-24	91	29.83
3.	HESCO	685 & 793/2023-24	12	4.71
4.	IESCO	141, 223 & 229/2023-24	50	10.19
5.	LESCO	333, 647, 878 & 933/2023-24	103	49.86
6.	MEPCO	285, 305, 435, 652 & 926/2023-24	179	94.06
7.	PESCO	208, 400 & 549/2023-24	107	53.82
8.	QESCO	07, 318, 424, 428, 432, 456 & 1033/2023-24	202	132.73
9.	SEPCO	15, 236 & 586/2023-24	23	17.91
10.	TESCO	191/2023-24	6	1.50
11.	NTDC	578 & 980/2023-24	24	34.14
TOTAL			980	461.83

(Source: Progress Reports of Formation)

Non-adherence to rules for safeguarding the companies' assets resulted in loss of Rs.461.83 million up to the Financial Year 2021-23.

The matter was taken up with management during March to April, 2023 & August to November, 2023 and reported to the Ministry in June, 2023 & October to December, 2023. The management replied that FIRs were lodged and departmental action was either completed or under process.

The DAC in its meeting held on August 26, 2023, September, October 9, 2023 and December 14-23, 2023 directed the management to pursue the FIRs and inquire / expedite the departmental proceedings and submit its

report to audit within 30 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC’s decision besides fixing responsibility.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No. 1.8.1 having financial impact of Rs.180.41 million. Recurrence of same irregularity is a matter of serious concern.

1.8.3 Misappropriation of electrical material / fuel & funds - Rs.311.09 million

According to Section-III (1) of WAPDA guidelines for enforcing responsibility for losses due to fraud, theft or negligence of individuals, 1982 (amended up to January 2014) “All losses whether of public money or of stores shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

During audit of DISCOs, it was observed that electrical material, fuel and funds amounting to Rs.311.09 million were misappropriated by the officers/officials. In most of the cases departmental inquiries were concluded and certain responsibilities / penalties were fixed upon the delinquents whereas in some cases the matter was under investigation in FIA and NAB. However, neither the material/funds were recovered nor the recovery of penalty amounts was forthcoming from record. The detail is as under:

Sr. No.	Name of Formation	Draft Para No.	No. of Items	Amount (Rs.in million)
1.	GEPCO	279 & 862/2023-24	84	119.26
2.	HESCO	778/2023-24	2	25.21
3.	IESCO	222/2023-24	3	5.46
4.	LESCO	880, 902/2023-24	2,186	101.62
5.	MEPCO	319 & 896/2023-24	17	22.97
6.	PESCO	299, 302, 507/2023-24	31	21.26
7.	QESCO	871/2023-24	0	4.56
8.	SEPCO	583/2023-24	0	10.75
Total			2,323	311.09

(Source: Correspondence files of formation)

Non-adherence to Authority’s instruction / guidelines resulted in misappropriation of electrical material/POL/funds amounting to Rs.311.09 million up to the Financial Year 2022-23.

The matter was taken up with the management in August to October, 2023 and reported to the Ministry during October to December, 2023. The management replied that the departmental inquiries were

conducted and legal course of action was taken. The disciplinary proceedings and charging of penalties were either completed or under process. It was added that in few cases the recovery was effected from the employees.

The DAC in its meetings held on December 14, 2023 to December 23, 2023 directed the management to get the record of completed action verified from audit, expedite the remaining cases vigorously as per SOPs and finalize the inquiries within 30 days. As regards QESCO, the DAC also directed to re-examine the inquiry recommendations by CEO and take strict disciplinary action within 30 days. The DAC directed the management of SEPCO to expedite the disciplinary action and Special Audit be conducted by Internal Audit within 30 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC’s decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No. 1.8.2, 1.8.3, 1.8.5, 1.8.6, 1.8.7, 1.8.10 having financial impact of Rs.28.33 million. Recurrence of same irregularity is a matter of serious concern.

1.8.4 Loss due to theft of electricity – Rs.236.13 million

According to Guidelines for Policy and Procedure on Detection Bills circulated vide letter dated October 26, 1999, “whoever found to connect his installation appliances and apparatus for the purpose of supply of energy without its (with the work of license) written consent commits an offence to be prosecuted under Section 39 & 39A of Electricity Act, 1910 which requires FIR to be lodged with police. Further to compensate the loss sustained on account of theft, assessment bills were to be served as per laid down procedures to such illegal and unregistered consumers”.

During audit of DISCOs, it was observed that an amount of Rs.236.13 million was recoverable from 4,485 consumers involved in theft of electricity through illegal direct connections, tempering in meters and bogus installation of meters. Departmental and legal actions were neither taken nor finalized for fixing responsibility and recovery of the energy charges. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	No of Consumers	Amount (Rs.in million)
1.	FESCO	170 & 173/2023-24	360	10.48
2.	HESCO	816 & 820/2023-24	05	5.87
3.	IESCO	1101 & 1103/2023-24	16	14.35
4.	LESCO	337,882 & 907/2023-24	2,209	137.52
5.	MEPCO	304/2024-24	1,761	54.71
6.	PESCO	708/2023-24	134	13.20

TOTAL	4,485	236.13
--------------	--------------	---------------

(Source: Monitoring and Testing (M&T) / Surveillance & Investigation (S&I) Reports of DISCOs)

Non-adherence to the instructions resulted in loss of Rs.236.13 million due to theft of electricity up to the Financial Year 2022-23.

Audit is of the view that theft of electricity was serious issue for all DISCOs and needs strong remedial measures in collaboration with all stakeholders enabling the DISCOs to reduce their losses.

The matter was taken up with the management during August to November, 2023 and reported to the Ministry during October to December, 2023. The management replied that efforts were being made for recovery from responsible persons and departmental as well as legal proceedings were under progress.

The DAC in its meeting held on December 14-23, 2023 directed the management to get the record of completed action verified from audit within 15 days and expedite the pending actions. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No.1.4.8 having financial impact of Rs.1,795.29 million. Recurrence of same irregularity is a matter of serious concern.

1.8.5 Fraudulent issuance of salary slips to retired and ghost employees -Rs.5.24 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of CEO QESCO, it was observed that the salary slips valuing Rs.5.24 million were issued to retired and deceased employees fraudulently during the Financial Year 2022-23. The Management Information System (MIS) of QESCO maintains and updates Human Resource Database of all employees and generates salary slips in order to make payment to employees. This database was being updated when concerned formations submit Up-dation Form regarding status of employment (on Retirement / Death / Resignation of employees), the same was not done. Moreover, MIS did not maintain the credentials like (data of birth, date of joining and length of service) of employees in salary slips, which was a serious irregularity.

Non-adherence to provisions of guidelines resulted in fraudulent issuance of salary slips to retired and ghost employees Rs.5.24 million.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that the names of employees mentioned in the audit observation were not ghost employees. They all were QESCO employees appointed as per rules. Further, no extra payment on account of salary was made to those employees after their retirement. The names from pay bills issued by MIS were deleted by the DDO before payment of salaries.

The DAC in its meeting held on December 22 & 23, 2023 directed the management to inquire the matter immediately under the TORs prepared by audit and share the inquiry report within 60 days. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC's decision.

(Draft Para No. 869/2023/24)

1.8.6 Loss due to illegal installation of transformers of higher capacity against stolen transformers of tube well consumers without fulfilling codal formalities – Rs.2.17 million

According to instructions issued by WAPDA dated July 17,1982 all losses whether of public money or of stores shall be subjected to preliminary investigation by the officer in whose charge they were to fix the cause of the loss and the amount involved.

During audit of CEO FESCO, two (02) transformers of 100 kVA & 25 kVA of tubewell consumers bearing Reference No. 29-13171-301800 & 29-13171-3917104 were installed against stolen transformers of 50 kVA & 15 kVA. However, codal formalities regarding registering of FIRs against theft of said transformers and obtaining approval for installation of new transformers of higher capacities as well as effecting recovery of capital cost were not fulfilled. Resultantly, the company sustained loss in shape of theft as well as installation of new transformers, without effecting capital cost amounting to Rs.2.17 million.

Non-adherence to the instructions of authority resulted in loss of Rs.2.17 million due to illegal installation of transformers of higher capacity against stolen transformers of tube well consumers without fulfilling codal formalities during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that after inquiry, the disciplinary proceedings against the delinquents had been initiated.

The DAC in its meeting held on December 20 & 21, 2023 directed the management to re-inquire the matter by focusing source of provision of higher capacity transformers installed against stolen transformers of lower capacity. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC's decision.

(Draft Para No. 1144/2023-24)

1.8.7 Fraudulent practice of M/s Chint Electric Company Ltd

According to Clause-1.14 of Asian Development Bank Procurement Guidelines, "fraudulent practice" means any act of omission, including a misrepresentation, that knowingly or recklessly misleads, or attempts to mislead, a party to obtain a financial or other benefit or to avoid an obligation."

During audit of NTDC, it came to notice that M/s Power Grid Company of Bangladesh had requested the NTDC vide letter 01/PGCB/CE (PnD)/2014/6971 dated December 08, 2014 to verify the authenticity of end user certificates regarding Rohri Grid Station (ADB-41-2009) furnished by M/s Chint Electric Co. Ltd. China while

participating in bidding process in Bangladesh. But no response was given to M/s Power Grid Company of Bangladesh. Later on, while replying to the email of Corporate Research and Investigation (Pvt) on January 19, 2018, one of the end user certificate, already requested for authentication by M/s Power Grid Company of Bangladesh, was found fictitious and bogus. This clearly depicted that M/s Chint Electric Company was involved in “fraudulent practice” and needed to be proceeded against in the light of ADB’s procurement guidelines. Had the authenticity of the end user certificates been probed in 2014 by responding to the request of M/s Power Grid Company of Bangladesh and action taken in the light of ADBs procurement guidelines for indulging in fraudulent practice of M/s Chint Electric Company Ltd, the subsequent NTDC Contracts i.r.o ADB-67-R-2014 & ADB-65R-Package-II could not have been awarded to M/s Chint Electric Company Ltd. Moreover, after establishment of corrupt practice of M/s Chint Electric Co. Ltd. neither the matter was reported to ADB, nor any action was taken by NTDC against the said contractor.

Non-adherence to the ADB Procurement Guidelines resulted in fraudulent practice of M/s Chint Electric Company Ltd. up to the Financial Year 2019-20.

The matter was taken up with the management on September 25, 2020 and reported to the Ministry on December 29, 2020. The management replied that the work against Contract ADB-41-2009 was completed by the contractor before the receipt of letter for verification of authenticity of end user certificate from Power Grid Company of Bangladesh. Further, the works were awarded to M/s Chint with bona-fide intentions and there was no information to the contrary available with NTDC to decide otherwise. Audit contended that verification of end user certificate was not carried out in time. Further, after establishment of corrupt practice of M/s Chint Electric Co. Ltd. neither the matter was reported to ADB, nor any action was taken by NTDC against the said contractor.

The DAC in its meeting held on April 12, 2021 did not agree with the reply and directed the management to provide detailed / revised reply. The DAC in its meeting held on December 18 & 19, 2023 upheld the earlier decision. No further progress was reported till finalization of the report.

Audit recommends that the management needs to inquire the matter regarding non-responding to request of M/s Power Grid Company of Bangladesh for the authenticity of end user certificates of Rohri Grid, which later on, turned out to be fake and non-reporting the matter to ADB for appropriate action besides rechecking the bidding information / documents provided by M/s Chint in all the awarded contracts. Moreover, the management also needs to
implement
DAC’s decision.

(Draft Para No. 1179/2023-24)

Concluding Recommendations

Audit recommends strict actions against those responsible besides expediting recovery identified in the above paras in pursuance of DACs’ decisions.

1.9 Unsatisfactory Management of Foreign-Aided Loan Initiatives

Despite financial constraints, the Government of Pakistan was actively engaged in making improvements in the working of the power sector enterprises through donor funded programmes. The loans were acquired from the donor agencies (such as the ADB, World Bank, JICA etc.) after detailed working of the tasks to be performed through such funding and envisaged benefits to be attained. In NTDC and GENCOs, key objectives of these

programmes were enhancement and modernization of the National Transmission Grid and development of new and more efficient power plants respectively.

In this context, audit observed under-utilization of loans due to lack of proper planning and delayed execution of projects. Resultantly, envisaged benefits from the donor-funded program could not be fully achieved. The project management also could not adequately resolve bottlenecks faced during execution of the projects. Delayed material procurements, design flaws, delays in tendering processes and right of way problems contributed towards the slow execution of projects causing under-utilization of donor funds.

Moreover, overall donor-funded package was linked with commitment charges payable to the donor agency. The borrower i.e. “the power sector entities” committed that they had demand for and would seek a certain amount of loan over a specified period of time from the donor. The donor agency then made arrangements for availability of such loan on defined timelines as agreed with the borrower and charged commitment charges accordingly. Due to poor planning and over-estimations, extra funds were sought from the donor which were eventually never drawn and utilized. Resultantly, commitment charges were paid to the donor for the whole loan amount causing extra financial burden on the companies.

Another indicator of unsatisfactory loan-management was poor utilization of material acquired through the donor-funded programme. In a few instances, either excessive material was procured or procurement was made well in advance without proper timelines for the utilization of the said material. Warranties of material got lapsed and shelf-life diminished without drawing any benefit from these assets. The same indicated poor material management / procurement on part of the management towards carrying out a donor funded initiative.

On the above lines, audit has analyzed the issue of unsatisfactory management of Foreign-Aided Loan initiatives in NTDC and GENCOs on a sample basis to highlight shortcomings observed which are illustrated in the following paras:

1.9.1 Less/under-utilization of loan -Rs.68,344.866 million

According to agreement signed on February 12, 2014 Loan No.3092-PAK & 3090-Pk amounting to US \$ 658 million & 26.400 million between ADB and Govt. of Pakistan for Jamshoro Power Generation Project.

According to PC-I (infrastructure sectors) clause-4 (iv) “the present plan for addition of 2x660 MW Coal fired Capacity at TPS Jamshoro has been prepared to meet the shortage of generating capacity and to avoid load shedding in the country in near future. The project also aims to reduce the cost of power by use of a lower cost fuel and consequently the quantum of circular debt.”

During audit of GENCO-I, funds of US \$ 26.400 million & US \$ 658 million were allocated to Jamshoro Power Generation Project under Loan No.3092-PK & 3090-PK respectively to facilitate the project. However, the management was unable to use funds amounting to US \$ 11.646 million & US \$ 227.33 million as on June 30th 2023 which was 44.11% & 34.55% respectively of total loan amount. Due to un-satisfactory utilization of these funds US \$ 238.976 million (Rs.68,344.866 million) planned objectives of the Loan No.3092-PK & 3090 PK could not be achieved. Delay in completion of project was also loss in the shape of not getting benefits and huge inflation/fluctuation in exchange rate.

Non-adherence to loan agreement between ABD and Govt. of Pakistan resulted in under-utilization of funds available at the disposal of JPCL amounting to Rs.68,344.866 million during Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that less utilization of ADB loan 3090-Pak was due to unavoidable circumstances including inadvertent delay in bidding process due to absence of finance for 2nd unit, relocation of CMS, Covid-19, change in design of T/line by NTDC, ash pond issues and non-injection of equity by GoP. As regards ADB Loan 3092, the amount allocated for consultancy services had been fully utilized and further would be re-appropriated from capacity development allocation to meet the consultancy expenses till completion of project. An inquiry committee was constituted by Ministry of Energy (Power Division) on December 29, 2020 to probe the delay, further progress achieved would be informed to audit accordingly.

The DAC in its meeting held on December 01 & 02, 2023 wherein the management was directed to provide evidence regarding justification for delay of utilization of loan for verification within three days. The DAC in its meeting held on December 22 & 23, 2023 upheld its earlier decision. No further progress was intimated till the finalization of report.

Audit recommends the implementation of DAC's decision.

(Draft Para No. 377/2023-24)

1.9.2 Non-payment of interest on foreign relent loans - Rs.11,359.50 million

According to Rule-4(3) of Public Sector Companies Corporate Governance Rules-2013, "the chief executive is responsible for making appropriate arrangements to ensure that funds and resources are properly safeguarded and used economically, efficiently and effectively and in accordance with all statutory obligations".

During audit of PMU GEPCO, interest payable on foreign relent loans of ADB & Exim Bank stood at Rs.10,222.39 million as of June, 2022, which was accumulated to Rs.11,359.50 million due to addition of Rs.1,137.11 million during July 2022 to May 2023. The payment of interest on relent foreign loans had not been made to Economic Affairs Division since long nor GoP was approached to set off / adjust the same against subsidy, which impacted Company's financial position adversely.

Inefficient financial management resulted in non-payment of interest of Rs.11,359.50 million on foreign relent loans up to the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that the PPMC had constituted an inquiry committee on March 28, 2023 regarding non-payment / settlement / adjustment of foreign relent loans. Therefore, the payment / adjustment / settlement of the loans would be made as per recommendation of the committee, which were still awaited.

The DAC in its meeting held on December 18 & 19, 2023 directed the management of PPMCL to expedite the inquiry and share its report with audit within a month. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC's decision.

(Draft Para No. 295/2023-24)

1.9.3 Unknown whereabouts of remaining material of ABD Works - Rs.72.592 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to fraud, theft or negligence of Individuals, 1982 (amended to date), "all losses whether of public money or of stores, shall

be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

During audit of PMU QESCO, material of ADB works amounting to Rs.173.129 million was lying in warehouse. The said material was to be shifted to STG store for completion of running STG works. Contrary to this, only material valuing to Rs.100.537 million existed in books of accounts. Record of balance material amounting to Rs.72.592 million (Rs.173.129 - Rs.100.537) was not available which needs to be justified.

Non-adherence to the WAPDA Guidelines resulted in shortage of material amounting to Rs.72.592 million up to the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that value of ADB foreign material was calculated in Pak rupees by the consignee store at the time of receipt of material from the contractor for which dollar to rupees exchange rate was taken on the day of GRN whereas the actual rate of conversion which was taken for payment by ADB or booking of loan liability was of the date on which actual payment was made by ADB to the supplier. Therefore, the factor of exchange rate of loss or gain was not incorporated in the accounts of PMU.

The DAC in its meeting held on December 22 & 23, 2023 directed the management to inquire the matter and submit its recommendations to audit within 30 days. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC’s decision.

(Draft Para No. 261/2023-24)

1.10 Unsatisfactory Management of Power Generation Capacity, Power Purchase Agreements and Allied Infrastructure

The “Power Sector” represents a network of entities linked with one another having key attributes of electricity generation, transmission and utilization. Fuel generation companies (e.g PSO, SNGPL etc) provide fuel to power generation companies (e.g IPPs and GENCOs) for generation of electricity. The “Energy” so generated is transmitted in-bulk over the national grid system and provided to the distribution companies, from where it is sold to the electricity consumers.

Efficient management of the power sector requires that the electricity is generated from cheaper fuel alternatives and adequately utilized. However, audit observed that there was imbalance in the demand and supply of electricity and cheaper fuel sources were not fully utilized by the power sector which negatively impacted the economy.

In-line with power purchase agreements, the power generation companies maintained a certain generation capacity at all times and charged capacity payments to the CPPA-G accordingly. Idle capacity (i.e. surplus power generation capacity) in the system meant that the capacity payments being made could not be off-set with generation of revenue through electricity sale. This also attributed towards an increase in the overall price of electricity as the price of idle capacity was passed on to the consumers.

Another important aspect was the inadequacy of the power transmission network to efficiently evacuate electricity from the generation facility and deliver it to the power distribution companies. Poor management of the

transmission system including its limitation to sustain high electricity loads meant that surplus electricity could not be transmitted through the system.

On the above lines, audit has analyzed the issue of unsatisfactory management of power sector capacity and its allied infrastructure to highlight significant shortcomings which are illustrated in the following paras:

1.10.1 Non-recovery/ settlement of long outstanding Liquidated Damages and other issues with GENCOs – Rs.105,860.49 million

According to article XVI of Power Purchase agreement of GENCOs, “in the event that a dispute arises, the parties shall attempt in good faith to settle such dispute by mutual discussions in the meeting of coordination committee within 30 days and in the event that the parties are unable to resolve the dispute then either party may refer the dispute to an Expert”.

During audit of Central Power Purchasing Agency (CPPA-G) (Guarantee), Islamabad, liquidated damages and other issues relating to GENCOs for an amount of Rs.105,860.57 million were neither recovered nor settled since 2014. CPPAG and GENCOs neither resolved the issue through mutual discussion in the meeting nor referred the matter to Expert for settlement.

Non-recovery/settlement of long outstanding liquidated damages claims and other issues reflects inefficient financial management.

Nonadherence to the provisions of power purchase agreement resulted in non-recovery/ settlement of LD and other issues amounting to Rs.105,860.49 million up to the Financial Year 2021-22.

The matter was taken up with the management in May, 2023 and reported to the Ministry in June, 2023. The management replied that on November 16, 2022, a Special Committee was formed to resolve GENCOs' outstanding issues, including LD disputes. The reconciliation process was ongoing, with progress updates promised to the audit. No further developments were reported by the report's finalization.

The DAC in its meeting held on October 09, 2023 directed the management to resolve the matter expeditiously within a month. No further progress was reported till finalization of the report.

Audit recommends that the management needed to look into the matter and make concerted efforts for earlier recovery/ settlement of matters pertaining to GENCOs.

(Draft Para No.96/2023-24)

1.10.2 Unjustified payment of Capacity Purchase Price (CPP) without conducting Annual Dependable Capacity Test (ADCT) – Rs.54,002.43 million

According to CPPA-G office memo dated November 25, 2021, ADCT should be performed by GENCOs on regular basis. Moreover, NEPRA has given strict directives for the same. The Authority may disallow the payments to NPGCL for capacity charges in near future.

During audit of Central Power Purchasing Agency Guarantee (CPPA-G), Islamabad, CPPAG made a payment of Rs.54,002.43 million on account of Capacity Payment to Power Generation Companies without

conducting Annual Dependable Capacity Test which was unjustified and a violation of Power Purchase Agreement (PPA). The annual dependable capacity test is a critical component of the capacity payment calculation process. By not conducting the test, payments made on account of Capacity Payment do not accurately reflect the actual capacity available. This could lead to overpayment or underpayment of capacity payments, which could have a significant impact on the company's financial statements.

Non-adherence to the relevant provision of PPAs resulted in Unjustified payment amounting to Rs.54,002.43 million on account of Capacity Purchase Price (CPP) without conducting Annual Dependable Capacity (ADC) Test up to the Financial Year 2021-22.

The matter was taken up with the management in May, 2023 and reported to the Ministry in June, 2023. The management replied that despite efforts, no progress was made on issues raised with CPPA's BoD and the Ministry. To address this, a Special Committee was formed on November 16, 2022, led by JS (PF) MoE (Power Division) with GHCL & CPPA members, focusing on resolving pending issues including GENCOs' ADC test performance.

The DAC in its meeting held on October 09, 2023 directed the management to pursue the matter and share the decision of committee with audit. No further progress was reported till finalization of the report.

Audit recommends that the management needs to conduct annual dependable capacity test as required by the regulatory framework. It would also ensure that the capacity payment calculation accurately reflects the actual capacity available and minimize the risk of overpayment or underpayment of capacity payments.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No.3.1.8.5.12 having financial impact of Rs.473,537.42 million. Recurrence of same irregularity is a matter of serious concern.

(Draft Para No.107/2023-24)

1.10.3 Heavy financial burden passed on to consumers due to under-utilization / non-utilization of efficient power plants in determination of fuel price adjustments - Rs.23,262.00 million

According to Section 31(2) of NEPRA Regulation of Generation, Transmission and Distribution of Electric Power Act 1997 states that The Authority, in the determination, modification or revision of rates, charges and terms and conditions for the provision of electric power services shall keep in view— (a) the protection of consumers against monopolistic and oligopolistic prices; (d) The encouragement of economic efficiency in the electric power industry; (e) The economic and social policy objectives of the Federal Government; and (f) The elimination of exploitation and minimization of economic distortions.

During audit of NEPRA, Islamabad, the Regulator in its Industry Report, had identified non-availability of RLNG or transmission / distribution constraints behind non-utilization / underutilization of efficient power plants and operation of out of merit (order) power plants. The detail of financial impact is as under; -

- Due to RLNG shortage expensive plants were operated having financial impact of Rs.19,332 million.
- Due to System constraints, financial impact of Rs.3,670 million was born.
- Due to underutilization/non-utilization of efficient power plants, the financial impact was of Rs.260 million.

NEPRA had directed the CPPA-G and NPCC to keep check on out-of-merit operated power plants on daily basis but the same was not complied with as was evident in the determinations of fuel cost charges as well as in Industry Report. Accordingly, NEPRA initiated legal proceedings against them. However, the violation of EMO by the system operator and market operator was still being observed during determinations of fuel cost adjustments by NEPRA.

Despite considering the very fact that the power plants were under-utilized and operated in violation of merit order by CPPA-G and NPCC, the financial impact / burden of Rs.23,262 million of such under-utilized plants and system constraints were allowed and shifted to consumers by NEPRA.

Non-adherence to NEPRA Regulation of Generation, Transmission and Distribution of Electric Power Act 1997 resulted in heavy financial burden passed on to consumers due to under-utilization / non-utilization of efficient power plants in the determination of fuel price adjustments Rs.23,262 million for the Financial Year 2021-22.

The matter was taken up with the management in March, 2023 and reported to the Cabinet Division in June, 2023. The management replied that the audit para pertained to the Regulatory Functions of NEPRA and it had already been clarified to Audit vide letter dated February 24, 2023 that the audit of regulatory functions of NEPRA might not be carried out as the same was beyond the statutory scope under section 14(2) of NEPRA Act and opinion of the Attorney General for Pakistan. The reply was not agreed to as the consumers' interest should also have been considered / protected while passing over the fuel cost burden, arising out of under-utilized plants and system constraints, to them.

Audit recommends that the management needs to look into the matter besides ensuring the protection of the interest of electricity consumers while determining tariff.

(Draft Para No.54/2023-24)

1.10.4 Loss to the public exchequer due to the extension in Revised Commercial Operation Date (RCOD) of Thal Nova Power Thar Limited (TNPTL) - Rs.21,697 million

According to Section 9.4 (d) of PPA if the Company is in breach of its obligation under section 4.1b to achieve the Commercial Operation Date by the Required Commercial Operation Date, then for each month (or any portion thereof, prorated daily) thereafter, until the commercial operation date is actually achieved, the Company shall pay the Power Purchaser, as Liquidated Damages an amount equal to 2.5 US\$ per kW/PM (or portion thereof, prorated daily) until the commercial operation date is achieved.

During audit of Central Power Purchasing Agency Guarantee (CPPA-G), Islamabad, Thal Nova Power Thar Limited (TNPTL) and CPPAG signed Power Purchase Agreement on July 21, 2017 for procurement of 300.7 MW through ± 660 kV HVDC Transmission Line. TNPTL did not achieve its Scheduled Commercial Operation Date i.e. December 31, 2020 which was revised as June 30, 2022. Operational analysis submitted by National Power Control Centre (NPCC) showed that due to delay in COD of cheapest coal fired power plant (TNPTL), additional cost of Energy Purchase Price and net loss to public exchequer for shifting of TNPTL from March, 2021 to June, 2022 worked out as Rs.21,697 million.

Non-adherence to provision of PPA and Energy Mix resulted in loss of Rs.21,697 million to the public exchequer due to extension in Revised Commercial Operation Date (RCOD) of Thal Nova Power Thar Limited (TNPTL) up to the Financial Year 2021-22.

The matter was taken up with the management in May, 2023 and reported to the Ministry in June, 2023. The management replied that the RCOD was initially set for December 31, 2020, extended to March 31, 2021 by the Cabinet Committee on Energy, and further to June 30, 2022 following the Prime Minister's approval. CPPA's Legal Department suggested granting TNPTL's extension request to avoid litigation risks. Consequently, the CPPA Board approved the RCOD extension, subject to HVDC charge payments. Additionally, CPPA-G & NTDC imposed LDs on TNPTL for late commissioning and HVDC line non-utilization.

The DAC in its meeting held on October 09, 2023 directed the management to conduct a fact-finding inquiry and get it vetted from GM T/S PPMC within a month. No further progress was reported till finalization of the report.

Audit recommends that the management needs to implement DAC's decision.

(Draft Para No.101/2023-24)

1.10.5 Non-recovery of claim from (O&M) contractor - Rs.10,800.00 million

According to the findings of the inquiry committee constituted by GHCL regarding damage of GT-14, "Rs.10.8 billion was required to be recovered from M/s GE (O&M Contractor)."

During audit of GENCO-II, an Inquiry committee regarding damage of Gas Turbine -14 was constituted by GENCO Holding Company (GHCL) on 11.01.2022. The said committee determined that damages to GT-14 occurred due to the negligence of (O&M) M/s GEE and recommended to recover the loss of Rs.10,800.00 million from the said contractor. However, recovery of loss had not been affected from the said contractor. It is pertinent to mention here that four (04) inquiries regarding the damage of GT-14 were constituted by GENCO Holding Company and sent to CGPCL for implementation of the findings and recommendations. Moreover, the implementation status of the findings and recommendations of these inquiry reports was not intimated to Audit.

Non-implementation of the findings and recommendations of the inquiry committee resulted in non-recovery of claim valuing Rs.10,800.00 million from (O&M) contractor during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that after seeking legal opinions from M/s Rizwan Faiz Associates and M/s RIA Barker Gillette, it was determined that a case against M/s GE was weak and could cause embarrassment and financial impact for the ministry. Consequently, the BoD, in its 164th meeting, decided not to pursue recovery from M/s GE as per Power Division instructions.

The DAC in its meeting held on December 22 & 23, 2023 directed the CFO GENCO-II to submit revised reply after getting clarification / response from GHCL in the matter within 30 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 766/2023/24)

1.10.6 Loss due to disallowed fuel cost by NEPRA against violation of economic merit order – Rs.8,119.51 million

As per National Grid Code 2005 clause (g); A Scheduling and Dispatch Code, which sets out principles, processes and procedures to ensure minimum-cost generation dispatch, the relationship between NTDC and Generators, including the dispatch process and requirements for ancillary services and provisions for frequency control. It also places an obligation upon users to supply certain data information to the NTDC in a timely manner.

During audit of Managing Director, NTDC, the NTDC did not implement the Economic Merit Order based on fuel prices for economic dispatch of thermal power plants (GENCOs & IPPs). The CPPA-G issued Debit Notes due to disallowed fuel cost by NEPRA on account of violation of Economic Merit Order and NTDC, resultantly, sustained a loss of Rs.8,119.51 million.

Non-adherence to Grid Code resulted in a loss due to disallowed fuel cost by NEPRA against violation of economic merit order amounting to Rs.8,119.51 million during the Financial Year 2022-23.

The matter was taken up with the management in November, 2023 and reported to the Ministry in November, 2023. The management replied that dispatch decisions for power plants were considered on the basis of factors beyond Economic Merit Order, as per NEPRA Grid Code 2005 SDC 1.4.3, with justifications regularly provided to NEPRA. A high-power committee, convened by DMD (P&E) and reporting on December 12, 2023, concluded that NEPRA's EMO deductions misinterpreted its regulations and recommended legal action.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to pursue the case with court for final outcome. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No.1.10.1 having financial impact of Rs.17,156 million. Recurrence of same irregularity is a matter of serious concern.

(Draft Para No.830/2023-24)

1.10.7 Loss due to deviation from Economic Merit Order - Rs.3,327.30 million

According to the Fuel Cost Adjustment of February 2021 System Operator shall report to CPPA-G within 24 hours, dispatch of generation plant (s) out of merit order along with reasons thereof. A copy of report shall be sent to NEPRA simultaneously. CPPAG shall scrutinize the above-mentioned dispatch report in terms of Scheduling and Dispatch Code (SDC) of Grid Code and prepare a report which shall comprise of; a) all dispatch deviation from merit order; b) the plants available but not dispatched; and c) dispatch deviation justified or Unjustified in terms of SDC of Grid Code along-with their financial impact. As per SDC 1.3.2.1, the System Operator shall be responsible for developing a daily Forecast of System Demand (in accordance with OC 2) on the National Grid for the next Schedule Day (initially for each hour of the schedule day, but for a finer time resolution, if required by System Operator (SO) in the future).

During audit of Central Power Purchasing Agency Guarantee (CPPA-G), Islamabad, it was noticed through monthly reports on Merit Order Deviation submitted by NPCC to CPPA-G on the direction of the Regulator that significant deviation from the Economic Merit Order (EMO) occurred due to system constraints. Due to the said significant deviations of EMO, Public Exchequer sustained a loss of Rs.3,327.30 million.

Non-adherence to the Scheduling and Dispatch Code resulted in loss of Rs.3,327.30 million due to deviation from Economic Merit Order during the Financial Year 2021-22.

The matter was taken up with the management in May, 2023 and reported to the Ministry in June, 2023. The management replied that NPCC, as the custodian of merit order, operated plants according to system demand, requirements, and constraints. CPPA assisted NPCC in preparing the economic merit order. As a Market Operator, CPPA-G, under NEPRA's direction, calculated financial implications of merit order deviations, reporting monthly to the Authority. However, this reply was deemed untenable because CPPA-G, as a market operator, should scrutinize the EMO list to establish NPCC's responsibility as a System Operator, which hadn't been done.

The DAC in its meeting held on October 09, 2023 directed that an inquiry committee be constituted headed by GHCL with three members from NTDC, NEPRA, CPPAG to probe the matter within a month. No further progress was reported till finalization of the report.

Audit recommends probing the matter for deviation from EMO and fixing the responsibility of person(s) at fault under intimation to Audit.

(Draft Para No.97/2023-24)

1.10.8 Extra financial burden due to mismanagement in the induction of IPP - Rs.3,041.38 million

As per Guidelines for setting up of Private Power Projects under short term capacity addition initiative dated August 2010, the projects are required to start commercial operations within 33 months after issuance of Letter of Support (LOS) or 24 months after execution of Project Agreements & Financial Closing (FC), whichever is earlier.

During audit of Private Power and Infrastructure Board (PPIB), the Letter of Support (LOS) was issued to M/s CIHC Pak Power Company Ltd. for the establishment of 300 MW based on imported coal on 23rd August, 2019. Later on, the matter regarding utilization of local (Thar) coal was deliberated by PPIB with all stakeholders and it was concluded that it was preferable to relocate the Project at mine mouth at Thar, Sindh and connect it with the national grid for supply of electricity to Gwadar rather than transporting coal from Thar to Gwadar for the Project. However, the M/s CIHC Pak Power Company Ltd. refused to relocate the Project and the use of local (Thar) coal. Meanwhile, the said Sponsor/Project Company approached NEPRA to revise tariff due to delay in supplemental (Implementation Agreement) and got the revised tariff approved at the rate of Rs.8.1227/kWh (against initial tariff of Rs.6.9654 /kWh). This resulted in extra financial burden of Rs.3,041.38 million per year on national exchequer due to mismanagement by PPIB.

Non-adherence to the guidelines resulted in extra financial burden due to mismanagement in the induction of IPP amounting to Rs.3,041.38 million during the Financial Year 2021-22.

The matter was taken up with the management in March, 2023 and reported to the Ministry in June, 2023. The management replied that the CPPCL in August 2022, filed a review petition against NEPRA's tariff determination of 31st May 2019. NEPRA determined revised Tariff on 26th July 2023. However, the Project Company expressed dissatisfaction on tariff determination, despite being revised twice. CPPCL intended to file another review petition and requested NEPRA for additional time to prepare and submit the review petition.

The DAC in its meeting held on October 09, 2023 directed the management to conduct a fact-finding inquiry by CPPAG within 30 days. No further progress was reported till finalization of the report.

Audit recommends that the management needs to implement DAC's decision.

(Draft Para No.138/2023-24)

1.10.9 Loss due to blackout in the country due to negligence of NTDC- Rs.2794.19 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of Managing Director NTDC, an inquiry report regarding a blackout occurred in the country. The total power on load was 9091 MW. The frequency fluctuation was observed in system which caused blackout in the country. The NTDC was held responsible by NEPRA for full blackout and generation loss of 9091 MW and sustained loss amounting to Rs.2794.19 million to national exchequer. This state of affairs showed that the non-serious attitude of NTDC which needs justification.

Non-adherence to guidelines resulted in loss due to blackout in the country due to negligence of NTDC-Rs.2,794.19 million during the Financial Year 2022-23.

The matter was taken up with the management in November, 2023 and reported to the Ministry in December, 2023. The management replied that partial system collapse occurred on October 13, 2022, a high-level Inquiry committee was constituted by NEPRA on April 13, 2023 to determine its causes/faults & recommend remedial measures to avoid recurrence of such events in future. After thorough investigation the said Inquiry Committee concluded that the causes & faults which resulted in Partial System Collapse are: "Mechanical failure of hardware/conductor of 500kV K2/K3 —NKI T/Line & 500kV K2/K3 — Jamshoro T/Line and false signal generated from 500kV Gatti G/Station caused tripping of 500kV T/Lines in the South and partially in North, which resulted in the tripping of power plants on account of under-frequency & over-voltage."

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the stance verified from audit with documentary evidence and share the inquiry report within 30 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

1.10.10 Loss due to discrimination of Uniform System and allowing financial benefit to K-Electric at the cost of consumers of XWDISCOs - Rs.1,641 billion

According to Section 6.1.4 (I)(a) of Commercial Code “the Capacity Transfer Charge (CTC) is calculated as CTR and multiplied by the Monthly MDI of each respective Participant Representing Demand as below:

$$CTC = CTR \times MDI_{Market\ Participant\ Representing\ Demand}$$

Capacity Transfer Rate (CTR) is applied to Market Participants Representing Demand to recover payments to Generation Companies for Capacity Payments. CTR is calculated by adding Capacity Generation Costs of all Generation Companies for each billing month and subtracting sum of Liquidated Damages payable by generation companies for the billing month. The result of which is further divided by the sum of Maximum Demand Indicator recorded at all CDPs for each billing month.

During audit of Central Power Purchasing Agency Guarantee (CPPA-G), Islamabad, a tripartite Power Purchase Agency Agreement (PPAA) was signed between CPPAG, NTDC and K-Electric for provision of 150 MW power to K-Electric. CPPAG issued settlement advices to KE for basket price as calculated under the transfer pricing mechanism pursuant to the relevant clauses of Commercial Code of CPPAG as approved by the Authority. Settlement of CPP was based on non-coincidental MDI. The CDP points are the two power transformers installed at each of the three plants from where KE was drawing electricity. On meter reading, the collective non-coincidental MDI may exceed the capacity of the power plants. KE disputed the monthly CPP settlement advices of transfer charges claiming that the MDI is over and above the installed capacity of the generation plants and the matter was referred to NEPRA and decided that CPPAG should restrict the MDI to 150MW. This decision resulted in unfavorable revision of the CPP for all the months from June, 2019 to September 2020 as Rs.1,641 billion which was discrimination of uniform system and allowed financial benefits to K-Electric at the cost of the consumers of the rest of the country.

Non-adherence to Commercial Code and irrational decision of the regulator resulted in loss of Rs.1,641 billion due to discrimination of Uniform System and allowing financial benefit to K-Electric at the cost of consumers of XWDISCOs up to the Financial Year 2021-22.

The matter was taken up with the management in May, 2023 and reported to the Ministry in June, 2023. The management replied that after KE raised the issue with NEPRA, a tribunal favored KE in their dispute with CPPA-G over Transfer Charges. Despite CPPA-G's concerns about discrimination and Commercial Code violations, they recalculated the Capacity Charges, resulting in a Rs.1.641 billion increase for DISCOs and a decrease for KE. NEPRA approved the revised settlements, which CPPA-G, then, issued accordingly.

The DAC in its meeting held on October 09, 2023 directed the management to provide the working papers presented to NEPRA to audit for review within 07 days. No further progress was reported till finalization of the report.

Audit recommends that the management needs to implement DAC's decision.

1.10.11 Loss to the public exchequer due to extension in Revised Commercial Operation Date (RCOD) of Thar Energy Limited (TEL) – Rs.1,537.99 million

According to Section 9.4 (d) of PPA that if the Company is in breach of its obligation under section 4.1b to achieve the Commercial Operation Date by the Required Commercial Operation Date, then for each month (or any portion thereof, prorated daily) thereafter, until the commercial operation date is actually achieved, the Company shall pay the Power Purchaser, as Liquidated Damages an amount equal to 2.5 US\$ per kW/PM (or portion thereof, prorated daily) until the commercial operation date is achieved.

During audit of Central Power Purchasing Agency Guarantee (CPPA-G), Islamabad, Thal Energy Limited (TEL) and CPPAG signed Power Purchase Agreement on July 27, 2017 for procurement of 330 MW through ±660 kV HVDC Transmission Line. TEL did not achieve its Scheduled Commercial Operation Date i.e. December 31, 2020 which was revised as March 31, 2021 due to the fact that ±660 kV HVDC Transmission Line was not available to evacuate the power from TEL. HVDC line achieved its COD on September 30, 2021 at that time TEL was not available. However, CPPAG granted 2nd RCoD to TEL as November 23, 2021 but it actually achieved its COD on October 01, 2022 with the delay of 10 months. As per contractual clause 9.4 D, an amount of Rs.1537.99 million (*US\$ 7.508 million * PKR 204.8467 as on June 30, 2022*) was recoverable from TEL.

Non-adherence to the provision of PPA and Energy Mix resulted in loss to the public exchequer due to extension in Revised Commercial Operation Date (RCOD) of TharEnergy Limited (TEL)-Rs.1,537.99 million up to the Financial Year 2021-22.

The matter was taken up with the management in May, 2023 and reported to the Ministry in June, 2023. The management replied that after NTDC's Force Majeure Events (FME) duration declaration, CPPA-G's BoD extended TEL's RCoD by 237 days on December 21, 2021. Despite this, CPPA-G and NTDC imposed LDs for late commissioning and non-utilization of the ±660 HVDC T/L from November 23, 2021 to October 01, 2022, which TEL acknowledged. CPPA-G has adjusted/recovered USD 950,950 of the USD 7,707,702 from TEL's invoices. However, this approach was questioned due to the required but unachieved transmission infrastructure expansion, impacting the availability of cheaper electricity in the national grid.

The DAC in its meeting held on October 09, 2023 directed the management to conduct a fact-finding inquiry and get it vetted from GM T/S PPMC within a month as already decided in PDP-101/2023-24.

Audit recommends that the management needs to conduct an independent inquiry for giving extension in CoD of the project which resulted in massive loss to the Public Exchequer besides fixing responsibility of person (s) at fault under intimation to Audit.

(Draft Para No.102/2023-24)

1.10.12 Blockage of investment due to non-functioning of Gas equipment- Rs.1,465 million

According to Rule-5(5) of Public Sector Companies Corporate Governance Rules-2013, “the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders”.

During audit of GENCO-II, Gas Booster Compressor Station valuing 1,464 million was not functioning for the last three years. The said equipment was installed at power station in order to maintain required gas pressure

for smooth operation of gas turbines. Non-functioning of the same not only hampered the operational efficiency of power plants but also resulted in blockage of huge investment of Rs.1,465 million. It is pertinent to mention here that the said equipment stopped functioning during Defect Liability/ Warranty period. However, action taken against the EPC contractor was not made known to Audit.

Non-adherence to the provisions of the Public Sector Corporate Governance Rules resulted in blockage of investment amounting to Rs.1,465 due to the non-functioning of Gas Booster Compressor Station million during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that CPGCL had served the final notice to the firm on March 05, 2021 for completing the incomplete jobs and failing which CPGCL reserved the rights to en-cash the performance guarantee of Rs.127,829,685 but M/s Al-Tariq Constructors filed a suit before Honorable High Court of Sindh and Court passed interim order on March 15, 2021 by restraining encashment of PG. The outcome of the decision of the court would accordingly be communicated.

The DAC in its meeting held on December 22 & 23, 2023 directed the management to pursue the court case vigorously. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 860/2023/24)

1.10.13 Non-recovery of Take-or-Pay invoices from supplier amounting to -Rs.1,288.94 million

According to Section-9 (ii) of Gas Sales Term Sheet between Mari Petroleum Company Limited (Seller) and Central Power Generation Company Limited (Buyer), "if the Seller fails to deliver to the Buyer a minimum of 70 % of the Monthly Contract Quantity in any month, it shall pay the Buyer for the shortfall in supply at the invoice value of the shortfall amount."

During audit of GENCO-II, M/s Mari Petroleum Company supplied less gas during the month of August & September, 2022. Resultantly, in the light of Gas Sales Term Sheet, Take-or-Pay invoices amounting to Rs.1,288.94 million were issued to the said company. However, recovery was not affected by the said supplier.

Non-adherence to provisions of the Gas Sales Term Sheet has resulted in non-recovery of Take-or-Pay invoices from supplier amounting to Rs.1,288.94 million during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that M/s Mari Petroleum Company Limited responded that the claim was not valid as the term sheet for sale of Mari Gas field to CPGCL expired on 8th Feb-2020. Subsequently, the term sheet extension on similar terms of "Take or Pay" basis beyond 08th Feb, 2020 was not agreed by MPCL despite the approval by BOD CPGCL. However, MPCL continuously supplied gas till Oct 31, 2022.

The DAC in its meeting held on December 22 & 23, 2023 directed to inquire the matter at GHCL level and submit its report within 30 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

1.10.14 Loss due to payment on account of “Non-Project Missed Volume”–Rs.985.17 million

According to Energy Purchase Agreements, “Non-Project Missed Volume or NPMV” is the volume of Net Delivered Energy not delivered by the complex which non-delivery is due to a Non-Project Event(s). As per NEPRA Grid code CC 4.2(b), the preliminary estimate for connection fee and registration fee, fees shall be determined and shall be payable on submission of application for connection, and shall cover the reasonable costs of all works anticipated to arise from investigating the application to connect and preparing the associated offer to connect. This should include additional capital cost related to the new connection, and to make the connecting transmission system at par with the system before the connection.

During audit of Central Power Purchasing Agency (CPPA-G), Islamabad, an amount of Rs.985.17 million was made to thirty-six (36) Wind Power Plant and seven (7) Solar Power Projects on account of NPMV. The extra payments were made only due to the inefficiency of NTDC system as the projects were ready to deliver the energy as per agreements but the NTDC system was not capable enough to sustain full load of wind power/solar energy project. Hence, the payment of Rs.985.17 million made by the company without taking benefit of wind power/solar power had gone waste and the company had to sustain a loss to the tune of Rs.985.17 million.

Non-adherence to Grid Code resulted in loss of Rs.985.17 million due to payment on account of Non-Project Missed Volume up to the Financial Year 2021-22.

The matter was taken up with management in May, 2023 and reported to the Ministry in June, 2023. The management replied that NTDC was responsible for power evacuation and procurement from WPPs, with WPPs entitled to NPMV payments in case of failure. CPPA-G repeatedly urged NTDC for transmission line upgrades for efficient power evacuation. NTDC and NPCC, however, cited system integrity and reliability for curtailing WPPs' load. This response was deemed untenable as WPPs, being clean energy sources, are must-run projects, and load curtailment due to system constraints was considered unjustifiable.

The DAC in its meeting held on October 09, 2023 directed to conduct an inquiry at PPMC level within a month. No further progress was reported till finalization of the report.

Audit recommends that the management needs to investigate the matter for fixing responsibility for the loss due to non-upgradation of system before signing of contracts agreement without consideration of capability of existing infrastructure.

1.10.15 Loss on account of higher consumption of gas due to excess heat rate than NEPRA’s determination - Rs.887.05 million

NEPRA has determined the heat rate of 10,353 BTU/kWh on open cycle i.r.o 747 MW CCPP Guddu.

During audit of GENCO-II, the heat rate was found excessive as compared to the permissible limits fixed by NEPRA. As a result of excess heat rate, gas amounting to Rs.887.05 million was excess utilized in generation of electricity, which caused loss to Company.

Non-adherence to the NEPRA's standards resulted in loss on account of higher consumption of Gas due to excess heat rate than NEPRA's determination amounting to Rs.887.05 million during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that the actual amount was Rs.767.79 million. The major maintenance could not be performed timely due to financial constraints and load demand of the system operator. The major overhauling of GT-15 was in progress and the unit would be on the bar up to the end of this month and overhauling of GT-14 was scheduled in February 2024. After maintenance, the heat rate would be achieved.

The DAC in its meeting held on December 22 & 23, 2023 directed the management to provide the record in support of reply to audit for verification within a week. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No.1.10.9 having financial impact of Rs.491.72 million. Recurrence of same irregularity is a matter of serious concern.

(Draft Para No.775/2023/24)

1.10.16 Non-imposition of penalty on CPPA-G due to non-inclusion of cost of legal charges to market operator fees - Rs.545.55 million

According to Section 27(B) of NEPRA Regulation of Generation, Transmission and Distribution of Electric Power Act 1997 states that any person who acts in contravention of this Act or the rules and regulations made thereunder or fails to comply with the conditions of a license issued or registration granted to that person and such person is a party to such contravention shall be punishable in case of :- (a) a company, with a minimum fine of ten million Rupees which may extend to two hundred million Rupees and, in the case of a continuing default, with an additional fine which may extend to one hundred thousand Rupees for every day during which the contravention continues.

During audit of NEPRA, CPPA-G had claimed the legal charges amounting to Rs.545.55 million as a part of capacity charges in periodic tariff adjustment of 2nd quarter of FY 2019-20 to 4th quarter of FY 2021-22 but the same was being disallowed by NEPRA consistently. NEPRA directed the CPPA-G to make the cost of legal charges as part of market operation fees in determination of market operation fees for the FY 2020-21 & 2021-22. Accordingly, CPPA-G did not include the cost of legal charges in its capacity costs billed to DISCOs.

This scenario indicates that the cost of legal charges is being piled-up and financial impact / burden of such cost would be passed on to the consumers at the time of determination in periodically tariff adjustment. Despite non-compliance of NEPRA's directives, no penal action was taken against the CPPA-G.

Non-adherence to NEPRA Regulation of Generation, Transmission and Distribution of Electric Power Act 1997 resulted in non- imposition of penalty to CPPA-G due to non-inclusion of cost of legal charges of Rs.545.55 million to market operator fees up to the Financial Year 2021-22.

The matter was taken up with the management in March, 2023 and reported to the Ministry in June, 2023. The management replied that the audit para pertained to the Regulatory Functions of NEPRA and it had already been clarified to Audit vide letter dated February 24, 2023 that the audit of regulatory functions of NEPRA might not be carried out as the same was beyond the statutory scope under section 14(2) of NEPRA Act and opinion of the Attorney General for Pakistan. The reply was not agreed to as the issue raised by Audit pertained only to non-imposition of penalty on CPPA-G due to non-compliance with NEPRA's directives.

Audit recommends that the management needs to look into the matter and take action against CPPA-G for non-compliance with NEPRA's directives.

(Draft Para No.51/2023-24)

1.10.17 Shifting the burden of capacity purchase price of net metering consumers to non-net metering consumers - Rs.380.52 million

According to Section 7, 31(4) and 31(7) of the NEPRA Act 1997, NEPRA is mandated to determine a uniform consumer end tariff at national level.

During audit of GEPCO, cost of electricity was recovered through sale of energy to end consumers on volumetric basis i.e. the cost of electricity is distributed on units consumed by the consumers. As a result, more the number of units are sold the lesser will be the per unit rate and vice versa. Shifting the consumers on net energy metering had increased the cost of electricity for consumers without net metering. Capacity charges due to reduced consumption of electricity from the national grid by the net energy metering consumers was allocated by DISCOs across its customer base. Thus, net energy metering increased the marginal cost of capacity charges for the consumers without net energy metering system. In GEPCO, net energy metering consumers averted the share of capacity purchase price to the extent of Rs.380.52 million during the year 2022-23 which was shifted on to the non-net energy metering consumers resulting in increase of per unit cost to non-net energy metering consumers.

Implementation of net-metering tariff resulted in shifting the burden of capacity purchase price of net metering consumers to non-net metering consumers entailing financial impact of Rs.380.52 million up to the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that matter was already under active consideration at the apex levels of national policy and plan. GEPCO, being licensee of distribution and supply businesses, was bound to regulatory regulations, determinations, injunctions and directives for charging consumer tariff to different categories including net metering consumers. The relevant office in the matter was NEPRA. However, audit observation and recommendations were noted for serious considerations and taking up with concerned stakeholders appropriately.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to devise / formulate the policy and expedite the matter with concerned stakeholders. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No.1314 /2023-24)

1.10.18 Loss due to Capacity Payment Charges due to reduction/ variation in fuel gas supplies - Rs.17.21 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved". According to terms and condition of Gas Supply Agreement between M/s Pakistan Petroleum Ltd and CPGCL & GOP allocation of gas, the fuel supplier was bound to supply 250 MMscfd gas from Kandhkot gas field being dedicated for Thermal Power Station Guddu.

During audit of GENCO-II, 4,767,610 kWh units were less generated during the months of August and September, 2022 due to reduction/ variation in fuel gas supplies from Kandhkot Gas Field. In the light of provisions of the Gas Supply Agreement, the Supplier was responsible for supply of dedicated fuel gas to Thermal Power Station Guddu. Failure of the supplier to meet with the contractual obligation warranted punitive/ remedial actions but no action was taken by the management. This resulted in generation loss of said units and deprived the company from capacity payment charges of Rs.17.21 million (4,767,610 x 3.61).

Non-adherence to the provision of Gas Supply Agreement resulted in generation loss due to capacity payment charges amounting to Rs.17.211 million due to reduction/ variation in fuel gas supplies during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that the gas allocation of Kandhkot gas field was 200 MMCF per day as per GSA. However, the minimum obligation of seller to supply gas was 145 MMCFD, which was 72.50% of Take or Pay quantity approved by ECC. During the period from August 19, 2022 to September 05, 2022, seller had supplied more than 145 MMCFD, hence, there was no short supply from seller and as such no generation loss occurred.

The DAC in its meeting held on December 22 & 23, 2023 directed to inquire the matter at GHCL level and submit its report within 30 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 774/2023/24)

1.10.19 Non-recovery of service charges from IPPs - Rs.10.53 million

According to Energy Purchase Agreement Section 7.7(a) Not later than one hundred and twenty (120) days prior to the commercial operation date and in any event before any net delivered energy is delivered from the complex to the interconnection point, the seller shall at its own cost and expense procure and shall have installed and have operational the equipment listed.

During audit of NTDC Telecommunication, Lahore, the Service Charges Invoices amounting to Rs.10.53 million were issued to seven (07) IPPs. No payment was being paid by these IPPs due to non-inclusion of clause of Service Charges in Energy Purchase Agreement (EPA). The Chief Engineer Telecommunication providing continuous services to IPPs, but due to non-payment of Service Charges the company sustained a continues loss which shows negligence on the part of the management.

Non-adherence to EPA section 7.7 and prudent utilization of resources Chief Engineer Telecommunication providing services without any cost and incurred loss of Rs.10.53 million up to the Financial Year 2021-22.

The matter was taken up with the management in March, 2023 and reported to the Ministry in June, 2023. The management replied that total invoice amounted to Rs.99,75,871 instead of Rs.10.53 million. The total invoice recovered supporting EPA clause was Rs.16,52,300 (40.31%). The matter related to remaining recoverable invoice was already taken up with the concerned IPPs.

The DAC in its meetings held on August 26, 2023 directed the management to submit revised reply and get the recovery record verified from audit and expedite the pending recoveries. No further progress was reported till finalization of the report.

Audit recommends that the management needs to implement DAC's decision.

(Draft Para No.68/2023-24)

Concluding Recommendations

Unsatisfactory management of power sector capacity and its allied infrastructure was a mega and multi-faceted issue faced by all government stakeholders of the power sector. If not addressed, the same would continue to negatively impact the economy and create further financial bottlenecks for the government. Moreover, highlighted cases of transmission failure and usage of expensive fuel may be looked into for future remedial measures.

1.11 Delay in Finalization / Implementation of Inquiry Cases

In order to achieve desired efficiency in the Power Sector, it was of paramount importance that an effective mechanism of administrative check and balance was implemented i.e. those found involved in negligence, irregularities or fraud should have been promptly and decisively proceeded against. This was necessary to ensure a transparent working environment and to prevent spread of irregular practices. On the identification of irregularity/fraud etc. inquiries were initiated at the level of respective companies. Serious embezzlement / unlawful incidents were probed through inquiries by PEPCO / PPMC which acts as an overall monitoring body over the power sector government entities on behalf of the ministry.

In the context of the above mechanism, it was analyzed that inquiries were not being concluded adequately in the power sector companies. There were instances where long delays were found in the processing of subject inquiries. Further even after finalization of inquiries by PEPCO/PPMC, there were cases of delays and inaction on the findings of the inquiries by the respective companies. This scenario implied that identified miscreants were not timely proceeded against, creating a negative and irregularity prone environment in the subject companies.

On the above lines, audit has analyzed the issue of unsatisfactory inquiry management, on sample basis, and shortcomings found are illustrated in the following paras:

1.11.1 Delayed determination of quarterly tariff adjustments affecting the entire cycle of revenue receipts - Rs.160,057.00 million

According to Section-31, Sub-section (7) (ii) of NEPRA Regulation of Generation, Transmission and Distribution of Electric Power Act 1997, the Authority may, on a quarterly basis and not later than a period of fifteen days, make quarterly adjustments in the approved tariff on account of capacity and transmission charges, impact of transmission and distribution losses, variable operation and maintenance and, policy guidelines as the Federal Government may issue and, intimate the tariff so adjusted to the Federal Government prior to its notification in the official Gazette.

During audit of NEPRA, the Quarterly Tariff Adjustments (QTAs) claimed by DISCOs were not timely determined by NEPRA in contrary to the NEPRA Act. Delay in determination of tariff ranging from 4 to 8 months. This state of affairs caused cash shortfall for DISCOs exposing them for credit crunch and liquidity risk with respect to dwindling financial position. Delayed determination of QTAs by NEPRA created the snowball effect of late billing to consumers and thereafter, late collection from them added up to circular debt. Resultantly, the financial statements did not comply with the IFRS and did not reflect the fair and true presentation of receipts.

Non-adherence to NEPRA Regulation of Generation, Transmission and Distribution of Electric Power Act 1997 resulted in delayed determination of quarterly tariff adjustments of Rs.160,057.00 million affecting the entire cycle of revenue receipts from consumers to payments to IPPs/ debt servicing for the Financial Year 2021-22.

The matter was taken up with the management in March, 2023 and reported to the Cabinet Division in June, 2023. The management replied that the audit para pertained to the Regulatory Functions of NEPRA and it had already been clarified to D.G Audit vide letter dated February 24, 2023 that the audit of regulatory functions of NEPRA might not be carried out as the same was beyond the statutory scope under section 14(2) of NEPRA Act and opinion of the Attorney General for Pakistan. The reply was not agreed to as only the matter of delay in determination of quarterly tariff adjustments was highlighted in contrary to timelies defined in NEPRA Act.

Audit recommends that the management needs to look into the matter besides determining the quarterly tariff adjustment as per time line given in NEPRA Act-1997.

(Draft Para No.50/2023-24)

1.11.2 Non-initiating the action of blacklisting due to non-execution / completion of the contract - Rs.3,455.40 million

According to Rule-19 regarding blacklisting of suppliers and contractors of PPRA Rules, 2004, the procuring agencies shall specify a mechanism and manner to permanently or temporarily bar, from participating in their respective procurement proceedings, suppliers and contractors who either consistently fail to provide satisfactory performances or are found to be indulging in corrupt or fraudulent practices. Such barring action shall be duly publicized and communicated to the authority.

During audit of Project Directorate EHV-II NTDC, Multan, a contract No.200-2018 (Lot-I) under ADB Loan for procurement, design, manufacturing, supply, installation, testing and commissioning of 220 kV Mirpur

Khas substation and extension at Hala Road Substation was awarded to M/s Power China SEPCO-1 Electrical Power Construction Company Limited China at cost of Rs.3,455.40 million (US\$10.036 million + Rs.431.195 million + Provisional Sums Pak Rs.154.00 million) on November 18, 2019. The date of commencement was started on January 17, 2020 and the contractor was required to complete the work within 540 days i.e. July 10, 2021. But the contractor did not start the construction activities at site and failed to execute / complete the work despite serving several notices for termination by the Chief Engineer (Project Delivery / GSC South) NTDC, Hyderabad vide letter dated September 30, 2021, which resulted in unsatisfactory field performance. Neither performance guarantee was encashed under contract clause, nor the action of blacklisting was initiated against the contractor in the light of contract clause-42 and PPRA Rules.

Non-adherence to the PPRA Rules resulted in non-initiating the action of blacklisting against the contractor during the Financial Year 2021-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management replied that the said project had gained significant completion progress 60.44%, however, the Contractor would be evaluated in the light of Contract Provisions if work was not completed within stipulated period.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the record verified from audit in support of reply within 30 days. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC's decision.

(Draft Para No. 698/2023-24)

1.11.3 Non-finalization of inquiries / disciplinary cases having financial impact - Rs.476.08 million

According to Commercial Procedure, "Revenue Officer is responsible for: i) Implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company. ii) Efficient application of billing and collection procedures". According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of DISCOs & PPMC, it was observed that 107 inquiries were constituted to probe into the cases of poor quality of material, theft, shortage of material, mis-appropriation, embezzlement and release of LD etc having financial impact o Rs.476.08 million. In some cases, the inquiry committees had been concluded, however, implementation of their recommendations and finalization of remaining inquiries were not forthcoming from the record. The detail is as under:

Sr. No.	Company	Draft Para No.	No. of Cases	Amount (Rs.in million)
1.	FESCO	1126/2023-24	16	145.43
2.	GEPCO	49/2023-24	1	20.86
3.	HESCO	783/2023-24	4	25.41
4.	MEPCO	899/2023-24	2	24.28

5.	PESCO	853/2023-24	1	0
6.	QESCO	957/2023-24	80	260.10
7.	PPMC	773/2023-24	3	0
TOTAL			107	476.08

(Source: Disciplinary Case File)

Non-adherence to the Authority's instructions resulted in non-finalization of inquiries / disciplinary cases having financial impact of Rs.476.08 million up to the Financial Years 2019-23.

The matter was taken up with the management in April & November, 2023 and reported to the Ministry in May & December, 2023. The management replied that in some cases inquiries / disciplinary cases had been finalized while remaining were under process.

The DAC in its meetings held on December 14, 2023 to December 23, 2023 directed the management to get the record of completed action verified from audit within 15 days and expedite the inquiry proceedings in remaining cases. The DAC did not agree with the reply of FESCO and directed the management to get all inquiries reviewed at Director Operations' level and also directed the management of QESCO to expedite the matter and prepare special committee for early finalization of inquiries and submit its report to audit within 30 days. No further progress was intimated till the finalization of report.

Audit recommends implementation of DAC's decision.

1.11.4 Financial implication of cost of capacity charges of KAPCO due to non-inclusion in periodic tariff adjustment - Rs.227.00 million

Section-31,Sub-section(7)(ii) of NEPRA Regulation of Generation, Transmission and Distribution of Electric Power Act 1997 states the Authority may, on a quarterly basis and not later than a period of fifteen days, make quarterly adjustments in the approved tariff on account of capacity and transmission charges, impact of transmission and distribution losses, variable operation and maintenance and, policy guidelines as the Federal Government may issue and, intimate the tariff so adjusted to the Federal Government prior to its notification in the official Gazette.

During audit of NEPRA, Islamabad, cost of capacity charges of Rs.227.00 million on accounts of trueing up of costs pertaining to previous periods of KAPCO was claimed in periodic tariff adjustment by the CPPA-G. The said amount was neither disallowed nor allowed in quarterly tariff adjustment up to 4th quarter of FY 2021-22 by NEPRA.

Hence, the cost of capacity charges of KAPCO had been piled-up and financial impact / burden of such cost would be passed on to consumers at the time of determination in periodically tariff adjustment.

Non-adherence to NEPRA Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 resulted in financial implication of cost of capacity charges of Rs.227 million of KAPCO due to non-inclusion in periodic tariff adjustment up to the Financial Year 2021-22.

The matter was taken up with the management in March, 2023 and reported to the Ministry in June, 2023. The management replied that the audit para pertained to the Regulatory Functions of NEPRA and it had already been clarified to Audit vide letter dated February 24, 2023 that the audit of regulatory functions of NEPRA might not be carried out as the same was beyond the statutory scope under section 14(2) of NEPRA Act and opinion of the Attorney General for Pakistan. The reply was not agreed to as the matter of KAPCO’s capacity charges was needed to be addressed.

Audit recommends that the management needs to look into the matter besides ensuring to decide the cost of capacity charges of KAPCO in periodic tariff adjustment.

(Draft Para No.52/2023-24)

1.11.5 Non-recovery of penalty imposed on employees – Rs.9.21 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), “all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

During audit of PESCO and NTDC, it was observed that the inquiry committees recommended stern disciplinary actions and imposed penalties amounting to Rs.9.21 million on officers/officials involved in different types of irregularities including theft of transformer / misappropriation and shortage of material. However, no action was taken by the management as neither the disciplinary actions was taken, nor the amount was recovered from the delinquents. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	Amount (Rs.in million)
1.	PESCO	1099/2023-24	2.60
2.	NTDC	478/2023-24	6.61
TOTAL			9.21

(Source: DISCOs Disciplinary Case File)

Non-adherence to the authority’s directions resulted in non-recovery of penalty imposed amounting to Rs.9.21 million regarding during the Financial Year 2022-23.

The matter was taken up with the management in September and October, 2023 and reported to the Ministry in November and December, 2023. The management of PESCO replied the management replied that in light of the inquiry committee's recommendations, actions against the officials had been taken and the management of NTDC replied that the matter was being pursued in court.

The DAC in its meeting held on December 14-23, 2023 directed the management of PESCO to get the record verified in support of reply within 15 days from audit and DAC also directed the management of NTDC to pursue the court case vigorously. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

1.11.6 Delay in determination of monthly Fuel Charges Adjustment (FCAs) by NEPRA

According to Section-31; Sub-section(7)(iv) of NEPRA Regulation of Generation, Transmission and Distribution of Electric Power Act 1997 states that the Authority may, on a monthly basis and not later than a period of seven days, make adjustments in the approved tariff on account of any variations in the fuel charges and policy guidelines as the Federal Government may issue and, notify the tariff so adjusted in the official Gazette.]

During audit of NEPRA, Islamabad, CPPA-G submitted monthly data of actual fuel cost components to NEPRA in order to make adjustments in the approved tariff of the Ex-WAPDA DISCOs due to variation in the fuel charges. NEPRA was required to determine adjustment on account of variations in fuel charges in the approved tariff of XWDISCOs not later than a period of seven days, which was not done. The detail is as under:

Period (2021-22)	NEPRA Notification dated	Actual Fuel Charges Rs/kWh	Corresponding Reference Fuel Charge Rs/kWh	Fuel Price Variation Rs/kWh	Billing Month
July,2021	10.09.2021	6.6570	5.2798	1.3771	September,2021
August,2021	08.10.2021	6.6873	4.7334	1.9539	October,2021
September,2021	08.11.2021	7.5502	5.0229	2.5272	November,2021
October,2021	09.12.2021	9.9179	5.1733	4.7446	December, 2021
November,2021	13.01.2022	8.0401	3.7381	4.3020	January,2022
December,2021	11.02.2022	8.6315	5.5347	3.0968	February,2022
January,2022	10.03.2022	12.4614	6.5124	5.9490	March,2022
February,2022	14.04.2022	9.1046	4.2516	4.8530	April,2022
March,2022	06.05.2022	9.0975	6.2295	2.8680	May,2022
April,2022	09.06.2022	10.6010	6.6087	3.9923	June,2022
May,2022	07.07.2022	13.8363	5.9322	7.9040	July,2022

June,2022	12.08.2022	15.8316	5.9344	9.8972	August,2022
-----------	------------	---------	--------	--------	-------------

While deciding the fuel price adjustment (FPA) for the month of May, 2022 under scheme of Law, one of the NEPRA’s Member raised the issue in detail by giving the following descending note;

“The adjustment should have been done within first 07 days. In term of time value of money - how and to whom this delay will effect? The delay in processing of adjustment ultimately affects the electricity consumers or the tax payers. The amount claimed on account of previous adjustment is more than Rs.6.5 billion. In view of time Value of Money, this needs to be audited that for which period this amount pertains to. Considering the Judgment of the Honorable Supreme Court with regard to pass on the FCA amount, NEPRA has already decided that previous claims, if any, shall be submitted as early as possible but beyond the period of 180 days the petitioner shall have to justify it. Therefore, in the instance case, it is required to carry out an audit regarding period of previous adjustment claim and calculate the financial impact of the delay”.

Late determination of monthly Fuel Cost Adjustment (FCA) did not allow the DISCOs to pass on and recover the electricity dues from consumers timely, hence, the same was causing pilling up of receivables and badly affecting the liquidity position of the company,

Non-adherence to NEPRA Regulation of Generation, Transmission and Distribution of Electric Power Act 1997 resulted in delay in determination of monthly Fuel Charges Adjustment (FCAs) by NEPRA up to the Financial Year 2021-22.

The matter was taken up with the management in March, 2023 and reported to the Ministry in June, 2023. The management replied that the audit para pertained to the Regulatory Functions of NEPRA and it had already been clarified to D.G Audit vide letter No. NEPRA/Dir (Finance)/MCM-01/4062 dated February 24, 2023 that the audit of regulatory functions of NEPRA might not be carried out as the same was beyond the statutory scope under section 14(2) of NEPRA Act and opinion of the Attorney General for Pakistan. The reply was not agreed to as only the matter of delay in determination of Fuel Cost Adjustment (FCA) was highlighted in audit observation the matter.

Audit recommends that the management needs to look into the matter besides determining the FCA adjustments as per time line given in NEPRA Act-1997.

(Draft Para No. 53/2023-24)

1.11.7 Non-implementation of BoD’s decision regarding auditing of AEDB from Chartered Accountant Firm

As per Minutes of 55th AEDB Board Meeting Agenda Item No.08 “AEDB Section 14(2) act provides that the accounts of Board, Institute and Organization shall be audited by a reputable firm of Chartered Accountants,

who are within the meaning of Chartered Accountants 1961 (X of 1961) from a panel of Chartered Accountants proposed by the Board on such terms and condition as the Board may determine.

During audit of AEDB, it was observed from Minutes of the 55th AEDB Board meeting that the accounts of Board, institute and Organization shall be audited by a reputable firm of chartered Accountants but the same has not yet been audited since, 2008. The passive approach indicates lack of interest on the part of AEDB towards implementation of BoD's decision.

Non-adherence to BoD decision resulted in non-audited of financial statements from Chartered Accountant firm up to 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that the services of M/s Baker Tilly Mehmood Idrees Qamar, Chartered Accountants for conducting audit of AEDB (now PPIB) accounts for the fiscal years 2007-08 to 2021-22. The execution process of external audit was started from June 14, 2023 and now was at final stage.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to provide the record in support of reply to audit besides furnishing the approval of the office of the Auditor-General of Pakistan in hiring the services of Chartered Accountant within a week. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No.3.2.8.2.3.18 having financial impact of Rs.657.85 million. Recurrence of same irregularity is a matter of serious concern.

(Draft Para No.729/2023-24)

1.12 Unsatisfactory Maintenance of Accounts

In order to have transparent and efficient business operations it was essential to maintain the accounts in an accurate and timely manner. Accounts represent a key final manifestation of the overall working of an organization and its business outcomes. Lapses in account management practices create an environment highly vulnerable towards financial misappropriations and irregularities.

In this context, audit observed instances of in-ordinate delay in accounts finalization, inaccurate recording of data etc. Comments on the financial statements of the companies are placed in Chapter-2 whereas shortcomings pertaining to accounts management, analyzed on sample basis, are illustrated in the subsequent paras.

1.12.1 Non-updation of security amounts in consumer account / profile - Rs.5,048.60 million

According to Para 5.4 of Consumer Service Manual, DISCO shall maintain a separate bank account for the security deposits in accordance with the provisions laid down under Section 217 of the Companies Act 2017. DISCO (DISCO to insert its name) shall not utilize this amount for any of its purposes. The profit so received from this security deposit account shall be mentioned in the tariff petition for passing on the benefit to the consumers.

During audit of DISCOs, it was observed that 1.264 million running consumers of different categories having sanctioned load one and above show zero security amounts in their respective accounts and profile. However, security amounts deposited by the consumers have not been updated in security deposit register as per commercial procedure manual form No.26 (old) and new form 45 (New) accounts by the concerned revenue officers. This shows that in case of default of consumer's connection, DISCOs had nothing to adjust against their arrears. Due to non-updation of security amounts in respective consumer account, the chances of misappropriation of security amounts in bank account could not be ruled out. Hence, security amounts Rs.5,048.60 million (approx) at prevailing rates were required to be updated and reconciled with security bank accounts. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	No of Consumers	Amount (Rs.in million)
1.	FESCO	81 & 969/2023-24	699,009	2,940.95
2.	GEPCO	363 & 717/2023-24	494,583	1,864.02
3.	LESCO	339/2023-24	501	1.16
4.	PESCO	564/2023-24	65,039	192.37
5.	QESCO	1309/2023-24	4,382	50.10
TOTAL			1,263,514	5,048.60

(Source: DISCOs MIS generated report)

Non-adherence to instructions of Consumer Service Manual resulted in non-updation of security of Rs.5,048.60 million in consumers' account/profile up to the Financial Year 2022-23.

The matter was taken up with the management during April to October, 2023 and reported to the Ministry in June to December, 2023. The management replied that account number wise lists had been forwarded to field formations to check / verify the security amount from record and update the security amount, if not already updated. It was added that some of the cases were updated and the matter was being inquired in few cases.

The DAC in its meeting held on December 14-23, 2023 directed the management to get the record of completed action verified from audit within 15 days and expedite the **pending actions within 60 days. The DAC also directed the management of GEPCO and PESCO to expedite the inquiry and submit its report to audit within a month.** No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

1.12.2 Non-recovery from consumers as pointed out in agreed audit notes – Rs.630.33 million

According to Section-7.3 of Power Distribution Companies Internal Audit Manual, internal audit is responsible for follow up process for significant audit results, which involves tracking, monitoring, and validating

management actions to ensure that the operating effectiveness of relevant controls has been corrected and / or controls have been implemented to achieve the desired results.

During audit of PESCO and SEPCO, it was observed that 1,822 audit notes amounting to Rs.630.33 million were issued to the concerned formations by Internal Audit, which were agreed / accepted by the concerned formations for recovery from consumers but the recovery was not made. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	No of Audit Note	Amount (Rs.in million)
1.	PESCO	1241/2023-24	1,788	626.98
2.	SEPCO	661/2023-24	34	3.35
TOTAL			1,822	630.33

(Source: Manager Internal Audit Reports for the year 2022-23)

Non-adherence to Authority's instructions resulted in non-recovery from consumers as agreed audit notes amounting to Rs.630.33 million during the Financial Year 2022-23.

The matter was taken up with the management in September and November, 2023 and reported to the Ministry during November to December, 2023. The management replied that all the field formations had been strictly directed to debit and recover the amount.

The DAC in its meeting held on December 14-23, 2023 directed the management to expedite recovery and get the record verified from Audit within 30 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

1.12.3 Over-statement of assets due to irrational booking of employee's retirement benefits to works - Rs.610.41 million

As per FAM-1 (9)(10) (Fixed Assets Management) of DISCOs accounting manual, the amounts of Labor and Overheads [8% and 12% respectively] are debited to Labor CWIP and Overhead CWIP and credited to Labor Pool Clearing Accounts respectively.

During audit of CEO GEPCO, a debit advice of Rs.610.41 million on account of employee's post-retirement benefits raised to the office of PD Construction and PD GSC, which were booked / charged to works being executed in respective offices. Since charging of employees' retirement benefits had caused excess charging of overheads to the works in hand beyond permissible limit of 20%. This showed that charging of post-retirement benefits was made on the calculation of the strength of employees performing their duties in these offices, which made the assets overstated.

Financial mis-management resulted in overstated assets due to irrational booking / charging of employees' retirement benefits amounting to Rs.610.41 million to works during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that there was shortage of staff against the sanctioned strength.

The increase in overhead was mainly attributable to increased salaries, wages and other benefits and keeping in mind the prevailing inflationary factor in the country. However, the recommendation of audit for not charging the Post Retirement Benefits to the said offices to keep their overheads within limit would be adopted after consulting with Commercial Auditors.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to submit revised reply to audit by justifying the stance with reference to GEPCO accounting manual / SOPs / Rules etc besides expediting consultation with commercial auditors. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC's decision.

(Draft Para No. 1299/2023-24)

1.12.4 Non-initiating of SDGs'/SAP Schemes within the specified Financial Year of identification - Rs.540.33million

According to Para-ii of letter No.20 (1) PIA-I/PC/2021 dated December 28, 2022 of the Ministry of Planning, Development and Special Initiatives of Government of Pakistan, "If the project does not start functioning within 12 months of its approval or does not achieve financial close, then it will be reconsidered by the approving forum."

During audit of Project Directorate (C&O) PESCO, 237 SDGs'/SAP schemes costing Rs.540.33 million were approved from competent forum in the Financial Year 2022-23. However, execution on these works were not started and these works remained untouched. Neither these schemes were started nor the funds were surrendered to the Federal Government/Cabinet Division.

Non-initiating of SDGs' schemes amounting to Rs.540.33 million resulted in violation of guidelines of the Ministry of Planning, Development and Special Initiatives of Government of Pakistan during the Financial Year 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that the administrative approval and funds were received during different months. The processing of estimates and procurement of material and the award to contractor was a time-consuming process, however most of the works were completed and the remaining / in progress work would be completed, and audit would be informed accordingly.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to submit revised detailed reply along with verification of completed actions within 15 days. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC's decision.

(Draft Para No. 300/2023-24)

1.12.5 Irregular booking of gas consumed at TPS colony to power plants – Rs.508.29 million

According to Rule-5(5) of Public Sector Companies Corporate Governance Rules-2013, “the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders”.

During audit of GENCO-II, the gas was utilized without gas metering in Thermal Power Station Colony Guddu. A survey for gas consumption in colony was conducted by SNGPL team during 2020-21 which depicted 657 MMCFT annual consumption of gas at TPS Colony Guddu. Resultantly gas amounting to Rs.508.291 million (including 17% GST) was utilized in TPS Colony Guddu. However, the said cost was booked against generation plants instead of recovery of the same from the inhabitants of colony.

Non-adherence to Public Sector Companies Corporate Governance Rules-2013 rules resulted in irregular booking of gas consumed at TPS colony to power plant amounting to Rs.508.29 million during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that CPGCL had been making continuous attempts for getting gas but SNGPL conveyed that GoP had imposed ban on new gas connections. The assertion challenging the reported consumption of 657 MMCFT of gas in TPS Colony Guddu for the year 2022-23, as pointed out in SNGPL survey maintained that the survey report did not mention any such consumption quantity.

The DAC in its meeting held on December 22 & 23, 2023 directed the management to devise the plan for disconnecting the gas connections along with recovery of cost of gas from residents / consumers of TPS Colony Guddu and present this plan before BoD for decision within a month. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC’s decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No.1.12.5 having financial impact of Rs.460 million. Recurrence of same irregularity is a matter of serious concern.

(Draft Para No. 776/2023/24)

1.12.6 Non-adjustment / recovery on account of de-escalation from contractor – Rs.235.73 million

According to Appendix-2 (Price Escalation/Adjustment) of contract, the employer was entitled to adjust / recover any sum on account of price de-escalation.

During audit of NTDC, the Consultant M/s NESPAK had pointed out a sum of Rs.235.73 million (RMB 10.33 million) to be recovered from contractor on account of de-escalation of price in contract no. ADB-65(R)-2012 (Package-I) for procurement of plant, design, supply, installation, testing & commissioning of 500 kV transmission line 3rd Circuit Jamshoro-Moro-Dadu to Rahim Yar Khan Lot-III (Goth Qazi Mahar- Rahim Yar Khan Section). However, the adjustment / recovery of the de-escalated amount was not forthcoming from record.

Non-adherence to Contract Clause resulted in non-adjustment / recovery of Rs.235.73 million (RMB 10.33 million) on account of de-escalation from contractor up to the Financial Year 2019-20.

The matter was taken up with the management on September 25, 2020 and reported to the Ministry on December 29, 2020. The management replied that the case of price adjustment was under review with Consultant i.e. NESPAK and de-escalation amount would be recovered from the Performance Guarantee and Retention Money of the contractor. Audit contended that the said amount was to be recovered from the progress payment invoices of the contractor instead of Performance Guarantee / Retention Money.

The DAC in its meeting held on April 12, 2021 did not agree with the reply and directed the management to provide detailed / revised reply. The DAC in its meeting held on December 18 & 19, 2023 upheld the earlier decision. No reply was furnished till finalization of the report.

Audit recommends that the management needs to expedite the adjustment / recovery on account of price de-escalation.

(Draft Para No. 1122/2023-24)

1.12.7 Irregular booking of overheads in dubious project ledger - Rs.221.35 million

As per accounting DISCOs accounting manual, the amounts of Labour and Overheads [8% and 12% respectively] are debited to Labour CWIP and Overhead CWIP and credited to Labour Pool Clearing Accounts respectively.

During audit of GSC LESCO, an amount of Rs.221.35 million comprising overheads, civil & other expenses was charged / booked against a project No.201191076 namely "Construction of Security Room" at 132 kV grid station Raiwind. However, no expenses on account of material and labor was incurred / booked against the said work, which indicated that no such project / work was being carried out at site. This scenario indicated that a dummy project ledger was being used to park the excess overheads (above 20%). The expenses on account of overheads were required to be charged against respective works, which was not done. Such practice was against the fundamental principles of fair presentation of financial statements and raised questions on the authenticity of financial statements.

Non-adherence to Accounting Manual resulted in irregular booking of overheads amounting to Rs.221.35 million in dubious project ledger during the Financial Year 2022-23.

The matter was taken up with the management in August; 2023 and reported to the Ministry in November, 2023. The management replied that the booking of overhead in dubious project ledger had been stopped as per advice of the Audit and the such expenditure was being charged to ongoing works as practice in vogue.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to carry out the Special Audit of this specific project ledger from Manager internal Audit LESCO and finalize the report within one month. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 633/2023-24)

1.12.8 Incorrect charging of expenditure of temporary grid station Rohri to O & M head of accounts – Rs.204.97 million

According to basic accounting principle, all the expenditure incurred on acquisition of assets are capitalized and accounted for in the proper designated Head of Account whereas expenditure on operation and maintenance are accounted for in the respective Expenses Head of Account.

During audit of NTDC, an expenditure of Rs.204.97 million was incurred on construction of temporary grid station at Rohri without any provision in the approved PC-I. However, while preparing estimates, the cost was charged to O & M head of account. The charging of capital expenditure to expense head was not admissible as it was against the basic accounting principle.

Non-adherence to the accounting principle resulted in incorrect charging of expenditure amounting to Rs.204.97 million incurred on Temporary Grid Station Rohri to O&M head of accounts up to the Financial Year 2019-20.

The matter was taken up with the management on September 25, 2020 and reported to the Ministry on December 29, 2020. The management replied that the project cost was recorded under 'Capital Work in Progress' and capitalized later on. Further, there was no O&M account existed in the books of project management. Audit contended that the estimates revealed charging of cost of temporary grid to O&M head.

The DAC in its meeting held on April 12, 2021 directed the management to constitute fact finding committee and submit its report to Audit under the signature of MD NTDC. The DAC in its meeting held on December 18 & 19, 2023 upheld the earlier decision. No further progress was reported till finalization of the report.

Audit recommends that the management needs to implement DAC's decision.

(Draft Para No. 1205/2023-24)

1.12.9 Irregular issuance of debit advices without capitalization of completed work - Rs.194.39 million

According to FAM-2.3 Form AB-161 Sr. No. 28 of Financial Accounting Manual: "a) Debit Advice(s) prepared from the transfer of each project to the concerned Division of GSO with the supporting documents which includes: i) A-90 Form ii) AB 161 Form.

During audit of GSC HESCO, electrical material was procured amounting to Rs.1, 223.03 million under Loan No. 7565-Pak through various purchase orders during the Financial Year 2013-14. Out of this, A.B.C cable was drawn by XEN TLC Division amounting to Rs.194.39 million for construction of electrical work at different sites through various SRs. After examination/scrutiny of record it was observed that 11 No. debit advices valuing Rs.194.39 million were issued to different formations without provision of completion report A-90, handing/taking over certificate of the concerned formation. Hence due to non-availability of the completion report A-90 handing/taking over certificate authenticity of debit advices could not be ascertained.

Non-adherence to the Financial Accounting Manual resulted in irregular issuance of debit advice without capitalization of completed work amounting to Rs.194.39 million during the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management replied that procurement of material was not under the purview of PD GSC.

This work was not carried out through GSC division hence handing /taking over certificates did not pertain to GSC directorate. The debit advices were issued just only to regularize the books.

The DAC in its meeting held on December 22 & 23, 2023 directed the management to inquire the matter and submit report to Audit within 30 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 632/2023/24)

1.12.10 Non-charging/recovery of markup against extension in due date for payment of energy bills -Rs.99.09 million

According to Para-1.3 of Commercial Procedure, “the Revenue Officer and Assistant Manager are responsible for; i) implementing in conjunction with the Executive Engineer, the commercial policy laid down from time to time by the Authority through the Company, ii) efficient application of billing and collection procedures”.

During audit of CEO GEPCO, due date of payment of 29,132 consumers were got extended during the year but markup amounting to Rs.99.09 million was not charged and collected. Moreover, the company had not any built-in mechanism for charging of markup in billing and collection software. GEPCO had to pay supplemental charges on the delayed payments of IPPs as CPPA-G had raised invoices against the same but due to no mechanism of charging/ recovery of mark up of electricity from the consumers, it had sustained loss to the stated extent.

Non-adherence to commercial procedures resulted in non-charging/recovery of markup amounting to Rs.99.09 million against extension in due date for payment of energy bills during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that mark up on extended due dates being charged as per rules. However, account number wise lists had been forwarded to field formation to check and charge mark-up if not already charged. The progress in this regard would be intimated to audit in due course of time.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to complete the pending action expeditiously and get it verified from audit within a month. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC's decision.

(Draft Para No. 800/2023-24)

1.12.11 Non-clearance of deferred amount adjusted under Category “C” - Rs.62.47 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), “all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

During audit of Operation Circle MEPCO Muzaffargarh, it was observed that four million excess units were charged under “C” category to M/s PARCO amounting to Rs.62.47 million and the same amount was deferred by department up till now and inquiry was held long ago for it but decision was pending. Moreover, inquiry showed that the action of charging 4 million units was taken to manage the line losses of the circle. The SDO was under pressure from high ups therefore, he took the step. It blatantly highlights the routine of the company to go for overbilling to the consumers in order to minimize the line losses.

Non-adherence to Authority guidelines resulted in non-clearance of deferred amount under category “C” amounting to Rs.62.47 million up to the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management replied that an inquiry committee was constituted by the competent authority vide dated November 25, 2016 which was finalized and it was recommended to take action against the three officers accordingly as per departmental inquiry finalized against all officers, who were held responsible in recommendation. The revision of unjustified charging of Rs.62.47 million was under process in Commercial Directorate MEPCO Multan; vide S.E (OP) MEPCO Circle M/Garh dated December 15, 2023 for approval to withdraw the amounting to Rs.62.47 million without units.

The DAC in its meeting held on December 20 & 21, 2023 directed the management to re-inquire the matter and submit its report to audit within 30 days. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC’s decision.

(Draft Para No. 611/2023-24)

1.12.12 Non-adjustment of security deposits against the arrears of P-Disc. consumers - Rs.31.86 million

According to Para-5 of Commercial Procedure Manual, “When a Permanent Disconnection has been effected and final bill prepared by W.C.C the amount of the Security Deposits held against the consumer is adjusted against his outstanding bill”.

During audit of FESCO and GEPCO, it was observed that 24,674 consumer connections had permanently been disconnected due to having arrears. The security amounting to Rs.18.11 million was appearing against profile of GEPCO’s consumers, however, the same was not adjusted against arrears by placing the consumers under Dead Defaulters Batches-26 & 36. Moreover, arrears of Rs.13.75 million were appearing against the FESCO consumers. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	No of Consumers	Amount (Rs.in million)
1.	FESCO	1064/2023-24	20,611	13.75
2.	GEPCO	365/2023-24	4,063	18.11
TOTAL			24,674	31.86

(Source: DISCOs MIS generated report)

Non-adherence to Commercial Procedure resulted in non-adjustment of security deposits of Rs.31.86 million against the arrears of P-Disc. consumers up to the Financial Year 2022-23.

The matter was taken up with the management in September and October, 2023 and reported to the Ministry in October and December, 2023. The management replied that recovery so achieved would be posted against consumers’ security accounts and progress would be placed before Audit.

The DAC in its meeting held on December 14-23, 2023 directed the management to expedite the matter and record of completed action be provided to audit for verification within a month. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC’s decision.

1.13 Miscellaneous Issues

1.13.1 Loss due to non-obtaining of insurance coverage - Rs.40,000.16 million

As per NEPRA determination, NEPRA had allowed insurance cost component to GENCO-II in the tariff determination of 747 MW Combined Cycle Power Plant vide its Tariff determination dated April 24, 2016. The Board of Directors CPGCL (GENCO-II) in its 64th BoD meeting held on February 03, 2016 accorded approval to get the insurance cover for assets of 747 MW CCPP, Guddu through competitive bidding”.

During audit of GENCO-II and MoE, it was observed that due to a fire incident happened on July 10, 2022 at Steam Turbine-16, Steam Turbine and its allied equipment valuing (approx.) Rs.38,969.41 million were damaged and the Gas Turbines-14&15 remained under forced outage in January, 2023 for 431 hours and 744 hours respectively on the pretext of “no insurance coverage” which caused generation loss of 285.525 GWH units and loss of Capacity Payment Charges amounting to Rs.1,030.75 million. The insurance coverage of the said plant was not obtained despite having the provisions of insurance cost component in NEPRA Tariff determination and clear-cut directions of the BOD. Resultantly, the company had to suffer loss of Rs.40,000.16 million due to non-obtaining of insurance coverage. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	Cases	Amount (Rs.in million)
1.	GENCO-II	728 & 767/2023-24	2	40,000.16
2.	MoE	158/2023-24	1	0
TOTAL			3	

(Source: Contract Correspondence File)

Non-adherence to the provision of NEPRA Tariff determination and directions of the BOD resulted in loss due to due to non-obtaining of insurance coverage (approx.) -Rs.40,000.16 million up to the Financial Year 2022-23.

The matter was taken up with the management in March & October, 2023 and reported to the Ministry in November, 2023. The management replied that an inquiry committee constituted to probe into the fire incident upon the directives of Prime Minister Pakistan submitted its report on October 19, 2022. The committee recommended, concluded and held collectively responsible top management of CPGCL, BOD as well as NICL & PRCL. Since 2015, a series of efforts carried out to get the insurance for the plant but the efforts were not fruitful due to various reasons at different stages. However, as per schedule, the plant would be insured by the end of February, 2024. Audit contended that the responsibility of huge loss sustained to company due to non-obtaining of insurance cover needed to be fixed.

The DAC in its meeting held on December 22 & 23, 2023 directed the management to inquire the matter at GHCL level and expedite the insurance process and submit its report to audit within 30 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

1.13.2 Non-contribution to WWF & WPPF - Rs.10,280.08 million

According to section 4 of Punjab Workers Welfare Fund Act 2019 "every establishment or a part thereof, the total income of which in any year of account commencing on or after the date of closing of accounts on 30th June or 31st December, as the case may be, is not less than rupees five hundred thousand, shall be liable to pay to the Fund in respect of that year a sum equal to two percent of its total income."

According to Section 3 of Companies Profit (Workers Participation) Act 1968 "Every company to which the scheme applies shall - establish a Workers Participation Fund in accordance with the scheme as soon as the accounts for the year in which the scheme becomes applicable to it are finalized, but not later than nine months after the close of that year."

During audit of NPPMCL, it was observed that NPPMCL had not made any contribution towards the WWF and WPPF amounting to Rs.10,280.08 million. The outstanding payable amount, as reported in financial statements on June 30, 2023, was Rs.2,616.85 million for WWF and Rs.7,663.23 million for WPPF.

Non-adherence to Section 4 of Punjab Workers Welfare Fund Act 2019 and Section 3 of Companies Profit (Workers Participation) Act 1968 NPPMCL had outstanding payables of Rs.10,280.08 million up to the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that the Company had sought clarification from Federal Government through letter dated April 15, 2022 and reminders dated November 24, 2022, February 22, 2023, May 08, 2023, and July 31, 2023 however, response was awaited from Federal Government. Latest clarification had again been sought recently. Once the response is received, the Company would disburse the WWF and WPPF contributions accordingly.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to resolve the matter at ministry level and get the record verified from Audit. No further progress was intimated till the finalization of report.

Audit recommends the implementation of DAC's decision.

(Draft Para No. 822/2023-24)

1.13.3 Loss due to fire incidence at Steam Turbine - Rs.8,049.30 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), “all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

During audit of GENCO-II, a fire incident was occurred at Steam Turbine-16 in July, 2022 which resulted in generation loss of 2,229.723 GWh units and loss of Rs.8,049.30 million in shape of capacity charges. In order to probe in the matter, a technical audit and two (02) inquiry reports were finalized on the directions of competent authorities. The findings of both the inquiries warranted severe punitive actions against the delinquents but the implementation of which was not forthcoming from the record, despite the inquiry reports being recommended by BoD of CPGCL for compliance.

Violation of Authority’s instructions resulted in loss of Rs.8,049.30 million due to fire incidence at Steam Turbine during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that initially an inquiry was held wherein punitive actions were recommended against the delinquents. Subsequently, on the directions of Prime Minister of Pakistan and Ministry of Energy a foreign consultant namely M/s V.A Consultancy Services was hired in order to analyze the root cause of the incident. The said foreign consultant in its report declared that heavy rain water flow had not been stopped by the generator terminal seals and no one was declared responsible for the said fire incident. Therefore, no action was taken against any one on the basis of previous inquiries.

The DAC in its meeting held on December 22 & 23, 2023 directed the management that the action taken on the recommendations of inquiry committees’ reports be shared with audit within a week. No further progress was intimated till the finalization of report.

Audit recommends the implementation of DAC’s decision.

(Draft Para No.858/2023/24)

1.13.4 Non-refund of long outstanding tax claims from FBR - Rs.4,800.910 million

According to Clause-10 of refund of input tax that if the input tax paid by the registered person on taxable purchases made during a tax period exceeds the output tax on account of zero-rated local supplies or export made during that tax period, the excess amount of input tax shall be refunded to the registered person not later than forty-five days of filing of refund claim in such manner and subject to such conditions as the Board may, by notification in the official Gazette specify.”

During audit of CEO HESCO, an amount of Rs.4,800.910 million was due from Government of Pakistan for the period from 2009 to 2011. However, the refund of amount was pending since then. Audit is of the view that the matter was required to be taken up with FBR vigorously for refund of claims to prevent the Company from loss.

Non-adherence to the rules resulted in non-refund of long outstanding tax claims from FBR amounting to Rs.4,800.910 million up to the Financial Year 2022-23.

The matter was taken up with the management in October 2023 and reported to the Ministry in December, 2023. The management replied that in refund claim of Rs.993.161 million, decision in favour of HESCO was given vide Appellant Tribunal order dated September 20, 2022, wherein Tribunal directed to the respondent i.e. the Commissioner IR Karachi to proceed the subject refund claim. Refund claim of Rs.3,807.749 million was pending before Secretary IR-ST&FE (Law, Procedure & Exemption), FBR, Islamabad.

The DAC in its meeting held on December 22 & 23, 2023 directed the management to pursue the matter for adjustment with FBR under intimation to audit. No further progress was intimated till the finalization of report. No further progress was intimated till the finalization of report.

Audit recommends the implementation of DAC's decision.

(Draft Para No. 1289/2023-24)

1.13.5 Non-release of Agricultural subsidy @ 40% -Rs.3,345 million

In terms of rule 3 (3) and 31B of schedule-II of the Rules of Business, 1973, the following business of government is assigned to the Power Division:

Matters relating to development of power resources of the country and relating to electric utilities.

During audit of Ministry of Energy, Power Division Islamabad, an amount of Rs.3,345 million was required to be paid by the Government of Pakistan to K-Electric. KE provides electricity to the Agricultural Tube wells as per policy and subsidy claims were being filled in accordance with the notification No.PF-05(09-AGR)2020 BAL dated March 20, 2020. By the end on June 2022, outstanding balance due from Government of Pakistan, which is 40% share in respect of agricultural subsidy, was Rs.3,345 million. Non-release of agricultural tube-wells subsidy consistently widens the cash flow gap, which has seriously constrained the cash flow position of the company and would adversely affect the planned investments. Moreover, non-release of amount will ultimately add in vicious circle of circular debt.

Non-adherence to the rules resulted in weak internal controls and non-release of Agricultural subsidy @ 40% amounting to Rs.3,345 million during the Financial Year 2021-22

The matter was taken up with the management in March, 2023 and reported to the Ministry in June, 2023. The management replied that Tariff & Subsidy wing verified the subsidy claims of DISCOs / K.E on the basis of actual sales made in the light of Notification/SROs by the respective DISCO. K.E submitted the claims in the absence of valid SROs during FY 2011 to 2014 so the claims were returned, which were to be resubmitted after doing the needful. K.E submitted the claims on invalid pattern after July 2019, which were returned un-actioned with the remarks to resubmit after correction as per agreed format of agri subsidy @40%. Ministry of Energy (Power Division) had constituted a committee to physically verify the installed meters and billing in order to settle the long outstanding dues claimed by K.E.

The DAC in its meeting held on October 17, 2023 directed the management to submit the revised reply so that the figures with regard to the amount of subsidy could be reconciled. No further progress was intimated till the finalization of the report.

Audit recommends the implementation of DAC’s decision.

(Draft Para No. 118/2020-21)

1.13.6 Loss due to demurrage and detention charges sustained by NTDC for delayed custom clearance – Rs.558 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), “all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

During Thematic Audit of procurement and material management in NTDC, it was observed that an amount of Rs.558 million was paid on account of demurrage and detention charges for delayed custom clearance. This showed sheer negligence on the part of management of NTDC and resultantly, company sustained a huge loss.

Non-adherence to authority’s instructions resulted in loss due to demurrage and detention charges sustained by NTDC for delayed custom clearance amounting to Rs.558 million up to the Financial Year 2022-23.

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that recent shipments incurred significant demurrage and detention charges due to a series of hurdles i.e., delays in document submission, temporary funding shortfalls, complex customs arrangements for reduced duty benefits, and limited port free time all contributed. These unfortunate obstacles ultimately led to the unwanted additional costs. The reply was not tenable as imposition of demurrage and detention charges depicted poor performance of management in timely clearance of imported material.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to inquire the matter and submit report to audit within 30 days. No further progress was reported till finalization of the report.

Audit recommends the implementation of DAC’s decision.

(Draft Para No.1160/2023-24)

1.13.7 Irregular procurement of vehicles in violation of austerity measures – Rs.446.99 million

According to Para (i) of Finance Division letter dated July 15, 2021, “There shall be complete ban on purchase of all types of vehicles both for current and development expenditure excluding motorcycles, students’ buses, ambulances and firefighting vehicles.”

During audit of DISCOs & PPIB, it was observed that 99 vehicles amounting to Rs.446.99 million were procured despite imposition of complete ban on procurement of vehicles. Hence, the procurement of vehicles was irregular. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	No. of vehicles	Amount
----------------	------------------------	-----------------------	------------------------	---------------

				(Rs.in million)
1.	FESCO	238/2021-22, 1071/2023-24	2	152.15
2.	GEPCO	770/2023-24	94	284.31
3.	MEPCO	924/2023-24	1	5.12
4.	PPIB	65/2023-24	2	5.41
Total			99	446.99

(Source: Purchase Order File)

Non-adherence to the memorandum issued by finance division resulted in irregular procurement of vehicles amounting to Rs.446.99 million up to the Financial Year 2022-23.

The matter was taken up with the management in March & October, 2023 and reported to the Ministry in June & December, 2023. The management replied that operational vehicles were procured after getting approval from Ministry of Energy (Power Division). The management of GEPCO replied that austerity measures issued by Ministry of Finance were not binding on GEPCO subject to the approval of the BoD being the Competent Authority. Audit contended that austerity measures were imposed by Finance Division (GoP) and accordingly relaxation in ban was required to be obtained from the Finance Division.

The DAC in its meetings held on December 14 - 23, 2023 directed the management to refer the matter to Finance Division GoP for seeking its clarification through Ministry of Energy (Power Division) within a month. No further progress was reported till the finalization of report.

Audit recommends implementation of DAC's decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide Para No.1.6.16 having financial impact of Rs.793.62 million. Recurrence of same irregularity is a matter of serious concern.

1.13.8 Irregular adoption of transport policy and imprudent financial burden on account of provision of 2nd new car, reimbursement of drivers' salary, maintenance & POL charges without approval of Finance Division – Rs.329.47 million

As per office memorandum issued by Finance Division (Regulation Wing) Government of Pakistan issued vide F No.3(37)R-14/2022 dated February 01, 2023, it is mandatory for every Ministry / Division / Department to consult Finance Division while initiating their legislative proposals having financial implications, relating to framing their rules on pay and allowances, retirement benefits, leave benefits as well as other financial terms and conditions of service. In the light of these rules, Regulations wing of Finance Division vets all the legislative proposals having financial implications, which are referred to this Division by the concerned Autonomous / Semi-autonomous bodies Corporations through their respective Ministries / Divisions concerned. According to rule 5(1)

of the Corporate Governance Rules 2013, “the directors of a Board shall be persons who, in opinion of the Government, shall assist the Public Sector Company to achieve its principal objective and the Board shall accordingly exercise its powers and carry out its fiduciary duties with a sense of objective judgment and in the best interest of the company.” Further, rule 5(a) of the Corporate Governance Rules 2013, “the principle of probity and propriety entails that company’s assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage.”

During audit of GEPCO, it was observed that the BoD had approved the Transport Policy-2019 & 2022 in its 103rd & 139th meeting held on August 20, 2019 & January 14, 2022 entitling thereby the officers of BS 17 to 20 for providing the cars with 60% cost deposit in 60 monthly installments, per month payments on account of POL for field / office duties, maintenance charges and drivers’ salary. However, the GEPCO’s Transport Policies-2019 & 2022 had not been got approved from Finance Division. Accordingly, 131 different types of new cars valuing Rs.113.40 million were procured from GEPCO’s funds and provided to the officers as 2nd time. Moreover, a payment of Rs.216.07 million was made against reimbursement claims on account of drivers’ salary, maintenance and PoL Charges on lump sum basis without ascertaining the actual expenditure incurred thereof, which was irregular. This showed that GEPCO’s Transport policy was unique in its nature containing no limit in provision of vehicles to the officers during entire service period as an officer in his / her 30 years of service would get ownership of six (6) new cars on repayment of 60% cost of previous Car through installments and 40% cost borne by the company, which ultimately passed on to the consumers in shape of tariff determination.

Non-compliance to the directions issued by Finance Division resulted in irregular adoption of transport policy and imprudent financial burden on account of provision of 2nd new car, reimbursement of drivers’ salary, maintenance & POL charges amounting to Rs.329.47 million up to the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that keeping in view the clarification of finance division dated February 14, 2013 duly endorsed by the Ministry of Energy (Power Division) on February 03, 2021, clarification of PEPCO, NEPRA’s approval and power(s) of BOD, BOD GEPCO was the Competent Authority regarding formulation of any policy including GEPCO Transport Policy 2019 & 2022. However, BoD being the Competent Authority already considered the financial viability of the transport policy and confidently allowed the 2nd and onwards cycle(s) of the GEPCO Transport Policy. The savings in transport related expenditures was already passed to the consumers through tariff being NEPRA’s approved policy. The net saving of Rs.1,206.00 million on account of POL, maintenance charges and driver’s salary during 1st Cycle of the policy proved that the objective had been achieved. The reply was not agreed to as the GEPCOs transport policy needed to be got approved from finance division of Government of Pakistan besides reviewing the rationality of the provision of 2nd vehicle and incurrence of expenditure on account of maintenance /POL / drivers’ salary.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the transport policy reviewed from PPMCL within a month. No further progress was reported till finalization of the report.

Audit recommends implementation of DAC’s decision.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2015-16 vide Para No. 11.4.2 having financial impact of Rs.349.38 million. Recurrence of same irregularity is a matter of serious concern.

(Draft Para Nos. 798, 873 & 1075/2023-24)

1.13.9 Over payment of house rent allowance - Rs.269.02 million

As per Government of Pakistan Finance Division Office Memorandum dated July 02, 2018 “The President has been pleased to allow the increase in the House Rent Allowance by 50% of existing amounts being drawn on the basis of Pay Scale 2008 by the Federal Government employees”.

During audit of NTDC, the employees of NTDC had drawn House Rent Allowance amounting to Rs.361.52 million on the basis of 30% of their running basic but this payment was in contradiction of Finance Division notification referred above. Hence, over payment of Rs.269.025 million was made on account of House Rent Allowance which needs justification.

Non-adherence to the rules resulted in over payment of House Rent Allowance of Rs.269.02 million during the Financial Year 2022-23.

The matter was taken up with the management in November, 2023 and reported to the Ministry in December, 2023. The management replied that BoD NTDC being competent authority had sanctioned to award the payment of House Rent Allowance @ 30% of running basic pay to all employees of NTDC living outside big cities; to enhance the motivational level of employees for being posted outside the big cities for timely completion of the Projects and in the best interest of the Company.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to take up the matter with Finance Division for clarification / regularization. No further progress was intimated till the finalization of report.

Audit recommends the implementation of DAC’s decision.

(Draft Para No. 953/2023-24)

1.13.10 Unjustified payment of hardship allowance - Rs.242.20 million

According to Rule-10 (i) of GFR, “every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money”. As per direction of NEPRA in tariff determination dated January 12, 2023 (SEPCO) that such incentives are given by the organizations out of their profits returns. Therefore, if the Petitioner wants to incentivize its employees by allowing hardship allowance, it needs to be paid by petitioner out of its profits returns and shall not be charged as cost to power sector consumers”.

During audit of QESCO, Board of Directors approved grant of hardship allowance to all employees (Regular/Contract/Deputation) equal to one month’s running basic pay amounting to Rs.242.20 million. It is important to mention that such agenda item was neither approved/ deliberated by any committee of BoD. Moreover, according to the Regulator (NEPRA) such incentives could be given by the organizations out of their profits/returns and shall not be charged as cost to power sector consumers. Therefore, payment of hardship allowance without approval of NEPRA, recommendation of Sub-Committee of BoD and budget provisions was unjustified.

Non-adherence to provision of Rule-10 (i) of GFR resulted in unjustified payment of hardship allowance amounting to Rs.247.20 million without approval of the Regulator and deliberation in meeting of BoD QESCO during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that BoD in its 188th Meeting held on 20th December, 2022 had approved hardship

allowance equal to one basic pay to all QESCO employees on account of services rendered during heavy rains/flood in Balochistan. The amount was within the budget FY 2022-23 duly approved by BoD. The amount had already been allowed by NEPRA in tariff determination under the head of salaries and wages.

The DAC in its meeting held on December 22 & 23, 2023 directed the management to obtain approval from NEPRA within 60 days otherwise recovery be made from the concerned. No further progress was intimated till the finalization of report.

Audit recommends the implementation of DAC's decision.

(Draft Para No.1269/2023/24)

1.13.11 Non-finalization / non-indemnification of insurance claims - Rs.212.71 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of PESCO, QESCO & SEPCO, electrical equipments valuing Rs.212.17 million were damaged at different locations. Insurance claims of damaged material were lodged with General Manager (Insurance & Pension) WAPDA but were not finalized and kept pending since long due to non-pursuance / non-provision of complete information by the field formations. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	Cases	Amount (Rs.in million)
1.	PESCO	207/2023-24	1	93.95
2.	QESCO	01/2023-24	4	81.61
3.	SEPCO	17/2023-24	28	37.15
TOTAL			33	212.71

(Source: Insurance Claim File)

Non-adherence to Authority's instructions resulted in non-finalization / non-indemnification of insurance claims of Rs.212.71 million up to the Financial Year 2022-23.

The matter was taken up with the management in March & October, 2023 and reported to the Ministry in June & November, 2023. The management replied that the efforts were being made to indemnify the claims.

The DAC in its meetings held on September 09, 2023 and December 14, 2023 to December 23, 2023 directed the management to expedite the matter with WEPS for settlement of claims within three months. No further progress was intimated till the finalization of report.

Audit recommends implementation of DAC's decision.

1.13.12 Loss due to imposition of penalties by NEPRA - Rs.190 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subject to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of HESCO, GENCO-II, NTDC & NPPMC, fine of Rs.190 million was imposed by NEPRA on account of fatal / non-fatal accidents, non-compliance to license, tariff, NEPRA Act and Grid Code and other regulations. However, the matter was not inquired for fixing responsibility of loss sustained by the Companies due to violation of NEPRA Regulations. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	No. of cases	Amount (Rs.in million)
1.	HESCO	1305/2023-24	7	10
2.	GENCO-II	740/2023-24	1	150
3.	NTDC	950/2023-24	1	10
4.	NPPMC	746/2023-24	2	20
TOTAL			11	190.00

(Source: NEPRA Correspondence file)

Non-adherence to Authority instructions resulted in loss of Rs.190.00 million due to imposition of penalty by NEPRA up to the Financial Year 2022-23.

The matter was taken up with the management in October & November, 2023 and reported to the Ministry in November & December, 2023. The management replied that appeals had been filed in NEPRA Appellate Tribunal against the imposition of fine. The management of NPPMC replied that all the actions were within the permissible technical limits, however, NEPRA had decided the matter unilaterally.

The DAC in its meetings held on December 14 - 23, 2023 directed the management to pursue the matter with NEPRA vigorously and outcome be shared with Audit. No further progress was reported till the finalization of report.

Audit recommends implementation of DAC's decision.

1.13.13 Irregular adoption of NEPRA policy of official vehicles without approval of Finance Division - Rs.153.72 million

As per Office Memorandum issued by Finance Division (Regulation Wing) Government of Pakistan issued vide dated February 01, 2023 regarding guidelines for approving of Financial Rules of Autonomous Bodies Semi-Autonomous Bodies/Corporations of the Federal Government stated that under Section-18 of Public Finance Management Act, 2019, it is mandatory for every Ministry/Division/Department to consult Finance Division while initiating their legislative proposals having financial implications, relating to framing their rules on pay and allowances, retirement benefits, leave benefits as well as other financial terms and conditions of service. In the light of these rules, Regulations wing of Finance Division vets all the legislative proposals having financial implications, which are referred to this Division by the concerned Autonomous/ Semi-autonomous bodies Corporations through their respective Ministries / Divisions concerned.

During audit of NEPRA, Islamabad, it was observed that the management procured official vehicles for regular employees and contract employees like advisors and consultants. Subsequently, official vehicles were replaced and bought back by the employees under NEPRA policy. It is worth mentioning that NEPRA's policy of official vehicles has not been approved from Finance Division under Section-18 of Public Finance Management Act, 2019.

Hence, expenditure Rs.153.72 million incurred on account of procurement, maintenance and replacement of official vehicles was irregular.

Non-adherence to Section-18 of Public Finance Management Act, 2019 resulted in irregular adoption of NEPRA's policy of official vehicles amounting to Rs.153.72 million up to the Financial Year 2021-22.

The matter was taken up with the management in March, 2023 and reported to the Cabinet Division in June, 2023. The management explained that Official Vehicle Policy of NEPRA was in line with the provisions of Act & Service Regulations. Furthermore, NEPRA generated its own funds from its operations and adopted policies to achieve its objectives as enunciated in the Act and did not require approval from Finance Division. Besides, NEPRA designed its policies to recruit and retain the best professionals. Audit contended that NEPRA had procured the official vehicles for regular employees, contract employees like legal advisors, Assistant legal advisors, consultant. Official vehicles were replaced and buy back by the employees under such policy was irregular and needed approval from Finance Division.

The DAC in its meeting held on January 16, 2024 constituted a committee to deliberate and review the reported matter, within one month, as per following composition:

- | | | |
|------|------------------------------------|----------|
| i. | Chief Finance & Accounts Officer. | Convener |
| ii. | Joint Secretary (RA). | Member |
| iii. | Joint Secretary (Exp-Cabinet) /FA. | Member |
| iv. | Representative from NEPRA | Member |

Audit recommends the implementation of DAC's decision.

(Draft Para No.60/2023-24)

1.13.14 No plan for recovery of colossal amount of penalties from two serving delinquent officials - Rs.72.37 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended to date), “all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

During audit of Project Directorate Construction GEPCO, a penalty of Rs.12.02 million was imposed on a Line Superintendent-I of Construction Sub-Division Mandi Baha ud Din. Besides this, the said official had also paid an amount of Rs.4 million to GEPCO. Similarly in two (02) cases, a colossal penalty of Rs.60.34 million (Rs.2.54 million + Rs.57.80 million) was imposed upon another Line Superintendent-II of the said Sub-Division. Moreover, the said LS-II had also received minor penalty of censure in two (02) cases and major penalty of withholding one increment for a period of one year. Both the said officials were in service and LS-II had also been given the look after charge of SDO Const. Gujrat. The recovery of the penalties from the said officials was not forthcoming from the record nor any plan has been chalked out to realize the colossal recoveries within reasonable time period.

Non-adherence to Authority’s instructions and weak internal controls resulted in non-recovery of colossal amount of penalties of Rs.72.37 million from two serving delinquent officials up to the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in October, 2023. The management replied that an amount of Rs.0.91 million had been recovered up to 11/2023 leaving a balance of Rs.71.46 million.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to inquire the matter at CEO level for fixing responsibility as to why the look after charge of SDO was given to LS despite committing serious irregularity and formulate recovery plan and submit its report to audit within a month. No further progress was intimated till the finalization of report.

Audit recommends the implementation of DAC’s decision.

(Draft Para No. 243/2023-24)

1.13.15 Irregular expenditure incurred on account of House Acquisition & Vehicle expenses – Rs.72.10 million

As per accounting manual of DISCOs “Budget is allocated to all D&D offices from the total Budget approved by the BOD keeping aside on approved Revised Budget for allocating any Justifiable additional Budget Demand. Moreover, Lack of regular analysis of actual expenditure in comparison with budget targets, may result in excessive spending being identified towards the end of the budgetary period which may ultimately defy the whole purpose of budgetary process”.

During audit of Project Directorate Construction LESCO, an amount of Rs.179.23 million was received on account of house acquisition, vehicle expenses and vehicle repair against which expenditures of Rs.7.36 million were booked into books of accounts through ledger posting summary. However, expenditure of Rs.251.33 million were booked in trial balance under these head of accounts as on Jun-2023. Hence, this showed that excess expenditure of Rs.72.10 million were incurred/booked in trial balance out of allocated/IOT cash received which needs justification.

Non-adherence to Authority's instructions resulted in irregular expenditure of Rs.72.10 million incurred on account of house acquisition & vehicle expenses during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that IOT Cash received was Rs.179.23 million in respect of house acquisition, vehicle repair expenses and vehicles' POL but as per their ERP record, they had received IOT Cash received and expenses during the Financial Year 2022-23 amounting to Rs.57.4 million, which was due to not following of matching principle. Demands of Financial Year 2021-22 were entertained in Financial Year 2022-23 and the expenses of previous year related to relevant heads booked in Financial Year 2022-23. Further expenses of TA/DA and medical bills were also booked in the relevant Heads.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the record in support of reply verified from audit within 15 days. No further progress was intimated till the finalization of report.

Audit recommends the implementation of DAC's decision.

(Draft Para No. 1232 /2023-24)

1.13.16 Non-payment by the Irrigation Department - Rs.54.732 million

According to Rule-10 (i) of GFR, "every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money".

During audit of GSC TESCO, a deposit work valuing Rs.301.255 million on behalf of Irrigation Department was under execution for construction of 132 kV Grid Station at pump house Jamrud. Irrigation Department had paid Rs.246.528 million out of total amount of Rs.301.255 million. The work was stopped in 04/2022 due to non-payment of balance amount of Rs.54.732 million by the irrigation department which may cause delay as well as financial/ revenue loss to the company.

Non-adherence to GFR resulted in non-payment of the balance amount by the Irrigation Department valuing Rs.54.732 million during Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in October, 2023. The management replied that the procurement of materials for the said Grid Station along with associated T/Line has already been completed. Physical work on site is 75% complete. The remaining work was pending due to ROW issues at 02 locations of said T/Line. TESCO had a close liaison with the concerned Department & fruitful result would be achieved soon.

The DAC in its meeting held on December 14 & 15, 2023 directed the management to pursue the recovery from concerned department and get it verified from Audit. No further progress was intimated till the finalization of report.

Audit recommends the implementation of DAC's decision.

(Draft Para No. 187/2023-24)

1.13.17 Undue burden on Exchequer due to aversion of recovery of Inter DISCO Tariff Rationalization Surcharge (IDTRS) - Rs.54.72 million

As per NEPRA Act Section 31.8 “Notwithstanding anything contained in this Act and in addition to the tariff, rates and charges notified under sub-section (7) and this sub-section, each electric power supplier shall collect such surcharges from any or all categories of consumers, as the Federal Government may charge and notify in the official Gazette from time to time, in respect of each unit of electric power sold to any or all categories of consumers and deposit the amount so collected in such manner as may be prescribed. The amount of such surcharges shall be deemed as a cost incurred by the electric power supplier and included in the tariff notified under sub-section (7):”

During audit of CEO GEPCO, in order to maintain a uniform consumer end tariff at national level, the consumer end tariff of better performing DISCOs was enhanced by inter DISCOs tariff rationalization surcharge which was built-in consumer end tariff to provide relief to consumers of in-efficient DISCOs. However, the net metering consumers avoided the payment of IDTRS through self-generation of energy units to the extent of Rs.54.72 million during the year 2022-23. Non-recovery of IDTRS from net energy consumers of GEPCO would be an extra burden on national exchequer as the GOP had to inject more subsidy into the system to maintain uniform rate of tariff.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that IDTRS and promoting distributed generation net metering, both, were governed under relevant national policy, legal and regulatory framework well beyond the control and scope of GEPCO. The matter was already under active consideration and action at the apex levels of national policy and plan however, audit observation and recommendations were noted for serious considerations and would be taken up with the concerned stakeholder.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to submit revised reply to audit within a week. No further progress was intimated till the finalization of report.

Audit recommends the implementation of DAC’s decision.

(Draft Para No. 918/2023-24)

1.13.18 Loss to public exchequer due to non-recovery of Retailer Sales Tax – Rs.48.94 million

According to FBR (Revenue Division) letter No.C.No.3(1)ST-L&P/2019(pt), sales tax is to be charged and collected from retailers (other than Tire-1) under section 3(9) of sales Tax Act, 1990 through their monthly electricity bills as under:- i) At the rate of five percent where the monthly bill amount does not exceed rupees twenty thousand; and (ii), At the rate of seven and half percent where the monthly bill amount exceed rupees twenty thousand.

During audit of DISCOs, it was observed that 779 commercial consumers were not being billed under correct classification codes meant for charging of Retailer Sales tax. Due to incorrect classification codes, Retailer Sales Tax amounting to Rs.48.94 million could not be recovered from the said consumers. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	No of Consumers	Amount (Rs.in million)
----------------	------------------------	-----------------------	------------------------	-------------------------------

1.	FESCO	931/2023-24	383	12.21
2.	GEPCO	21, 509 & 664/2023-24	183	30.72
3.	LESCO	371/2023-24	213	6.01
TOTAL			779	48.94

Non-compliance to provision of Finance Bill-2019 resulted in loss due to non-recovery of Retailer Sales Tax amounting to Rs.48.94 million during the Financial Years 2022-23.

The matter was taken up with the management in April, 2023 & September to October and reported to the Ministry in June, 2023 & October to December, 2023. The management replied that retailer sales tax were charged to those commercial tariff consumers who came under this domain / category of the commercial tariff as prescribed by the FBR. The management of GEPCO replied that account wise lists had been forwarded to field formations to ensure recovery of sales tax from concerned customers.

The DAC in its meeting held on August 26, 2023 and December 14-23, 2023 directed the management to complete the action within one month expeditiously and provide the record to audit for verification. DAC also directed the management of FESCO to refer the matter to FBR for getting clarification within 30 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

1.13.19 Loss to electrical equipment due to fire incidents – Rs.48.31 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of SEPCO and NTDC, fire incidents were occurred and electrical equipment's valuing Rs.48.31 million were damaged. However, the said fire incidents were neither inquired for fixing of responsibility nor loss was got indemnified from insurer. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	Amount (Rs.in million)
1.	SEPCO	12/2023-24	11.31
2.	NTDC	545/2023-24	37.00
TOTAL			48.31

Non-adherence to Authority's guidelines resulted in loss due to fire incident Rs.48.31 million up to the Financial Year 2023-23.

The matter was taken up with the management in March & September, 2023 and reported to the Ministry in June & November, 2023. The SEPCO management replied that the insurance claim against the loss had already

been lodged with Director General Insurance WAPDA, but the fate of case had not been finalized as yet. The NTDC management replied that the damaged transformer was successfully energized during May, 2023.

The DAC in its meeting held on September 9 and December 19, 2023 directed the management to inquire the matter and report be submitted to Audit.

Audit recommends implementation of DAC's decision.

1.13.20 Non-clearance of hazardous trees under ±660 kV HVDC Transmission Line - Rs.46.77 million

According to the section 3.7 of O&M Services Agreement that the O&M Company (NTDC) shall, during the term take the responsibility for the safety operation of the facility and keep safe clearance of the ROW including the removal of targeted species (e.g., tall growing trees and invasive woody shrubs and crops) within the portion of the ROW occupied by the facility (the Vegetation Control), as well as the trimming or removal of tress within adjacent areas that may grow closer than minimum allowed distances to conductors (the side trimming).

During audit of HVDC NTDC Lahore, an amount of Rs.46.77 million was paid to Divisional Forest Officer (Lal Sohanra National Park, Bahawalpur) to remove hazardous trees existing underneath of ±660 kV HVDC Transmission Line but no progress was achieved so for which may result in financial penalties on O&M Company by M/s PMLTC.

Non-adherence to contractual clause resulted in non-clearance of hazardous trees under ±660 kV HVDC Transmission Line amounting to Rs.46.77 million during the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management replied that the matter of tree cutting was regularly being pursued with the Divisional Forest Officer (DFO) Lal Sohanra by HVDC field formations. On the directions of Audit, an Inquiry committee had been constituted by the competent authority to investigate the matter.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to provide inquiry report and to get the record verified from audit in support of reply within fifteen (15) days. No further progress was intimated till the finalization of report.

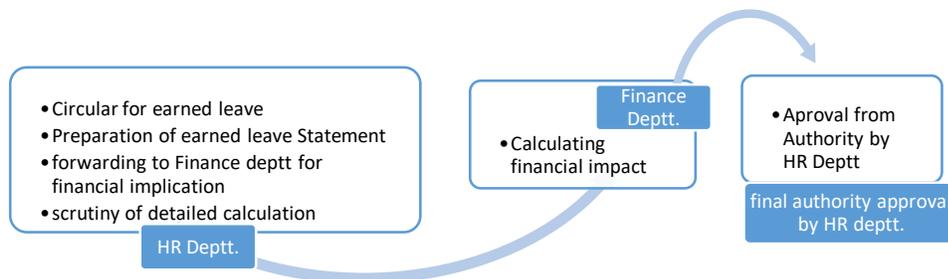
Audit recommends the implementation of DAC's decision.

(Draft Para No. 615/2023)

1.13.21 Deficient internal controls regarding encashment of earned leave balances of employees - Rs.32.47 million

According to the regulations 29, amended vide SRO dated September 23, 2020, a regular employee of the NEPRA shall earn leave at the rate of two days for every calendar month of duty period rendered by him/her as may be amended or prescribed from time to time. This leave will be admissible to the employee on full pay drawn just before proceeding on leave less the allowance i.e., daily allowance, missing and other allowance related to the performance of duty in office.

During audit of NEPRA, an amount of Rs.32.47 million was paid to employees and random checking of earned leaves calculation revealed that documentation was incomplete, inaccurate or insufficient. This made it difficult to verify the accuracy and completeness of the transactions and could result in errors or fraud. Audit reviewed encashment and payment mechanism of earned leave as illustrated below and found discrepancy:



A list for encashment of unavailed earned leave was prepared by Human Resource Department (HRD) for the year 2021. Mr. Muhammad Ramzan, the then Director HR, showed his earned leave balance as 60 days, which was fake and got calculated with financial implication as Rs.1.417 million from finance department. For the accuracy of unavailed earned leave figures, finance department relied on certificate of HRD. The complete list involving Rs.27.907 million was signed by the said HR Director and forwarded to the Authority for approval, which was returned for quoting relevant NSR provisions on 15.2.2022. Later on, the said HR Director was transferred and list was manipulated by excluding his name and presented to Authority. This showed weak internal control over reporting mechanism. The original list, on which honorable member raised query, was misplaced and discrepancy went unnoticed.

Reporting and Approval Channel



As per reporting mechanism, if Authority seeks any clarification then it should be answered on the same sheet. However, in the said case, working papers were changed / manipulated and such discrepancy went unnoticed which showed that chances of misappropriation and embezzlement cannot be ruled out in payment of earned leave. The authorization controls over earned leave encashment transactions were weak as there was no mechanism to ensure its authorization by the appropriate personnel. This increases the risk of unauthorized encashment of earned leaves.

The matter was taken up with the management in March, 2023 and reported to the Cabinet Division in June, 2023. The management explained that it was developing Leave Management Software to reduce the chances of erroneous reporting of leave record. However, meanwhile a committee headed by a Director General had been constituted to scrutinize and audit all earned leave encashment cases prior to approval by the Authority. NEPRA further elaborated that special audit of encashment of leave for last 5 years had been assigned to Chartered Accountant firm as required by Audit.

The DAC in its meeting held on January 16, 2024 directed the management to get the record verified, within one week, and share report of Chartered Accountant firm with Audit. No Further progress was intimated till the finalization of report.

Audit recommends the implementation of DAC's decision.

(Draft Para No.62/2023-24)

1.13.22 Irregular payment of remuneration of BoDs committee and sub-committee members - Rs.19.84 million

According to rule 5 (a) i & ii of the Public Sector Companies (Corporate Governance Rules 2013), the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders, in the following manner, (a) the principle of probity and propriety entails that company's assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage. The principle shall be adhered to, especially with respect to the following, (i) handling of public funds, assets, resources and confidential information by directors, executives and employees; and (ii) claiming of expenses. According to the Finance Division (Regulation Wing), vide its letter No. F.15 (5) R.14/91 – 423 dated June 25, 1992 notified its directions for members of Board of Director of the Corporations/ Companies wherein Government owns major or partly shares, not to allow excess benefits to the employees of the Corporations which are otherwise not admissible under the Government policy.

During audit of DISCOs and NTDC, it was observed that the BoDs had approved and enhanced the remuneration package for members of BoDs meeting fee, road transport rate and hotel stay per night without getting approval / concurrence from Finance Division / Power Division which is irregular and unjustified. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	Amount (Rs.in million)
1.	HESCO	788/2023-24	1.98
2.	QESCO	1028/2023-24	7.82
3.	NTDC	1022/2023-24	10.04
Total			19.84

(Source: Payment Voucher)

Non-adherence to Finance Division instructions resulted in irregular payment of remuneration of BoDs committee and sub-committee members - Rs.19.84 million up to the Financial Year 2022-23.

The matter was taken up with management during October to November, 2023 and reported to the Ministry during November to December, 2023. The HESCO and NTDC management replied that Board in exercise of the powers contained in the Article-53 of the Article of Association read with Section-170 of Companies Act 2017, revised the TA and DA rates for the Board of Directors after due diligence and thorough

deliberations in line with consumers price Index of Federal Bureau of Statistics of October 2016 indexed to February 2023, keeping in view the long span of time of previous revision and unprecedented inflation in rates and escalation of fuel prices. The QESCO replied that enhancement of remuneration was made after 5 years and in accordance with the law.

The DAC in its meetings held on December, 18 to 23- 2023 directed the management to substantiate the reply and get the record verified, otherwise ensure recovery of amount.

Audit recommends implementation of DAC's decision.

1.13.23 Irregular payment of allowances to employees – Rs.19.114 million

According to Finance Division (Regulations Wing) office memorandum F No. 3(37)R-14/2022 dated February 01, 2023, "it is mandatory for every Ministry/ Division/ Department to consult Finance Division while initiating their legislative proposals having financial implications, relating to framing their rules on pay and allowances, retirement benefits, leave benefits as well as other financial terms and conditions of service".

During audit of CEO FESCO, different types of allowances amounting to Rs.19.11 were allowed to different officers/ officials without consulting/ vetting of Finance Division (Regulations Wing). In the absence of endorsement of these allowances by the concerned quarters, payment of Rs.19.114 could not be termed as regular.

Violation of directions of the Finance Division resulted in irregular payment of allowances amounting to Rs.19.11 million during the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that allowances were paid after approval of BoD FESCO and were in line with the provisions of Company Act-2017.

The DAC in its meeting held on December 20 & 21, 2023 did not agree with reply of management and directed to investigate/ check legitimacy of allowances in the light of directions of Finance Division and submit its report to Audit within 30 days.

Audit recommends the implementation of DAC's decision.

(Draft Para No.1073/2023-24)

1.13.24 Irregular payment of Head Quarter Allowance- Rs.16.59 million

The BoD NTDC in its 50th meeting allowed "Head quarter allowance @ 20% of existing basic pay not exceeding the limit of Rs.6,000/- per month w.e.f. March 01, 2010 to the NTDC head office employees working in Chief Executive Office and allied offices, G.M (GSO) NTDC, G.M (WPPO) NTDC, GM (GSC) NTDC, Lahore, GM Services Division NTDC, G.M (Projects) NTDC, G.M Planning (Power) NTDC, C.E (MP&M) NTDC, C.E (Design) NTDC, Manager Internal Audit NTDC, C.E (System Protection) NTDC & C.E Telecommunication, NTDC".

During audit of NTDC and PPMC, it was observed that 165 officers / officials posted at other locations than head office were drawing "Head Quarter Allowance" in violation of above notification. Hence, the payment of Head Quarter Allowance amounting to Rs.16.59 million was irregular. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	No of Employees	Amount (Rs.in million)
1.	NTDC	885/2023-24	141	13.14
2.	PPMC	702/2023-24	24	3.45
TOTAL			165	16.59

(Source: Pay voucher)

Non-adherence to the instructions of BOD resulted in irregular payment on account of Head Quarter Allowance for Rs.16.59 million during the Financial Year 2022-23.

The matter was taken up with the management during October to November, 2023 and reported to the Ministry during November to December, 2023. The management of NTDC replied that the employees working in Head office on attachment basis were drawing Head quarter allowance granted by BoD. The management of PPMC replied that all employees working in PPMC either in Islamabad or Lahore were considered working in PPMC Head Office and getting Head Office Allowance. However, the temporarily retained staff at Lahore would be reported to Islamabad shortly as the assignment was near to completion.

The DAC in its meeting held on December 14-23, 2023 directed the management of NTDC to justify the attachment of field staff with Head Office within 30 days and directed the management of PPMC to take up the matter in BoD for decision within a month. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision.

1.13.25 Loss due to bogus/excess payments of pension – Rs.10.63 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to January 2014), "all losses whether of public money or of store, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of CEO LESCO, an excess amount on account of pension and commutation was paid to Mst. Shafqat Azra (PPO No. 28147/28294-RP) and Mr. Saleem Masih (PPO No. 9550/R/LESCO) in the office of Deputy Manager (Op) Ravi Road LESCO, Lahore. The newly introduced system of centralized pension had failed to detect the overpayments timely. Moreover, the Dy. Manager Operation Ravi Road referred the case to FIA to cover his negligence. As per rules the preliminary inquiry needed to be conducted to detect the facts of fraud and to fix responsibility against the culprits which was not done. Similarly, no responsibility had been fixed against the DDO, pension section and CFO office.

Non-adherence of the authority's instructions resulted in loss of Rs.10.63 million to bogus/excess pension up to the Financial Year 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that the recovery of excess payment Rs.600,000/- had been deposited by the culprit

Mr. Tanveer ALM of Xen Ravi Road Division in the Pension fund account (045-1650504623) through receipt No 927. Moreover, registries of 05 marla and 02 marla plots in the vicinity of Ferozwala had been handed over by Mr. Tanveer pension clerk to Xen LESCO Ravi Road and assessment of market value was under process for the purpose of recovery. Further pension of Shafqat Azra W/o Muhammad Younas Butt and Saleem Masih had been stopped since May, 2023 and also an amount of Rs.359,262 recovered up to November 2023, however efforts were being made for the total loss sustained to the LESCO.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the action taken verified in this matter and also pursue the case with FIA vigorously. No further progress was intimated till the finalization of report.

Audit recommends the implementation of DAC's decision.

(Draft Para No.1005/2023-24)

1.13.26 Non-recovery of penalty imposed on junior storekeeper - Rs.6.61 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), "all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of MP&M NTDC, Lahore, a penalty amounting to Rs.6.61 million on account of misappropriation/shortage of material was imposed upon a Junior Storekeeper with stoppage of annual increment for three years. The official filed an appeal in court of law but his petition was dismissed by the court in favor of NTDC on February 21, 2023. The said amount was yet to be recovered from the quarter concerned.

Non-adherence to Authority's Guidelines resulted in non-recovery of penalty imposed from junior storekeeper amounting to Rs.6.61 million up to the Financial Year 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management replied that NIRC in connection with Case No. 4B (169)/2022-L which was actually related to matter of shortage of Rs.6.61 million had restrained NTDC from effecting recovery from the concerned store keeper which is still intact. NTDC was vigorously pursuing the court case proceeding in NIRC. Next date of hearing was fixed on Jan-2024. Further action would be taken by NTDC as per decision of the honorable court.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to pursue the case. No further progress was intimated till the finalization of report.

Audit recommends the implementation of DAC's decision.

(Draft Para No.478/2023-24)

1.13.27 Irregular hiring the services of lawyers and law firms and payment made on account of legal fees - Rs.6.47 million

According to Rule-42(b)(i) of PPRA Rules 2004, a procuring agency shall engage in this method of procurement only if the following conditions exist, namely: - "where the value of procurement is more than one

hundred thousand Pakistani Rupees but does not exceed five hundred thousand Pakistani Rupees, the procuring agency may engage in procurement through request for three quotations from GST registered firms, original equipment manufacturers or authorized dealers, without resorting to bidding.”

During audit of NEPRA, Islamabad, services of various lawyers / law firms were hired for legal assistance in arbitration cases of NEPRA in contrary to amended provision of PPRA Rules-2004. However, law firms/lawyers were engaged in arbitration cases out of panel approved by NEPRA committee. Hence, payment of Rs.6.47 million made on account of legal fees / professional charges to the lawyer / law firms for the year 2021-22 was quite irregular.

Non-adherence to clause of PPRA Rules resulted in irregular hiring the services of lawyers and law firms and payment made on account of legal fees amounting to Rs.6.47 million during the Financial Year 2021-22.

The matter was taken up with the management in March, 2023 and reported to the Cabinet Division in June, 2023. The management replied that actual expenditure on legal fee was Rs.5.69 million and not 6.47 million during FY 2021-22. Furthermore, the engagement process of lawyers and law firm followed a meticulous evaluation by Litigation Committee. Three quotations for external counsels / law firms, as per approved SOPs, were obtained and approval was granted.

The DAC in its meeting held on January 16, 2024 settled the para subject to verification of record, within one week. No further progress was intimated till the finalization of report.

Audit recommends the implementation of DAC’s decision.

(Draft Para No.58/2023-24)

1.13.28 Undue benefits to the employee on account of 2nd buy back vehicle - Rs.3.24 million

The vehicles replacement clause-III, sub-clause (a) of Appendix-9 of NSR-2003 provides that entitled vehicles will be replaced as per: i) Toyota Corolla GLI/Honda City (Automatic) 5 years, ii) Toyota Corolla XLI/Honda City (Manual) 5 years, iii) Locally Manufactured 1000 CC engine capacity (upper limit) 5 years.

During audit of NEPRA, Islamabad, Mr. Safer Hussain, ex-registrar opted to buy the official vehicle Honda City 1.2 LS after completion of five years. He requested to procure the new entitled official vehicle Toyota Yaris 1.3 CVT having ceiling amount Rs.3.420 million. Subsequently, he requested for 2nd time buy back of new official vehicle on December 29, 2022 with request to adjust the cost of car in its terminal benefits due to attaining the age of superannuation on December 31, 2022. 2nd vehicle valuing Rs.3.24 million was given to the said employee without assessing the market value of the vehicle.

Non-adherence to Appendix-9 of NSR-2003 resulted in award of undue benefit amounting to Rs.3.24 million to the employee on account of sale of 2nd vehicle under buy back provision up to the Financial Year 2021-22.

The matter was taken up with the management in March, 2023 and reported to the Cabinet Division in June, 2023. The management replied that NEPRA explained that 1st vehicle (Honda City 1.2 LS) was bought back by the officer in term of Class III (a) of Appendix-9 of NSR 2003. The 2nd vehicle was bought back by the officer as per Class III (c) of Appendix-9 of NSR 2003.

The DAC in its meeting held on January 16, 2024 directed the management to get the record verified from Audit. Further progress was not intimated till the finalization of report.

Audit recommends the implementation of DAC’s decision.

(Draft Para No.57/2023-24)

1.13.29 Less deduction of income tax on contract payments - Rs.2.62 million

According to Para 13.8 (X) of WAPDA Accounting and Financial Reporting Manual withholding tax shall be deducted from the gross amount of the contractor’s bills at the prevailing tax rates, unless contractor provides Tax Exemption Certificate issued by the relevant tax authority for the related period.

During audit of Project Director Construction SEPCO, an amount of Rs.127.351 million was paid to contractors and consultants for construction and consultancy services. The Income Tax of Rs.8.644 million was deducted on gross amount of payment exclusive of sales tax, which was irregular. Hence, the less deduction of income tax resulted loss of Rs.2.623 million to the national exchequer.

Non-adherence to accounting manual resulted in less deduction of income tax on contract payments amounting to Rs.2.62 up to the Financial Year 2021-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that amount of income tax valuing Rs.2.62 million would be recovered from the contractors and consultants and audit would be informed accordingly.

The DAC in its meeting held on December 22 & 23, 2023 directed the management to ensure recovery besides issuance of explanation letter for non-deduction of income tax. No further progress was intimated till finalization of the report.

Audit recommends the implementation of DAC’s decision.

(Draft Para No. 237/2023-24)

1.13.30 Irregular acting/additional/current charge to Line Superintendent as Sub-Divisional Officer in Violation of PAC directives

The Sub-Committee of the PAC in its meeting dated August 09, 2021 directed DISCOs to make sure that Line superintendents shall not be posted as Sub Divisional Officers as one step above and all vacant posts in PEPCO and it’s all DISCOs and NTDC may be filled at once.

During audit of DISCOs, seventy-three (73) Line Superintendents were posted as Sub-divisional Officers as one step above which was in contravention to the directives of PAC. This state of affairs showed that right persons were not employed which needs justification. The detail is as under:

Sr. No.	Company	Draft Para No.	No. of officials involved
1.	FESCO	1110/ 2023-24	69

2.	LESCO	650/ 2023-24	04
Total			73

(Source: Office Order File)

Non-adherence to PAC directives resulted in irregular award acting/additional/current charge to Line Superintendents as Sub-divisional Officers in violation of PAC directives up to the Financial Year 2022-23.

The matter was taken up with the management in September & October, 2023 and reported to the Ministry in December, 2023. The LESCO management replied that LSs were assigned the duties of Sub-division Officers on stop gap arrangements due to non-induction of junior Engineers. The FESCO management replied that presently 60 new Sub-divisional Officers were inducted and posted in sub-divisions and acting/ current/ additional charge was entrusted to Line Superintendents due to acute shortage of staff.

The DAC in its meeting held on December 18 to 21, 2023 directed the management to submit revised reply and get the record verified from audit within a week and discontinue practice of entrusting acting/ current/ additional charge of SDO to LSs. No further progress was intimated till the finalization of report.

Audit recommends the implementation of DAC’s decision.

1.13.31 Loss of lives due to no safety arrangements by the contractor

According to Caluse-22.2.7(b) of Contract No.ADB-65(R)-2012 (Package-1), “the contractor shall appoint an accident prevention officer at the site, responsible for maintaining safety and protection against accidents. As per Clause-22.8, “the contractor shall provide and maintain at its own expense lighting, fencing, and watching when and where necessary for proper execution and the protection of the Facilities, or for the safety of the owners and occupiers of adjacent property and for the safety of public”. As per GCC Clause-34.1 (c), Third Party Liability Insurance covering would be provided for bodily injury or death suffered by third parties including the employer’s personnel occurring in connection with the supply and installation of the Facilities. According to Clause-A (c) under Appendix-3 of Section-I, “an amount of Rs.2 million for any one accident or series of accidents arising out of one accident with number of accidents unlimited”.

During audit of NTDC, while the stringing activities were underway at tower location 4 to 21 by the Contractor M/s TBEA, children playing nearby took hold of the bull wire and fell down to earth at some height at tower location no.17(M-D) Section on April 21, 2018. This fatal accident claimed the precious lives of two innocent children at the spot leaving third one seriously injured. This accident at construction site was sufficiently evident that the contractor did not make security and safety arrangements including appointment of an Accident Prevention Officer at site as provided in contract agreement. This was also a serious lapse on the part of the employer and consultant for not getting the contractual obligations fulfilled from the contractor even no inquiry was conducted for fixing responsibility. The invoking of third party insurance clauses were also not forthcoming from record to get the bereaved families obtained compensation.

Non-adherence to the safety Clauses of the Contract resulted in loss of precious innocent lives of children during construction of transmission line by the contractor up to the Financial Year 2019-20.

The matter was taken up with the management on September 25, 2020 and reported to the Ministry on December 29, 2020. The management replied that the unfortunate incident occurred despite taking all the safety measures. M/s TBEA compensated the affected families and borne all the funeral as well as treatment expenses of the victims. Furthermore, no complaint from the victims' families was reported to the concerned authorities as the incident didn't occur due to negligence of the contractor / supervisory staff. Audit contended that the contractor failed to maintain security arrangements as required under the provisions of contract agreement and not even a formal inquiry was conducted.

The DAC in its meeting held on April 12, 2021 did not agree with the reply and directed the management to provide detailed / revised reply. The DAC in its meeting held on December 18 & 19, 2023 upheld the earlier decision. No further progress was intimated till the finalization of report.

Audit recommends that the management needs to inquire the matter regarding loss of lives of children due to non-observance of safety measures by the contractor and non-fulfilling the due obligation by the consultants in overseeing the contractor's performance. Further, family of the victims might be indemnified as per the NEPRA's directives.

(Draft Para No.1124/2023-24)

1.13.32 Non-production of record

According to the directives of the Public Accounts Committee issued on June 30, 2004, "to make available all information/ record to Audit as and when required by them, otherwise, disciplinary action will be initiated against persons responsible for the delay under Section-14 C (2&3) of the Auditor-General's Ordinance, 2001.

During audit of GEPCO, GENCO-II and SEPCO, despite serving of requisition of record, verbal requests, personal visits and a chain of correspondence exchanged with quarter concerned, the record was not produced to audit which hampered the working of audit in order to discharge its statutory functions. The detail is as under:

Sr. No.	Name of Company	Draft Para No.	Amount (Rs.in million)
1.	PESCO	727/2023-24	-
2.	GENCO-II	914/2023-24	-
3.	NTDC	1315/2023-24	-
TOTAL			-

(Source: Requisition of record)

Non-adherence to the clauses of Auditor-General of Pakistan Ordinance 2001 resulted in non-production of record up to the financial year 2022-23.

The matter was taken up with the management during September to October, 2023 and reported to the Ministry during November and December, 2023. The management of PESCO replied that the record required by audit was already in custody for special audit in the office of Internal Audit PESCO, as and when the same released from Internal Audit the record would be produced to Audit. The management of GENCO-II replied that the record

had already been provided to audit. The management of NTDC replied that PMU NTDC after providing its record, requested the audit to collect other auditable record from concerned formations. Audit contended that no record was provided.

The DAC in its meetings held on April 12, 2021 and December 14-23, 2023 directed the management of PESCO and NTDC to submit revised reply within 15 days and directed the management of GENCO-II to fix the responsibility against the Company Secretary within 15 days. No further progress was intimated till finalization of the report.

Audit recommends implementation of DAC's decision besides fixing responsibility.

1.13.33 Irregular appointment of Chairman Board of Directors NTDC

According to SOE Act 2023, Chapter-5 Clause 11, "the following persons shall not be appointed or continue to hold office as an independent director: (g) a person who is in the service of Pakistan; (j) an employee of a state-owned enterprise".

During audit of NTDC, the appointment of Mr. Khalid Ishaq (Chairman BOD) was made while being Senate member of the "Pakistan Institute of Fashion & Design" (a Public Sector department within the Ministry of Federal Education and Professional Training). He was also serving as Advocate General of Punjab. Audit was of the view that according the provisions of SOE Act 2023, Mr. Khalid Ishaq was not qualified for appointment as independent director.

Non-adherence to the provisions of SEO Act 2023 resulted in irregular appointment of Chairman Board of Directors NTDC during the Financial Year 2022-23.

The matter was taken up with the management in November, 2023 and reported to the Ministry in November, 2023. The management replied that Mr. Khalid Ishaq was appointed as Chairman Board of Directors NTDC with the approval of Federal Government. Mr. Khalid Ishaq was not serving as Advocate General of Punjab at the time his appointment as Chairman Board of Directors NTDC. Moreover, he was also not considered employee of Public Sector department within the Ministry of Federal Education and Professional Training) being Senate member of the "Pakistan Institute of Fashion & Design" at the time of his appointment as Chairman BoD NTDC. However, that Mr. Khalid Ishaq, had already tendered his resignation as Chairman Board, NTDC.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the stance verified with documentary evidence within 30 days. No further progress was intimated till the finalization of report.

Audit recommends the implementation of DAC's decision.

(Draft Para No.829/2023-24)

1.13.34 Irregular promotion of NTDC officer on Deputation with PEPCO

According to ESTA Code SL-No. 8, "Government servant on deputation retains a lien on the permanent post in his parent office, he is ordinarily governed by the rules of the lending Government in matters of pay, leave, pension, etc., and continues to be under the rule-making control of the lending Government which has a right to recall him. The lending Government accordingly has a right to determine in consultation with the borrowing

Government the terms of his employment under the latter, and these terms should not be varied by the borrowing Government without consulting the lending Government”.

During audit of NTDC, the officers remained on deputation with PEPCO and after completion of deputation period repatriated to NTDC, it transpired that these officers had gone on deputation in lower scales and got promoted in higher scales by the borrowing department and repatriated to parent department in higher scales. Promotion of deputationist by the borrowing department was against the deputation policy, rules and terms of deputation which needs justification.

Non-adherence to the provisions of deputation policy resulted in irregular promotion of NTDC officer on deputation with PEPCO during the Financial Year 2022-23.

The matter was taken up with the management in November, 2023 and reported to the Ministry in December, 2023. The management replied that the PEPCO was exercising the mandate of promotion/time scale upgradation in respect of officers on deputation (BPS-18 & above) on behalf of their parent companies i.e. DISCOs/GENCOs /NTDC. And it is admissible to the employees from the date of their eligibility and the arrears are to be paid by the borrowing companies (if any). In the instant case, the borrowing company i.e. PEPCO granted upgradation to the officers at Sr. No. 1, 2 & 4 after fulfilling the pre-requisite criteria as per prevailing policy.

Moreover, it is added that the officer at Sr. 6 i.e. Mr. Sohail Babar was allocated to NTDC from GENCO vide dated April 09, 2012 (Annex-A). The time scale upgradation right from BPS-18 to BPS- 19 in respect of the said officer was accrued w.e.f. November 15, 2011 during his stay in GENCO, therefore, the said company granted the Time Scale Upgradation to the officer with retrospective date i.e. November 15, 2011 vide office order dated July 04, 2012 (Annex-B) as par prevailing policy.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to inquire the matter and submit report within 30 days. No further progress was intimated till the finalization of report.

Audit recommends the implementation of DAC’s decision.

(Draft Para No. 982/2023-24)

CHAPTER-2

INTRODUCTION OF ENTITIES AND COMMENTS ON FINANCIAL STATEMENTS

2.1 POWER PLANNING & MONITORING COMPANY (PPMC)

2.1.1 Introduction

Power Planning and Monitoring Company (PPMC) was established for implementation of the Strategic Plan of Power Division. In its defined role, PPMC is responsible for assisting the Power Division, Ministry of Energy, Government of Pakistan in effectively monitoring and oversight of the Distribution Companies (DISCOs) in the following areas:

- Performance monitoring according to specified Key Performance Indicators (KPIs).
- Monitoring & Evaluation of financial performance.
- Monitoring of revenue and commercial operation.
- Effective HR control to boost up efficiency (not limited to promotions on the basis of integrated seniorities of BPS-18 and above officers and inter-Company transfers but include other HR matters).
- Surveillance & Investigation & Federal Complaint Cell
- Timely and uniform implementation of emerging technologies like AMI, Smart Grids, etc.
- Performance-based career progression to replace the present seniority basis system to promote and retain high-quality HR and weeding out non-performers
- Standardization of benchmarks across the Companies like financial, management, technical, and HR
- Capacity building of the Companies to cater to future challenges
- Uniform implementation of Government policies and programs
- Evolve the corporate governance structures to ensure compliance with applicable laws/rules.

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2022-23 (Rs.in million)	Expenditure audited FY 2022-23 (Rs.in million)	Revenue / Receipts FY 2022-23 (Rs.in million)
1.	Formations	01	01	522.41	184.99	0
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	N/A	N/A

3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	Nil	N/A	N/A
4.	Foreign Aided Projects (FAP)	Nil	Nil	Nil	Nil	Nil

2.1.2 Comments on Financial Statements

2.1.2.1 Financial Overview

As per audited financial statements for the FY ended on June 30, 2023, the company earned a profit of Rs.327.124 million which was Nil last year. During the current FY 2022-23, the company earned an amount of Rs.880.138 million on account of Management Fee, Inspection Fee and Other Income which is total Revenue for the Company. Out of this generated fund, Company had a short-term investment of Rs.500 million in the FY ended on June 30, 2023. However, bank balance of the Company decreased from Rs.988.234 million in the financial year 2021-22 to Rs.392.403 million as on June 30, 2023 registering a decrease of 41.72%.

2.1.3 Extract of the financial statement

Statement of Financial Position as on June 30, 2023

	2022-23	(%)	2021-22	(%)
	(Rs)		(Rs)	
Assets				
Non-current Assets				
Property and equipment	11,576,072	1.23%	10,747,490	1.01%
Right of Use Assets	21,330,094	2.27%	39,613,032	3.73%
	32,906,166		50,360,522	
CURRENT ASSETS				
Loans, deposits, advances and other receivables	13,706,717	1.46%	20,114,891	1.90%
Short term Investments	500,000,000	53.16%	-	0.00%
Accrued profit on bank deposits & investments	1,570,671	0.17%	2,689,510	0.25%
Bank balances	392,403,123	41.72%	988,234,883	93.11%
	907,680,511	96.50%	1,011,039,284	95.26%
TOTAL ASSETS	940,586,677		1,061,399,806	
EQUITY AND LIABILITIES				

SHARE CAPITAL AND RESERVES

Authorized share capital	100,000,000		100,000,000	
Issued, subscribed and paid-up capital	7,100,050	0.75%	7,100,050	0.67%
Unappropriated profit	327,124,961	34.41%		0.00%
	334,225,011	35.16%	7,100,050	0.67%
NON-CURRENT LIABILITIES				
Lease liabilities	5,676,321	0.60%	24,230,475	2.28%
CURRENT LIABILITIES				
Trade and other payables	467,554,129	49.19%	1,007,913,239	94.96%
Lease liabilities	18,554,152	1.95%	17,219,221	1.62%
Provision for taxation-net	124,577,064	13.11%	4,936,821	0.47%
	610,685,345	64.24%	1,030,069,281	97.05%
TOTAL EQUITY AND LIABILITIES	950,586,677		1,061,399,806	

2.1.4 Statement of Profit and Loss Account**For the year ended on June 30, 2023**

	2022-23	(%)	2021-22	(%)
	(Rs)		(Rs)	
Management fee	209,988,970		27,663,784	
Inspection fee	495,535,688		476,153,519	
Other income	174,613,875		31,058,467	
	880,138,533	100%	534,875,770	100%
Operating expenses	422,861,833	48%	524,137,454	98%
Finance cost	2,456,456	0.28%	3,181,056	0.59%
	425,318,289		527,318,510	
Profit for the year before taxation	454,820,244	51.68%	7,557,260	1.41%
Provision for taxation	127,695,283		7,557,260	
Profit for the year	327,124,961		-	
Other comprehensive income	-		-	

Total comprehensive income for the year	327,124,961	37.17%	-	0.00%
---	-------------	--------	---	-------

(Source: Audited Financial Statement of PPMC Financial Year 2022-23)

2.1.5 Comments on Audited Accounts:

i) Profitability / Loss of the Company

During the Financial Year ended on June 30, 2023, PPMC earned a Profit of Rs.327.124 million which is 37.17% of the total Revenue earned by the company. Out of the total Revenue earned, company had an Operating Expense of Rs.422.861 million which is 48% of the Revenue. There was a nominal Finance Cost of Rs.2.4 million, which is 0.28% of the total Revenue. These two Expenses stand at Rs.425.318 million which are 48.32% of the Revenue, and make Earnings before Interest and Taxes of Rs.454.820 million which is 51.68% of the Revenue.

ii) Sale and Cost of Sale

Total Revenue generation for the FY 2022-23 is Rs.880.138 million, which was Rs.534.875 million in the previous year. In the current FY 2022-23, company improved its total earning by 345.262 million registering an increase of 64.55%. This Revenue in FY 2022-23 comprises of Management Fee of Rs.209.988 million (2022, Rs.27.663 million), Inspection Fee of Rs.495.535 million (2022, Rs.476.153 million) and Other Income of Rs.174.613 million (2022, Rs.31.058 million).

iii) Trade Debts and other Receivables

Company had Loans, Deposits, Advances and other Receivables of Rs.13.706 million in FY ended on June 30, 2023 which was Rs.20.114 million in the last year. These receivables mainly comprise of Loans and Advances to employees amounting to Rs.5.025 million, in the previous year 2022 this amount was Rs.11.484 million. Another constituent of Loans and Deposits is other Receivables of Rs.7.092 million which are receivables from WAPDA and GHCL, this amount was same in the previous year. Company also had a receivable of Rs.11.570 million on account of accrued Profit on bank Deposits and Investments in the FY 2022-23, which was Rs.2.689 million in the previous year 2021-22. Company should adopt long-term consistent measures to ensure timely recovery of these long outstanding receivables from related parties.

iv) Trade and other Payables

Trade and other Payables of the company reduced to Rs.467.554 million in the Financial Year ended on June 30, 2023 from Rs.1,007.913 million in the previous year. Out of this Rs.467.554 million, an amount of Rs.452.101 million was payable to CPPA-G.

v) Operating Expenses

The Operating Expenses of the company were reduced from Rs.524.137 million to Rs.422.861 million in the Financial Year ended on June 30, 2023. Thus, there was decrease of Rs.101.275 million from the previous year. The reason for reduction in Operating Expenses is reduction in the amount of salaries and other benefits due to reduction in staff and reduction in rental expenses.

2.1.6 Classified Summary of Audit Observations

Audit observations amounting to Rs.3.45 million were raised in this audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification	Amount (Rs.in million)
1.	Irregularities	
	A. HR/Employees related irregularities	3.45

2.2 FAISALABAD ELECTRIC SUPPLY COMPANY (FESCO)

2.2.1 Introduction

Faisalabad Electric Supply Company Limited (FESCO) started its operations as Public Limited Company during March, 1998 registered under Companies Ordinance, 1984 (now Companies Act, 2017). The Company obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The principal activity of the Company is distribution and supply of electricity to public within defined geographical boundaries. The Company purchases electricity from CPPA-G through NTDC system and sells it to various consumers within Faisalabad, Jhang, Toba Tek Singh, Chiniot, Sargodha, Mianwali, Khushab and Bhakkar districts.

The operational activities are performed through five Operation Circles, Grid System Construction, Project Construction & Grid System Operation Circles.

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	budget FY 2022-23 (Rs.in million)	Expenditure FY 2022-23 (Rs.in million)	Revenue / Receipts audited FY2022-23 (Rs.in million)
1.	Formations	11	6	36,578.42	18,598.47	143,618.46
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities/ Autonomous Bodies-etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	Nil	Nil	Nil	Nil	Nil

2.2.2 Comments on Financial Statements

2.2.2.1 Financial Overview

As per the audited Financial Statements for the year 2022-23, the Company incurred loss of Rs.14,983.387 million at the year ended on 30th June, 2023. Loss of Rs.1,984.844 million for the Financial Year 2021-22 decreased due to increase in sale of electricity, registering 17% increase. Moreover, the net electricity sale increased from Rs.337,812.484 million in the Financial Year 2021-22 to Rs.377,787.368 million in the Financial Year 2022-23, registering 12% increase.

2.2.3 Extracts of the Financial Statements

Statement of Financial Position as at June 30, 2023

(Rs.in million)

	2022-23	%	2021-22	%	2020-21
Equity and Liabilities:					
Issued Subscribed and paid-up Capital	0.010	0%	0.010	0%	0.010
Accumulated Profit/(Loss)	-96,762.693	25%	-77,474.996	21%	-63,938.061
Deposits for the issuance of shares	41,556.652	21%	34,478.691	120%	15,641.656
Surplus on revaluation of operating fixed assets	46,005.097	-2%	46,709.167	-2%	47,433.930
Total equity	-9,200.934	-48%	3,712.872	-30%	-862.465
Non-current liabilities	192,518.044	10%	174,709.967	14%	153,390.557
Trade and other Payables	116,126.576	0%	116,269.492	6%	109,219.721
Accrued Mark up	5,231.508	20%	4,351.921	25%	3,472.334
Current portion of long-term loans	2,498.863	14%	2,182.701	21%	1,807.095
Provision for taxation	523.870	100%	605.160	0%	-
Current liabilities	124,380.817	1%	123,409.274	8%	114,499.150
Assets					
Non-current assets	161,840.813	12%	144,105.246	8%	133,501.989
Stores and spares	5,004.927	49%	3,366.237	4%	3,242.120
Trade debts	68,479.551	-17%	82,644.147	90%	43,549.856
loans and advances	374.237	412%	73.050	-5%	76.526
Other receivables	31,087.146	22%	25,535.189	51%	16,869.636
Balance with statutory authorities					
Sales tax receivable	8,095.458	-4%	8,425.645	4%	8,095.458

Income tax		0%		-00%	148.640
Receivabl from Govt of Pakistan	6,531.405	-6%	6,965.309	-79%	33,614.145
accrued Interest	870.546	251%	247.866	442%	45.718
Cash and Bank balances	25,413.844	-17%	30,469.424	9%	27,883.155
Current assets	145,857.114	-8%	157,726.867	18%	133,525.254

(Source: Audited Financial Statement of FESCO Financial Year 2022-23 – Riaz Ahmad & Co., Chartered Accountant)

2.2.4 Statement of Profit & Loss Account

For the year ended on June 30, 2023

(Rs.in million)

	2022-23	%	2021-22	%	2020-21
Revenue					
Sales	326,543.079	17%	279,867.790	62%	172,602.299
Tariff Differential Subsidy	51,244.289	-12%	57,944.694	-2%	59,178.042
	377,787.368	12%	337,812.484	46%	231,780.341
Cost of Electricity	-360,599.528	14%	-316,040.275	64%	-193,010.195
Gross profit	17,187.840	-21%	21,772.209	-44%	38,770.146
Amortization of deferred Credit	2,206.905	14%	1,929.585	11%	1,746.106
	19,394.745	-18%	23,701.794	-42%	40,516.252
Distribution cost	-28,222.734	28%	-22,011.437	10%	-19,972.576
Administrative expenses	-4,548.909	30%	-3,505.811	10%	-3,177.677
customer services cost	-6,217.751	142%	-2,574.507	10%	-2,340.465
	-38,989.394	39%	-28,091.755	10%	-25,490.718
Profit from operations	-19,594.649	346%	-4,389.961	-129%	15,025.534
other Income	9,354.458	53%	6,124.505	18%	5,196.569
Finance Cost	-882.418	88%	-470.355	-5%	-493.677
Profit before Taxation	-11,122.609	-980%	1,264.189	-94%	19,728.426
Taxation	-3,860.778	19%	-3,249.034	40%	-2,326.224
Profit after Taxation	-14,983.387	655%	-1,984.845	-111%	17,402.202

(Source: Audited Financial Statement of FESCO Financial Year 2022-23 – Riaz Ahmad & Co., Chartered Accountant)

2.2.5 Comments on Audited Accounts

i) Profitability

The Company suffered a net loss of Rs.14,983.387 million during the Financial Year 2022-23. However accumulated losses have reached to the tune of Rs.96,762.693 million resulting in net capital deficiency. As on June 30, 2023, the Company's current assets exceeded current liabilities by Rs.21,476.297 million. This condition indicated the Company's ability to continue as a going concern.

ii) Sales and Cost of Sales

The sales of the Company were Rs.377,787.368 million including the subsidy received from the Government of Pakistan for an amount of Rs.51,244.289 million and cost of sales of the Company stood

at Rs.360,599.528 million which is 95% of the total the sales. This means that Company was unable to recover operating expenses for the year.

iii) Trade Debts and other Receivables

Total Receivables of the Company were Rs.106,472.339 million as on June 30, 2023. An amount of Rs.6,531.405 million was receivable from Government of Pakistan against tariff differential subsidy, Rs.68,479.551 million from various consumers, other receivables of Rs.31,087.146 million and Rs.374.237 million from employees and suppliers on account of loan and advances.

There was a decrease of trade debts amounting to Rs.14,164.60 million (Rs.82,644.147million – Rs.68,479.551 million) or 17% as compared with previous Financial Year. Huge pending receivables were a significant business sustainability risk for the Company and required long term rectification measures. Decrease in balance of receivables depicted good recovery efforts of the Company.

iv) Trade and other Payables

Payables of the Company decreased from Rs.116,269.492 million in the Financial Year 2021-22 to Rs.116,126.576 million in the Financial Year 2022-23. There is no significant change in payables as compared to previous year the same showed satisfactory financial management and better liquidity position of the Company. Prudent long-term actions are needed to stop the accumulation of payables and ensure steady reduction of pending payables in the future.

v) Non-Recognition of Debit Notes of Rs.13,694.27 million on account of mark up paid by CPPA-G

The External Auditors of FESCO during their certification audit exercise on FESCO's accounts for the Financial Year 2022-23, highlighted that the Company had not given due disclosure of its liabilities towards CPPA-G as on June 30, 2023. The claims included supplementary charges, being the markup charged on CPPA-G by independent power producers on account of delayed payments aggregated to Rs.13,694.27 million. Had these charges been applied, it would have enhanced the expenditure and increase the current year loss to the stated extent. In order to avoid financial impediment in the Power Sector supply chain, it was necessary that difference between CPPA-G and FESCO was resolved timely.

vi) Operating Expenses

The Operating expenses of the Company increased from Rs.28,091.755 million during the Financial Year 2021-22 to Rs.38,989.394 million during the Financial Year 2022-23, registering an increase of Rs.10,897.639 million.

vii) Re-valuation of Company Assets

As per detail given at note 15 of the Financial Statements, date of valuation of land has not been stated in the statements. The total land-freehold of the entire company has been valued at Rs.31,246.169 million only. Under IFRS 16.31, re-valuation should be carried out regularly so that the carrying amount of assets

does not differ materially from its fair value at the balance sheet date. The same apparently is not being done in the subject company.

2.2.6 Classified Summary of Audit Observations

Audit observations amounting to Rs.40,136.22 million were raised in this audit. The amount also includes recoveries of Rs.1,770.09 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification	Amount (Rs.in million)
1.	Reported cases of fraud, embezzlement, misappropriation and theft	33.80
2.	Irregularities	
	A. HR/Employees related irregularities	168.75
	B. Procurement related irregularities	8,012.82
	C. Irregularities pertaining to violation of entity's own regulations / SOPs	11,144.19
	D. Irregularities pertaining to violation of Regulatory Laws & Regulations	17,935.22
	E. Power Sector receivables	861.98
	F. Recoveries pointed out by Audit	1,770.09
3.	Others	209.37

2.3 GUJRANWALA ELECTRIC POWER COMPANY (GEPCO)

2.3.1 Introduction

Gujranwala Electric Power Company (GEPCO) is a subsidiary of PPMC. The Company started its operations as a Public Limited Company registered under Companies Ordinance 1984 (now Companies Act 2017) in May, 1998. The Company obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The principal activity of the Company is distribution and supply of electricity within its defined geographical boundaries. The Company purchases electricity from CPPA-G through NTDC system and sells it to various consumers within Gujranwala, Gujrat, Mandi Bahaudin, Narowal, Hafizabad and Sialkot Districts.

The operational activities are performed through five Operation Circles and Grid System Construction, Project Construction & Grid System Operation Circles.

The detail of formations and expenditure audited was is under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2022-23 (Rs.in million)	Expenditure audited FY 2022-23 (Rs.in million)	Revenue / Receipts FY 2022-23 (Rs.in million)
1.	Formations	10	5	50,237.91	4,925.35	95,512.00
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	Nil	Nil	Nil	Nil	Nil

2.3.2 Comments on Financial Statements

2.3.2.1 Financial Overview

As per the audited financial statement for the year 2022-23, the Company remained in loss Rs.20,586 million at the year ended on June 30, 2022. However, this Loss was turned into Profit Rs.22,883 million as on June 30, 2023. However accumulated loss was to the tune of Rs.20,217 million as on June 30, 2023. Previously, accumulated loss

was Rs.39,818 million as on June 30, 2022. Moreover, the electricity sale was increased from 234,608 million to 305,022 million in the Financial Year 2022-23 which was 30% higher than the previous year 2021-22.

2.3.3 Extract of the Financial Statements

Statement of Financial Position as on June 30, 2023

	<i>(Rs.in million)</i>			
	2021-22	% Increase / (Decrease)	2022-23	% Increase / (Decrease)
ASSETS				
Non-current assets				
Property, Plant and Equipment	64,159	10.84	75,998	18.45
Long term loans	463	(27.44)	481	3.75
Total non-current assets	64,622	10.43	76,479	18.35
Current assets				
Stores and Spares	3,562	249.95	6,960	95.42
Trade debts	63,093	77.50	91,579	45.15
Loans and Advances	168	(43.32)	138	(17.77)
Tax refunds due from the Government of Pakistan	11,932	20.27	13,034	9.24
Receivables from the Government of Pakistan	30,491	(17.79)	23,614	(22.55)
Short term investments	8,640	10.79	10,133	17.28
Other receivables	5,678	(20.35)	6,404	12.79
Bank balances	9,700	47.01	8,772	(9.57)
Total current assets	133,262	26.44	160,634	20.54
TOTAL ASSETS	197,885	20.72	237,113	19.82
EQUITY AND LIABILITIES				
Equity and Reserves				
Share Capital				
Authorized Share Capital				
5,000,000,000 (2022: 5,000,000,000) ordinary shares of Rupees 10/- each	50,000,000		50,000,000	
Issued, Subscribed and Paid-up share capital				
Accumulated loss	(39,818.99)	61.06	(20,217)	(49.23)

Deposit for issuance of shares	19,671	26.93	23,349	18.70
Non-Current Liabilities				
Deferred credit	25,465	14.16	29,004	13.90
Long term financing	12,534	9.46	13,707	9.36
Deferred Liabilities	83,425	(0.60)	87,725	5.15
Long term security deposits	8,119	11.31	9,065	11.64
	129,543	3.65	139,501	7.69
Current liabilities				
Trade and other payables	82,587	93.01	88,080	6.65
Current portion of long-term financing	5,903	9.83	6,401	8.43
	88,490	83.73	94,481	6.77
TOTAL EQUITY AND LIABILITIES	197,885	20.72	237,113	19.82

2.3.4 Statement of Profit and Loss Account For the year ended on June 30, 2023

(Rs.in million)

	2021-22	% Increase / (Decrease)	2022-23	% Increase / (Decrease)
Revenue from contracts with customers	216,603	51.85	281,803	30.10
Subsidies from the Government of Pakistan	18,006	(20.55)	23,220	28.96
	234,609	41.92	305,023	30.01
Cost of electricity	(228,252)	57.95	(258,627)	13.31
Gross Profit	6,357	(69.44)	46,395	629.84
Amortization of deferred credit	1,241	11.68	1,417	14.20
	7,598	(65.32)	47,813	529.28
Operating costs	-	-	-	-
Distribution expenses	(18,852)	15.94	(23,092)	22.49
Administrative expenses	(5,455)	(6.24)	(7,294)	33.71
	(24,307)	10.10	(30,386)	25.01
Operating Profit / (loss)	(16,709)	9,897.84	17,427	(204.30)
Other expenses	(5,396)	2,374.97	-	-
Other income	3,689	8.09	8,076	118.93

	(18,416)	508.31	25,503	(238.48)
Finance cost	(1,626)	(202.75)	(1,682)	3.43
Profit/(loss) before taxation	(20,042)	(1,487.07)	23,821	(218.85)
Taxation	(544)	47.57	(937)	72.19
Profit/(loss) for the year	(20,586)	1,813	22,884	11.16

2.3.5 Comments on Audited Accounts

i) Profitability/Loss of the Company.

The company was remained loss of Rs.20,586 million during the year 2021-22. However, Company earned profit of Rs.22,884 million during the year 2022-23. The reason of the Profit was increased in the sale of electricity and recovery of subsidies from Government of Pakistan. However as on June 30, 2023, Company's current assets exceeded current liabilities by Rs.66,153 million.

ii) Sales and Cost of Sale

The sales of company were Rs.305,023 million including the subsidy received from the Government of Pakistan amounting to Rs.23,220 million and cost of sales of the company stood at Rs.258,627 million, which was 85% of the sale.

iii) Trade Debts and other Receivables

Major Receivables of the Company were Rs.134,769 million as on June 30,2023. This included an amount of Rs.23,614 million which was receivable from Government of Pakistan against Tariff Differential Subsidy. The trade debts stood at Rs.91,579 million, and Rs.13,034 million from tax authorities; however, other Receivables stood at Rs.6,404 million. Huge pending receivables were a significant business sustainability risk for the Company requiring long term rectification measures. Huge balance of receivables depicted poor recovery efforts of the Company, which needed justification.

iv) Trade and other Payables

Trade and other Payables of the company substantial increased from Rs.5,493 million in the Financial Year 2021-22 to Rs.88,080 million in the Financial Year 2022-23. The major amount of Rs.61,378 million was payable to CPPA-G on account of purchase of electricity. Payables towards CPPA-G are increased to Rs.4,097 million from the previous Financial Year indicating increase of 7%. Immediate short-term measures and prudent long-term action were needed to stop the accumulation of payables and ensure steady reduction of pending payables in the future.

v) Operating Expenses

The Operating Expenses of the company increased from Rs.24,307 million in FY2021-22 to Rs.30,385 million in FY 2022-23. Thus, there was an increase of Rs.6,078 million from the previous year 2021-22 which indicates increase of 25%. The reason of increase was in salaries and wages due to revision of pay scales and vehicle running and maintenance expenses etc.

2.3.6 Classified Summary of Audit Observations

Audit observations amounting to Rs.66,184.11 million were raised in this audit. The amount also includes recoveries of Rs.3,701.82 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification	Amount (Rs.in million)
1.	Reported cases of fraud, embezzlement, misappropriation and theft	186.88
2.	Irregularities	
A.	HR/Employees related irregularities	93.23
B.	Procurement related irregularities	2,099.04
C.	Irregularities pertaining to violation of entity's own regulations / SOPs	15,275.60
D.	Irregularities pertaining to violation of Regulatory Laws & Regulations	33,053.23
E.	Power Sector receivables	10,322.77
F.	Recoveries pointed out by Audit	3,701.82
3.	Value for money and service delivery issues	599.67
4.	Others	851.86

2.4 HYDERABAD ELECTRIC SUPPLY COMPANY (HESCO)

2.4.1 Introduction

Hyderabad Electric Supply Company (HESCO) is a subsidiary of PPMC. The Company started its operations as a Public Limited Company in July, 1998 and registered under Companies Ordinance 1984 (now Companies Act 2017) as a public limited company. The Company obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The principal activity of the Company is distribution and supply of electricity within its defined geographical boundaries. The Company purchases electricity from CPPA-G through NTDC system and sells it to various consumers in thirteen districts of Sindh Province.

The operational activities are performed through four (04) Operation Circles and Grid System Construction, Project Construction & Grid System Operation Circles.

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2022-23 (Rs.in million)	Expenditure audited FY 2022-23 (Rs.in million)	Revenue / Receipts FY 2022-23 (Rs.in million)
1.	Formations	09	03	23,526.74	1,842.04	0
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	Nil	Nil	Nil	Nil	Nil

2.4.2 Comments on Financial Statements

According to Section-223 of Companies Act 2017, “the board of every company must lay before the company in annual general meeting its financial statements for the period, in the case of first such statements since the incorporation of the company and in any other case since the preceding financial statements, made up to the date of close of Financial Year adopted by the company”.

In HESCO, financial statements of the company for the Financial Year 2022-23 could not be finalized by the management up till December 31, 2023.

2.4.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.83,495.72 million were raised in this audit. The amount also includes recoveries of Rs.14.40 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification	Amount (Rs.in million)
1.	Reported cases of fraud, embezzlement, misappropriation and theft	1,564.56
2.	Irregularities	
	A. HR/Employees related irregularities	25.41
	B. Procurement related irregularities	338.19
	C. Irregularities pertaining to violation of entity's own regulations / SOPs	4,027.30
	D. Irregularities pertaining to violation of Regulatory Laws & Regulations	17,965.75
	E. Power Sector receivables	54,288.27
	F. Recoveries pointed out by Audit	14.40
3.	Others	5,271.85

2.5 ISLAMABAD ELECTRIC SUPPLY COMPANY (IESCO)

2.5.1 Introduction

Islamabad Electric Supply Company (IESCO) was registered as a public limited company under Companies' Ordinance 1984 in 1998 to take over the assets, functions and responsibilities of the erstwhile Islamabad Area Electricity Board, which was then a division of WAPDA. IESCO falls in the category of public limited Company under the third schedule of Companies Act, 2017.

IESCO's core function is to supply, distribute and sell power (electricity) in the area from Attock to Jhelum, and from the river Indus to River Neelum in Kashmir.

The Company is owned by the Government of Pakistan, and the Administrative Ministry is the Ministry of Energy (Power Division). It obtained its distribution license from National Electric Power Regulatory Authority (NEPRA). It services 3.2 million consumers directly, but touches the lives of more than 25 million people living in the 6 districts.

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2022-23 (Rs.in million)	Expenditure audited FY 2022-23 (Rs.in million)	Revenue / Receipts FY 2022-23 (Rs.in million)
1.	Formations	12	04	51,730.70	15,922.68	18,608.00
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	02	02	4,293.594	4,293.594	Nil

2.5.2 Comments on Financial Statements

2.5.2.1 Financial Overview

As per audited financial statements for the year 2022-23, the company sustained a loss of Rs.666.706 million in FY 2022-23 which was Rs.16,392.90 million in the preceding year. During the FY 2022-23 this reduction in the loss was because of higher gross profit. In the FY 2022 gross profit was Rs.13,247.790 million which increased to Rs.34,059.80 million in the FY 2023. Accumulated loss was Rs.83,718.990 million in FY 2022 which slightly increased to Rs.92,301.799 million. Even though Company sustained a loss of Rs.666.706 million

in FY 2023, but addition in accumulative loss was Rs.8,582.8 million; reimbursement benefits, related deferred income tax and incremental depreciation transferred from surplus on revaluation of operating fixed assets to accumulated loss added up in accumulative losses. There was 18.41% increase in the net sale of electricity (other than government subsidy) and 14.74% increase in gross revenue generated through sale of electricity and subsidy from the Government.

2.5.3 Extract of the Financial Statements

Statement of Financial Position as on June 30, 2023

(Rs.in million)

	2022-23	(%)	2021-22	(%)
Assets				
Non-current Assets				
Property, Plant and Equipment	177,635.16	52.52%	161,423.88	47.73%
Intangible Assets under Development	133.27	0.04%	114.03	0.03%
Long-term Loans	340.30	0.10%	332.71	0.10%
Deferred Income Tax	-			
	178,108.73	52.66%	161,870.62	47.86%
Stores, Spares and Loose Tools	1,462.73	0.43%	1,646.54	0.49%
Trade Debts	90,035.84	26.62%	127,215.23	37.61%
Loans and Advances	411.21	0.12%	517.40	0.15%
Receivable from Government of Pakistan	5,479.50	1.62%	5,734.48	1.70%
Security Deposits	95.40	0.03%	73.74	0.02%
Other Receivables	9,264.98	2.74%	11,584.20	3.43%
Sales Tax Receivables	30,729.19	9.09%	23,407.06	6.92%
Advance Income Tax	1,377.02	0.41%	1,312.86	0.39%
Short-term Investments	3,355.70	0.99%	-	0.00%
Cash and Bank Balances	17,830.01	5.27%	12,577.07	3.72%
	160,041.58	47.32%	184,068.58	54.42%
Non-current Assets held for Sale	65.89	0.02%	65.89	0.02%
	160,107.47	47.34%	184,134.47	54.44%
Total Assets	338,216.20	100.00%	346,005.09	102.30%

Equity and Liabilities**Share Capital and Reserves**

Authorized Share Capital	50,000.00		50,000.00	
Issued, Subscribed and Paid up Share Capital	<u>5,798.25</u>	1.71%	<u>5,798.25</u>	1.71%
Accumulated Loss	(92,301.80)	-27.29%	- 83,718.99	-24.75%
Capital Reserves				
Deposit for Shares	44,386.76	13.12%	33,787.23	9.99%
Surplus on Revaluation of Operating Fixed Assets	71,299.00	21.08%	73,174.67	21.64%
	115,685.77	34.20%	106,961.90	31.63%
Total Reserves	23,383.97	6.91%	23,242.91	6.87%
Total Equity	29,182.22	8.63%	29,041.16	8.59%

Liabilities**Non-Current Liabilities**

Long-Term Loans	8,463.42	2.50%	4,767.26	1.41%
Long-Term Security Deposits	9,288.14	2.75%	8,336.05	2.46%
Staff Retirement Benefits	61,346.51	18.14%	45,573.10	13.47%
Deferred Credit	35,900.41	10.61%	32,910.82	9.73%
	114,998.48	34.00%	91,587.23	27.08%

Current Liabilities

Trade and Other Payables	178,964.91	52.91%	212,990.08	62.97%
Accrued Mark-up	10,368.75	3.07%	8,623.27	2.55%
Current Portion of Long-Term Loans	4,701.85	1.39%	3,963.36	1.17%
	194,035.52	57.37%	225,576.71	66.70%
Total Liabilities	309,033.99	91.37%	317,163.93	93.78%

Contingencies and Commitments

Total Equity and Liabilities	338,216.21	100.00%	346,205.09	102.36%
-------------------------------------	-------------------	----------------	-------------------	----------------

2.5.4 Statement of Profit and Loss Account**For the year ended on June 30, 2023***(Rs.in million)*

	2022-23	(%)	2021-22	(%)
Sale of Electricity – Net	251,085.10	91.20%	212,051.66	88.37%
Subsidies from the Government	24,238.53	8.80%	27,900.05	11.63%
	275,323.63		239,951.72	
Cost of Electricity	241,263.83	87.63%	226,703.93	94.48%
Gross Profit	34,059.80	12.37%	13,247.79	5.52%
Amortization of Deferred Credit	1,987.71	0.72%	1,813.50	0.76%
	36,047.51		15,061.29	
Operating Expenses				
Administrative Expenses	7,084.97		7,918.26	
Distribution Cost	24,644.18		20,197.67	
Customer Services Cost	1,540.03		1,245.85	
	33,269.19	12.08%	29,361.78	12.24%
Profit / (Loss) From Operations	2,778.33	1.01%	(14,300.49)	-5.96%
Other income	6,103.66		3,074.86	
Finance Cost	2,359.19	0.86%	2,573.21	1.07%
Profit / (Loss) Before Taxation	6,522.80		(13,798.84)	
Taxation	(7,189.50)		(2,594.06)	
Loss After Taxation	(666.71)	-0.24%	(16,392.90)	-6.83%

2.5.5 Comments on Audited Accounts

i) Profitability / Loss of the Company

During the FY ended on 30 June 2022, IESCO sustained a loss of Rs.16,392.90 million which was 6.83% of the gross revenue, but in the subsequent year ended on June 30, 2023 company reduced its loss position both in percentage terms and in absolute value. During the current year, Company sustained of loss of Rs.666.71 million which is only 0.24% of the gross revenue. Company reduced its administrative cost to Rs.7,084.97 million in FY 2022-23 from Rs.7,918.26 million in the previous year. However, there was an addition of Rs.4,446.52 million in distribution cost in FY 2022-23 which are recorded as 24,644.18 million in the Financial Year ended on June 30, 2023.

ii) Sale and Cost of Sale

The sales of company were Rs.275,323.628 million including the subsidy received from Government of Pakistan amounting to Rs.24,238.529 million. However, cost of electricity stood at

Rs.241,263.825 million which is 87.63% enabling the company to record a gross profit of Rs.34,059.80 million.

iii) Trade Debts and other Receivables

Major Receivables of the Company were Rs.90,035.84 million against trade debts as on June 30, 2023. This included an amount of Rs.31,691.746 million receivable from non-Government consumers and Rs.59,479.133 million receivables from Government consumers. However, company also recorded an allowance for expected credit losses amounting to Rs.1,135.043 million in FY 2023. Company also recorded an amount of Rs.9,264.983 million on account of other receivables, which comprises on other companies of water and power sector. Receivables from Government of Pakistan stand at Rs.5,479.502 million at the end of June 30, 2023, out of this amount an amount of Rs.1,751.185 million is against Tariff Differential Subsidy, balancing amount is receivable on account of other subsidy packages announced by the Government of Pakistan from time to time. Company should adopt long-term consistent measures to ensure timely recovery of these long outstanding receivables.

iv) Trade and other Payables

Trade and other Payables of the company have been reduced to Rs.178,964.91 million in the Financial Year ended on June 30, 2023 from Rs.212,990.08 million in the previous year. Out of this 178,964.91 million, amount of Rs.107,331.583 million is payable to CPPA-G on account of purchase of electricity. Even though there is a decreasing trend in the amount payable to CPPA-G, company should adopt an immediate prudent measures to stop the accumulation of payables and ensure steady reduction of pending payables in future.

v) Operating Expenses

The Operating Expenses of the company were increased from Rs.29,361.78 million to Rs.33,269.19 million in the Financial Year ended on June 30, 2023. Thus, there was an increase of Rs.3,907.41 million from the previous year. The reason of increase was revision of salaries and wages, and inflation impact on other items.

2.5.6 Classified Summary of Audit Observations

Audit observations amounting to Rs.3,252.52 million were raised in this audit. The amount also includes recoveries of Rs.138.72 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification	Amount (Rs.in million)
1.	Reported cases of fraud, embezzlement, misappropriation and theft	18.31
2.	Irregularities	
	A. Procurement related irregularities	542.88
	B. Irregularities pertaining to violation of entity's own regulations / SOPs	1,911.45
	C. Irregularities pertaining to violation of Regulatory Laws & Regulations	38.64
	D. Power Sector receivables	216.87
	E. Recoveries pointed out by Audit	138.72
3.	Others	385.65

2.6 LAHORE ELECTRIC SUPPLY COMPANY (LESCO)

2.6.1 Introduction

Lahore Electric Supply Company (LESCO) started its operations as a Public Limited Company registered in July, 1998 under Companies Ordinance 1984 (now Companies Act 2017). The Company obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The principal activity of the Company is distribution and supply of electricity within its defined geographical boundaries. The Company purchases electricity from CPPA-G through NTDC system and sells it to various consumers within Kasur, Lahore, Okara, Nankana Sahib and Sheikhpura Districts.

The operational activities are performed through nine Operation Circles, and Grid System Construction, Project Director Construction & Grid System Operation Circles. The detail of formations and expenditure audited is as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2022-23 (Rs.in million)	Expenditure audited FY 2022-23 (Rs.in million)	Revenue / Receipts FY 2022-23 (Rs.in million)
1.	Formations	15	06	71,255.96	5,515.70	42,038.00
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	01	01	43.897	43.897	Nil

2.6.2 Comments on Financial Statements

According to Section-223 of Companies Act 2017, “the board of every company must lay before the company in annual general meeting its financial statements for the period, in the case of first such statements since the incorporation of the company and in any other case since the preceding financial statements, made up to the date of close of Financial Year adopted by the company”.

In LESCO, financial statements of the company for the Financial Year 2022-23 could not be finalized by the management up till December 31, 2023.

2.6.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.110,282.52 million were raised in this audit. The amount also includes recoveries of Rs.822.78 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification	Amount (Rs.in million)
1.	Reported cases of fraud, embezzlement, misappropriation and theft	162.11
2.	Irregularities	
	A. Procurement related irregularities	3,628.10
	B. Irregularities pertaining to violation of entity's own regulations / SOPs	52,036.24
	C. Irregularities pertaining to violation of Regulatory Laws & Regulations	17,466.59
	D. Power Sector receivables	36,139.08
	E. Recoveries pointed out by Audit	822.78
3.	Value for money and service delivery issues	27.62

2.7 MULTAN ELECTRIC POWER COMPANY (MEPCO)

2.7.1 Introduction

Multan Electric Power Company Limited (MEPCO), registered under Companies Ordinance, 1984, started its operations as a Public Limited Company in May, 1998. The registered office of the Company is situated in Multan (Punjab).

The principal activity of the Company is distribution and supply of electricity within its defined geographical boundaries. The jurisdiction of MEPCO includes nine Operation Circles, one Project Director Construction Circle, one Grid System Construction Circle and two Grid System Operation Circles. The Company had obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The mission of MEPCO is to provide un-interrupted electric supply and quality service to all customers at the minimum possible cost. The Company purchases electricity from NTDC on 220 kV Grid Station Vehari, Kassowal, Yousaf Wala, Garanund Road Faisal Abad, NGPS Perian Ghaib, Kot Addu Power Company, Muzzafargarh Power House and Guddu Power House, and sells it to the consumers of Multan, Sahiwal, Khanewal, Vehari, Bahawal Pur, Lodhran, Bahawal Nagar, Pakpattan, Rahim Yar Khan, D.G Khan, Rajan Pur, Layyah and Muzzafar Garh districts.

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2022-23 (Rs.in million)	Expenditure audited FY 2022-23 (Rs.in million)	Revenue / Receipts FY 2022-23 (Rs.in million)
1.	Formations	16	05	33,386.62	4,472.01	62,904.62
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	Nil	Nil	Nil	Nil	Nil

2.7.2 Comments on Financial Statements

2.7.2.1 Financial Overview

Brief on the Opinion (Qualification/Emphasis of Matter):

M/S Yousaf Adil, Chartered Accountant Firm given opinion about true and fair presentation of the state of the Company's affairs as on June 30, 2023 comprising the Statement of financial position as on 30 June, 2023, Statement of Profit and loss, other comprehensive income, the changes in equity and its cash flows thereof conform with the accounting and reporting standards as applicable in Pakistan.

a) Non-recognition of Debit Note of Rs.46,408.338 million on account of mark up paid by CPPA-G

The company has received various invoices from CPPA representing late payment charges being the share of the Company in the markup charged to CPPA by IPPs on account of delayed payments. MEPCO has not recognized the impact of debit notes issued by Central Power Purchasing Agency (Guarantee) Limited (CPPA) for Supplementary Charges aggregating to Rs.46,408.338 million.

b) Matter of Tax Contingencies

Tax contingencies which cannot be presently determined, hence, no provision for the same has been made in the financial statements.

c) Overview on the Profit & Loss Account Statement and Accumulated Losses

As per the audited Financial Statements of MEPCO for the Financial Year 2022-23, Company sustained loss of Rs.23,373 million at the year ended on June 30, 2023, reflecting poor management and weak controls to functionalize its operations. The trend of loss is on increasing side as Company sustained loss of Rs.22,814 million during the Financial Year 2021-22 too. In addition to this, the accumulated loss given in Financial Statements has also increased from 147,180 million to 190,836 million registering 29.661% increase, putting a question mark upon performance of BOD and management of the Company.

vii) 2.7.3 Extracts of the Financial Statements
Statement of Financial Position as on June 30, 2023

	2022-23 (Rs)	% Increase / (Decrease)	2021-22 (Rs) <i>Restated</i>
EQUITY AND LIABILITIES			
SHARE CAPITAL AND RESERVES			
<i>Authorized share capital</i>			
5,000,000,000 (2020: 5,000,000,000) ordinary shares of Rupees 10 each	50,000,000,000		50,000,000,000
Issued, subscribed and paid up share capital	10,823,636,048	0.00	10,823,636,048
Deposit for shares	61,508,552,556	109.66	49,639,659,930
Accumulated loss	(190,836,566,413)	-87.95	(147,180,135,100)
Total equity	(118,504,377,809)	21.60	(86,716,839,122)
LIABILITIES			
NON-CURRENT LIABILITIES			
Long term financing	5,751,926,806	-13.29	6,633,766,788
Staff retirement benefits	137,742,128,574	437.84	108,696,744,299
Long term security deposits	13,593,750,786	1.05	12,453,362,239
Receipt against deposit works	38,552,737,052	36.92	33,955,076,491
Deferred credit	69,557,824,169	11.71	65,581,575,650
	265,198,367,387	57.76	227,320,525,468
CURRENT LIABILITIES			
Trade and other payables	168,917,291,956	-12.17	192,312,653,012
Accrued markup	10,286,735,913	0.55	9,225,118,719
Current maturity of long term financing	8,447,137,700	9.36	7,583,631,043
Provision for taxation	9,796,494,492	12.36	8,859,434,993
	197,447,660,061	-231.77	217,980,837,766
TOTAL LIABILITIES	462,646,027,448	7.96	445,301,363,234
CONTINGENCIES AND COMMITMENTS	-	0.00	-
TOTAL EQUITY AND LIABILITIES	344,141,649,638	-4.03	358,584,524,113
ASSETS			
NON-CURRENT ASSETS			

Property, plant and equipment	139,984,141,285	8.17	129,412,958,632
Intangible assets	-	0.00	-
Long term advances	203,673,368	69.12	120,430,533
Long term deposits	49,185	0.00	49,185
TOTAL NON-CURRENT ASSETS	140,187,863,837	8.23	129,533,438,350
CURRENT ASSETS			
Stores and spare parts	8,463,443,060	-3.59	8,778,303,293
Trade debts	65,069,311,455	-31.08	94,417,538,728
Loans and advances	318,842,399	9.73	290,561,168
Other receivables	78,334,213,862	2.04	76,767,309,645
Advance Income Tax	7,757,132,820	146.80	3,143,055,837
Sales tax receivables	5,858,872,823	-20.04	7,327,081,624
Accrued interest	295,721,200	174.96	107,552,341
Short term investment- amortized cost	13,100,000,000	-52.36	27,500,000,000
Bank balances	24,756,248,184	130.94	10,719,683,127
	203,953,785,802	-10.96	229,051,085,763
TOTAL ASSETS	344,141,649,639	-4.03	358,584,524,113

2.7.4 Statement of Profit & Loss

For the year ended on June 30, 2023

	2022-23	% Increase / (Decrease)	2021-22 <i>Restated</i>
Sale of electricity	372,963,168,220	7.84	345,843,911,414
Tariff Differential Subsidies	77,811,456,859	10.71	70,283,937,519
	450,774,625,079	8.33	416,127,848,933
Cost of electricity	(438,573,956,481)	7.78	(406,934,603,535)
Gross profit	12,200,668,598	32.71	9,193,245,398
Amortization of deferred credit	3,660,012,645	8.72	3,366,498,166
	15,860,681,243	26.28	12,559,743,564
Distribution cost excluding Depreciation	(37,109,250,997)	45.20	(25,557,972,938)
Customer service cost	(5,020,542,839)	18.42	(4,239,627,641)

Depreciation on Operating Fixed Assets	(6,182,414,130)	8.42	(5,702,236,440)
Allowance for expected credit loss	(5,903,781,369)	1303.84	(420,545,586)
	(54,215,989,334)	50.93	(35,920,382,605)
Profit/loss from Operations	(38,355,308,092)	64.19	(23,360,639,041)
Other Income	16,983,603,455	147.13	6,872,303,585
Finance Cost	(1,064,361,559)	(46.74)	(1,998,538,246)
Loss before taxation	(22,436,066,196)	21.36	(18,486,873,702)
Taxation	(937,059,499)	(78.35)	(4,327,557,090)
Loss for the year	(23,373,125,695)	2.45	(22,814,430,792)

2.7.5 Comments on Audited Financial Statements Report:

i) Profitability/Loss of the Company

As per the audited Financial Statements for the year 2022-23, Company sustained loss of Rs.23,373 million at the year ended on June 30, 2023. The trend of loss is on increasing side as Company sustained loss of Rs.22,814 million during the Financial Year 2021-22 too. In addition to this, the accumulated loss given in Financial Statement has also increased from 147,180 million to 190,836 million registering 29.661% increase, putting a question mark upon performance of BOD and management. However, as on June 30, 2023 the Company's current assets exceeded current liabilities by Rs.6,506 million indicating positive trend.

ii) Sales and Cost of Sale

As per Statement of Profit or Loss for the year ended on June 30, 2023, the sales of the Company were Rs.450,774 million including the subsidy received from Government of Pakistan for an amount of Rs.77,811 million and cost of sales of the company stood at Rs.438,573 million and Company earned Gross Profit of Rs.12,200 million.

iii) Matter of Tax Contingencies

The ultimate outcome of various matters regarding tax contingencies which cannot be presently determined, hence, no provision for the same has been made in the financial statements.

iv) Non-charging of fuel price adjustment to consumers

The fuel price adjustment amounting to Rs.3,261.50 million which was to be charged to the consumers in the month of August and September, 2020 remained unbilled to the consumers. During the year, the Company has recognized provision against this receivable balance.

v) Trade Debts and other Receivables

As per Statement of Financial Position on June 30, 2023, trade debts of the Company were 94,417 million during the FY 2021-22 which decreased to Rs.65,069 million during FY 2022-23. Trade

debts include FPA for the period from November 2019 to June 2020 amounting to Rs.3,261.50 million which was to be charged to the consumers in the month of August and September 2020. However, the above balance remained unbilled to the consumers till the year end (note 20.4). Other receivables include major amount of Rs.64,390 million as tariff differential subsidy from GOP (note 22.4) and amount due from other associated companies/undertakings is Rs.6,855 million (note 22.1).

vi) Trade and other Payables

As per Statement of Financial Position on June 30, 2023; Payables of the Company were 168,917 million. The major amount of Rs.150,769 million (note 12.1) was due to associated companies including CPPA, NTDC and other distribution companies

vii) Non-recognition of Debit Note of Rs.46,408.338 million on account of markup paid by CPPA-G

The company has not recognized the impact of debit notes issued by the major creditor Central Power Purchasing Agency (Guarantee) Limited (CPPA) for Supplementary Charges, being the mark-up charged on CPPA by Independent Power Producers (IPPs) on account of delayed payments, aggregating to Rs.46,408.338 million.

2.7.6 Classified Summary of Audit Observations

Audit observations amounting to Rs.13,895.84 million were raised in this audit. The amount also includes recoveries of Rs.715.74 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification	Amount (Rs.in million)
1.	Reported cases of fraud, embezzlement, misappropriation and theft	143.64
2.	Irregularities	
	A. HR/Employees related irregularities	24.28
	B. Procurement related irregularities	627.51
	C. Irregularities pertaining to violation of entity's own regulations / SOPs	6,819.78
	D. Irregularities pertaining to violation of Regulatory Laws & Regulations	4,629.01

	E. Power Sector receivables	720.21
	F. Recoveries pointed out by Audit	715.74
3.	Value for money and service delivery issues	32.85
4.	Others	182.83

2.8 PESHAWAR ELECTRIC SUPPLY COMPANY (PESCO)

2.8.1 Introduction

Peshawar Electric Supply Company Limited (PESCO) is a subsidiary of PPMC and started its operation in May 1998 as a public limited Company, registered under Companies Ordinance, 1984. The Company has obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The Company purchases electricity from NTDC. The Company sells electricity to whole area of Khyber Pukhtunkhwa (KPK). However, the business of FATA circle, which consists of tribal areas of KPK, was transferred to Tribal Electric Supply Company Limited (TESCO). PESCO receives supply from NTDC on 220 kV Grid Stations at Daud Khel, Domail, Mardan and 500 kV Grid Station at Tarbela and Peshawar. It also receives supply from Warsak Power House, Kot Addu Power House, Dargai Power House, Jagran Power House, AJK Chashma Nuclear Power Plant, and Kurram Garhi Power House.

The jurisdiction of PESCO includes Nine Operation Circles, one Project Director Construction Circle, one Grid System Construction Circle and one Grid System Operation circle.

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2022-23 (Rs.in million)	Expenditure audited FY 2022-23 (Rs.in million)	Revenue / Receipts FY 2022-23 (Rs.in million)
1.	Formations	14	05	29,144.09	4,386.87	21,016.50
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	Nil	Nil	Nil	Nil	Nil

2.8.2 Comments on Financial Statements

2.8.2.1 Financial Overview

As per the audited Financial Statements for the FY 2022-23, the company remained in loss at the year ended on June 30, 2023. However, the loss decreased from Rs.102,128 million in the FY 2021-22 to Rs.80,594 million in the FY 2022-23, registering -21.08% decrease. Moreover, the net electricity sale increased from Rs.171,781 million in the FY 2021-22 to Rs.240,223 million in the FY 2022-23, registering 39.84% increase.

2.8.3 Extracts of the Financial Statements

viii) Statement of Financial Position as on June 30, 2023

(Rs.in million)

	2022-23	%Incr/ (dec)	2021-2022	%Incr/ (dec)	2020-21
EQUITY AND LIABILITIES					
Issued, subscribed and paid up share capital	0.010	-	0.010	-	0.010
Deposits for issue of share capital	130,867.729	40.94	92,855.405	360.22	20,176.265
Accumulated losses	(548,912.628)	21.38	(452,222.342)	36.50	(331,304.485)
TOTAL EQUITY	(418,044.889)	16.33	(359,366.927)	15.50	(311,128.209)
Non-current liabilities					
Liabilities against government investment	50,187.190	-	50,187.190	-	50,187.190
Long term loans - secured	8,061.125	2.46	7,867.513	20.02	6,555.331
Staff retirement benefits	148,528.485	17.49	126,421.112	22.26	103,404.479
Deferred credit	43,715.377	11.46	39,221.981	11.90	35,052.285
Consumers' security deposits	6,793.520	8.51	6,260.817	12.89	5,546.067
Total non-current Liabilities	257,285.696	11.88	229,958.612	14.55	200,745.352
Current liabilities					
Trade and other payables	512,133.193	10.69	462,689.582	6.55	434,248.163
Accrued markup	3,791.063	19.26	3,178.874	28.06	2,482.412
Current maturity of long term loans	3,556.619	65.96	2,143.076	15.07	1,862.382
Provision for taxation	3,145.518	39.32	2,257.809	5.51	2,139.934
Total Current Liabilities	522,626.392	11.13	470,269.341	6.70	440,732.891
TOTAL LIABILITIES	779,912.088	11.38	700,227.953	9.16	641,478.243
	361,867.199	6.16	340,861.026	3.18	330,350.033

ASSETS

Non-current assets

Property, plant and equipment	116,012.851	13.83	101,917.287	18.98	85,661.994
Long term loans - considered good	0.709	(60.28)	1.786	(78.21)	8.198
Total	116,013.561	13.83	101,919.073	18.97	85,670.192

Current assets

Stores, spare parts and loose tools	11,247.241	17.40	9,580.114	95.76	4,893.824
Trade debts	97,620.338	23.61	78,977.482	12.11	70,447.801
Loans and advances - considered good	3,732.289	49.52	2,496.251	11.54	2,238.055
Other receivables	96,905.868	1.22	95,734.895	6.47	89,920.320
Receivable from government of Pakistan (Ministry of Finance)	26,091.064	(39.18)	42,901.199	(32.66)	63,704.245
Cash and bank balances	10,256.839	10.86	9,252.012	(31.34)	13,475.596
Total	245,853.639	2.89	238,941.953	(2.35)	244,679.841
	361,867.199	6.16	340,861.026	3.18	330,350.033

2.8.4 Statement of Profit & Loss Account

For the year ended on June 30, 2023

(Rs.in million)

	2022-23	% Inc/ (dec)	2021-22	% Inc/(dec)	2020-21
Sale of electricity	240,223.817	39.84	171,781.727	28.54	133,645.193
Subsidy from Government of Pakistan on sale of electricity	39,271.581	(23.58)	51,390.432	(16.87)	61,816.101
	279,495.398	25.24	223,172.159	14.18	195,461.293
Cost of electricity	(322,563.824)	10.16	(292,802.592)	55.53	(188,257.613)
Gross (loss) / profit	(43,068.427)	(38.15)	(69,630.433)	(1,066.60)	7,203.680
Amortization of deferred credit	2,308.965	11.50	2,070.882	11.79	1,852.462
	(40,759.462)	(39.67)	(67,559.551)	(846.01)	9,056.142
Operating cost					
Other operating cost excluding depreciation	(41,579.991)	20.64	(34,465.917)	3.09	(33,434.059)
Depreciation on property, plant and equipment	(4,210.463)	13.51	(3,709.338)	12.55	(3,295.859)

	(45,790.454)	19.95	(38,175.255)	3.94	(36,729.918)
Operating loss	(86,549.916)	(18.14)	(105,734.806)	282.08	(27,673.776)
Other income					
Rental and service income	52.486	7.33	48.903	(17.35)	59.171
Other income	10,121.705	30.86	7,734.854	(0.11)	7,743.629
	10,174.191	30.71	7,783.757	(0.24)	7,802.800
Financial cost	(1,065.900)	(44.32)	(1,914.485)	170.28	(708.342)
Loss before taxation	(77,441.624)	(22.45)	(99,865.534)	385.27	(20,579.318)
Taxation	(3,153.184)	39.36	(2,262.667)	4.45	(2,166.300)
Loss for the year	(80,594.809)	(21.08)	(102,128.201)	349.00	(22,745.618)

ix) 2.8.4.1 Qualified Opinion given by the External Auditors on the Financial Statements of PESCO FY 2022-23

It was observed that External Auditors had expressed qualified opinion about the accounts of PESCO for the Financial Year 2021-22 on the following basis: the company has not recorded supplemental charges since 2010 being charged by Central Power Purchasing Agency (CPPA) which are delayed payment charges of Independent Power Producers (IPPs). In our view, had these charges been recorded, trade and other payables and negative equity would have been higher by Rs.113.999 billion (2022: Rs.99.556 billion) and loss for the year would have been higher by Rs14.443 billion (2022: Rs.23.187 billion).

2.8.5 Comments on Audited Financial Statements

x) i) Profitability

The company has suffered a net loss of Rs.80594 million for the Financial Year ended on June 30, 2023 and at that date, the accumulated losses were Rs.548,912 million. Similarly, the current liabilities exceeded the current assets by Rs.276,773 million at the year end. These factors indicate the existence of a material uncertainty, which may cast significant doubts on the company's ability to continue as a going concern. The company was suffering from consistent losses over the years which reflected operational inefficiencies as well policy bottlenecks requiring urgent remedial action.

xi) ii) Sales and Cost of Sale

The sales of the Company were 279,495 million including subsidy received from Government of Pakistan for an amount of Rs.39,271 million and cost of sales of the company stood at Rs.322,563 million which was 115.41% of the sales. This meant that the company was unable to recover the operating expenses for the year.

xii) iii) Trade Debts and other Receivables

Total Receivables of the Company were Rs.224,349 million as on June 30, 2023. An amount of Rs.26,091 million was receivable from Government of Pakistan (Ministry of Finance) against Tariff Differential Subsidy, Rs.96,905 million from other Associated companies, tax authorities and other receivables, Rs.97,620 million from various consumers on account of electricity sold and Rs.3,732 million of loans and advances. Huge balance of receivables depicts the poor recovery efforts of the company, which needed justification.

Trade Debts	97,620,337,566
Loans and advances – considered good	3,732,288,648
Other receivables – considered good	96,905,868,230
Receivable from GoP (Ministry of Finance)	26,091,064,330
TOTAL	224,349,558,774

xiii) iv) Trade and other Payables

Payables of the company substantially increased from Rs.462,689 million during the FY 2021-22 to Rs.512,133 million during the FY 2022-23. The major amount of Rs.449,380 million was payable to CPPA-G on account of purchase of electricity which indicated the poor liquidity position of the company and needed justification.

v) Non-reconciliation of CPPA-G claims

The company has not recorded supplemental charges since 2010 being charged by Central Power Purchasing Agency (CPPA) which are delayed payment charges of Independent Power Producers (IPPs). In our view, had these charges been recorded, trade and other payables and negative equity would have been higher by Rs.113.999 billion (2022: Rs.99.556 billion) and loss for the year would have been higher by Rs.14.443 billion (2022: Rs.23.187 billion).

2.8.6 Classified Summary of Audit Observations

Audit observations amounting to Rs.162,945.99 million were raised in this audit. The amount also includes recoveries of Rs.623.45 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification	Amount (Rs.in million)
----------------	-----------------------	-----------------------------------

1.	Reported cases of fraud, embezzlement, misappropriation and theft	75.08
2.	Irregularities	
	A. HR/Employees related irregularities	2.60
	B. Procurement related irregularities	978.80
	C. Irregularities pertaining to violation of entity's own regulations / SOPs	8,814.10
	D. Irregularities pertaining to violation of Regulatory Laws & Regulations	136,151.74
	E. Power Sector receivables	11,155.32
	F. Recoveries pointed out by Audit	623.45
3.	Others	5,144.91

2.9 QUETTA ELECTRIC SUPPLY COMPANY (QESCO)

2.9.1 Introduction

Quetta Electric Supply Company (QESCO) is a subsidiary of PPMC. The Company started its operation as a Public Limited Company registered under Companies Ordinance 1984 (now Companies Act 2017) in July, 1998. The Company obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The principal activity of the Company is distribution and supply of electricity within its defined geographical boundaries. The Company purchases electricity from CPPA-G through NTDC system and sells it to various consumers of Balochistan Province.

The operational activities are performed through six (06) Operation Circles and Grid System Construction, Project Director Construction & Grid System Operation Circles. The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2022-23 (Rs.in million)	Expenditure audited FY 2022-23 (Rs.in million)	Revenue / Receipts FY 2022-23 (Rs.in million)
1.	Formations	12	06	37,885.34	7,207.08	17,011.31
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	Nil	Nil	Nil	Nil	Nil

2.9.2 Comments on Financial Statements

According to Section-223 of Companies Act 2017, “the board of every company must lay before the company in annual general meeting its financial statements for the period, in the case of first such statements since the incorporation of the company and in any other case since the preceding financial statements, made up to the date of close of Financial Year adopted by the company”.

In QESCO, financial statements of the company for the FY 2022-23 could not be finalized by the management up till December 31, 2023.

2.9.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.1,146,199.83 million were raised in this audit. The amount also includes recoveries of Rs.228.11 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification	Amount (Rs.in million)
1.	Reported cases of fraud, embezzlement, misappropriation and theft	142.53
2.	Irregularities	
	A. HR/Employees related irregularities	502.30
	B. Procurement related irregularities	90.22
	C. Irregularities pertaining to violation of entity's own regulations / SOPs	3,278.09
	D. Irregularities pertaining to violation of Regulatory Laws & Regulations	77,947.48
	E. Power Sector receivables	1,062,916.88
	F. Recoveries pointed out by Audit	228.11
3.	Others	1,094.23

2.10 SUKKUR ELECTRIC POWER COMPANY (SEPCO)

2.10.1 Introduction

Sukkur Electric Power Company (SEPCO) is a subsidiary of PPMC. The Company started its operations as a Public Limited Company in 2011 and registered under Companies Ordinance 1984 (now Companies Act 2017). The Company obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The principal activity of the Company is distribution and supply of electricity within its defined geographical boundaries. The Company purchases electricity from CPPA-G through NTDC system and sells it to various consumers of ten (10) Districts of Sindh Province.

The operational activities are performed through three Operation Circles and Grid System Construction, Project Construction & Grid System Operation Circles. The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2022-23 (Rs.in million)	Expenditure audited FY 2022-23 (Rs.in million)	Revenue / Receipts FY 2022-23 (Rs.in million)
1.	Formations	09	04	18,643.45	915.61	0
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	Nil	Nil	Nil	Nil	Nil

2.10.2 Comments on Financial Statements

According to Section-233 of Companies Act 2017, “the directors of every company shall at some date not later than eighteen months after the incorporation of the company and subsequently once at least in every calendar year lay before the company in annual general meeting a balance-sheet and profit and loss account or in the case of a company not trading for profit an income and expenditure account for the period.

In SEPCO, the balance sheet and profit & loss account of the Company for the years 2022-23 could not be finalized by the management up till December 31, 2023.

2.10.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.221,094.88 million were raised in this audit. The amount also includes recoveries of Rs.30.76 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification	Amount (Rs.in million)
1.	Reported cases of fraud, embezzlement, misappropriation and theft	28.66
2.	Irregularities	
	A. Procurement related irregularities	116.37
	B. Irregularities pertaining to violation of entity's own regulations / SOPs	1,552.62
	C. Irregularities pertaining to violation of Regulatory Laws & Regulations	19,191.17
	D. Power Sector receivables	198,386.33
	E. Recoveries pointed out by Audit	30.76
3.	Others	1,788.97

2.11 TRIBAL AREAS ELECTRIC SUPPLY COMPANY (TESCO)

2.11.1 Introduction

Tribal Areas Electric Supply Company (TESCO) is a subsidiary of PPMC. The Company was incorporated on July 03, 2002 as a public limited company under Companies Ordinance 1984 (now Companies Act 2017). The Company obtained distribution license from National Electric Power Regulatory Authority (NEPRA). The principal activity of the Company is distribution and supply of electricity within its defined geographical boundaries. The Company purchases electricity from CPPA-G through NTDC system and sells it to the consumers of Ex-FATA agencies.

The operational activities are performed through one Operation Circle, one Construction Division and one SS&TL Division. The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2022-23 (Rs.in million)	Expenditure audited FY 2022-23 (Rs.in million)	Revenue / Receipts FY 2022-23 (Rs.in million)
1.	Formations	05	02	15,443.68	4,164.39	0
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	Nil	Nil	Nil	Nil	Nil

2.11.2 Comments on Financial Statements

According to Section-223 of Companies Act 2017, “the board of every company must lay before the company in annual general meeting its financial statements for the period, in the case of first such statements since the incorporation of the company and in any other case since the preceding financial statements, made up to the date of close of Financial Year adopted by the company”.

In TESCO, financial statements of the company for the Financial Year 2022-23 could not be finalized by the management up till December 31, 2023.

2.11.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.16,588.13 million were raised in this audit. The amount also includes recoveries of Rs.87.98 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification	Amount (Rs.in million)
1.	Reported cases of fraud, embezzlement, misappropriation and theft	1.50
2.	Irregularities	
	A. Procurement related irregularities	3,733.95
	B. Irregularities pertaining to violation of entity's own regulations / SOPs	1,854.51
	C. Irregularities pertaining to violation of Regulatory Laws & Regulations	1,427.53
	D. Power Sector receivables	9,445.01
	E. Recoveries pointed out by Audit	87.98
3.	Others	37.65

2.12 GENCO HOLDING COMPANY LIMITED (GHCL)

2.12.1 Introduction

GENCO Holding Company Limited was incorporated on February 09, 2012 as a public limited (unlisted) company under the Companies Ordinance, 1984 which is replaced with Companies Act 2017. The main objective of the Company is to improve the performance of public sector Ex-WAPDA Thermal Power Generation Companies (GENCOs) by consolidating control in a single entity so that better corporate management, improved financial control and forward-thinking business planning could be brought into the GENCOs.

The Company signed managing agent agreement separately with Jamshoro Power Company Ltd (GENCO-I), Central Power Generation Company Ltd, (GENCO-II) & Northern Power Generation Company Ltd, (GENCO-III) in April 2017.

Principal activity is to liaise with the Federal Government especially Ministry of Energy (Power Division) on behalf of the GENCOs and to take necessary steps for implementation of the Government policies with regards to the GENCOs. The company also liaises with multinational development banks, aid agencies, financiers and other organizations as required.

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2022-23 (Rs.in million)	Expenditure audited FY 2022-23 (Rs.in million)	Revenue / Receipts FY 2022-23 (Rs.in million)
1.	Formations	01	01	698.44	561.848	101.01
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	Nil	Nil	Nil	Nil	Nil

2.12.2 Comments on Financial Statements

2.12.2.1 Financial Overview

As per audited financial statements for the year 2022-23, the company earned a profit of Rs.4.991 million during the year 2022-23 which was only 1.546 million in the preceding year. Company has a significant revenue reserves i.e. inappropriate profit which was Rs.19.912 million in the year 2021-22 and rose up to Rs.24.350 million in the current year ended 2023. Company also has a surplus of assets over liabilities which were Rs.10.571 million, transferred from GM Thermal Office on 10 April 2012.

2.12.3 Extract of the Financial Statements

Statement of Financial Position as on June 30, 2022

	2022-23	% Incr / (Decr)	2021-22	% Incr / (Decr)
Assets				
Non-current Assets				
Operating fixed assets	7.04		7.54	
Right of use assets	25.27		12.69	
Long term advances	2.19		3.72	
Long term security deposit	0.83		0.83	
deferred income tax assets	2.67		2.87	
	38.00	23.90%	27.65	14.16%
Current Assets				
Due from related parties	31.58		47.07	
Advances	3.36		1.64	
Taxation – Net	78.41		76.02	
Bank balances	7.64		42.84	
	120.99	76.10%	167.56	85.84%
Total Assets	<u>158.98</u>		<u>195.21</u>	
Equity and Liabilities				
Share Capital and Reserves				
Authorized Share Capital	0.10		0.10	
Issued, Subscribed and Paid up Share Capital	<u>0.10</u>		<u>0.10</u>	
Surplus of assets over liabilities	10.57		10.57	
Revenue reserves	<u>24.35</u>		<u>19.91</u>	

Total Equity	35.02	22.03%	30.58	15.67%
Liabilities				
Non-Current Liabilities				
Lease liabilities	21.76		-	
staff retirement benefit – gratuity	3.16		4.75	
	24.92	15.68%	4.75	2.43%
Current Liabilities				
Accrued and other payables	43.87		46.56	
Due to related parties	46.36		96.73	
Current portion of lease liabilities	8.81		16.58	
	99.04	62.30%	159.88	81.90%
Total Liabilities	123.96	77.97%	164.63	84.33%
Contingencies and Commitments	-		-	
Total Equity and Liabilities	158.99		195.21	

2.12.4 Statement of Profit and Loss Account

For the year ended on June 30, 2023

	2022-23	% Incr / (Decr)	2021-22	% Incr / (Decr)
Revenue	223.26		222.98	
Administrative and General Expenses	203.24	91.04%	203.55	91.29%
	20.01		19.43	
Other Income	5.11		0.70	
Profit from Operations	25.12	11.25%	20.13	9.03%
Finance Cost	1.84		1.44	
Profit Before Taxation	23.29	10.43%	18.69	8.38%
Taxation	18.29		17.14	
Profit After Taxation	4.99	2.24%	1.55	0.69%

2.12.5 Comments on Audited Accounts

i) Profitability / Loss of the Company

The company has improved its financial position from Rs.1.546 million in the year ended 30 June 2022 to Rs.4.991 million in the year ended on June 30, 2023. A significant contribution in this improved position is of other income, which improved to the tune of Rs.4.41 million in the current year. In the year ended

30 June 2022, other income was Rs.0.704 million which improved to Rs.5.109 million in year ended on June 30, 2023. Another contribution was proportionate taxation, in the year FY ended 2022 it was RS.17.142 million against Rs18.688 million Profit before taxation. However, in the current year, taxation is Rs.18.294 million against a profit before taxation of Rs.23.285 million.

ii) Revenue

The company recorded a Revenue of Rs.223.255 million in the year ended 2023. However, this revenue was Rs.222.981 million in the year ended 2022. Company generated its revenue mainly from management fee and has recorded a very small amount against tendering and bidding fee.

iii) Due from related parties

The company has reduced its receivables from related parties, in the year ended 2023 due from related parties was Rs.31.577 million which was Rs.47.066 million in the year ended 2022. This amount is receivable from GENCOs, WAPDA welfare Fund and NTDC.

iv) Right to use Assets

The company has significantly increased its right to use assets from Rs.12.689 million in FY 2022 to Rs.25.271 million in the FY ended 2023. This increase of Rs.12.58 million is for acquiring assets on lease for office use.

v) Trade and other Payables

The company has reduced its accrued and other Payables from Rs46.564 million in FY 2021-22 to Rs.43.874 million in the FY ended on June 30, 2023. These accrued and other payables mainly comprises on payables to Director General Medical Services, WAPDA. There was also a significant decrease in the amount named as due to related parties. Payable to related parties was Rs.96.729 million in FY 2021-22, which reduced to Rs.46.360 million in the FY ended on June 30, 2023. This amount is payable to, GENCOs, DISCOs, WAPDA and PPMC. Therefore, the company should have an efficient reconciliation mechanism to adjust these figures.

vi) Operating Expenses

Administrative and general expenses of the company slightly reduced from Rs.203.553 million in FY 2022 to Rs.203.244 million in the FY 2023. However, this decrease was only of Rs.0.31 million.

2.12.6 Classified Summary of Audit Observations

Audit observations amounting to Rs.586.48 million were raised in this audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification	Amount (Rs.in million)
1.	Irregularities:	
	A. HR/employees related irregularities	549.84
2.	Others	36.64

2.13 JAMSHORO POWER GENERATION COMPANY (GENCO-I)

2.13.1 Introduction

The Jamshoro Power Generation Company Limited, (JPGCL) was incorporated in August, 1998, under Companies Ordinance 1984 (now Companies Act 2017). It started its business from 1st March, 1999. The Company took over properties, rights, assets, obligations and liabilities of thermal power generation at Jamshoro and Kotri, owned by WAPDA through Business Transfer Agreement.

The principal activity of the Company is to generate electricity (from furnace oil, natural gas) and sell it to CPPA-G. JPGCL was granted Generation License by NEPRA in July, 2002.

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2021-22 (Rs.in million)	Expenditure audited FY 2021-22 (Rs.in million)	Revenue / Receipts FY 2021-22 (Rs.in million)
1.	Formations	01	01	11,912.00	356.47	6,038.23
2.	Assignment Accounts (excluding FAP)	N/A	N/A	N/A	N/A	N/A
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	03	02	1,130.124	1,130.124	Nil

2.13.2 Comments on Financial Statements

According to Section-223 of Companies Act 2017, “the board of every company must lay before the company in annual general meeting its financial statements for the period, in the case of first such statements since the incorporation of the company and in any other case since the preceding financial statements, made up to the date of close of Financial Year adopted by the company”.

In GENCO-I, financial statements of the Company for the Financial Year 2022-23 could not be finalized by the management up till December 31, 2023.

2.13.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.68,344.87 million were raised in this audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification	Amount (Rs.in million)
1.	Others	68,344.87

2.14 CENTRAL POWER GENERATION COMPANY (GENCO-II)

2.14.1 Introduction

The Central Power Generation Company (CPGCL) was incorporated in October, 1998 as a public limited company under Companies Ordinance 1984 (now Companies Act 2017). It started its business from March 01, 1999. The Company took over properties, rights, assets, obligations and liabilities of thermal power generation at Guddu and Quetta through Business Transfer Agreement.

The principal activity of the Company is to generate electricity from furnace oil and natural gas and sell it to CPPA-G. CPGCL was granted Generation License by NEPRA during July, 2002. The Company has fourteen units having capacity of 12,264,000 MWh.

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2022-23 (Rs.in million)	Expenditure audited FY 2022-23 (Rs.in million)	Revenue / Receipts FY 2022-23 (Rs.in million)
1.	Formations	01	01	81,507.00	8,832.00	467.00
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	Nil	Nil	Nil	Nil	Nil

2.14.2 Comments on Financial Statements

According to Section-223 of Companies Act 2017, “the board of every company must lay before the company in annual general meeting its financial statements for the period, in the case of first such statements since the incorporation of the company and in any other case, since the preceding financial statements, made up to the date of close of Financial Year adopted by the company”.

In GENCO-II, the financial statements of the company for the Financial Year 2022-23 could not be finalized by the management up till December 31, 2023.

2.14.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.74,747.37 million were raised in this audit. The amount also includes recoveries of Rs.508.29 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification	Amount (Rs.in million)
1.	Irregularities	
	A. Procurement related irregularities	24,903.63
	B. Irregularities pertaining to violation of Regulatory Laws & Regulations	1,037.05
	C. Power Sector receivables	5.46
	D. Recoveries pointed out by Audit	508.29
2.	Others	48,292.94

2.15 NATIONAL TRANSMISSION AND DESPATCH COMPANY (NTDC)

2.15.1 Introduction

National Transmission and Dispatch Company (NTDC) was incorporated under Companies Ordinance, 1984 in 1998. The Company obtained transmission license from NEPRA for a period of 30 years in December, 2002 for undertaking its obligations. The principal activity of NTDC is to receive electricity from Hydel / Thermal / Nuclear Power Stations, Renewable Energy Plants and IPPs, and transmit it through its 500 kV / 220 kV System to all DISCOs and K-Electric for onward distribution to consumers. NTDC is also responsible for constructing, operating and maintaining 220 kV and 500 kV transmission systems comprising of transmission lines and grid stations.

The Company operates and maintains fourteen (14) 500 kV Grid Stations and thirty-eight (38) 220 kV grid stations along with 5,077 Km long 500 kV transmission lines, and 7,359 Km long 220 kV transmission lines in Pakistan.

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2022-23 (Rs.in million)	Expenditure audited FY 2022-23 (Rs.in million)	Revenue / Receipts FY 2022-23 (Rs.in million)
1.	Formations	22	14	146,176.34	23,961.04	38,206.00
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	14	14	72,051.325	72,051.325	Nil

2.15.2 Comments on Financial Statements

According to Section-223 of Companies Act 2017, “the board of every company must lay before the company in annual general meeting its financial statements for the period, in the case of first such statements since the incorporation of the company and in any other case since the preceding financial statements, made up to the date of close of Financial Year adopted by the company”.

In NTDC, financial statements of the company for the Financial Year 2022-23 could not be finalized by the management up till December 31, 2023.

2.15.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.228,082.23 million were raised in this audit. The amount also includes recoveries of Rs.56.17 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification	Amount (Rs.in million)
1.	Reported cases of fraud, embezzlement, misappropriation and theft	37.80
2.	Irregularities	
	A. HR/Employees related irregularities	394.30
	B. Procurement related irregularities	140,498.31
	C. Irregularities pertaining to violation of entity's own regulations / SOPs	72,797.20
	D. Irregularities pertaining to violation of Regulatory Laws & Regulations	10,222.99
	E. Power Sector receivables	9.77
	F. Recoveries pointed out by Audit	56.17
3.	Others	4,065.70

2.16 NATIONAL ELECTRIC POWER

REGULATORY AUTHORITY (NEPRA)

2.16.1 Introduction

National Electric Power Regulatory Authority was established as a body corporate under Regulation of Generation, Transmission and Distribution of Electric Power Act, 1997 for the regulation of power sector in the Country. NEPRA is a regulator of the power sector of Pakistan, though it is not involved in the execution of commercial transactions, but it provides the basis for sale and purchase of electricity i.e. determination of tariffs. It is responsible to safeguard the interests of power generation companies, distribution companies and consumers of electricity, so that the flow of electricity may be continued without any shortfall / circular debt. Furthermore, being a monitory body, its role is also to take necessary actions to improve the efficiency of distribution companies in addition to the timely determination of electricity tariffs, thereby containing the accumulation of circular debt. The Authority operates through Head Office located in NEPRA Tower, Attaturk Avenue (East), Sector G-5/1, Islamabad and three regional offices across Pakistan.

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2022-23 (Rs.in million)	Expenditure audited FY 2022-23 (Rs.in million)	Revenue / Receipts FY 2022-23 (Rs.in million)
1.	Formations	01	01	1,659.187	1,217.593	1,989.01
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	N/A	N/A	N/A	N/A	N/A

2.16.2 Comments on Financial Statements

According to Section-223 of Companies Act 2017, “the board of every company must lay before the company in annual general meeting its financial statements for the period, in the case of first such statements since the incorporation of the company and in any other case since the preceding financial statements, made up to the date of close of Financial Year adopted by the company”.

In NEPRA, financial statements of the company for the Financial Year 2022-23 could not be finalized by the management up till December 31, 2023.

2.16.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.184,292.39 million were raised in this audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification	Amount (Rs.in million)
1.	Irregularities	
	A. HR/Employees related irregularities	37.41
	B. Procurement related irregularities	6.47
	C. Irregularities pertaining to violation of entity's own regulations / SOPs	160,287.24
	D. Irregularities pertaining to violation of Regulatory Laws & Regulations	699.27
2.	Value for money and service delivery issues	23,262.00

2.17 PRIVATE POWER AND INFRASTRUCTURE BOARD (PPIB)

2.17.1 Introduction

The Private Power and Infrastructure Board (PPIB) was created on August 2, 1994 under Ministry of Water and Power, Islamabad as "One Window Facilitator" to promote private sector participation in the power sector of Pakistan. PPIB facilitates investors in establishing private power projects and related infrastructure, executes Implementation Agreement (IA) with Project Sponsors and issues sovereign guarantees on behalf of Government of Pakistan.

Main functions of PPIB are to implement the power policies, award projects to sponsors or private power companies, prepare all necessary or appropriate documentation, execute any of such documentation with private power companies, their sponsors, lenders and, whenever necessary or appropriate.

PPIB comprises of the following members:

- | | |
|---|-------------------------|
| 1. Federal Minister for Water & Power | Chairman |
| 2. Secretary, Water & Power/Chairman PEPCO | Member |
| 3. Secretary, Ministry of Finance | Member |
| 4. Secretary, Ministry of Petroleum & Natural Resources | Member |
| 5. Chairman, Federal Board of Revenue | Member |
| 6. Secretary, Planning Commission | Member |
| 7. Chairman, WAPDA | Member |
| 8. Managing Director, PPIB | Member/Secretary |
| 9. Mr. Zahid Rafique, | (Private Member) Member |
| 10. Mr. Amir Naseem | (Private Member) Member |

In addition to above Provincial Chief Secretaries and other departmental heads are included as Board Members (as and when required) for such meetings where items/projects pertinent to the particular Province/AJ&K form part of the agenda for board meetings.

Fourteen (14) thermal power projects having 2,898 MW capacities were launched by Independent Power Producers (IPPs) under Power Policy-1994 and twelve (12) IPPs having capacity of 2,409 MW were inducted under Power Policy-2002 by the PPIB.

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2022-23 (Rs.in million)	Expenditure audited FY 2022-23 (Rs.in million)	Revenue / Receipts FY 2022-23 (Rs.in million)
1.	Formations	01	01	7,003.46	23.66	854
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil

3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	01	01	11.474	11.474	Nil

2.17.2 Comments on Financial Statements

According to Section-223 of Companies Act 2017, “the board of every company must lay before the company in annual general meeting its financial statements for the period, in the case of first such statements since the incorporation of the company and in any other case since the preceding financial statements, made up to the date of close of financial year adopted by the company”.

In PPIB, financial statements of the company for the financial year 2022-23 could not be finalized by the management up till December 31, 2023.

2.17.2 Classified Summary of Audit Observations

Audit observations amounting to Rs.6,694.08 million were raised in this audit. Summary of the audit observation classified by nature is as under:

Sr. No.	Classification	Amount (Rs.in million)
1.	Irregularities	
	A. Procurement related irregularities	3,647.29
	B. Irregularities pertaining to violation of Regulatory Laws & Regulations	5.41
2.	Others	3,041.38

2.18 MINISTRY OF ENERGY

(POWER DIVISION)

2.18.1 Introduction

The Ministry of Energy (Power Division) is Government of Pakistan federal and executive level ministry created on August 4, 2017 after merging of the Ministry of Petroleum and Natural Resources with the power division of the Ministry of Energy, respectively. The ministry has two divisions i.e. petroleum and power. The Power Division is responsible for general monitoring of power generation, transmission and its distribution as well as the power projects in the implementation stages. The following power sector entities come under the supervision of Power Division:-

- Power Planning & Monitoring Company (PPMC) along with its corporate entities
- GENCO Holding Company Limited (GHCL) along with generation companies
- Alternative Energy Development Board (AEDB)
- Private Power Infrastructure Board (PPIB)
- National Energy Efficiency & Conservation Authority (NEECA)
- Central Power Purchasing Agency Guaranteed (CPPA-G)
- Power Holding Limited (PHL)
- National Power Parks Management Company Limited (NPPMCL)

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2020-21 (Rs.in million)	Expenditure audited FY 2020-21 (Rs.in million)	Revenue / Receipts FY2020-21 (Rs.in million)
1.	Formations	01	01	293.350	24.618	0
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	Nil	Nil	Nil	Nil	Nil
4.	Foreign Aided Projects (FAP)	Nil	Nil	Nil	Nil	Nil

2.18.2 Classified Summary of Audit Observations

Audit observations amounting to Rs.5,790.21 million were raised in this audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification	Amount (Rs.in million)
1.	Irregularities	
	A. Procurement related irregularities	2,445.21
2.	Others	3,345.00

2.19 CENTRAL POWER PURCHASING AGENCY GUARANTEED (CPPA-G)

2.19.1 Introduction

The Central Power Purchasing Agency Guaranteed (CPPA-G) was incorporated in January, 2009 under the Companies Ordinance, 1984. The Company is registered as non-profit organization with the object to implement and administer market mechanisms for electricity procurement and sale by undertaking and performing functions and discharging responsibilities as are or may be laid down from time to time for the company. Since June 2015, CPPA-G has assumed the business of National Transmission and Dispatch Company under Business Transfer Agreement (BTA) pertaining to the market operations and presently functioning as the Market Operator in accordance with Rule-5 of the NEPRA Market Operator (Registration, Standards and Procedure) Rules, 2015. On November 16, 2018 National Electric Power Regulatory Authority (NEPRA) has approved the registration of CPPA-G as market operator under Rule 3 of the Market Rules.

CPPA-G being a market operator, purchases electricity from power generation companies (GENCOs) and sells it to DISCOs. It bills the distribution companies for sold electricity and makes payments to the power generating units. It is responsible for making payments to the IPPs on account of electricity and capacity charges after ascertaining that payments & deductions are made in accordance with the Power Purchase Agreements.

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2020-21 (Rs.in million)	Expenditure audited FY 2020-21 (Rs.in million)	Revenue / Receipts FY2020-21 (Rs.in million)
1.	Formations	01	01	1,707.00	198.398	1,707.00
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	Nil	Nil	Nil	Nil	Nil

2.19.2 Comments on Financial Statements

According to Section-223 of Companies Act 2017, “the board of every company must lay before the company in annual general meeting its financial statements for the period, in the case of first such statements since the incorporation of the company and in any other case since the preceding financial statements, made up to the date of close of financial year adopted by the company”.

In CPPA-G, financial statements of the company for the financial year 2022-23 could not be finalized by the management up till December 31, 2023.

2.19.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.2,734,671.62 million were raised in this audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification	Amount (Rs.in million)
1.	Irregularities	
	A. Procurement related irregularities	134,223.08
	B. Irregularities pertaining to violation of entity's own rules / regulations	3,327.30
	C. Irregularities pertaining to violation of Regulatory Laws & Regulations	58,752.44
	D. Power Sector receivables	2,535,742.63
2.	Value for money and service delivery issues	985.17
3.	Others	1,641.00

2.20 ALTERNATIVE ENERGY DEVELOPMENT BOARD (AEDB)

2.20.1 Introduction

Alternative Energy Development Board (AEDB) has been established as a statutory organization by announcing and promulgating the AEDB Act in May 2010. The Act bestowed upon AEDB the authorities and the responsibilities for the promotion and development of ARE. The main objective is to introduce, facilitate, promote and encourage development of Alternative Renewable Energy (ARE) in Pakistan at an accelerated rate. The administrative control of AEDB was transferred to Ministry of Water and Power (now Ministry of Energy Power Division) in 2006. The Government of Pakistan has inter alia mandated AEDB to:-

- Implement policies, programs and projects through private sector in the field of ARE.
- Assist and facilitate development and generation of ARE to achieve sustainable economic growth.
- Encourage transfer of technology and develop indigenous manufacturing base for ARE Technology.
- Promote provision of energy services that are based on ARE resources.
- Undertake ARE projects on commercial scale (AEDB Act 2010).

The Government of Pakistan has tasked the AEDB to ensure that 5% of total national power generation capacity be generated through alternative renewable energy technologies by the year 2030. In addition, under the remote village electrification program, AEDB has been directed to electrify 7,874 remote villages in Sindh and Balochistan provinces through ARE technologies.

The detail of formations and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2022-23 (Rs.in million)	Expenditure audited FY 2022-23 (Rs.in million)	Revenue / Receipts audited FY 2022-23 (Rs.in million)
1	Formations	01	01	*1,326.78	913.01	0
2.	Assignment Accounts (excluding FAP)	01	01			
3.	Authorities / Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	Nil	Nil	Nil	Nil	Nil

* All the budgetary grants for non-development and development purpose regulate through assignment account

2.20.2 Comments on Financial Statements

According to Section-223 of Companies Act 2017, “the board of every company must lay before the company in annual general meeting its financial statements for the period, in the case of first such statements since the incorporation of the company and in any other case since the preceding financial statements, made up to the date of close of financial year adopted by the company”.

In AEDB, financial statements of the company for the financial year 2022-23 could not be finalized by the management up till December 31, 2023.

2.20.2 Classified Summary of Audit Observations

Audit observations amounting to Rs.1,449.46 million were raised in this audit. Summary of the audit observation classified by nature is as under:

Sr. No.	Classification	Amount (Rs.in million)
1.	Irregularities	
	A. Procurement related irregularities	1,449.46

2.21 NATIONAL POWER PARKS MANAGEMENT COMPANY LIMITED (NPPMCL)

2.21.1 Introduction

National Power Parks Management Company Limited (NPPMCL) was incorporated as private limited company under the Company Ordinance 1984 (now Companies Act, 2017) on March 02, 2015. It is a public sector Company owned and controlled by the Government of Pakistan through Pakistan Development Fund Limited (PDFL). The principal activity of the Company is to carry on business of generation of electricity through fossil fuels and bio fuels, including but not limited to oil (residual fuel oil, high speed diesel), gas, coal, hydro or alternative energy resources including but limited to wind, solar and hydel or any other fuel mix used for generation of electricity in Pakistan and or outside Pakistan and to provide/sell the electricity produced to buyers in accordance with applicable laws. For this purpose, the Company is operating two Regasified Liquefied Natural Gas (RLNG) based combined cycle power plants i.e. 1223 MW and 1230 MW at Balloki, District Kasur and Haveli Bahadur Shah (HBS), District Jhang respectively.

The detail of formation and expenditure audited was as under:

Sr. No.	Description	Total Nos.	Audited	Budget FY 2022-23 (Rs.in million)	Expenditure audited FY 2022-23 (Rs.in million)	Revenue/ Receipts audited FY 2022-23 (Rs.in million)
1.	Formations	01	01	833,924.00	42,247.02	876,171.02
2.	Assignment Accounts (excluding FAP)	Nil	Nil	Nil	Nil	Nil
3.	Authorities/ Autonomous Bodies etc. under the PAO	N/A	N/A	N/A	N/A	N/A
4.	Foreign Aided Projects (FAP)	Nil	Nil	Nil	Nil	Nil

2.21.2 Comments on Financial Statements

According to Section-223 of Companies Act 2017, “the board of every company must lay before the company in annual general meeting its financial statements for the period, in the case of first such statements since the incorporation of the company and in any other case since the preceding financial statements, made up to the date of close of financial year adopted by the company”.

In NPPMCL, financial statements of the company for the financial year 2022-23 could not be finalized by the management up till December 31, 2023.

2.21.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.114,365.42 million were raised in this audit. Summary of the audit observations classified by nature is as under:

Sr. No.	Classification	An amount (Rs.in million)
1.	Irregularities	
	A. Procurement related irregularities	14,769.28
	B. Irregularities pertaining to violation of Regulatory Laws & Regulations	10,315.08
2.	Others	89,281.06

CHAPTER-3

THEMATIC AUDIT ON PROCUREMENT AND MATERIAL MANAGEMENT IN NTDC

3.Thematic Audit on Procurement and Material Management in NTDC

3.1 Introduction

The National Transmission and Despatch Company (NTDC), established in 1998 and licensed by the National Electric Power Regulatory Authority (NEPRA) in December 2002 is playing a crucial role in the energy infrastructure of the country. Its primary responsibilities encompass a wide array of activities that contribute to the efficient transmission and seamless evacuation of electricity generated from various sources such as hydel, thermal, nuclear power stations, renewable energy plants, and independent power producers (IPPs). Once the electricity is integrated into the grid, NTDC employs its advanced 660/500/220 kV transmission system to transmit the electricity across the network, ensuring its widespread distribution to all distribution companies (DISCOs) and K-Electric.

A critical aspect of NTDC's operations lies in its procurement and material management functions. The procurement process involves securing the necessary materials essential for the development projects undertaken by NTDC. This process goes beyond mere acquisition and extends to negotiating favorable terms and conditions in contracts. Any modifications or changes are meticulously documented and agreed upon by both parties. Material management, a parallel facet of NTDC's operations, adheres to a rigorous compliance framework outlined in the NTDC Store and Procedure Manual. The primary objective of material management is to ensure the efficient utilization of acquired material for timely completion of projects while minimizing wastage which includes maintaining stringent standards for the receipt, issuance, and return of materials stored at the four strategically located NTDC warehouses in Jamshoro, Multan, Lahore, and Faisalabad.

In essence, NTDC stands as a pivotal entity in Pakistan's energy landscape, orchestrating the efficient transmission of electricity and upholding a rigorous framework for procurement and material management. Its comprehensive oversight extends to the timely acquisition of high-quality goods and services and ensures reliable and widespread distribution of electricity while upholding the highest standards of efficiency, compliance, and resource utilization.

3.2 Background

NTDC is responsible for construction, operation and maintenance of transmission network of electricity. Resultantly, NTDC requires huge procurement of material for construction of 660/500/200 kV transmission line and grids throughout the country for which it signs contracts, both national and international, funded through loans from esteemed partners. The timely execution of these contracts is pivotal for realizing NTDC's ambitions and advancing the nation's electricity infrastructure. These endeavors underpin the development and enhancement of transmission and distribution systems.

NTDC relies on foreign loans from partners like ADB, WB, JICA and AFD for significant procurements, crucial for acquiring resources. The procurement process under these loans is meticulously orchestrated with thorough oversight and approval at each stage from the development partner, ensuring transparency and alignment with

overarching objectives. This careful engagement extends from project inception to contract award and post-award monitoring, ensuring meticulous compliance with stipulated terms and guidelines.

Optimization hinges on factors like demand forecasting, inventory control, supplier management, technology integration and adherence to environmental and regulatory considerations, ensuring the efficacy of material management for NTDC's multifaceted projects. Efficient material management involves synchronizing resources to meet operational demands, ensuring timely availability of the right materials within budget constraints. As custodians of the nation's electricity infrastructure NTDC's mission-critical focus on effective material management supports uninterrupted electricity flow, sustains infrastructure and maintains reliability benchmarks.

3.3 Establishing the Audit Theme

3.3.1 Reasons of selection

The key points for selection of thematic audit on procurement and material management in NTDC are narrated below:

- i) **Critical function:** Procurement and material management are vital for NTDC's smooth project execution and infrastructure maintenance.
- ii) **Diverse activities:** NTDC procures various electrical and civil materials including complex EPC projects through both national and international competitive bidding.
- iii) **Robust practices:** Strategic planning, careful vendor selection and vigilant oversight ensure efficient and effective procurement and contract management.
- iv) **Effective material management:** International best practices minimize waste and prevent disruptions caused by theft, obsolescence or deterioration. It should be aligned with government priorities and SDGs.
- v) **Financial importance:** Substantial financial resources involved in material procurement necessitate a risk-based review for compliance and optimal resource allocation.
- vi) **Pivotal role:** Effective procurement and material management are crucial for project progress, risk mitigation and sustainability goals.
- vii) **Commitment to excellence:** The audit demonstrates NTDC's dedication to transparency, efficiency and responsible resource management in energy infrastructure.

In essence, efficiently managing procurement and materials is key to NTDC's success, and this audit evaluates sustainability, transparency and financial responsibility.

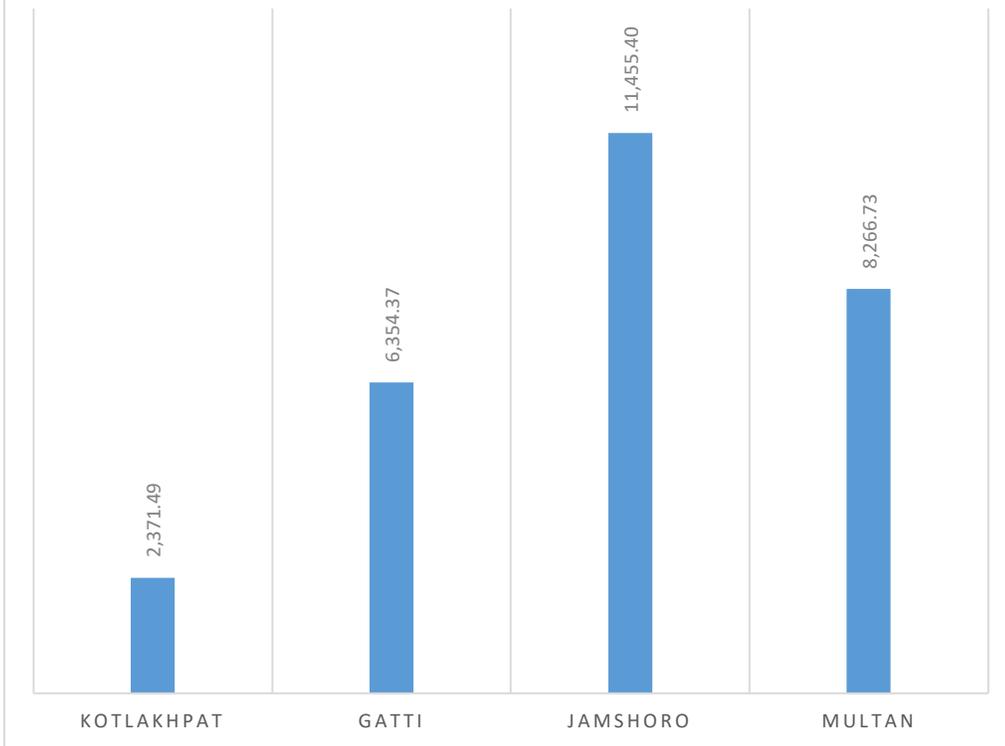
Financial Summary of Electrical Material

(Rs.in million)

Sr. No.	Warehouse	Opening Balances	Receipts	Issues	Closing Balances
1.	KOTLAKHPAT	2,341.52	674.77	644.79	2,371.49
2.	GATTI	4,390.74	2,491.76	528.13	6,354.37
3.	JAMSHORO	13,237.28	8,343.35	10,125.23	11,455.40
4.	MULTAN	5,316.32	6,913.88	3,963.47	8,266.73
Grand Total		25,285.86	18,423.76	15,261.62	28,447.99

(Source: WIMS)

NTDC WAREHOUSES STOCK BALANCES FY-2022-23



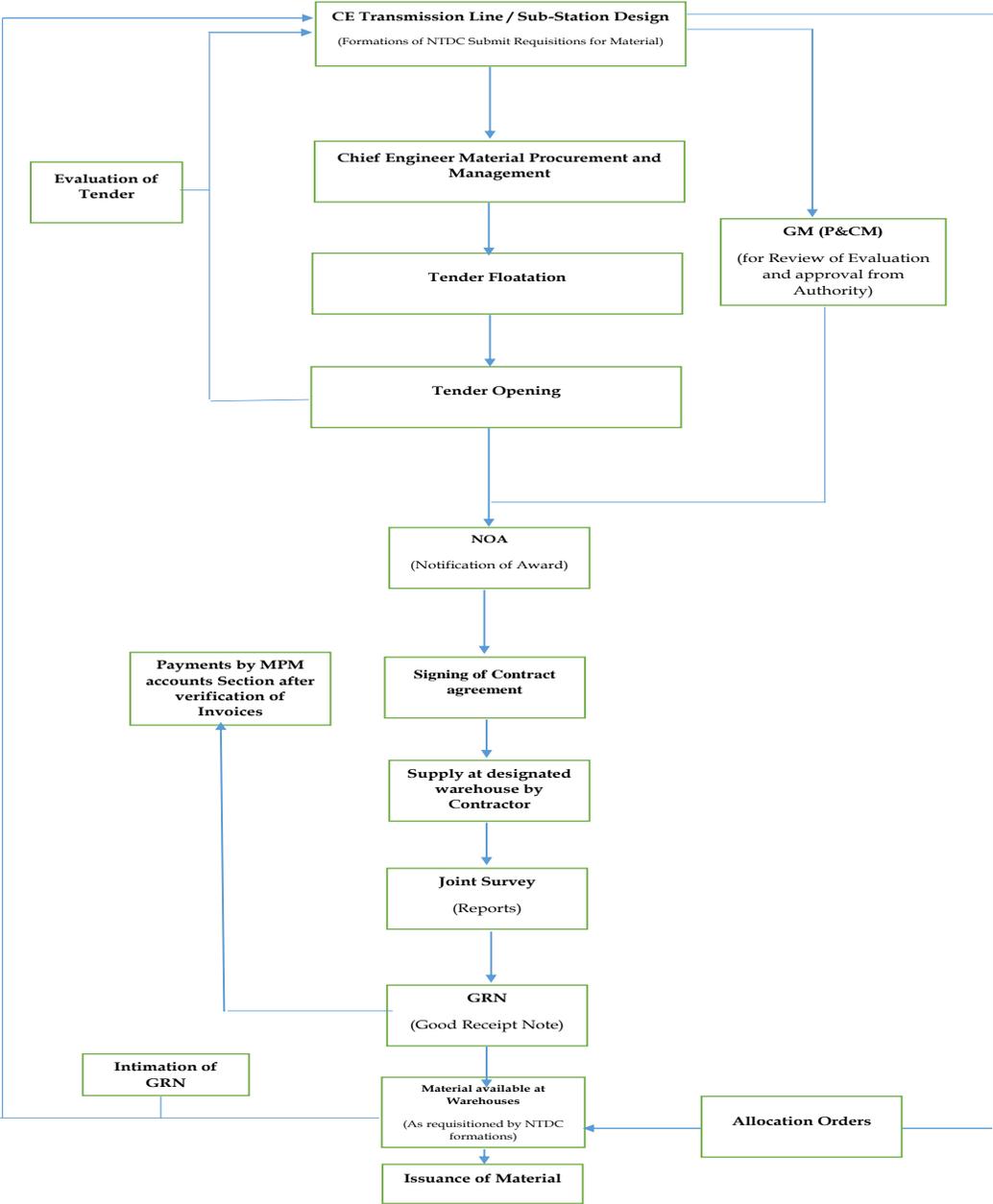
Operations Flow of Chief Engineer Material Procurement and Management NTDC

Within NTDC, a complex procedure ensures acquiring the right materials for efficient power transmission. Field formations initiate by requesting specific electrical equipment. The Transmission Line/Substation Design department of NTDC meticulously assesses these requests, verifying technical compatibility

and compiling detailed specifications.

This information then reaches the MP&M department of NTDC, its launch a competitive bidding process. Pre-qualified suppliers submit bids, which are carefully evaluated by the Design department against technical and qualitative criteria. After thorough review and approval, contracts are signed with chosen suppliers and deliveries are made to designated warehouses.

Workflow Chart of Chief Engineer Material Procurement and Management



3.3.2 Purpose

Thematic audit of Procurement & Material Management in NTDC aims to expose operational weaknesses and enhance the cost-effective procurement of materials, aligning with the NTDC Warehouse Control and Procedure Manual. The audit scrutinizes internal controls, seeking to identify gaps, ensure judicious resource utilization, strengthen internal controls, optimize procurement strategies and improve operational efficiency. The theme addresses major issues related to material assessment, annual procurement plans and overstocking, aligning with SDG No. 12 which represent sustainable public procurement in accordance with national priorities.

Thematic audit aims to identify weaknesses in NTDC's material acquisition processes, covering vendor selection, bid evaluation, contract negotiation, and material allocation. Corrective actions will be suggested to enhance overall procurement effectiveness. The audit also evaluates adherence to NTDC's Warehouse Control and Procedure Manual, ensuring efficient resource utilization. Recommendations from the audit will serve as a roadmap for NTDC's improvements in procurement and material management.

3.3.3 Objectives

To test the objectives of audit, we have developed hypothesis to be tested during course of audit. The objectives of thematic audit activity were as follow but not limited to:

- i. Whether Procurement in NTDC is the sole reason for overstocking?
- ii. Whether functioning of two major warehouses of NTDC i.e. Jamshoro and Multan is in line with NTDC Warehouse Control and Procedure Manual?

3.3.4 Scope

Thematic audit will encompass the office of the Chief Engineer (MP&M) NTDC and its two primary warehouses in Jamshoro and Multan for the Financial Years 2021-22 to 2022-23. To address audit objectives effectively, thematic audit will specifically focus on the following aspects to enhance efficiency, minimize risk and optimize the vital operations of NTDC.

- Assess the presence and effectiveness of controls to ensure alignment with NTDC Warehouse Control and Procedure Manual.
- Review procedures for material distribution from warehouse to field stores and from field stores to field formations, including the return of material in backward hierarchy.
- Evaluate the maintenance of proper records for Goods Received Notes (GRN), Material Requisition Slips (MRS), Material Return Notes (MRNs) and Stock Accounts.
- Review the Warehouse Inventory Management System (WIMS) to evaluate its efficiency and effectiveness.
- Assess how effectively and transparently materials are procured, stocked, and distributed while adhering to established rules and minimizing costs.

- Ascertain if Reserve Stock limits of inventory are observed to avoid unnecessary procurement.
- Review procedures to ensure proper forecasting of demand during the planning phase for material procurement.
- Analyze the mechanism for the disposal of unserviceable material.
- Assess whether due disposal procedures including survey reports and proper tender processes are consistently followed.

The primary formations/offices involved in thematic audit on procurement and material management within NTDC are outlined below:

- General Manager (D&E) - prepares bidding documents, evaluates bids and allocates materials against the projects.
- Chief Engineer PMU manages foreign-aided projects
- Manager (Procurement) - handles post-contract award activities
- Manager (Material Management) - oversees overall material management
- Manager (Inventory Control) - monitors stock levels
- Deputy Managers Warehouses in Multan and Jamshoro – incharge of warehouses and responsible for receipt and issuance of materials

3.4 Legal Framework Governing the Theme

- **The Public Procurement Regulatory Authority Ordinance, 2004** (as amended up to June 28, 2021) provides for the establishment of a Public Procurement Regulatory Authority (PPRA) for regulating procurement of goods, services, works and disposal of public assets in the public sector and for matters connected therewith. The authority has been mandated to ensure transparency, economy, efficiency and accountability of the public sector agencies through proper implementation and monitoring of PPRA Rules – 2004.
- **Public Sector Companies (Corporate Governance) Rules, 2013** (as amended up to July 01, 2019), the significant issues to be placed before the Board in order to formalize and strengthen the corporate decision-making process including policies related to the award of contracts and purchase and sale of raw materials, finished goods, machinery etc.
- **Procurement guidelines** of the development partners i.e Asian Development Bank and World Bank were to be adhered to loan-based procurements by NTDC.
- **NTDC Warehouse Control and Procedure Manual** which encompasses the complete procedure to be compliant with for receipt, issuance, return, stock verification, valuing and other allied matters related to material management in NTDC warehouses.
- **Warehouse Inventory Management System (WIMS)** is a web-based application developed by the National Transmission and Dispatch Company (NTDC) and aimed to provide real-time data and streamlined inventory management for its warehouses. The key objectives of WIMS are as under:
 - Improve inventory accuracy and control.
 - Enhance efficiency of warehouse operations.
 - Reduce costs associated with inventory management.
 - Provide real-time data and transparency to stakeholders
- **International Accounting Standard (IAS-2)** is an International Financial Reporting Standard (IFRS) that sets out the principles for how companies should account for inventories in their financial statements. It covers the measurement, subsequent recognition and disclosure of inventories. The objective of IAS-2 is to prescribe the accounting treatment for inventories. This includes:
 - Determining the cost of inventories
 - Recognizing the cost of inventories as an expense
 - Writing down inventories to net realizable value
 - Disclosing information about inventories

3.5 Stakeholders and Governmental Organizations Identified as Directly / Indirectly involved

Following stakeholders and governmental organizations were involved:

- i. Public Accounts Committee (PAC)
- ii. Ministry of Energy - MoE (Power Division)
- iii. Power Planning and Monitoring Company (PPMC)
- iv. National Transmission & Despatch Company (NTDC)
- v. Public Procurement Rules Authority (PPRA)
- vi. NTDC warehouses
- vii. Development Partners i.e. Asian Development Bank (ADB), Japan International Cooperation Agency (JICA) and World Bank etc.

3.6 Role of Important Organizations

National Transmission & Despatch Company (NTDC) is directly related to the instant theme being involved in the process of Procurement and Material Management and made arrangements for the material required for the projects of NTDC. The worth of NTDC's property, plant and equipment was Rs.390.73 billion and its profit after tax for the FY 2021-22 was Rs.16.56 billion. The Company operates and maintains sixteen (16) 500 kV Grid Stations and forty-five (45) 220 kV grid stations along with 5,970 Km 500 kV transmission lines having 22,350 MVA capacity and 11,322 Km 220 kV transmission lines having 31060 MVA capacity in Pakistan. Its total transmission system had the capacity to handle 53410 MW demand¹⁸. Besides incurring considerable expenditure for operating and maintaining the system, NTDC has to invest in its operational transmission system / network for augmentation, up-gradation and expansion in order to cater for upcoming generation capacity, overloading and system constraints. The material management in NTDC is crucial to ensure the smooth functioning of its operations. Efficient material management helps in maintaining adequate inventory levels, reducing costs, preventing wastage, and ensuring availability of materials needed for transmission and dispatch activities which resultantly leads to improved reliability of power supply, reduced downtime, and effective utilization of resources within NTDC.

3.7 Organization's Financials

NTDC utilizes its own resources, receives PSDP funds and foreign loans from development partners. NTDC's overall comparative financial summary of FYs 2018-19, 2019-20, 2020-21 & 2021-22 is as under:

(Rs.in million)

Sr. No.	Particulars	FY	FY	FY	FY
		2021-22	2020-21	2019-20	2018-19
1.	Total Assets of NTDC	554,349.27	484,692.32	443,679.46	401,813.49

¹⁸<https://ntdc.gov.pk/220kV-gird-station>

2.	Total Liabilities	372,812.07	308,653.76	287,886.60	251,231.00
3.	Share Capital and Reserves	181,537.21	176,038.57	155,792.86	150,582.49
4.	Revenue from use of system / wheeling charges - CPPA-G	76,325.97	53,943.91	43,445.04	41,989.37
5	Profit after tax for the year	16,564.42	12,740.95	9,246.19	11,235.76
6	Cash and cash equivalents at beginning of the year	7,275.06	9,517.82	13,836.66	8,319.76
7.	Cash and cash equivalents at end of the year	6,548.23	7,275.06	9,517.82	13,836.66

(Source: Audited Financial Statements)

3.7.1 Comparative Analysis of Balances of Electrical Material

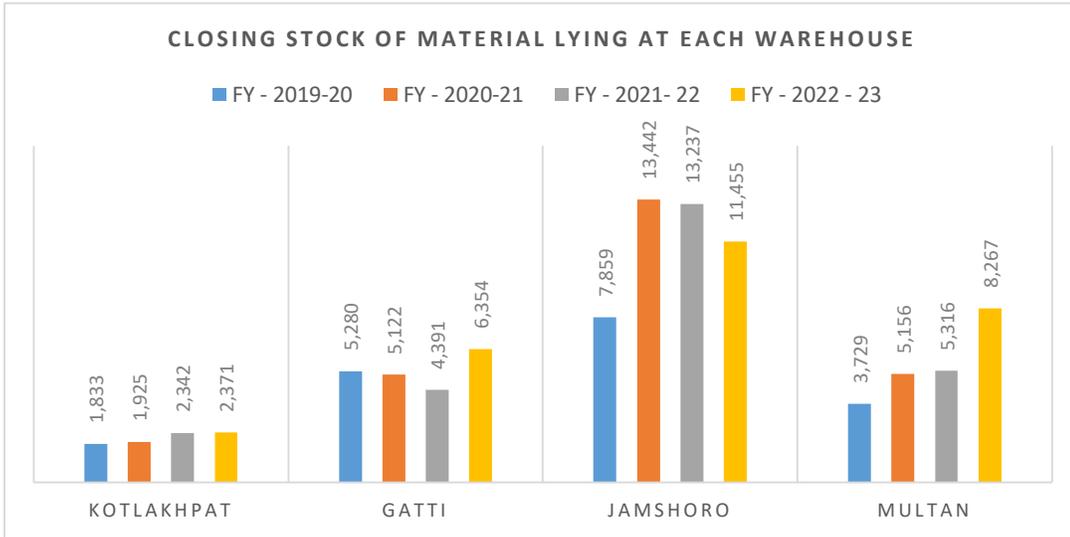
The closing balances of electrical material which was stored in four warehouses operated by the National Transmission and Despatch Company (NTDC) are provided below in a comparative form:

(Rs.in million)

Sr. No.	Warehouse	FY- 2019-20	FY- 2020-21	FY- 2021-22	FY- 2022-23
1.	KOTLAKHPAT	1,833	1,925	2,342	2,371
2.	GATTI	5,280	5,122	4,391	6,354
3.	JAMSHORO	7,859	13,442	13,237	11,455
4.	MULTAN	3,729	5,156	5,316	8,267

(Source: WIMS & Manager IC)

3.7.2 Graphical presentation of closing stock of material



3.7.3 Aging of Electrical Material lying at NTDC Warehouses

NTDC operates four warehouses to manage its electrical material. The total value of inventory held across these four warehouses amounts to a significant sum of rupees 28,447 million.

To gain a deeper understanding of the aging of the materials lying in two specific warehouses, namely Jamshoro and Multan, the assessment considered the closing balances of material for the Financial Year 2022-23. The results of this assessment revealed valuable insights into the aging of materials stored in these two warehouses.

In Multan warehouse, it was determined that there were materials worth Rs.37.41 million that had been stored for a period ranging from 31 to 39 years. These materials have remained in inventory for an extended duration and their aging is a noteworthy aspect of the warehouse's inventory profile.

Similarly, in Jamshoro warehouse, an examination of the inventory for the Financial Year 2022-23 unveiled materials worth Rs.20.43 million that had been in storage for a considerable period ranging from 31 to 46 years. This aging of materials in the Jamshoro warehouse indicates a significant historical aspect of the inventory, with some items having been retained for several decades.

The financial data and aging analysis of inventory in the NTDC's warehouses provide valuable insights into the composition and history of their materials. The aging of certain materials in both the Multan and Jamshoro warehouses highlights the need for careful management and strategic decisions regarding these long-retained inventory items.

3.7.4 Aging of closing stock of electrical material lying at NTDC Warehouses (Multan and Jamshoro) – FY 2022-23

The combined aging of closing stock of electrical material lying at NTDC warehouses i.e. Multan and Jamshoro ranges from 02 to 46 years amounting to Rs.9,409 million, which tantamount to mis-management of warehouse inventory that why such material was procured if not required. The excessive procurement of material caused extra burden on the financial management of NTDC.

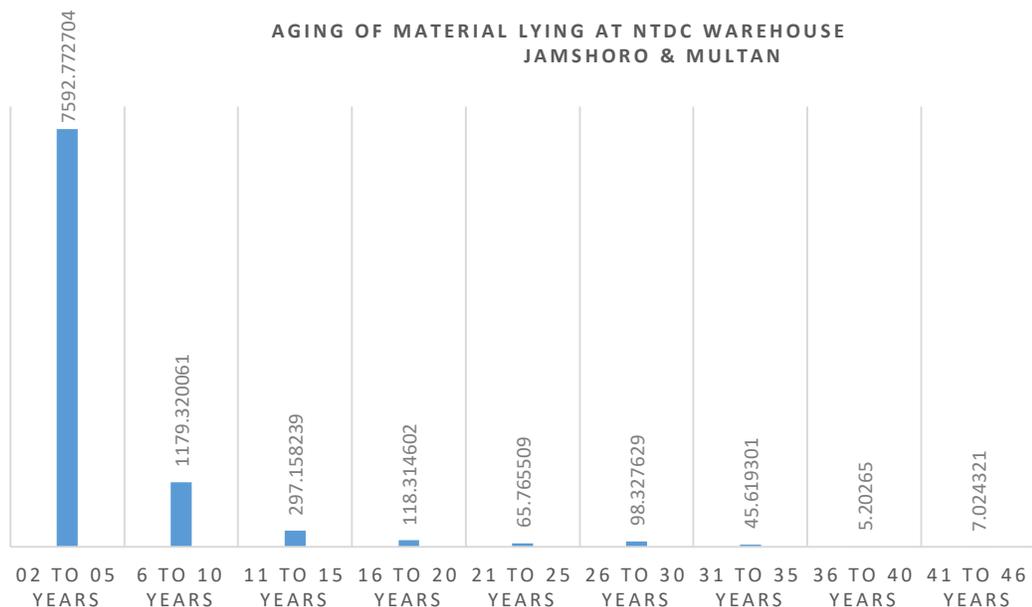
(Rs.in million)

Sr. No.	Range of Years	Material Value in Millions
1.	02 to 05 Years	7,592.77
2.	6 to 10 Years	1,179.32
3.	11 to 15 Years	297.16
4.	16 to 20 Years	118.31
5.	21 to 25 Years	65.77
6.	26 to 30 Years	98.33
7.	31 to 35 Years	45.62
8.	36 to 40 Years	5.20
9.	41 to 46 Years	7.02

(Source: WIMS)

3.7.5 Graphical representation of aging of closing stock of electrical material lying at NTDC Warehouse (Multan and Jamshoro) – FY 2022-23

The combined graphical representation of aging of material in Jamshoro and Multan warehouse is presented below:



3.8 Analysis of Tendering Process for Material Procurement

The examination of the tendering process for procurement reveals significant delays indicating that NTDC is not adhering to the prescribed timelines. This failure to follow the established schedule has led to untimely project completion, exceeding time allocations, increased contract costs due to exchange rate fluctuations, and the inefficient use of limited public resources. The detail regarding delayed procurement contracts is provided at **Annex-I & II**. However, specific observations include:

- Technical bid opening delays ranging from 33 to 117 days from the issuance of tender documents.
- Financial bid opening delays ranging from 59 to 263 days after Technical Bid Opening.
- Approval of Board of Directors (BoD) delays ranging from 31 to 152 days after Financial Bid Opening.
- Issuance of award delays ranging from 32 to 168 days after the issuance of Notice of Award (NOA)

3.9 Field Audit Activity

3.9.1 Methodology

The following quantitative and qualitative audit methodology was adopted during execution of Thematic Audit: -

3.9.1.1 Quantitative Methodology

- Receipt/issuance of material, Stock/Material Reconciliation Reports, GRNs/MRNs/SRs, Stock verification reports compiled by stock verification committee, Cost reports and Budgets, records of disposal of scrap / obsolete / unserviceable material were evaluated
- Data extracted from WIMS for aging of stock balances of two warehouses – i.e. Master warehouse Jamshoro and Multan
- Review of Financial Statements of National Transmission and Despatch Company
- Analysis of procurements of material contracts awarded during the Financial Years 2019-20 to 2022-23 to evaluate timely completion of the projects.
- Regression analysis was conducted to evaluate the impact of procurement levels on closing stock.

3.9.1.2 Qualitative Methodology

- Interview and discussion with the management.
- Examined the Loan Agreements, Project Agreement, Progress Reports, development partner Procurement Guidelines and PPRA Rules
- Evaluated the Tender / Bidding documents, Bid Evaluation Reports
- Evaluated the award of Purchase Orders, Contracts repeat / variation orders, EOT cases, Correspondence files of suppliers / contractors
- Evaluated the security controls and Incidents / theft reports
- Evaluated the Warehouse Control and Procedures Manual and Inventory records
- Obtained Warehouse Inventory Management System (WIMS) read only access to generate Financials and Stock Reports of Material lying at four warehouses of NTDC

3.10 Audit Analysis

3.10.1 Review of Internal Controls:

The internal controls for procurement of material in NTDC were not up to the mark and poor internal controls were evident from the fact that almost all the contracts / projects executed by NTDC failed to adhere to the timelines of PC-I / Donor Agencies/ Contract Agreement and Warehouse Control and Procedure Manual 2009. The following deficiencies in internal controls with reference to procurement and material management in NTDC were observed:

- Procurement of electrical material for multiple nature of projects are being carried out by CE (Design) without coordination with concerned Deputy Manager Warehouse and without assessing the factual position of material for which procurement tender is floated. The consumption of material is not according to the project-based procurement due to non-implementation of procurement plan.

- The reserve stock limit of NTDC warehouses were the same as the closing stock balances of inventory at the end of Financial Year which rendered deviation from best inventory control practices. Minimum/Maximum limit of warehouse material/inventory was not defined in warehouses of NTDC.
- The security measures were found insufficient to safeguard the huge volume of electrical material lying at NTDC warehouses i.e. Master warehouse Jamshoro and Multan
- Most of the electrical material was issued to contractors on rental basis including EPC contractors without maintaining separate register and observing due diligence for allocation of material on rental basis.
- Warehouse Inventory Management System (WIMS) was not designed to provide adequate reporting and organized inventory categorization for further analysis and transparent decision making in terms of efficient and cost-effective processes like aging of stock, warranty of stock, project based procurement etc which was not extractable as compared to best international inventory applications.
- Electrical material procured in two Warehouses was lying un-utilized since long ranging from 02 to 46 years which tantamount to mis-procurement and overstocking of material.
- Warehouse Inventory Management System was showing 38,480 No. of items as un-serviceable material for which no disposal mechanism was devised.

Sr. No.	Name of Warehouse	No. of Un-Serviceable Item
1	Master Warehouse Jamshoro	698
2	Multan Warehouse	7540
3	Gatti – Faisalabad	22352
4	Kotlakhpat	7890
	Total	38,480

(Source: WIMS)

- Huge quantity of surplus/left over material (Tower & Line Material) was returned to NTDC Warehouses from the completed EPC/Turnkey projects which shows that the estimates of the projects were not carefully prepared as per requirements of the projects.
- In emergency, material was being issued to contractor without getting Material Requisition Slip (MRS) from formations concerned and sometimes material was issued to contractor without taking on the record of WIMS or issuance of Goods Receipt Note (GRNs) against the material received in warehouses.
- The practice of storing electrical materials at the sites of other Distribution Companies (DISCOs) introduces a complex dimension to NTDC's material management. This arrangement is involved with shared storage spaces or materials left under the jurisdiction of other entities.

- There was no proper operational vehicle and equipment for proper handling of material which is the main cause of unstacking and damage of material etc. Owing to improper handling of material, working of warehouses has obstructed and led to reduced staff morale, inefficient use of available storage with poor facility layout.

However, by implementing following internal controls in line with NTDC Warehouse Control and Procedure Manual, NTDC can improve the efficiency, transparency and cost-effectiveness of its material management system.

1. **Standardized Procurement Process:** Implement a formal purchase requisition and approval process involving CE (Design), CE (MP&M) and Deputy Manager Warehouse.
2. **Project-Based Procurement:** Integrate project requirements with procurement planning to ensure material aligns with actual needs.
3. **Inventory Review:** Conduct regular physical inventory counts and reconciliation with WIMS to identify discrepancies and prevent overstocking.
4. **Warehouse Security:** Upgrade security measures at warehouses (Jamshoro & Multan) with Closed-Circuit Television (CCTV), access control systems, and trained security personnel.
5. **Rental Equipment Management:** Maintain a dedicated register for rental equipment, establish clear criteria for allocation, and implement due diligence checks before issuing.
6. **Obsolete Inventory Disposal:** Develop a disposal mechanism for unserviceable items through auctions.
7. **Issuance Control:** Implement strict procedures for material issuance, requiring Material Requisition Slips (MRS) and recording all transactions in WIMS and Goods Receipt Notes (GRNs)

3.10.2 Overall Assessment

NTDC requires a comprehensive overhaul of its electrical material management system, starting with addressing the critical control deficiencies identified. By implementing the proposed controls, focusing on high-risk areas and adopting a risk-based approach, NTDC can significantly improve the efficiency, transparency and cost-effectiveness of its operations - mitigating financial losses and project delays.

3.10.3 Risk Matrix Analysis

Control Deficiency	Likelihood	Impact	Risk Score	Mitigation Controls
Bypassing warehouse and procurement plan in material acquisition	High	High	Very High	Standardized procurement process, project-based procurement, inventory review

Inappropriate reserve stock limits and lack of minimum/maximum levels	Medium	Medium	Medium	Define minimum/maximum limits based on usage and lead times
Insufficient warehouse security	Medium	High	High	Enhance security measures with CCTV, access control, and trained personnel
Poor rental equipment management	Medium	Medium	Medium	Implement dedicated register, allocation criteria, and due diligence checks
Inadequate WIMS functionality for analysis and decision-making	Medium	Medium	Medium	Upgrade WIMS to provide better reporting, categorization, and analysis
Un-utilized and unserviceable material	High	High	Very High	Implement disposal mechanisms for obsolete and unserviceable items
Surplus material returned due to inaccurate project estimates	High	Medium	High	Improve project estimation accuracy and integrate with procurement planning
Issuing material without proper documentation or recording	High	Medium	High	Implement strict issuance procedures with MRS, WIMS recording, and GRNs
Complexities due to storage at DISCOs	Medium	Medium	Medium	Formalize agreements with DISCOs regarding shared storage and responsibilities
Inadequate handling equipment and poor facility layout	Medium	Medium	Medium	Provide proper equipment and optimize warehouse layout for efficient handling

3.11 Critical Analysis

3.11.1 Factors leading to overstocking of material in Warehouses of NTDC

Following issues are the main causes of overstocking of material in the warehouses and blockage of funds of the company/ NTDC.

- a) NTDC makes project-based procurement of material. The procurement is made according to requirement/assessment of future projects. So, procured material should have been utilized/consumed for the specified project but in reality it is not the case as for a single project, the material is allocated from many other projects which compromises the spirit of project based procurement. Eventually it

contributes to piling up of material in warehouses of NTDC. The audit noted observation 3.13.6 highlighting the failure to implement the procurement plan for material management in NTDC.

- b)** Huge procurements have been made for maintenance of transmission lines like Disc Insulators, Transmission Line Conductors and Tower Material. As per record of inventory, the procured material is very slow moving and it seems that it has been procured more than the requirements of the company because it is present in warehouses in huge quantity. Such procurement of material which has not been consumed so far is one of the reasons of overstocking of material. The audit identified concerns noted in observations 3.13.4, 3.13.2 and 3.13.35, highlighting the blockage of significant funds arising from the prolonged storage of Disc Insulators at the Jamshoro Warehouse. Moreover, inefficient and unnecessary procurement of electrical materials resulted in an excess beyond project requirements, causing a financial loss to NTDC.
- c)** Many mega projects of the company had been awarded on Turnkey basis (EPC Contracts) wherein it was the sole responsibility of the contractors to complete the projects (arranging all the material/resources/services at their own). However, it was transpired from the record that even in EPC Contracts, the material was allocated/provided from the warehouse of NTDC on loan basis to complete the projects. Following completion of EPC projects, firstly the material is not returned timely to NTDC, secondly, the returned material causes overstocking of inventory in Warehouses because it is returned at a time when it is not required for the purpose it was procured. Audit noted issue detailed in observation 3.13.12, underscoring unjustified favoritism towards EPC contractors arising from the provision of materials on a loan basis.
- d)** Moreover, it was found from the record that huge quantity of surplus/left over material (Tower & Line Material) was returned to NTDC Warehouses from the completed EPC/Turnkey projects which show that the estimates of the project were not carefully prepared as per requirements of the projects. Accordingly, the material had been procured by the contractor against the unrealistic survey and estimates. The leftover/surplus returned material from completed EPC projects rendered overstocking of material in the warehouses of NTDC. Audit identified concerns detailed in observation 3.13.10 emphasizing redundant procurement practices for Turnkey/EPC contracts that lead to an excess of leftover materials from completed projects.
- e)** Un-necessary purchase of material is also one of the causes of overstocking of material in warehouses in NTDC. Huge quantity of tower material, Disc Insulators, panels and Greely Conductors is lying dumped in warehouses which show that above mentioned material was procured beyond the actual requirements of the company. Such superfluous procurement of material is the main cause of blockage of funds and overstocking of material. Audit identified concerns detailed in observation 3.13.30 highlighting substantial likely loss owing to dumping of surplus Tower material at sub-warehouse Rahim Yar Khan.

3.11.2 Overstocking of Material - Transmission Line & Grid – in Warehouses of NTDC

Upon visit to the warehouses of NTDC (Jamshoro & Multan), it was seen that the warehouse was full with electrical material. Even huge quantity of material was placed outside the premises of warehouses. In NTDC, 2,079 electrical material items (Transmission Line & Grid Station material) worth Rs.9,409.51 million was lying at Jamshoro and Multan Warehouses ranging from 02 to 46 years. The dumping of such a huge quantity of material without utilization indicated that it was purchased beyond the requirement which caused blockage of funds. This act of NTDC management refers to superfluous procurement and wastage of funds without witnessing the realistic approach. With the passage of time, this electrical material is turning into obsolete/outdated. Resultantly NTDC may sustain significant financial loss. Moreover, overstocking also led to blockage of funds by investing in huge quantity of same type of material without further utilization which indicates that it was purchased beyond the requirement and unsubstantiated the project-based procurement. Audit noted concerns specified in observations 3.13.2 and 3.13.32 emphasizing a significant loss to the company stemming from the damage of materials for Grid Stations and Transmission lines along with the expiration of warranty claims for materials and an accumulation of excess electrical material resulting from ineffective or unnecessary procurement beyond project requirements. Top of Form

3.11.3 Ineffective Material Procurement Process

Procurement processes are designed to ensure efficient use of funds and resources. Effective and efficient procurement can help to ensure that products are available when needed for project and that the necessary supplies are available in the correct quantities as well as to ensure that the quality of products is high.

In NTDC, procurement of electrical material for multiple nature of contracts are being carried out by CE (Design) without coordination with concerned Deputy Manager Warehouse and without assessing the factual position of material for which procurement tender is floated and there is no any annual procurement plan and mechanism for significant procurement and fixation of reserve stock limit, resultantly NTDC is enduring with overstocking and unhealthy procurement of material. Moreover, information system/ Warehouse Inventory Management Control (WIMS), functional in NTDC, is not effective because procurement is not being planned by using this control system.

Non-compliance with principal procurement instructions resulted in wasted resources, significant financial losses through overspending, missed savings opportunities, procurement of unhealthy material. Moreover, overstocking also led to blockage of funds by investing in huge quantity of same type of material without further utilization which indicates that the same was purchased beyond the requirement and unsubstantiated the project-based purchase. The audit highlighted concerns specified in observations 3.13.1 with a focus on the absence of a mechanism for determining a reserve stock limit. NTDC was engaged in eighteen (18) contracts during the fiscal year 2022-23, all without a designated annual procurement plan.

3.11.4 Ineffective Warehouse Operations/Storage of Material/Security Measures

The purpose of effective warehouse operations is to arrange the materials in a manner that will ensure expeditious supply of the material to the user organizations. An efficient storage process in

warehouses is critical because it ensures that you're making full use of all the available space in your warehouse. Efficiency in warehouse storage also keeps the stocks organized without compromising productivity. Effective security arrangements are established to protect and safeguard materials against pilferage and theft. The D.M. (W/House) and A.M. (W/H) in charge are responsible for the efficient operations of their respective Ware Houses.

In NTDC, following discrepancies were found in terms of warehouse operations, storage of material and security matters.

- There was no allocated storage space/assigned location for each item in either the yard area and in the shed area. The material of same nature was kept at different locations of warehouses making it him possible to check/verify/count the number of a single item available in the warehouse.
- There was no floor layout for storage bins, racks and bays etc.
- There was no adequate space for passages, gates and doors for the movement of equipment and personnel.
- There was no identified storage location, in both yard and warehouse, with a unique storage locations code.
- All material was unstacked and not possible to count.
- Mostly material was dumped, broken and obsolete especially Disc Insulators.
- Security measures were not sufficient due to the inadequacy of necessary protective measures i.e. deficient security staff, non-installation of CCTV Cameras and non-availability of walkie-talkie etc. to safeguard its electrical material from theft, damage, unauthorized access, or other potential risks. Material was even placed outside the warehouse boundary.

Non-compliance with principle warehouse operations/storing/security instructions resulted in delay/slow moving of items, theft of material, damage of material, unable to access 100 per cent stock taking position and failing to execute FIFO inventory method etc for which NTDC sustained potential loss. Moreover, NTDC remained unable to rationalize the discrepancies during 100 per cent stock taking verification because of unstacked material and ineffective warehouse controls. Audit noted issues detailed in observation 3.13.38 emphasizing insufficient security measures attributed to the lack of necessary protective measures. This deficiency compromised the capability to protect electrical materials from theft, damage, unauthorized access, and other potential risks.

3.11.5 Imprudent Transactions of Material and Maintenance of Inventory Records

The purpose of transactions of material is to ensure that all aspects of material handling is being carried out in right way in order to facilitate the warehouse staff to perform their functions efficiently, correct preparation of documents and accurate accounting of material.

In NTDC, it was witnessed that in emergency, material was being issued to contractor without getting Material Requisition Slip (MRS) from EHV and sometime material was issued to contractor without taking on the record of WIMS or issuance of Goods Receipt Note (GRNs) against the material received in warehouses. Resultantly, most of the

returned healthy material of completed projects is lying dumped in unsafe conditions and has not been taken on the record of NTDC Warehouse and WIMS yet. In addition, most of the material lying at sub-warehouses/DISCOs have become out of design because it has been declared/found unserviceable, obsolete, broken, damaged, rusty and hardened in use.

Non-compliance with prudent transactions of material and maintenance of inventory records instructions resulted in potential risk of misappropriation due to non accountal of issued/returned material on WIMS. Therefore, resultantly it could not be further allocated to any other project yet. The audit identified issues detailed in observations 3.13.13, 3.13.3, 3.13.30, PDP # 1161/2023-24 and 3.13.18 highlighting potential risks of misappropriation of inventory. These risks included the non-accounting of returned balance material from the ADB financed EPC Project, absence of issuance of Goods Receipt Note (GRN) and failure to record the material in the inventory, a substantial potential loss arising from the disposal of surplus Tower material without the receipt of Material Requisition Note (MRN) and issuance of material to contracts without the receipt of Material Requisition Slips (MRS) and Super Subscribed (SS-Cheque) from the relevant formations of NTDC.

3.11.6 Poor Management against Issuance of Material on Rental Basis

The purpose of effective material management is to control the issue of materials from Ware Houses to Field Formation within NTDC, Non NTDC Formations, Temporary Issues on Loan Basis and Return of Material to the suppliers in case the material supplied is do not conform with the specification/ Inspection Certificate or if the physical condition of the material supplied is not good etc. or if the material is found defective with in the stipulated warrantee period.

In NTDC, it was witnessed that most of the electrical material was issued to contractor on rental basis without maintaining separate register and non- observance of due diligence for allocation of material on rental basis. Moreover, rent of most of the issued material was uncalculated yet and most of the rented material/equipment was not returned by contractor despite completion of the project. Resultantly, capital and assets of NTDC is putting at high potential risk due to slack management.

Ineffective management of material issued on rental basis resulted in non-recovery of rental charges and non-return of equipment from contractors which may cause misappropriation of material and loss to the company. The audit identified issues detailed in observations PDP # 1223/2023-24 emphasizing the allocation of stringing equipment on a rental basis to the contractors without the calculation and finalization of rental charges, neglecting codal formalities and lacking a dedicated register for tracking the material issued on a rental basis.

3.11.7 Inadequate Reporting On WIMS

By introducing Warehouse Inventory Management Control (WIMS), NTDC can leverage a number of advantages including better inventory planning, transparent inventory tracking, organized inventory categorization and ensuring goods and materials movement through warehouses in the most efficient and cost-effective way and individual item wise categorization showing detail of opening/closing balances in order to rationalize the discrepancies in the system.

In NTDC, Warehouse Inventory Management System (WIMS) was not designed to provide adequate reporting and organized inventory categorization for further analysis and transparent decision making in terms of efficient and cost-effective processes like aging of stock, warranty of stock, project-based procurement etc. Non-upgrading of WIMS resulted in non-provision of complete and comprehensive analysis of data for effective decision making in future. The WIMS does not reflect the material issued on Loan basis to different entities other than NTDC because “Allocation on loan basis” Module is not developed yet. The audit noted concerns outlined in observations PDP # 1224/2023-24 underscoring that the Warehouse Inventory Management System (WIMS) lacked sufficient design to offer comprehensive reporting and systematic inventory categorization. This deficiency hindered further analysis and transparent decision-making regarding efficiency and cost-effectiveness factors such as stock aging, stock warranties, project-based procurement and allocation on a loan basis.

3.11.8 Miscellaneous issues of Warehouse Material: Following issues related to the material placed in the warehouses of NTDC were observed which are detailed below:

a) Excessive Procurement of Disc Insulators: The excessive procurement of insulators, as witnessed in the case of Disc Insulators, reflects inefficiencies in NTDC's procurement processes. This led to overstocking of Disc Insulators, financial strain, and the risk of material deterioration over time. To rectify this issue, NTDC should implement a more robust procurement strategy, incorporating accurate demand forecasting, inventory optimization, and a transparent approval process for material requisitions. The audit raised concerns as detailed in observations 3.13.4 and 3.13.35 emphasizing that 701,087 units of Disc Insulators valuing Rs.4,446.59 million have been stored in the warehouse for an extended period. These insulators were acquired between 1987 and 2022 for the construction of new projects and the operational maintenance of transmission lines. The accumulation of such a substantial quantity of insulators without deployment suggests an over-purchase beyond actual requirements, resulting in a financial bottleneck of the specified magnitude. Furthermore, 3,176 units of 160 KN Disc Insulators were allocated from Purchase Order ADB-79-2015 (VI) to the civil work contractor M/s NPCC for activities under Contract No. ADB-108-2017. Subsequently, these disc insulators were deemed "unhealthy".

b) Storage of Electrical Material at Other DISCOs: The practice of storing electrical materials at other Distribution Companies (DISCOs) introduces a complex dimension to NTDC's material management. This arrangement may involve shared storage spaces or materials left under the jurisdiction of other entities. It not only complicates tracking and accountability but also poses risks of mismanagement or misplacement. To mitigate these challenges, NTDC should establish more spaces for such storage arrangements, ensuring strict adherence to inventory control and security measures. The audit expressed apprehensions as outlined in observations 3.13.27 highlighting that electrical material worth Rs.42.07 million were stored in the warehouses of DISCOs (SEPCO and QESCO) without proper security and safekeeping. The majority of these electrical materials have become obsolete due to being declared unserviceable, outdated, broken, damaged, rusty and hardened from use. Owing to managerial neglect, this material has not been employed for the company's benefit and has ultimately become worthless.

c) Material Lying Outside Boundary Wall/Premises of Warehouse: The presence of material (conductor reels, tower and line material) lying outside the boundary walls of the warehouse represent a significant security breach and likely potential loss to the company. It is crucial that NTDC enhances its security measures to protect valuable assets. This includes the installation of surveillance systems, improving fencing, and implementing

stringent access controls. Additionally, staff should be trained and empowered to promptly report and address any irregularities in material storage and security. The audit raised concerns as specified in observations 3.13.38 pointing out that a security sergeant at the Jamshoro Warehouse reported theft of control cable. This incident occurred because a significant portion of the electrical material was placed outside the warehouse's boundary wall.

d) Absence of Stock Limits: The absence of clear stock limits presents a challenge for NTDC's material management. This can lead to overstocking, increased storage costs, and difficulties in tracking inventory levels accurately. To address this issue, NTDC should establish a comprehensive mechanism for determining reserve stock limits. This mechanism should consider factors such as historical usage patterns, demand forecasting, and industry best practices to ensure optimal material storage levels. The audit expressed concerns as detailed in observations 6.2.4.1 highlighting that instead of setting a reserve stock limit beforehand, the closing balance of electrical material at NTDC warehouses was designated as the reserve stock limit. Retrospective approval was granted to establish the total available stock balance as the reserve stock limit in warehouses. The lack of predefined criteria for determining the reserve stock limit in stores is leading to an unnecessary accumulation of materials.

e) Utilization of Material: Efficient material utilization is critical to ensure that resources are maximized and potential waste is minimized. NTDC should implement robust procedures to monitor and evaluate material usage across its projects. This includes tracking the allocation of materials to specific projects, conducting regular audits to assess usage against project requirements, and implementing the change management processes to reallocate surplus materials to where they are needed most. The audit raised concerns as detailed in observations 6.2.4.8, PDP # 1250/2023-24 and 6.2.4.31 underscoring the existence of incomplete tower material components within NTDC Warehouses and material reconciliation reports identified surplus/balance items intended for return by contractors. The extended non-utilization of the material is contributing to its deterioration and loss of strength, potentially resulting in significant losses for the company. Furthermore, for five EPC Development Projects under "Design-Build" the required processes of material return and subsequent preparation of material reconciliation statements for completed projects were not adhered to, as per the findings of the audit.

f) Procurement and retaining of 132 kV Tower Material: The procurement and retention of 132 kV Tower Material across NTDC's warehouse Jamshoro indicate complexities in inventory management and oversight as its retention does not fall under the purview of NTDC. It is imperative that NTDC standardizes its material procurement and allocation procedures, ensuring that all materials are efficiently distributed to projects in a timely manner. Additionally, clear guidelines should be established for the retention and handling of tower and line material of 132 kV in warehouses of NTDC to prevent any misappropriation in future. The audit expressed concerns as narrated in observations 6.2.4.17 emphasizing that 132 kV tower material valuing Rs.480.78 million was stored at NTDC warehouses in Jamshoro and Multan. This situation is irregular as the storage or retention of 132 kV tower and transmission line material is not within the jurisdiction of NTDC. Such actions result in the blocking of funds and a reduction in warehouse storage capacity.

g) Inadequate material handling due to non-functional vehicles and equipment: To enhance the movement of materials and storage efficiency, it is imperative to implement a material handling system. A well-designed system has the potential to reduce costs and minimize the risks of accidents and damage. The NTDC warehouses currently face challenges due to the absence of appropriate operational vehicles and equipment for effective material handling, resulting in issues like material unstacking and damage. Auctioning off-road vehicles and equipment presents NTDC with the opportunity to reap various benefits, including the acquisition of new

vehicles and equipment to ensure the smooth functioning of warehouses. The lack of necessary vehicles and equipment has hindered warehouse efficiency, leading to diminished staff morale, inefficient use of available storage, and a suboptimal facility layout. The audit raised concern as detailed in observation PDP # 1222/2023-24, highlighting that six off-road vehicles valuing Rs.17.5 million were supposed to be auctioned or disposed of but this process was not carried out. The failure to dispose of these vehicles is resulting in additional deterioration and a decrease in their salvage value. Furthermore, the absence of suitable operational vehicles and equipment in NTDC warehouses is a primary factor contributing to improper handling, unstacking, and damage of materials resulting in loss to the company etc.

3.12 Regression Analysis for Assessing Relationship/Impact of Procurement Activities on Closing Stock in NTDC

3.12.1 Data set for regression analysis

The selected analysis employs regression, with procurement as the independent variable and closing stock as the dependent variable. Its purpose is to evaluate how procurement levels affect closing stock levels. The detailed datasets for procurement and closing stock are provided in **Annex-III** and **Annex-IV**, respectively. **Annex-V** displays the comprehensive summary output of the regression analysis conducted using Microsoft Excel.

Years	Procurement (independent variable – X-axis) (Rs)	Closing Stock (dependent variable - Y-axis) (Rs)
2019-20	13,364,892,380	18,700,952,161
2020-21	6,950,610,064	25,644,851,605
2021-22	5,569,018,955	25,285,858,685
2022-23	15,408,809,614	28,133,096,159

(Source: WIMS and MP&M Department, NTDC)

Hypothesis of the study: Null Hypothesis (H_0) = There is no relationship between procurement and closing stock.

Alternative Hypothesis (H_1) = There is relationship between procurement and closing stock.

Regression Model/Equation

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \dots + \beta_nX_n$$

Where:

- Y is the predicted or estimated value of the dependent variable.
- β_0 is the intercept, representing the value of Y when all independent variables are zero.
- $\beta_1, \beta_2, \dots, \beta_n$ are the coefficients for the respective independent variables (X_1, X_2, \dots, X_n).
- X_1, X_2, \dots, X_n are the values of the independent variables.

The coefficients (β values) in the equation represent the impact of each independent variable on the dependent variable. A positive coefficient means that an increase in the independent variable is associated with an increase in the dependent variable, and a negative coefficient means the opposite.

3.12.2 Results/statistics of Regression Analysis

Multiple R	0.999901658
R Square	0.999803326
Standard Error	30753979.19

ANOVA

	Df	F-Stat	Significance F
Regression	1	5083.545	0.008928291

Microsoft Excel is used to perform the regression analysis to access the relationship/impact of procurement activities on closing stock. The interpretation of results/statistics of regression model is as under:

Multiple R (Correlation Coefficient): This value 0.999901658 (close to 1) represents an extremely high correlation between these two variables (Procurement and closing stock). It means, as Procurement increases or decreases by a certain amount, closing stock also increases or decreases by a consistent and constant multiple of that amount.

R Square (Coefficient of Determination): R-square is a statistical measure that tells us how well one variable (in this case, procurement) can explain or predict the changes in another variable (closing stock). An R^2 of 0.999803326 indicates that approximately 99.98% of the variability in the Y-axis is explained by the X-axis. This suggests an almost perfect fit.

Standard Error: The standard error is a measure of the accuracy of the model's predictions. In this case, a standard error of 30753979.19 suggests that there is some degree of variability or dispersion in the data points for "procurement" and "closing stock." This means that there may be other factors or sources of variation not accounted for in this model. A lower standard error would indicate a more precise model, while a higher standard error suggests that there is more variation in the data that the model has not explained.

3.12.3 Analysis of Variance (ANOVA):

It is used to determine whether there are statistically significant differences between two or more variables. The F-statistic and its associated p-value (Significance F) are used to determine whether the regression model is statistically significant. The breakdown in this regard is as under:

Regression Degrees of Freedom (df): The regression model has 1 degree of freedom, indicating that there's one independent variable (or one parameter estimated in the model).

F-statistic (F): The large F-statistic of 5083.545 suggests that there is a significant amount of variability in the dependent variable that is explained by the regression model. It suggests that changes in procurement are associated with changes in closing stock in a way that is statistically significant.

Significance F: This is the p-value associated with the F-statistic. It tells you whether the F-statistic is statistically significant. In this case, the significance level is 0.008928291, which is less than a typical significance level of 0.05. This suggests that the regression model is statistically significant.

3.12.4 Auxiliary Results of Regression Analysis

	<i>Coefficients</i>	<i>T- Stat</i>	<i>P-value</i>
Y-axis	23645035695	563.6984658	0.001129
X-axis	0.291054558	71.29898253	0.008928

Coefficients represent the relationship between independent and dependent variable(s). The interpretation of above-mentioned table in terms of t-statistics and p-value of selected two variables (procurement and closing stock) are narrated below:

Coefficient for Y-axis: The value (23,645,035,695) represents the predicted value of the closing stock when the procurement is zero.

Coefficient for X-axis: The coefficient for the X-axis is 0.291054558, which means that for every one-unit increase in the X-axis (procurement), the Y-axis (closing stock) is expected to increase by approximately 0.291.

T-Statistic: It assesses the statistical significance of the coefficient. A higher absolute t-statistic value indicates that the coefficient is more statistically significant. In both cases, the t-statistics are relatively high, indicating that both Y-axis and X-axis coefficients are statistically significant in the regression model. This means that changes in independent variable has a significant impact on the dependent variable.

Probability (P-value): A p-value, ranging from 0 to 1, reveals how likely our results are if there is actually no distinction. In both cases, the p-value for Y-axis & X-axis 0.001129 & 0.008928 (less than 0.05) respectively is low, indicating that this relationship is statistically significant. This means that statistical evidence to support the existence of a relationship between procurement and closing stock is established.

3.12.5 Conclusion

Based upon the P-value, the null hypothesis is rejected in favor of alternate hypothesis. The very high R-square and low p-values suggest that the model fits the data exceptionally well and there is a strong and statistically significant relationship between closing stock and procurement. The coefficient suggests a positive relationship between both variables, indicating that increase in procurement have a direct impact on closing stock, resulting in an escalation of inventory.

3.13 Significant Audit Observations

3.13.1 Non-preparation of annual procurement plan and no-mechanism for fixation of reserve stock limit - Rs.28,447 million

According to Rule-8 & 9 of Public Procurement Rules, 2004, “all procuring agencies shall devise a mechanism for planning in detail for all proposed procurements and shall announce it for each Financial Year for proceeding accordingly without any splitting or regrouping by advertising in advance on the Authority’s website as well as on the website of the procuring agency.

During Thematic Audit of Procurement and Material Management in NTDC Warehouse(s), it was observed that the closing balance of electrical material lying at warehouses of NTDC was worth Rs.28,447 million, neither the procurement plan was prepared nor reserve stock limit has been identified, instead of fixing reserve stock limit ex-post facto approval was granted for fixing total available stock balance as reserve stock limit in warehouses. There is no pre-defined criteria to ascertain the reserve stock limit in stores which is leading to overstocking of material. Moreover, NTDC entered into eighteen (18) contracts amounting to PKR 2525.35 million, CNY 290.60 million, Euro 11.74 million, USD 31.79 million during the F.Y 2022-23 without any annual procurement plan. This very act has resulted in overstocking which is the reason of dumping of electrical material without utilization and implies that the same was procured beyond the requirement and this wasteful spending caused blockage of funds to the stated extent.

Non-adherence to PPRA Rules and Warehouse Control and Procedure Manual resulted in overstocking owing to absence of any mechanism for fixation of reserve stock limit and non-preparation of procurement plan up to the Financial Year 2022-23.

Audit recommends that the management needs to look into the matter and frame mechanism in the light of Warehouse Control and Procedure Manual for avoiding overstocking of electrical material.

(Draft Para Nos. 1153 & 1259/2023-24)

3.13.2 Overstocking of material and expiration of warranty claims at NTDC warehouses - Rs.9,409.51 million

According to NTDC Warehouse Control and Procedure Manual notified vide letter No. 6612-24 dated December 31, 2009, clause 1.5 & 3.4, CE (Design), NTDC, the engineer for the procurement of materials, inspect the specifications according to the requirement of the projects/ field formations and their ultimate allocation to the works or otherwise from warehouses and the supplier will bring the material to the Ware House along with warranty/guaranty certificate in order to assure that the material is free from defects.

During Thematic Audit of Procurement and Material Management in NTDC, warranty claims of 2,079 electrical material items worth Rs.9,409.51 million lying at Jamshoro and Multan NTDC Warehouse(s) ranging from 02 to 46 years have been expired. The dumping of such a huge quantity of material without utilization indicated that the same was purchased beyond the requirement and caused blockage of funds to the state extent. This very act renders to ineffective material/procurement management which may cause the loss to company in case of malfunction/damages occurred under normal use of material. There are chances that a large quantity of material has become defective and it cannot be claimed from the contractors which can cause a substantial loss to the company due to overstocking. The justification for lapsing of warranty claims of material is required.

Ineffective procurement/material management resulted in expiration of warranty claims owing to ineffective/superfluous procurement of electrical material beyond the requirement of projects worth Rs.9,409.51 million up to the Financial Year 2022-23

Audit recommends that the management needs to look into the matter and fix responsibility upon the person at fault.

(Draft Para Nos. 1152 & 1220/2023-24)

3.13.3 Excess booking of cost of material as compared to Stock Measurement Book (SMB) - Rs.5,110.96 million

According to Para-5 (5) of Public Sector Companies (Corporate Governance) Rules, 2013 “the board shall establish a system of sound internal control, which will be effectively implemented at all levels within the public sector company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders.

During thematic audit of procurement and material management in NTDC, it was observed that cost of material amounting to Rs.5,110.96 million was booked in excess of actual Store Measurement Book (SMB) against 22 number purchase orders (P.Os) in two warehouses i.e. Multan and Jamshoro. This very act reflects irrational approach of NTDC management.

Non-adherence to authority’s instructions resulted in excess booking of cost of material as compared to Stock Measurement Book (SMB) - Rs.5110.96 million

Audit recommends that management needs to look into the matter and ensure to rationalize booking of cost of material.

(Draft Para No. 1214/2023-24)

3.13.4 Blockage of huge funds due to superfluous procurement of Disc Insulators lying at Jamshoro Warehouse since long – Rs.4,446.59 million

According to NTDC Ware House Control and Procedure Manual notified vide letter No. 6612-24 dated December 31, 2009, clause 1.5, CE (Design), NTDC deals with the procurement of materials, inspection according to the specifications, consigning new material to the ware house according to the requirement of the projects/ field formations and their ultimate allocation to the works or otherwise, from warehouses.

During Thematic Audit of procurement and material management in NTDC Warehouse Jamshoro, it was witnessed that 701,087 Disc Insulators valuing Rs.4,446.59 million were lying at the warehouse since long which were purchased during the period of 1987 to 2022 for construction of new projects and operational maintenance of the transmission lines. The dumping of such a huge quantity of insulators without utilization indicates that the same was purchased beyond the requirement which caused blockage of funds to the stated extent. The crates/boxes of Disc Insulators are not properly stacked and broken which are lying on the ground in open place of the warehouse. Among them a large number of Disc Insulators are broken/damaged which are not fit for use. As the warranty period of the purchased material has already been expired so it cannot be reclaimed from the suppliers as well which is sheer negligence on the part of the NTDC management. Even Toughened Glass Insulators (latest technology) recently procured are placed in open place. The total value of inventory lying at the Jamshoro Warehouse is Rs.11.445 billion and it is pertinent to note that out of which Rs.4.446 billion is the value of insulators (40 per cent of total inventory). Moreover, the Disc Insulators (single item) are occupying more than 70 per cent of the total space of the warehouse. This very act resulted in overstocking of Disc Insulators owing to inefficient/superfluous procurement which does not substantiate the claim of project-based procurement of material.

Unnecessary procurement resulted in blockage of huge funds due to superfluous procurement of Disc Insulators lying at Jamshoro Warehouse since long valuing Rs.4,446.59 million up to the Financial Year 2022-23.

Audit recommends that the management needs to inquire the matter to fix responsibility for such wasteful procurement besides timely utilization and disposal of the Disc Insulators.

(Draft Para No. 1237/2023-24)

3.13.5 Irregular release of payment due to non-obtaining of extended warranty from contractor - Rs.3,632.355 million

According to Para-4 of Notification of Award (NOA) against Tender No. TLM-09M-2019 (Lot-I), “ninety percent (90%) of contract price of goods shipped shall be paid upon presentation of the document specified in Particular Condition of Contract (PCC) Sub-Clause-12.1(A) of Bidding Documents stipulates that the supplier shall submit certain non-negotiable documents including original copy of manufacturer’s/ supplier’s warranty certificates.” According to Chief Engineer (T/Line) Design letter No. CED/ NTDC/MTL-II/H-165 (Lot0I)/374-76 dated April 19, 2021, “approval for witnessing of FATs by third party for material procured under contract No. TLM-09-2019 (Lot-I) was grant to the supplier subject to provision of extended warranty period of 60 months (05 years).

During Thematic Audit of procurement and material management in NTDC, it was observed that ninety percent (90%) of the contract price of goods amounting to Rs.3,632.355 million shipped under contract TLM-09-2019 (Lot-I) was released to the supplier without obtaining of extended warranty of 60 months (05 years). The release of payment to contractor without extended warranty was against the instructions of authority/ provisions of Notification of Award and hence cannot be termed as regular.

Violation of instruction of authority and provisions of NOA resulted in irregular release of payment amounting to Rs.3,632.355 million to contractor due to non-obtaining of extended warranty up to the Financial Year 2022-23.

Audit recommends that the management needs to investigate the matter for fixing responsibility for irregular release of payment to contractor.

(Draft Para No. 1215/2023-24)

3.13.6 Non-implementation of procurement plan for project construction – Rs.3,049 million

According to PC-1 of the Project TLC-14 “Evacuation of Power from 2x660 MW Thar Coal Based SSRL/SECL Power Plant at Thar” Total cost of Project Rs.21,782.99 million included material value of Rs.11,318.69 million as detailed below:

Sr. No.	Material Description	Amount (Rs.in million)
1.	Steel Towers	4,110.44
2.	Conductor (Greeley)	4,102.66
3.	OPGW	100.71
4.	Insulator strings	2,466.01
5.	Insulator Hardware, grounding, material, stringing & construction equipment and accessories	538.87
Total		11,318.69

During thematic audit of procurement and material management in NTDC, it was witnessed that three (03) contracts TLM-09M-2019, TLM-10-2020 and TLM-11(R)-2022 were awarded for procurement of material for construction of project TLC-14 (Evacuation of Power from 2x660 MW Thar Coal Based SSRL/SECL Power Plant at Thar). However, the material amounting to Rs.3,049 million was issued to TLC-14 from 14 Purchase Orders which were not related with the TLC-14. Such arrangement for managing supply of material for the projects compromises the fundamental principles of project-based procurement as claimed by NTDC management because allocation orders of material against the contract No. TLC-14 were made from 14 Purchase Orders (POs) and

material was lifted from three Warehouse of NTDC i.e. Gatti, Jamshoro and Multan despite the fact that this material was not specifically procured for TLC-14. This depicts that utilization/allocation of material During Thematic Audit of procurement and material management in NTDC is not being done on actual basis against project/contract for which procurement was made. This very act of management refers to non-compliance with the project-based procurement and led to overstocking of material which needs justification.

Ineffective management resulted in non-implementation of procurement plan for construction of project amounting to Rs.3,049 million up to the Financial Year 2022-23.

Audit recommends that the management needs to investigate the matter for fixing responsibility for not issuing the material for which it was originally procured under report to audit.

(Draft Para No.1167/2023-24)

3.13.7 Un-authentic physical stock taking/verification position being unstacked/dumped/untraced material lying at NTDC Warehouses - Rs.2,947 million

NTDC Warehouse Control and procedure Manual deals with the receipt of material in ware house, stacking, updating of Ware House record, Issuance of material, preparation of periodic returns and includes the formats of transaction documents etc. guide lines / formats for the Stock Taking Teams in order to rationalize the discrepancies found during the verification of stock. The DM (IC) will be responsible for training the store staff in their duties and handling with the material as well as their stacking and counting.

During Thematic Audit of procurement and material management in NTDC, it was witnessed from 100% stock taking/verification reports that different types of Grid Station & Transmission line material valuing Rs.2,947 million lying at NTDC Warehouses(s) were lying unstacked, dumped, in rainy water. It was astonishing that material as per record and as per ground was verified by 100% stock taking committee but counting of unstacked/dumped material is not feasible to present accurate stock taking position. Moreover, the remarks noted in the SVR by the committee are very clear that the stock could not be counted due to above mentioned reasons. Therefore, the 100 percent verification and counting of material is not reliable. This very act renders to poor internal control system and indefinite counting of stock which caused deterioration of packing of material and ambiguous stock taking position.

Ineffective material management resulted in un-authentic physical stock taking position being unstacked/dumped/untraced material lying at NTDC Warehouses(s) having financial impact of Rs.2,947 million up to the Financial Years 2022-23.

Audit recommends that management needs to improve internal controls by taking actions in line with approved NTDC Warehouse Control and procedure Manual to rationalize the discrepancies found during the verification of stock besides expediting the process of stacking of material.

(Draft Para No. 1248/2023-24)

3.13.8 Non-allocation/non-disposal of incomplete tower material – Rs.1,679.91 million

NTDC Warehouse Control and Procedure Manual deals with the receipt of material in ware house, stacking, updating of Ware House record, issuance of material, preparation of periodic returns and includes the formats of transaction documents etc. guide lines / formats for the Stock Taking Teams in order to rationalize the discrepancies found during the verification of stock.

During Thematic Audit of procurement and material management in NTDC Warehouse Multan, it was witnessed on test check basis that incomplete components of tower material which had been purchased against four (04) Purchase Orders (POs) valuing Rs.1,679.91 million were lying in Multan Warehouse since long, but the same was not allocated to any project. Due to non-utilization, the subject material is deteriorating day by day and losing strength which may cause massive loss to the company.

Non-adherence to NTDC Warehouse Control and Procedure Manual resulted in non-allocation of incomplete components of tower material – Rs.1,679.91 million up to Financial Year 2022-23.

Audit recommends that the management needs to investigate the matter for fixing responsibility for unnecessary procurement of material, laxity of the management for not arranging complete tower material and non-allocation/non-disposal of the available incomplete tower material under intimation to audit.

(Draft Para No. 1147/2023-24)

3.13.9 Unscrupulous procurement for Turnkey/EPC contracts resulting in surplus/left over material from the completed projects – Rs.1,477 million

According to NTDC Ware House Control and Procedure Manual notified vide letter No. 6612-24 dated December 31, 2009, clause 1.5, CE (Design), NTDC deals with the procurement of materials, inspection according to the specifications, consigning new material to the ware house according to the requirement of the projects/ field formations and their ultimate allocation to the works or otherwise, from warehouses.

During thematic audit of procurement and material management in NTDC, it was witnessed that following the material reconciliation reports of the completed EPC/Turnkey Projects, material valuing Rs, 1,477 million was found surplus/balance material due to be returned to the warehouses of NTDC which depicts that the survey, estimates and procurement for the EPC Contracts were not made on actual basis as per requirements of the projects. Resultantly, a huge quantity of material turned extra which led to the wastage of funds and overstocking of material.

Inadvertent procurement for Turnkey/EPC contracts resulted in surplus/left over material from the completed projects – Rs.1,477 million.

Audit recommends that the management needs to inquire the matter for fixing responsibility besides expediting utilization/disposal of balance/left over material under intimation to audit.

(Draft Para No. 1166/2023-24)

3.13.10 Irregular placement of Tower Material at sub-warehouse stationed at Moro and unjustified recording of stock of Moro sub-warehouse in the books of accounts of Jamshoro Warehouse – Rs.1,147.21 million

According to Rule-5(5) of Public Sector Companies (Corporate Governance) Rules-2013, “the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders”.

During Thematic Audit of procurement and material management in NTDC, it was witnessed that 10 containers of 500 kV D/C Steel Towers against Contract TLM-08M-2019-LOT-I and various materials against TLM-09M-2019 valuing Rs.1,147.21 million were lying at undesignated NTDC Warehouse stationed at Moro. It is astonishing that stock/material lying at Moro Warehouse is being recorded in the books of accounts of Jamshoro Warehouse as per inventory record of WIMS provided by D.M Jamshoro Warehouse. This depicts that Moro Warehouse is not operational in books/record of NTDC. This very act renders to irregular placement and recording of stock at undesignated Warehouse which requires justification. Moreover, there is no proper staff available except Deputy Manager to handle and look after the inventory placed at Moro Warehouse. The temporary arrangement made for

storage of material at Moro under unsafe/un-protected conditions without proper security/staff is at risk and can cause huge loss to the company.

Non-adherence to Corporate Governance Rules resulted in irregular placement of stock at undesignated Warehouse stationed at Moro and unjustified recording of Stock of Moro Warehouse in the books of accounts of Jamshoro Warehouse amounting to Rs.1,147.21 million.

Audit recommends that the management needs to look into the matter and share the updated status of Moro Warehouse in terms of inventory and its operations with audit.

(Draft Para No.1256/2023-24)

3.13.11 Excess booking of Incidental Charges to Cost of Material - Rs.952.81 million

According to Notification No. CEx/CE(MP&M)/IC/DMIC/59/7868-88 dated June 27, 2008 “The provision of incidental charges on the material received During Thematic Audit of procurement and material management in NTDC warehouse, is hereby revised w.e.f. July 01, 2008 till further orders: (a) 24% of the Carriage and Freight (C&F) value on the imported material which is also manufactured in Pakistan. (b) 11.5% of the C&F value on the imported material which is not manufactured in Pakistan. (c) 02% of the Ex-Works value on the material purchased locally.”

According to International Accounting Standard (IAS) No. 02: Inventory cost should not include: [IAS 2.16 and 2.18] abnormal waste storage costs administrative overheads unrelated to production selling costs foreign exchange differences arising directly on the recent acquisition of inventories invoiced in a foreign currency interest cost when inventories are purchased with deferred settlement terms.

During thematic audit of procurement and material management in NTDC, it was observed that incidental charges amounting to Rs.952.81 million in two warehouses i.e. Multan and Jamshoro were excessively booked to the cost of material against six number contracts in violation of allowed percentages. The Jamshoro warehouse booked Rs.423.10 million excess cost against two no. of contract while Multan warehouse booked Rs.529.70 million against 04 no. contracts. This excess booking of incidental charges inflated the material cost to the extent of Rs.952.81 million which needs justification.

Non-adherence to authority’s instructions and IAS-02 resulted in excess booking of incidental charges amounting to Rs.952.81 million.

Audit recommends that management needs to investigate the matter for fixing responsibility upon the person(s) at fault and to make rectification in the books of accounts under report to audit.

(Draft Para No.1156/2023-24)

3.13.12 Undue favor to EPC contractors due to issuance of material on loan basis – Rs.851.05 million

According to General conditions of EPC Contract - Scope of facilities - the contractor’s obligations cover the provision of all Plant and the performance of all Installation Services required for the design, the manufacture (including

procurement, quality assurance, construction, installation, associated civil works, pre-commissioning and delivery) of the plant and the installation, completion, and commissioning of the Facilities in accordance with the plans, procedures, specifications, drawings and codes). Such specifications include, but are not limited to, the provision of supervision and engineering services; the supply of labor, material, equipment, spare parts and accessories, contractor's equipment, construction utilities and supplies, temporary materials, structures and facilities, transportation and storage

During thematic audit of procurement and material management in NTDC, it was witnessed that four (04) Engineering Procurement and Construction (EPC) / Turkey contracts i.e. ADB-201, ADB-301-A, SU-NT/2009-101, WB-05B-2020 were awarded. According to EPC Contract, responsibility for procurement of all material was on the EPC Contractor but NTDC management issued/supplied material to EPC Contractors on loan basis amounting to Rs.851.05 million which tantamount to undue favor to EPC contractors due to irregular issuance of material on loan basis. Moreover, recovery of rental charges or return of material from EPC Contractors were not forthcoming from the record available to audit. This very act refers to poor internal control of NTDC which may lead to misappropriation of material and loss to company.

Non-adherence to spirit of EPC contracts resulted in undue favor to EPC Contractors due to issuance of material on loan basis amounting to Rs.851.05 million up to the Financial Year 2022-23.

Audit recommends that the management needs to inquire the matter for fixing responsibility of irregular issuance of material on loan basis along with recovery/return of material besides ensuring non-issuance of material to EPC Contractors on loan basis in future under report to audit.

(Draft Para No.1149/2023-24)

3.13.13 Irregular retention of material for non-issuance of GRN and not taking the material on record of inventory– Rs.652 million

According to NTDC Warehouse Control and Procedure Manual notified vide letter dated December 31, 2019, clause 3.6, the Store Keeper will prepare three legible copies of goods received note. He will enter the description and quantity of the delivery and will append his full signature at the bottom of each GRN. He will also enter the Purchase Order Number, Inspection Certificate No: and details of the supplier. The Dy. Manager (warehouse) will check the GRN and if it is correct, he will then countersign the note himself.

During Thematic Audit of procurement and material management in NTDC Warehouse Jamshoro, it was witnessed on test check basis that tower material valuing Rs.652 million was received at Jamshoro Warehouse in three lots against Purchase Order No. TLM-12R-2021 on October 05, 2022, but it was astonishing that GRN for the said material has not been issued by Store Keeper/DM (Warehouse) nor Joint Survey Report has been conducted so far. Furthermore, the subject material was stored at sub-warehouse Jhampir in open space (on temporary arrangement) without any proper security because no staff is posted there. On enquiry, it was informed by the management that some material of the same PO (parts of tower material - tower leg extensions) was not received yet so that is why the GRN has not been issued. Despite being not available on the records of WIMS, material to the extent of Rs.37.79 million was allocated to Gawadar Turnkey project during September-October 2022. This very act renders to gross negligence on part of management of Warehouse and it may lead to misappropriation of material and loss to the company.

Non-adherence to NTDC Warehouse Control and Procedure Manual resulted in likely misappropriation of tower material for non-issuance of GRN against the received material in the warehouse and not taking on record of inventory (WIMS) – Rs.652 million

Audit recommends that the management needs to investigate the matter for non-issuance of GRN against the received material for the last ten months to fix the responsibility and to resolve the issue under intimation to audit.

(Draft Para No.1247/2023-24)

3.13.14 Loss due to demurrage and detention charges sustained by NTDC for delayed custom clearance – Rs.558 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), “all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

During Thematic Audit of procurement and material management in NTDC, it was observed that an amount of Rs.558 million was paid on account of demurrage and detention charges for delayed custom clearance. This shows sheer negligence on the part of management of NTDC and resultantly company sustained a huge loss.

Non-adherence to authority’s instructions resulted in loss due to demurrage and detention charges sustained by NTDC for delayed custom clearance amounting to Rs.558 million up to the Financial Year 2022-23.

Audit recommends that the management needs to inquire the matter for fixing responsibility upon the person(s) at fault.

(Draft Para No.1160/2023-24)

3.13.15 Loss due to award of contract to 2nd lowest bidder caused by defective bid evaluation - Rs.530.043 million

According to Rule-5 (5) of Public Sector Companies Corporate Governance Rule 2013, “the Board shall establish a system of sound internal control, which shall be effectively implemented within Public Sector Corporate to ensure compliance with the fundamental principles of probity and propriety: objectivity, integrity and honesty and relationship with stakeholders.” According to Rule 2 (h) of the Public Procurement Rules, 2004, “most advantageous bid” means,- (i) a bid or proposal for goods, works or services that after meeting the eligibility or qualification criteria, is found substantially responsive to the terms and conditions as set out in the bidding or request for proposals document; and (ii) evaluated as the highest ranked bid or proposal on the basis of cost or quality or qualification or any combination thereof, as specified in the bidding documents or request for proposal documents which shall be in conformity with the selection techniques to be issued by the Authority.

During Thematic Audit of procurement and material management in NTDC, it was observed that M/s SiChuan YiBin Global Group Co. Ltd. (SYGG) was declared as lowest responsive bidder with quoted price of

Rs.1,789.325 million against Tender No. NPP-04M(R)-2020 regarding Design, Manufacturing & Supply of complete hardware strings including Pre-RTV coated Disc. Insulators (porcelain or toughened glass) for 500 kV D/C Q/B T/Line for evacuation of power from K-2/ K-3 Nuclear Power Plants. However, the 2nd lowest bidder M/s Sediver SAS France went to NTDC Grievance Redressal Committee (GRC) against qualification of 1st lowest bidder. Resultantly, the GRC vide its report dated May, 2021, on the basis of Chief Engineer T/Line Design letter dated April 12, 2021 regarding non-conforming of authenticity of performance certificate of POWERGRID, India, declared the 1st lowest bidder non-responsive. However, in this regard, the response of 1st lowest bidder dated June 18, 2021 regarding provision of Performance Report from POWERGRID was not taken into account and contract amounting to Rs.2,319.368 million was awarded to 2nd lowest bidder M/s Sediver SAS France on July 01, 2021. Resultantly the public exchequer suffered loss of Rs.530.043 million due to award of contract to 2nd lowest bidder.

It is pertinent to mention that the procedure adopted for getting authenticity of performance certificate submitted earlier by 1st lowest bidder i.e. M/s SYGG with its bid was incorrect as authenticity of said certificate was sought from Corporate Office of POWERGRID, Dehli instead of issuing authority i.e. Regional Office of POWERGRID, Nagpur.

The said issue was also taken with NTDC by PPRA on July 15, 2021, however, outcomes in this regard was not made known to Audit. Further, the GRC report Tender against Tender NPP-04M (R)-2020 dated May, 2021 concluded with remarks that “irregularities in the bid evaluation process of have been observed.” However, neither the bidding process was annulled nor responsibility against irregularities in bid evaluation process was fixed upon delinquent (s).

Violation Public Sector Companies Corporate Governance Rule 2013 and PPRA Rules resulted in loss amounting to Rs.530.043 million due to award of contract to 2nd lowest bidder caused by defective bid evaluation up to the Financial Year 2022-23.

Audit recommends that the management needs to investigate the matter for fixing responsibility of loss.

(Draft Para No.1159/2023-24)

3.13.16 Loss due to non-award of contract during bid validity period – Rs.489.70 million

According to Rule-5(5) of Public Sector Companies Corporate Governance Rule 2013, “the Board shall establish a system of sound internal control, which shall be effectively implemented within Public Sector Corporate to ensure compliance with the fundamental principles of probity and propriety: objectivity, integrity and honesty and relationship with stakeholders.”

During Thematic Audit of procurement and material management in NTDC, it was observed that Technical Bid Evaluation Report for bids against Tender-TLM-11-2021 for procurement of AAAC Greely Conductor for 500 kV Double Quad Bundle Transmission Line was opened on May 27, 2021, and approved by MD NTDC on October 05, 2021. The bid validity period of the subject tender was 150 days from bid opening. Since the bid validity period was near to expire, the two (02) technically responsive bidders i.e. M/s Henan Tong-Da Cable Co. Ltd. and M/s Jiangsu Zhongtian Technology Ltd. (ZTT) were asked for extension in bid validity period but both the bidders refused to extend the bid validity period. Resultantly the bidding process was annulled on December 08, 2021 and re-tendering for procurement of said material under Tender TLM-11R-2021 was floated and contract was awarded

to M/s Fast Cables having lowest evaluated landed cost of Rs.5,327.437 million. However, the landed cost of one of technically responsive bidder i.e. M/s Henan Tong-Da Cable Co. Ltd. in the previous tender TLM-11-2021 was Rs.4,837.737 million. (calculated from the 2% bid security of bidder i.e. CNY 2.300 million at conversion rate of Rs.24 as on 30.04.21). Resultantly loss to the tune of Rs.489.7 million was suffered to the company due to non-award of contract under TLM-November, 2021 during the bid validity period. It is pertinent to mention here that an inquiry committee to probe into reasons behind inordinate delay and subsequent scrapping of tendering process for procurement of AAAC Greely Conductor vide Tender No. TLM-09M-2019 and TLM-11-2021 was constituted on January 26, 2022. However, the outcomes of the said inquiry report were not forthcoming from the record.

Non-adherence to the provisions of the Public Sector Governance Rules resulted in loss of Rs.489.7 million due to non-award of contract during bid validity period up to the Financial Year 2022-23.

Audit recommends that management needs to investigate the matter for fixing responsibility of loss.

(Draft Para No.1157/2023-24)

3.13.17 Irregular retaining of 132 kV Tower Material lying at Jamshoro and Multan Warehouses being not under purview of NTDC Warehouse(s) – Rs.480.78 million

According to NTDC Warehouse Control and Procedure Manual notified vide letter No. 6612-24 dated December 31, 2009, clause 1.2. National Transmission and Dispatch Company is responsible for the smooth and efficient operation of the Ware House, proper record keeping and to develop uniform inventory reporting system throughout the jurisdiction of the Company.

During Thematic Audit of procurement and material management in NTDC, it was witnessed on test check basis that 132 kV tower material valuing Rs.480.78 million was lying at NTDC Warehouses Jamshoro and Multan which is irregular because storage/retaining of 132 kV tower and transmission line material is not covered under jurisdiction of NTDC. This very act renders to blockage of funds and decreased storage space of Warehouse which requires justification in terms of stocking of 132 kV transmission line/tower material which has been retained without any utility for the company. The detail is as under:

Sr. No.	No. of Items (132 kV tower material)	Warehouse	Amount (Rs.)
1.	20	Jamshoro	103,095,368.43
2.	378	Multan	377,680,790.31
			480,776,158.74

Non-adherence to NTDC Warehouse Control and Procedure Manual resulted in irregular stocking of 132 kV Tower material lying at Jamshoro and Multan Warehouses being not falling under the purview of NTDC amounting to Rs.103.09 million

Audit recommends that the management needs to look into the matter besides expediting the disposal/issuance process of 132 kV tower and line material to save the funds of NTDC.

(Draft Para No.1255/2023-24)

3.13.18 Irregular issuance of material without receipt of Material Requisition Slips (MRS) and SS cheques – Rs.272.76 million

According to Warehouse Control and Procedure Manual (4) issue of Material “The store keeper will issue the materials listed on the requisition and will make entries on the relevant bin cards. According to International Accounting Standard (IAS) – 01, the financial statement should present fairly the financial position, financial performance and cash flows of the enterprise.

During thematic audit of procurement and material management in NTDC, it was witnessed from Gate Passes that multiple nature of material valuing Rs.272.76 million was issued to contractors without receipt of Material Requisition Slips (MRS) and SS Cheques for value of the material issued from the concerned formations of NTDC. This very act refers to poor internal control and may lead to misappropriation of material amounting to Rs.272.76 million.

Non-adherence to warehouse control and procedure manual resulted in irregular issuance of material without MRS Rs.272.76 million

Audit recommends that investigation may be made to fix responsibility upon the person(s) at fault for irregular issuance of material without MRS(s) – Rs.272.76 million under report to audit.

(Draft Para No.1151/2023-24)

3.13.19 Non-disposal of un-serviceable stock / material at NTDC warehouses - Rs.212.26 million

According to NTDC Warehouse Control and Procedure Manual notified vide letter No. 6612-24 dated December 31, 2009, clause 308 (b) Value Ledger Keeper will prepare the Value Sheet for each item of the consignment and submit the same to the Accounts Officer who will check it with the Purchase Order and make necessary deductions (If applicable) and obtain the signature of Deputy Manager as a token of recheck by the In-charge Ware House. (c) The Warehouse manager will then carry out a physical inspection of the material brought to the Warehouse in order to assess its condition and value according to the policies laid down in the Disposal Procedure.

During Thematic Audit of procurement and material management in NTDC warehouses, it was observed that in 100 cases material of various types valuing Rs.212.26 procured against different purchase orders was lying at Jamshoro, Multan, Gatti & Kotlakhpat warehouses which was declared un-serviceable being not useful for the transmission system of the NTDC. This very act caused blockage of funds and rendered the decrease in the value of material kept in adverse environmental circumstances. Moreover, in 67 cases material of various types declared as un-serviceable was lying without having any

valuation for the period 2022-23. In absence of valuation of un-serviceable material, malafide disposal may be done and this very act will render the loss to the ex-chequer.

Non-adherence to disposal procedure of Warehouse Control and Procedure Manual resulted in non-determination of value of un-serviceable material and its disposal up to the Financial Year 2022-23.

Audit recommends that the management needs to inquire the matter and fix responsibility upon the person(s) at fault besides expediting the process of valuation and disposal of un-serviceable materials lying at NTDC Warehouse(s).

(Draft Para No.1253/2023-24)

3.13.20 Non-installation of Nitrogen Injection Explosion Prevention and Fire Protection System procured for shunt reactors and auto-transformer banks – Rs.140.00 million

According to Rule-5(5) of Public Sector Companies Corporate Governance Rule 2013, “the Board shall establish a system of sound internal control, which shall be effectively implemented within Public Sector Corporate to ensure compliance with the fundamental principles of probity and propriety: objectivity, integrity and honesty and relationship with stakeholders.”

During thematic audit of procurement and material management in NTDC, it was observed that five (05) Nitrogen Injection Explosion Prevention and Fire Protection System valuing Rs.140.00 million (US\$ 700,000 @ Rs.200/US\$) were procured along with three (03) shunt reactors and two (02) auto transformer banks under Contract No. ADB-300D-2018 (Lot-I&II) for the protection of system. The procured shunt reactors and auto transformers banks were got installed at the grid stations. However, the corresponding Nitrogen Injection Explosion Prevention and Fire Protection System were not got installed and the same were lying at NTDC warehouse/ grid stations. Resultantly, the costly equipments were put into operation by compromising safety and protection of grid stations.

Violation of Corporate Governance Rules has resulted in non-installation of Nitrogen Injection Explosion Prevention and Fire Protection System procured for shunt reactors and auto-transformer banks valuing Rs.140.00 million up to the Financial Year 2022-23.

Audit recommends that the management needs to investigate the matter for fixing responsibility for insecure operation of shunt reactors and auto transformer banks besides expediting installation of Nitrogen Injection Explosion Prevention and Fire Protection System at the respective grid stations.

(Draft Para No. 1164/2023-24)

3.13.21 Irregular award of contract due to deficient bid evaluation – Rs.2,110.391 million

According to Rule-5 (5) of Public Sector Companies Corporate Governance Rule 2013, “the Board shall establish a system of sound internal control, which shall be effectively implemented within Public Sector Corporate to ensure compliance with the fundamental principles of probity and propriety: objectivity, integrity and honesty and relationship with stakeholders.”

During Thematic Audit of procurement and material management in NTDC, it was observed that Contract TLM-10-2020 regarding Design, Manufacturing & Supply of complete insulator hardware assemblies including 160 kN disc insulators (Anti-fog type Porcelain or Glass) for 500 kV D/C Q/B T/Line from Thar Coal Block-I to Matiari Converter Station amounting Rs.2,110.391 million was awarded to M/s Sediver SAS France on November 10, 2021. The award of contract to the said contractor was not regular due to following deficiencies in the Bid Evaluation process:

1. M/s SiChuan YiBin Global Group Co. Ltd. (SYGG) was declared “non-responsive” as per Evaluation Report published on August 31, 2021 with remarks “Bidder determined to be non-responsive & rejected on account of submitting false information. Further the bidder was asked to clarify his position in this context but the bidder in its reply has failed to provide satisfactory response & authentic evidence till today. Audit observed that the said bidder provided verified copy of performance certificate from end user on June 24, 2021 but the same was not taken into consideration before determining non-responsiveness of the said bidder. Further, the procedure adopted for getting authenticity of performance certificate submitted earlier by said bidder with its bid was incorrect as authenticity of said certificate was sought from Corporate Office of POWERGRID, Dehli instead of issuing authority i.e. Regional Office of POWERGRID, Nagpur.
2. The grievance of one of the bidders i.e. M/s Shandong Ruitai Glass Insulator was not addressed on the plea that the same was received after lapse of permissible period of 15 days. Audit observed that Evaluation results against the said tender were published on PPRA website on September 02, 2021 whereas grievance from the said bidder was received on September 17, 2021. This depicted that the grievance was received within permissible period of 15 days from the date of announcement of Bid Evaluation Report on PPRA website. Further the grievance of M/s SiChuan YiBin Global Group Co. Ltd. (SYGG) regarding qualification of M/s Sediver SAS France was not properly addressed in the GRC Report dated September, 2021.
3. As per findings of Grievance Redressal Committee (GRC) Report against Tender No. 10-2020 dated September, 2021, some of the performance certificates provided by M/s Sediver SAS-France along its bid were without designation of signing authority, address, contract number, websites, contact information, stamps etc which was against the provisions of the Performance Criteria – Clause IB-3A(a) 4, Section-II of bidding documents. Moreover, some of the Contract Agreements provided by M/s Sediver SAS-France along its bid were either not English translated or not notarized which was against the Manufacturing Experience Criteria-IB-3A (a) 3 iii, Section-II of bidding documents.

It is pertinent to mention that the above irregularities in bid evaluation process have already been highlighted by GRC in its report dated May, 2021 against Tender No. NPP-04M (R)-2020 wherein it was recommended that management may look into issues seriously. However, no punitive/ corrected actions were taken by the management and the same irregularities were repeated in the instant tender TLM-10-2020.

Violation of Public Sector Companies Corporate Governance Rule 2013 resulted in Irregular award of contract amounting to Rs.2,110.391 million due to deficient bid evaluation up to the Financial Year 2022-23.

Audit recommends that the management needs to investigate the matter for fixing responsibility of irregular award of contract due to deficient bid evaluation.

(Draft Para No.1260/2023-24)

3.13.22 Non-finalization of inquiries/ disciplinary cases having financial impact - Rs.104.03 million

According to Rule-5(5) of Public Sector Companies (Corporate Governance) Rules-2013, “the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety; objectivity, integrity and honesty and relationship with the stakeholders”.

During Thematic Audit of procurement and material management in NTDC, it was witnessed on test check basis that twenty-three (23) inquiries/ disciplinary cases having financial impact of 104.03 million regarding shortage of material etc. and most of the cases were under investigation with NAB but not finalized despite lapse of considerable time period. This very act renders to poor internal control system and accountability mechanism.

Violation of provisions of Corporate Governance Rules-2013 resulted in non-finalization of inquiries/ disciplinary case having financial impact of 104.03 million up to the Financial Years 2022-23.

Audit recommends that management needs to improve internal controls by taking actions in line with approved mechanism/SoPs to finalize the inquiries / disciplinary cases.

(Draft Para No.1251/2023-24)

3.13.23 Loss due to non-forfeiture of bid securities of bidders involved in corrupt and fraudulent practices – Rs.98.00 million

According to clause-19.6 (d) of Section-II: Bidding Data and Appendices, “the bid securities of the bidder (s) found involved in corrupt and fraudulent practices shall be forfeited.” According to clause 1.1 of Section-IV, Part-I: General Conditions of Contract, “corrupt and fraudulent practices include *misrepresentation of facts* in order to influence a procurement process.”

During Thematic Audit of procurement and material management in NTDC, it was observed that the bids of M/s Shandong Ruitai Glass Insulators Co. Ltd. China, M/s Nanjing Electric Group Co. Ltd. China and M/s Sichuan Yibin Global Group Co. Ltd. (SYGG), China against Tender No. TLM-10-2020 were rejected during bid evaluation process due to submission of false/ materially inaccurate information. Since the act of misrepresentation of facts in order to influence a procurement process fall under the ambit of corrupt and fraudulent practices, the bid securities of these bidders amounting to Rs.98.00 million were required to be forfeited. But neither bid securities of the said bidders were forfeited nor the said bidders were blacklisted/ debarred.

Violation of provisions of bidding documents resulted in loss due to non-forfeiture of bid securities of the bidders involved in corrupt and fraudulent practices valuing Rs.98.00 up to the Financial Year 2022-23.

Audit recommends that the management needs to fix responsibility of loss for effecting recovery besides initiating process of blacklisting/ debarment of the bidder involved in corrupt and fraudulent practices.

3.13.24 Irregular receipt of material from the manufacturer not specified in the contract agreement – Rs.80.713 million

According to Schedule-H & J to Bid against Tender No. TLM-10-2020, M/s Mosdorfer GmbH, Austria was described and approved as sub-contractor for supply of Grounding Material and manufacturer's authorization in this regard was submitted by the bidder with its bid.

During Thematic Audit of procurement and material management in NTDC, it was observed that Contract No. TLM-10-2020 for procurement of insulator hardware assemblies including 160 kN Glass Disc Insulators for 500 kV D/C Q/B Transmission Line from thar Block-I to Matiari Converter Station for power evacuation from coal power plants was awarded to M/s SEDIVER SAS. In the said contract, M/s Mosdorfer was approved as sub-contractor/ manufacturer for supply of grounding material. But contrary to this, grounding material manufactured by another manufacturer i.e. M/s Kumwell, Thailand valuing Rs.80.713 million (equivalent to Euro 405,596 x Rs.199) was supplied which was against the provisions of the contract agreement.

Non-adherence to provisions of the contract agreement resulted in irregular receipt of material valuing Rs.80.713 million from the disapproved/ unspecified sub-contractor/ manufacturer up to the Financial Year 2022-23.

Audit recommends that the management needs to fix responsibility for irregular receipt of material from disapproved/ unspecified sub-contractor/ manufacturer.

3.13.25 Undue financial favor to contractor due to receipt of AAAC Greely Conductor winded on unspecified reels – Rs.73.144 million

According the Bidding Documents of Tender No. TLM-11(R)-2022, the bidder was required to offer AAAC Greely Conductor on reels as per the standard reel design given in the bidding documents having weight of 550 Kg / per reel.

During Thematic Audit of procurement and material management in NTDC Warehouse(s), it was observed that instead of supplying AAAC Greely Conductor on reels as per standard reel design given in Bidding Documents, the contractor M/s Fast Cables supplied 846 reels of conductor on the auctioned/ used reels. The said used empty reels were provided to the Contractor by NTDC at the auctioned rate of Rs.23,541/- per reel. On the other hand, as per the Bid Evaluation Report, the price bid of one of the bidders i.e. M/s ZZT China was loaded/ added with the cost of underweight steel @ Rs.200 kg. Accordingly, the cost of one empty reel as per standard reel design stated in the bidding documents was Rs.110,000 (550kg x Rs.200). Due to non-receipt of conductor on reels as per standard reel design given in bidding documents, undue financial favor to the extent of Rs.73.144 million $\{(110,000 - 23,541) \times 846 = 73,144,314\}$ was accorded to the contractor.

Violation of provisions of the bidding documents resulted in undue financial favor to the contractor amounting to Rs.73.144 million up to the Financial Year 2022-23.

Audit recommends that the management needs to investigate the matter for fixing responsibility for extending undue financial favor besides recovering amount in question from the contractor.

(Draft Para No.1165/2023-24)

3.13.26 Unjustified allocation of Material for 132 kV Temporary Substation – Rs.68.88 million

According to Rule-5(5) of Public Sector Companies (Corporate Governance) Rules-2013, “the Board shall establish a system of sound internal control, which shall be effectively implemented at all levels within the Public Sector Company, to ensure compliance with the fundamental principles of probity and propriety, objectivity, integrity and honesty and relationship with the stakeholders”.

During thematic audit of procurement and material management in NTDC, it was observed that material was allocated for temporary arrangement regarding construction of 132 kV temporary substation (as interim arrangement) near Lucky Power Plant for feed-back supply to 660 MW Lucky Electric Power Company Limited (LEPCL) from exiting K-electric network for testing and commissioning purposes. NTDC made irregular expenditure outside the purview / mandate on temporary substation of 132 kV amounting to Rs.68.88 million which needs justification that why the original plan for construction of 132 kV substation was not executed and wasteful expenditure was incurred on temporary arrangements.

Non-adherence to corporate governance rules resulted in unjustified construction and allocation of material for 132 kV for temporary substation during the Financial Year 2022-23

Audit recommends that investigation may be made to fix responsibility upon the person(s) at fault for allocation of 132 kV material for temporary substation under report to audit.

(Draft Para No.1150/2023-24)

3.13.27 Irregular placement of electrical material belonging to Warehouse Jamshoro at DISCOs’ Warehouses – Rs.42.07 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), “all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

During Thematic Audit of procurement and material management in NTDC Warehouse(s), it was witnessed on test check basis that electrical material valuing Rs.42.07 belonging to Jamshoro Warehouse of NTDC was lying at the warehouses of DISCOs (SEPCO and QESCO) without security and safe custody. The most of electrical material has turned out of design because it has been declared unserviceable, obsolete, broken, damaged, rusty and hardened in use. Due to negligence of the management, the material to the stated extent has not been utilized for the benefit of the company and eventually rendered useless. There are likely chances of misappropriation of electrical material which can cause a substantial loss to the company.

Ineffective material management resulted in massive loss and likely misappropriation of electrical material of NTDC Warehouse Jamshoro lying at SEPCO and QESCO Warehouses amounting to Rs.42.07 million up to the Financial Year 2022-23.

Audit recommends that the management needs to inquire the matter to fix responsibility upon the person(s) at fault besides ensuring the disposal of electrical materials lying at SEPCO & QESCO Warehouses under intimation to audit.

(Draft Para No.1254/2023-24)

3.13.28 Wasteful expenditure on rewinding of Conductor Reels having financial impact - Rs.40.11 million

According to NTDC Warehouse Control and Procedure Manual notified vide letter No. 6612-24 dated December 31, 2019, (JD-4), Deputy Manager (Inventory Control) is responsible for the implementation and administration of policies, procedures and systems for the efficient operation of the warehouse.

During Thematic Audit of procurement and material management in NTDC warehouses Jamshoro & Multan, it was observed that a contract of ACSR Rail, Drake & AAC Greeley Conductors for rewinding of damaged Reels to healthy was awarded to M/s MN Enterprises at a price of Rs.40.11 million. The said conductor Reels were damaged while lying/stored in the premises of warehouses under neglected conditions due to mismanagement and improper handling of inventory of warehouses, which caused loss to the company to the stated extent. In this regard, no inquiry has been conducted to probe into the matter to ascertain the loss and fix responsibility.

Non-adherence to Warehouse Control and Procedure Manual resulted in wasteful expenditure on rewinding of Conductor Reels having financial impact of Rs.40.11 million up to the Financial Year 2022-23.

Audit recommends that the management needs to inquire the matter and fix responsibility upon the person(s) at fault besides implementation of Warehouse Control and Procedure Manual in letter and spirit under report to audit.

(Draft Para No.1257/2023-24)

3.13.29 Irregular release of balance payment and performance guarantee due to acceptance of material without pre-shipment inspection/ Factory Acceptance Tests – Rs.26.381 million

According to Chief Engineer (T/L Design) NTDC letter No. CED/ NTDC/ MTL/G-204 (Hardware)/ 844-46 dated February 28, 2018, material comprising of grounding sets, being procured against Purchase Order No. 820, was rejected during pre-shipment inspection/ FATs due to non-conformance to the requirement of project specifications and the contractor was directed to re-offer the material for inspection after necessary rectification/ make up.

During thematic audit of procurement and material management in NTDC, it was observed that contrary to the above, material comprising of grounding sets which was procured against Purchase Order-820 was delivered by the contractor at NTDC Warehouse Multan without pre-shipment inspection/ Factory Acceptance Tests. Later on, Chief Engineer (T/L Design) NTDC nominated inspectors for carrying out of post-delivery inspection/ FATs of the grounding sets in October, 2018. However, the contractor did not offer the said material for post-delivery

inspection uptill now. In the meantime, 10% balance payment and Performance Guarantee amounting US \$ 80,062 and US \$ 82,785/- (equivalent to Pk Rs.26.381 million @ 1 US\$ = Rs.162) respectively was released to the contractor during December, 2018 & May 2022. In the absence of post-delivery inspection/ FATs, the material should not have been declared as “accepted” and hence, payment/ release of 10% balance payment/ performance guarantee was irregular and tantamount undue contractual favor to the contractor.

The acceptance of material without inspection/ Factory Acceptance Tests resulted in irregular release of balance payment and performance guarantee amounting to Rs.26.381 million.

Audit recommends that the management needs to investigate the matter for fixing responsibility of irregular release of balance payment & performance guarantee to contractor besides carrying out the post delivered inspection/ FATs of material.

(Draft Para No.1212/2023-24)

3.13.30 Substantial loss owing to dumping of surplus Tower material at sub-warehouse Rahim Yar Khan without receipt of MRN - RMB 24.532 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), “all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

During Thematic Audit of procurement and material management in NTDC, it was witnessed on test check basis that left over/surplus healthy tower material from Contract No. ADB-65(R)-2012, ADB Loan 2846-PAK (Package-I) Lot-1 M/s CNEEC, valuing 24.532 million (RMB) was lying at Sub-warehouse Rahim Yar Khan without receipt of MRN and taking it on records of WIMS. The subject tower material has been dumped unstacked which is lying in the mud grounds and without observing mandatory codal formalities of Warehouse Manual. The material reconciliation report has been finalized by the stakeholders on 27.01.2020 but the returned material by the EPC contractor has not been accounted for yet. Moreover, the return of such a huge quantity of surplus/left over material from the completed EPC Contract transpires that the survey, design and estimates were not prepared as per actual requirements of the project. This very act can lead to misappropriation of material to the stated extent due to ineffective material management and not taking it on the inventory management system of NTDC which may cause massive loss to company and further deterioration and decrease in salvage value of tower material.

Ineffective material management resulted in substantial likely loss owing to dumping of surplus Tower material at Sub-warehouse Rahim Yar Khan without receipt of MRN amounting to 24.532 million (RMB).

Audit recommends that the management needs to inquire the matter for fixing responsibility and expediting the disposal/allocation of returned material lying at RYK sub-warehouse in the best interest of company.

(Draft Para No.1221/2023-24)

3.13.31 Misappropriation of material due to less return of left-over material from Balloki Power House Transmission line to warehouse - Rs.13.856 million

According to Para-6 of NTDC Warehouse and Procedure Manual, at the completion of project or a specific work, the surplus material may be returned to a warehouse as “serviceable material”.

During thematic audit of procurement and material management in NTDC, it was observed that surplus material from Balloki Power House Transmission Line under Contract No. GPP-02-2015 valuing Rs.13.856 million was less returned to the NTDC Multan Warehouse. The quantities of material returned as per the Material Return Note (MRN) issued by the Warehouse Multan was less than that stated in MRN duly approved by the concerned Executive Engineer EHV.

Violation of NTDC Warehouse and Procedure Manual resulted in likely misappropriation of less returned surplus material up to Financial Year 2022-23.

Audit recommends that the management needs to investigate the matter for fixing responsibility for less return of surplus material to warehouse.

(Draft Para No.1252/2023-24)

3.13.32 Loss due to damage of Grid Station & Transmission line Material –Rs.10.39 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), “all losses whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

During Thematic Audit of procurement and material management in NTDC, it was witnessed on test check basis that different types of Grid Station & Transmission line material valuing Rs.10.39 million lying at NTDC Warehouse(s) was damaged. However, any inquiry/disciplinary action against concerned persons/quarters was not forthcoming from the record available to audit. This very act renders to poor internal control system and accountability mechanism.

Ineffective material management resulted in loss due to damage of Grid Station & Transmission line Material lying at NTC Warehouse(s) - Rs.10.39 million up to the Financial Year 2022-23.

Audit recommends that the management needs to look into the matter for fixing responsibility upon the person(s) at fault to make the loss good.

(Draft Para No.1148/2023-24)

3.13.33 Potential risk of misappropriation due to non-accountal of returned balance material from ADB financed EPC Project at Warehouse Multan – 8.784 million (RMB)

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to Fraud, Theft or Negligence of Individuals, 1982 (amended up to June 01, 2001), “all losses whether of public money or

of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

During Thematic Audit of procurement and material management in NTDC, Warehouse(s), it was witnessed that the Asian Development Bank (ADB) financed EPC contract No. ADB-65(R)-2012 for Procurement of Plant, Design, Supply, Installation, Testing and Commissioning of 500 kV Transmission Line 3rd Circuit (Lot-II: Dadu to Goth Qazi Mahar) M/s TBEA CO. was completed and accordingly the contractor had returned the surplus balance material to the Warehouse Multan on September 16, 2021. In this regard, the MRNs for the balance/left over material from the completed project duly signed and forwarded by the Addl: Chief Engineer EHV-II Construction Project Multan were available in the office Deputy Manager Warehouse NTDC Multan. However, the material is lying dumped outside the boundary wall of warehouse in unsafe conditions and has not been taken on the record of Warehouse Multan and WIMS yet, therefore, resultantly it cannot be further allocated to any other project. Despite lapse of two years, the fate of returned healthy balance material to the stated extent has not been finalized yet by the management of Warehouse Multan which can lead to misappropriation of material and loss to the company.

Ineffective material management resulted in potential risk of misappropriation due to non-accountal of returned balance material from ADB financed EPC Project at Warehouse Multan – 8.784 million (RMB).

Audit recommends that the management needs to inquire the matter for fixing the responsibility and expediting utilization/disposal of balance/left over material under intimation to audit.

(Draft Para No. 1238/2023-24)

3.13.34 Non-recovery of cost of already completed and accepted type tests – Rs.8.525 million

According to provisions of Notification of Award Tender No. NPP-04 M (R)-2020, the cost of any type test, if already completed and accepted by Chief Engineer (T/L Design) NTDC, shall be deducted/ adjusted”

During Thematic Audit of procurement and material management in NTDC, it was observed that Notification of Award (NOA) against Tender No. NPP-04M(R)-2020 regarding Design, Manufacturing & Supply of complete hardware strings including Pre-RTV coated Disc. Insulators (porcelain or toughened glass) for 500 kV Double Circuit Quad Bundle Transmission Line for evacuation of power from K-2/ K-3 Nuclear Power Plants was issued to M/s Sediver SAS, France on June 09, 2023. In the light of provision of NOA, the cost of any type test, if already completed and accepted by Chief Engineer (T/L Design), shall be deducted/ adjusted. In this regard type test reports submitted by the contractor against hardware fittings, provided by M/s Mosdorfer GmbH, were already completed before award of the said contract. Hence cost of type testing amounting to Rs.8.525 million (Euro 38,750 x Rs.220) was required to be deducted/ adjusted from the contractor but same was not done.

Non-adherence to the provisions of the Notification of Award resulted in non-recovery of cost of already completed and accepted type tests valuing Rs.8.525 million from the contractor up to the Financial Year 2022-23.

Audit recommends that the management needs to investigate the matter for fixing responsibility of non-recovery besides effecting recovery of the same from the contractor.

(Draft Para No. 1217/2023-24)

3.13.35 Loss due to procurement of un-healthy 160 KN Disc Insulators – Rs.7.172 million

According to Rule-5(5) of Public Sector Companies Corporate Governance Rule 2013, “the Board shall establish a system of sound internal control, which shall be effectively implemented within Public Sector Corporate to ensure compliance with the fundamental principles of probity and propriety: objectivity, integrity and honesty and relationship with stakeholders.”

During thematic audit of procurement and material management in NTDC, it was observed that 3,176 160 KN Disc Insulators were allocated from P.O ADB-79-2015 (VI) to civil work contractor M/s NPCC against works to be carried out under Contract No. ADB-108-2017. Later on, the said disc insulators were declared as “unhealthy” and subsequently, the insulators from another purchase order were re-allocated to the contractor on December 13, 2019 with directions to return unhealthy disc insulator to Warehouse Multan. The exact quantity of the said unhealthy disc insulators valuing Rs.7.172 million were still lying in closing balance inventory at Warehouse Multan and were not issued since November, 2019. However, neither the reasons for un-healthiness of the disc insulators were determined nor the loss was made good from the concerned quarters.

Violation of Corporate Governance Rules has resulted in loss of Rs.7.172 million due to procurement of un-healthy 160 KN Disc Insulators up to the Financial Year 2022-23.

Audit recommends that the management needs to investigate the matter for fixing responsibility upon the delinquent (s).

(Draft Para No.1163/2023-24)

3.13.36 Non-supply of short transformer oil by contractor – Rs.5.405 million

According to Clause-24.2 of Particular Conditions of Contract NOR-70R2-2019, “Should a loss be sustained the supplier shall replace or repair any loss or damage and complete the supplies of Goods in accordance with the Contract as soon as possible after such loss or damage without waiting for the settlement of the insurance claim.”

During thematic audit of procurement and material management, it was observed that shortage of 14,530 liters transformer oil in two (02) 220/132 kV auto transformer banks procured under Contract no. NOR-70R2-2019 was pointed out during Joint Insurance Survey. Although, the insurance claim for shortage of oil due to damage of oil tank was lodged with the insurance company but, in the light of contractual provisions, the short oil valuing Rs. $\{(14530 \times 9.30 \text{ CNY} = 135,129 \text{ CNY} \times \text{Rs.}40 = \text{Rs.}5,405,160/- (1 \text{ YEN}=40 \text{ Pk Rs})\}$ has not been supplied by the contractor so far.

Violation of contractual provisions has resulted in non-supply of short transformer oil by the contractor valuing Rs.5.405 million up to Financial Year 2022-23.

Audit recommends the management needs to investigate the matter for violation of contractual provisions besides ensuring supply of short transformer oil by the contractor.

3.13.37 Irregular award of contract to ineligible/ debarred contractor – CNY 12.986 million

According to Clause-2.1.3 of NTDC’s SOP for blacklisting of contractors dated July 25, 2017, “if it is established that the firms is involved in any kind of corruption or corrupt practices anywhere in the world, the said firm would be taken into consideration for debarment/ blacklisting by NTDC.” According to Clause-4.4 of Section-1: Instructions to Bidders of bidding document for ADB-110-2021, “a firm shall not be eligible to participate in any procurement activities under ADB-financed, -administered, or -supported project while under temporary suspension or debarment by ADB Anticorruption Polity, whether such debarment was directly imposed by ADB, or enforced by ADB pursuant to the Agreement for Mutual Enforcement of Debarment Decisions. A bid from temporary suspended or debarred firm will be rejected.”

During Thematic Audit of procurement and material management in NTDC, it was observed that invitation to Bids against tender No. ADB-110-2021 (Lot-I) for supply of 550 kV, 245 kV & 145 kV Current Transformer & 245 kV Coupling Capacitor Voltage Transformer was called on May 26, 2021 and Notification of Award valuing CNY 12.986 million was issued to M/s Sieyuan Electric Co. Ltd. China on December 21, 2021. The said supplier was debarred by African Development Fund on June 16, 2020 for a period of twelve (12) months due to fraudulent practices in a tender in Rwanda. In the light of Agreement for Mutual Enforcement of Debarment Decisions and NTDC’s SOP for blacklisting, the said supplier was also ineligible for participation in ADB financed projects upto June 16, 2021. Audit holds that the contractor was ineligible for availing any invitation to bid /bidding opportunities notified by procuring agency within the debarred period. Since the bids for the said tender was invited on May 26, 2021 i.e before expiry of debarment period, the said bidder was not entitled to participate in the bidding process of said tender. But contrary to this, contract valuing CNY 12.986 million was awarded to the said bidder.

Non-adherence to the provision of bidding documents/ NTDC’s SOP for blacklisting of contractors resulted in irregular award of contract valuing 12.986 CNY to a debarred contractor up to the Financial Year 2022-23

Audit recommends that the management needs to investigate the matter for fixing responsibility of irregular award of contract to a debarred contractor.

3.13.38 Insufficient security measures and poor physical conditions at NTDC warehouses

According to NTDC Warehouse Control and Procedure Manual notified vide letter No. 6612-24 dated December 31, 2019, clause 2.1.3, effective security arrangements will be established to protect and safeguard materials against pilferage and theft, effective arrangement are: a) trained security guards on duty 24 hours per day. b) A perimeter walls or wire fence at least eight (8) feet high with three (3) strands of barbed wire on top. c) Minimum system of gate passes to control entrance and exit of personnel, vehicles and materials. d) Proper system of perimeter security lights for night security. e) Secured doors and windows in all buildings. f) Removal of trees and brush from all wall or fence areas.

During Thematic Audit of Procurement and Material Management in NTDC Warehouses Jamshoro and Multan, it was witnessed on test check basis that theft of control cable was reported by security sergeant, Jamshoro Warehouse because most of the electrical material was lying outside the boundary wall of Warehouse. Neither FIR report of this theft nor any action/inquiry thereon was found from the record available to audit. The security measures were not sufficient due to the inadequacy of necessary protective measures i.e. deficient security staff, non-installation of CCTV cameras and procurement of walkie-talkie etc. to safeguard its electrical material from theft, damage, unauthorized access, or other potential risks in future. Moreover, there was dry grass everywhere in grounds of warehouses where material was placed which may lead to any fire incident, and loss to the company. The ground area was uneven, muddy and open to sky. The material lying on the ground is at higher risk of deterioration and theft. Management is required to beef up security measures in conformity with provisions of Warehouse Control and Procedure Manual.

Owing to insufficient security arrangements and placement of material in poor physical condition cause theft of electrical material up to the Financial Year 2022-23.

Audit recommends that the management needs to look into the matter besides fixing responsibility upon the person(s) at fault and ensuring security measures in conformity with arrangements enlisted in Warehouse Control and Procedure Manual for the protection of electrical material worth billions of rupees from any such incident in future.

(Draft Para Nos. 1239 & 1249/2023-24)

3.14 Departmental Responses

3.14.1 Response to Audit Observation 3.13.1

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that, NTDC primarily procured materials for large projects while a small portion covers operational needs. Consequently, stock levels were kept adequate, including mandatory spares. As per procedure, Chief Engineer (MP&M) approved year-end stock reserves. The reply was not tenable as the material in both warehouses i.e., Jamshoro and Multan was lying unused for the last 40 years.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to provide policy of NTDC for inventory management and documentary evidence regarding aging of material along with approval of Procurement Plan.

3.14.2 Response to audit observation 3.13.2

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that, NTDC maintained substantial inventory for its vast transmission network due to long procurement times for critical equipment. This could lead to expired warranties, but was necessary to ensure network stability and quick response to emergencies. No documentary evidences in support of reply were furnished till finalization of audit report.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the stance with documentary evidence verified from audit within 30 days.

3.14.3 Response to audit observation 3.13.3

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that in order to address incidental charges, a committee formed by NTDC's MD recommended real-time recording and the same would be implemented after approval of the Board's Audit Committee. The reply was not justified that the real-time recording of incidental charges not depicting the true picture of organization financials.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to share inquiry report alongwith agenda item with audit within 30 days.

3.14.4 Response to audit observation 3.13.4

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that material tenders include buffers (10%) and were based on inflated line lengths from project proposals (PC-1s). The high inventory levels due to long overseas procurement times accounted for these buffers. Existing inventory, like insulators at Jamshoro, would be used for upcoming lines to avoid redundant procurement. The reply was not tenable as no documentary evidences in support of reply were produced.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to inquire the matter and submit report to audit within 30 days.

3.14.5 Response to audit observation 3.13.5

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that as per provision of the contract, 24 months warranty was required and the same was provided by the contractor. However, the contractor had been advised to provide extended warranty of 5 years (60 months). As soon as it received the same would be provided to audit. The reply was not tenable as no expeditious efforts of the management were found on record.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to inquire the matter and submit report to audit within 30 days.

3.14.6 Response to audit observation 3.13.6

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that NTDC generally followed project-based procurement. Since most of the equipment/ material was imported from abroad so there were many issues involved in the award and execution processes, which might lead to variation in timelines of material delivery. The reply was not tenable as the proper planning was not made for the procurement of such material.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the stance with documentary evidence verified from audit within 30 days.

3.14.7 Response to audit observation 3.13.7

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that, recently the Stock taking/verification team had performed 100% Stock verification for the period ending June, 2023 at NTDC warehouses. The stock verification team had not claimed any dumped and untraced material at warehouses. The reply was not tenable as the stock verification reports showed clear remarks as the material was unstacked, uncountable, dumped, under FIA, NAB inquiry etc.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to inquire the matter and submit report to audit within 30 days.

3.14.8 Response to audit observation 3.13.8

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that material valuing Rs.1.95 million had been allocated to different formations in order to attend emergency situations for rehabilitation of collapsed material. The remaining material amounting to Rs.14.84 million was lying at warehouse Multan and ready for allocation as per requirement of T/L. The reply was not tenable as the material in both warehouses remained unallocated since 40 years.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the stance verified from audit with documentary evidence within 30 days.

3.14.9 Response to audit observation 3.13.9

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that as per previous practice the material was procured in EPC/Turnkey projects on the basis of tentative length of T/Line as mentioned in PC-I of projects. The balance /surplus material of said T/Line projects had been earmarked for upcoming T/Line projects and was also being allocated on day-to-day basis for O&M activities & ongoing T/Line construction projects. The reply was not tenable as no documentary evidences were furnished to audit in support of management stance.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to inquire the matter and submit report to audit within 30 days.

3.14.10 Response to audit observation 3.13.10

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that material was stored temporarily at new Moro warehouse due to overloading of Jamshoro warehouse. Officer and security deployed onsite and approval of remaining staff was

awaited for approval from BoD. The reply was not tenable as the scattered placement of material made shortage of space in Jamshoro warehouse.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to expedite the matter.

3.14.11 Response to audit observation 3.13.11

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that incidental charges were initially estimated and added to material value (as per 2008 policy). Actual charges were recorded later on when documents arrived. A committee formed by MD NTDC recommended real-time recording, which would be implemented after approval of the Board's Audit Committee. The reply was not tenable as the real-time recording of incidental charges did not depict the real picture of financial position of the organization.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to share inquiry report alongwith agenda item with audit within 30 days.

3.14.12 Response to audit observation 3.13.12

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that in order to fast-track Iran-Gwadar power line construction as per PM's directive, NTDC had provided material to the contractor on loan basis from existing inventory. The contractor was procuring additional material and the cost of said material would be recovered from the contractor. The reply was not tenable as there was no clear instructions for provision of material to contractor on loan basis

The DAC in its meeting held on December 18 & 19, 2023 directed the management to share Prime Minister's directives with audit and justify the issuance of material on loan basis.

3.14.13 Response to audit observation 3.13.13

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that the material arrived in 3 batches, but joint survey was delayed. Meanwhile, Design NTDC had allocated some towers to EHV Hyderabad for urgent Gwadar project after proper formalities. The reply was not tenable as the joint survey report was part and parcel for material management in the warehouse.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the stance with documentary evidence verified from audit within 30 days.

3.14.14 Response to audit observation 3.13.14

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that recent shipments incurred significant demurrage and detention charges due to a series of hurdles i.e. delays in document submission, temporary funding shortfalls, complex customs arrangements for reduced duty benefits and limited port free time all contributed. These unfortunate

obstacles ultimately led to the unwanted additional costs. The reply was not tenable as imposition of demurrage and detention charges depicted poor performance of management in clearance of imported material.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to inquire the matter and submit report to audit within 30 days.

3.14.15 Response to audit observation 3.13.15

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that SYGG, the lowest bidder, was disqualified for submitting a fake certificate, violating clause 35.1 of the bidding documents. Their later attempt to provide a different certificate didn't change their non-responsive status. The case was currently under investigation by FIA Lahore (Inquiry No. 70/2023). Audit contends that expeditious efforts be made to pursue the case with FIA.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to pursue the case with FIA.

3.14.16 Response to audit observation 3.13.16

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that tenders TLM-09M and TLM-11 were floated, evaluated & processed during COVID-19 pandemic which was the reason for delay in contract award and refusal of bidders to extend bid validities owing to price volatility & market uncertainty during the pandemic, which led to scrapping of these tenders. The reply was not tenable as the NTDC hadn't achieved milestones for effective procurement.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to inquire the matter and share inquiry report with audit.

3.14.17 Response to audit observation 3.13.17

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that Chief Engineer MP&M NTDC had taken up the matter with Managing Director PPMC for utilization of the 132 kV Tower Material related to DISCOs system and lying in NTDC Warehouses from the time of unified WAPDA, . The reply was not tenable as no expeditious efforts were found on record.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the stance with documentary evidence verified from audit within 30 days.

3.14.18 Response to audit observation 3.13.18

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that in order to attend the emergency situations at site, material was issued to different field formations. Material was issued on emergency gate passes to save the process time of codal formalities at that moment. The supporting documents such as MRS, SS cheque and revised allocation from O/o

Chief Engineer (T/L) Design and an amount Rs.47.49 million had been received and properly booked in record. The reply was not tenable as no documentary evidences in support of reply were furnished.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the stance with documentary evidence verified from audit within 30 days.

3.14.19 Response to audit observation 3.13.19

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that the bidders for disposable material lying at Kot Lakhpat & Jamshoro had failed to submit required payment even after extensions. Resultantly bid securities were forfeited and contracts were cancelled. At present, the bidder had filed a court petition, which was under process. Meanwhile, surveys for material lying at Gatti & Multan warehouse were done.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the stance with documentary evidence verified from audit within 30 days.

3.14.20 Response to audit observation 3.13.20

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that recent delivery of NIEP & FPS (December 06, 2023 & December 08, 2023) for addressing DISCO system issues prompted NTDC to request C.E.(PD/GSC) North & South to expedite their installation at designated sites. The reply was not tenable as no documentary evidences were found on record to support the management stance.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the stance with documentary evidence verified from audit within 30 days.

3.14.21 Response to audit observation 3.13.21

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that Bidder SYGG was disqualified for submitting a fake certificate, violating the bidding documents (clause 35.1). Their later attempt to provide a different certificate didn't change their non-responsive status. The original certificate, bearing the name and signature of Mr. Patanjali Sharma was verified as fake directly from POWERGRID India, confirming the validity of the decision. The reply was not tenable as no documentary evidences were found on record to support the management stance.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the stance with documentary evidence verified from audit within 30 days.

3.14.22 Response to audit observation 3.13.22

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that efforts were being made to improve internal controls by taking actions in line with approved mechanism / SoPs in order to finalize the inquiries / disciplinary cases expeditiously. The reply was not tenable as the cases for finalization of inquiries had been lying for awaiting decisions since long.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to inquire the matter and submit report to audit within 30 days.

3.14.23 Response to audit observation 3.13.23

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that same observations were taken previously and DP-954/2020-21 had already been framed. The reply was not agreed to as the said Draft Para did not relate with the instant audit observation.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to inquire the matter and submit report to audit within 30 days.

3.14.24 Response to audit observation 3.13.24

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that the bid submitted by M/s. Sediver SAS France included material from manufacturers/sub-contractors which was evaluated accordingly and consequently, the contract was awarded. The reply was not tenable as no documentary evidences were furnished to audit in support of management reply.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the stance with documentary evidence verified from audit within 30 days.

3.14.25 Response to audit observation 3.13.25

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that supplier's 10% balance payment was withheld and Performance Guarantee was also valid up to June 06, 2025. After consulting with CE (T/L Design), the amount would be deducted from future invoices of the contractor.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the stance with documentary evidence verified from audit within 30 days.

3.14.26 Response to audit observation 3.13.26

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that LEPCL construction began in 2020, but connecting facilities were delayed due to missing permits. To expedite things, NTDC built a temporary 132kV grid station using materials from another temporary substation under PPRA Rule 42(d)(iii) approval. The reply was not tenable as no documentary evidences for delay were furnished to audit.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the stance with documentary evidence verified from audit within 30 days.

3.14.27 Response to audit observation 3.13.27

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that due to lack of space and to avoid transportation cost, the material was not shifted and the material related to NTDC system was being used on need basis. However, currently major portion comprised 66 kV / 33 kV / 11 kV material had been offered to DISCOs on cash payment basis.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to expedite the matter.

3.14.28 Response to audit observation 3.13.28

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that unused spare conductor reels from past contracts risked deterioration. To prevent this and contribute to crucial projects, they were rewound and deployed in critical national projects like Gwadar-Iran and Thar-Matiari lines, ensuring timely completion. Audit held that the NTDC planning was very poor in the matter.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the stance with documentary evidence verified from audit within 30 days.

3.14.29 Response to audit observation 3.13.29

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that detailed response would be submitted after consultation with field formations. However, cost of 6 sets had already been recovered from supplier and amount of remaining grounding set, if required, would be recovered from any ongoing contracts. The reply was not tenable as the recovery from the contractor has not been made.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to submit revised reply to audit within 30 days.

3.14.30 Response to audit observation 3.13.30

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that material nearly worth Rs.40 million was lying at NTDC's Rahim Yar Khan sub-warehouse. EHV-II Hyderabad was actively reconciling the record of material, including physical counting and handing over procedures and WIMS system would be updated accordingly.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the stance with documentary evidence verified from audit within 30 days.

3.14.31 Response to audit observation 3.13.31

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that all payments in lieu of less return of material had been deducted. The reply was not tenable as no documentary were furnished to audit.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the stance with documentary evidence verified from audit within 30 days.

3.14.32 Response to audit observation 3.13.32

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that detailed reply would be furnished in due course of time.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to submit detailed reply to audit within 30 days.

3.14.33 Response to audit observation 3.13.33

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that material was properly stacked and placed within the defined boundary. Physical counting of material had been completed with contractor's representative. When the queries would be resolved and all the codal formalities i.e. physical counting of remaining material, formal handing/taking over of material and MRN from concerned formations fulfilled, the material would be recorded on WIMS. The reply was not tenable as no expeditious efforts were found on record in support of management reply.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the stance with documentary evidence verified from audit within 30 days.

3.14.34 Response to audit observation 3.13.34

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that performance guarantee of the contractor was valid up to August-2024. The cost of type test not done would be deducted from the PG of the manufacturer in consultation with the CE TL design and record would be provided to the audit for verification.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the stance with documentary evidence verified from audit within 30 days.

3.14.35 Response to audit observation 3.13.35

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that the committee constituted for amicable settlement with the contractor had asked for extended warranties and additional quantities of the insulators to cater for any mishap/breakage of insulators supplied under the said contracts. The reply was not tenable as no documentary evidences were produced to audit.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the stance with documentary evidence verified from audit within 30 days.

3.14.36 Response to audit observation 3.13.36

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that the matter had been taken up with the insurance company and a number of meetings were carried out. Since the shortage likely happened during transit, hence the claim against loss was to be paid by the Insurance Company i.e. NICL. Furthermore, NTDC had also recovered an amount of Rs.2.4 million from the contractor against shortage of T/F Oil.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to get the stance with documentary evidence verified from audit within 30 days.

3.14.37 Response to audit observation 3.13.37

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that the bids for the subject tender were opened after the finishing date of debarment period (i-e June 16, 2021) of M/s Sieyuan, china. Moreover, after getting approval/no objection letter from ADB, NTDC issued Notification of Award (NOA) to M/s Sieyuan, China. There were no irregularities during award of contract to the responsive lowest bidder. The reply was not tenable as no documentary evidences were found on record.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to inquire the matter and submit report to audit within 30 days.

3.14.38 Response to audit observation 3.13.38

The matter was taken up with the management of NTDC in September, 2023 and reported to the Ministry in December, 2023. The management replied that at Multan warehouse all the possible precautionary measures had been taken collectively by all stakeholders to safeguard the NTDC Installations. The security staff at warehouses comply with same SoPs as defined by the management for the safety/security of NTDC installations. Audit contended that pictorial evidences depicted poor physical condition in the NTDC warehouse.

The DAC in its meeting held on December 18 & 19, 2023 directed the management to inquire the matter and submit report to audit within 30 days.

3.15 Recommendations

In view of audit findings and physical visit of 02 Warehouses of NTDC (Jamshoro & Multan), the following measures / suggestions are recommended for the management of NTDC to improve its procurement processes, inventory management and internal control lapses:-

- Purchases may be made in competitive manner through proper evaluation of bids by adhering to Public Procurement Rules and bidding clauses.
- Performance guarantee needs to be forfeited timely in case of default on the part of suppliers.

- The material needs to be properly inspected to ensure its receipt in accordance with the standard specifications without any alteration in joint inspection clause.
- Un-necessary procurement and retention of material over & above the Reserve Stock Limit needs to be avoided and procurement be made within the same year for which it was planned.
- Type tests of the material need to be ensured as per bidding documents / P.O. clauses and not to be waived off in lieu of extended warrantee.
- Asset management measures need to be beefed up in order to reduce the frequent instances of damage of electrical equipment and incidents of breakdown.
- The management is required to ensure judicious utilization of World Bank/ADB loans and working capital for procurement of material, through proper cost estimation/analysis.
- Economy, efficiency and transparency needs to be ensured in the inventory management system to maximize the benefit by allocating minimum financial and human resources besides taking appropriate action for any lapses in the matter.
- Ensure to follow timelines of tendering process in order to avoid cost/time overrun.
- NTDC management needs to strengthen its internal controls in an economic, efficient and effective manner to achieve the objectives by implementing Warehouse Control and Procedure Manual in letter and spirit for smooth running of the Company.
- Devise an effective procurement plan to avoid superfluous procurement and blockage of funds.
- Devise an effective inventory utilization plan /viable strategy to increase proper utilization and to reduce losses due to piling up of inventory and its obsolescence/deterioration. Moreover, expedite disposal of unserviceable material to avoid further deterioration and decrease in salvage value of material and the disposal/issuance process of 132 kV tower and line material as well as utilization/disposal of balance/left over material returned from completed projects.
- Ensure to complete implementation of procurement plan against which procurement was made.
- Upgrade WIMS in the most efficient and cost-effective way and individual item wise categorization showing detail of opening/closing balances etc in order to rationalize the discrepancies.
- Enhance the proper security and stacking system of designated warehouses of NTDC so that temporary arrangement of material at sub-warehouses (Moro and RYK) under unsafe/un-protected conditions could be avoided in order to save the funds of the company. Moreover, ensure security measures in conformity with arrangements enlisted in Warehouse Control and Procedure Manual for the protection of electrical material worth billions of rupees from any incident in future.
- Devise pre-defined criteria to ascertain the reserve stock limit in stores in order to avoid overstocking of material.

- Expedite the process of disposal of off-road vehicles and ensure availability of specific vehicles and equipment for efficient handling of material to avoid damages and unstacking.
- Investigate and fix responsibility in terms of;
 - a) Demurrage and detention charges for delayed custom clearance and loss sustained by NTDC.
 - b) Non-issuance of GRN or not taking inventory on record of WIMS
 - c) Issuance of material to EPC Contractor on loan basis
 - d) Damage of electrical material lying at warehouses of NTDC
 - e) Non-disposal of un-serviceable/dumped material
 - f) Theft of material from warehouses
 - g) Non-return of surplus/left over material from completed projects

3.16 Conclusion

In the light of above narrated facts, it is concluded that:

- A transparent and efficient procurement and Inventory Management System is a pre-requisite for effective and efficient operations & service delivery. At present, there are procedural lapses in the procurement & inventory management procedures and maintenance of warehouses. Violations of PPRA provisions and NTDC Warehouse Control & Procedural Manual have also been highlighted in the report. Hence, strong adherence to procurement procedures, NTDC warehouse control and procedural manual & regulations along with an IT based Integrated Inventory Management System is required in order to ensure transparency and improvement in operational capacity of NTDC.
- NTDC, being a custodian of the nation's electricity transmission and distribution network, undertakes a spectrum of procurement contracts. These substantial contracts are being awarded without due diligence, procurement plan, assessing the factual position of material, resultantly NTDC is facing challenges with overstocking and unhealthy procurement of material.
- Information system/ Warehouse Inventory Management Control (WIMS), functional in NTDC, is not effective because procurement is not being planned by using this control system which resulted in wasted resources, significant financial losses through overspending, missed savings opportunities, procurement of unhealthy material.
- NTDC compromises the spirit of project based procurement, eventually it contributes to piling up of material in warehouses of NTDC. Moreover, overstocking also led to blockage of funds by investing in huge quantity of same type of material without further utilization which indicates that the same was purchased beyond the requirement and it unsubstantiates the project based purchase.
- There are severe chances of mis-appropriation of material as the material was being issued to contractors without getting Material Requisition Slip (MRS) from concerned formations and

sometime material was issued to contractor without taking on the record of WIMS or issuance of Goods Receipt Note (GRNs) against the material received in warehouses which may cause huge loss to the company.

- Owing to poor internal control, returned healthy surplus/balance material from EPC projects were not taken on record of WIMS. Resultantly, most of the returned healthy material of completed projects is lying dumped in unsafe conditions which may lead to misappropriations.
- Due to poor management of NTDC, material lying at sub-warehouses/DISCOs have become out of design because it has been declared/found unserviceable, obsolete, broken, damaged, rusty and hardened in use and non-compliance with essence of prudent transactions of material and maintenance of inventory records resulted in potential risk of misappropriation due to non accountal of issued/returned material on WIMS, resultantly it could not be further allocated to any other project yet.
- Ineffective management of material issued on rental basis resulted in non-recovery of rental charges and non-return of equipment from contractors which may cause misappropriation of material and loss to the company.
- Due to slack management of NTDC, the presence of material (conductor reels, tower and line material) lying outside the boundary walls of the warehouse represent a significant security breach and likely potential loss to the company.
- Non-upgrading of WIMS resulted in non-provision of complete and comprehensive analysis of data for effective decision making in future. The WIMS does not reflect the material issued on Loan basis to different entities other than NTDC because “Allocation on loan basis” Module is not developed yet.
- Security measures in warehouses of NTDC are not in line with arrangements enlisted in Warehouse Control and Procedure Manual to ensure protection of electrical material worth billions of rupees.

CHAPTER-4

IMPACT AUDIT ON NET-METERING INITIATIVE IN LESCO AND IESCO

4. IMPACT AUDIT ON NET-METERING INITIATIVE IN LESCO AND IESCO

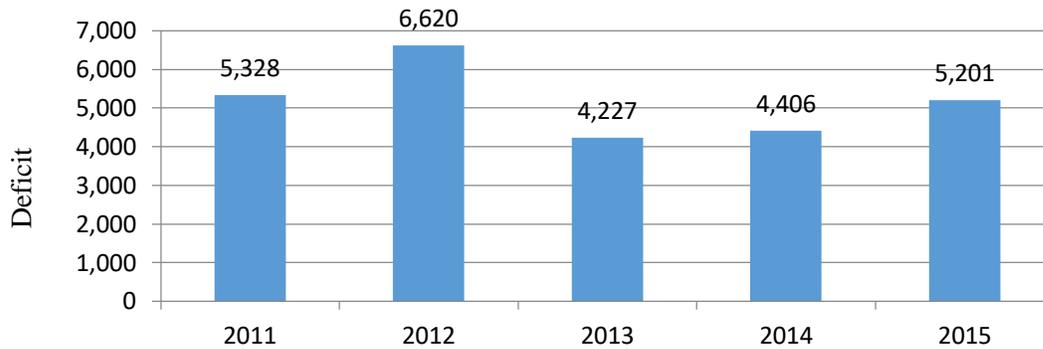
4.1 Introduction

Net energy metering is an electricity policy that enables consumers with renewable energy facilities to both consume electricity as needed and receive credit for supplying excess energy to the grid.

4.2 Background

In past, Pakistan has grappled with a substantial energy crisis characterized by a significant disparity between energy demand and supply. The nation frequently faced substantial energy deficit resulting in frequent load-shedding and severe power outages. The actual position of demand and supply of the electric power during peak hours in the NTDC's system have been reproduced in the following graph:

Year wise Deficit in Demand and Supply during Peak Hours(MW)



{Source: NEPRA State of Industry Report 2015 – (table 27)}

Recognizing these challenges, the Pakistan government has been actively promoting the use of renewable energy as a fundamental component of its future plans aimed at stabilizing the country's power sector. In pursuance of this vision of the GoP, NEPRA, referring to the international studies and the data indigenously collected, proposes that renewable energy projects are best suited to be commissioned as distributed generation, specifically for the scattered load. The preferable proposition for induction of renewable energy projects should be at the distribution network, near the load centers, and at locations where the adequate resource is available. This approach minimizes the need for extensive enhancements to the transmission network, streamlining the incorporation of renewable energy sources into the existing energy infrastructure.¹⁹The same vision led to the initiatives like net energy metering which was facilitated by the Alternative Energy Development Board. Under this scheme, individuals and businesses were encouraged to invest in renewable energy infrastructure,

¹⁹ 2015, State of Industry Report, NEPRA, p. 120

especially solar panels, which allowed them to not only meet their own electricity needs but also enabled them to contribute surplus energy to the national grid. This strategy aligned with Pakistan's endeavors to address its energy crisis while simultaneously promoting sustainable and greener energy solutions.

4.3 Role of the Program

On September 01, 2015, the National Electric Regulatory Authority (NEPRA) introduced the official Distributed Generation and Net energy metering Regulations. These regulations had broad implications, opening up opportunities for a wide range of electric grid customers, particularly those with three-phase connections, to participate in the Net energy metering program. This program enabled the installation of small-scale renewable energy systems by eligible customers, allowing them to seamlessly integrate their renewable energy generation with the existing grid infrastructure. Under these regulations, any customer with a three-phase connection can take advantage of Net energy metering, making it accessible to a more extensive segment of the population.²⁰

4.4 Overview

The purposes for the promotion of net energy metering include the encouragement of the individuals, businesses, and industries to invest in renewable energy sources like solar and wind power, thereby reducing reliance on fossil fuels and promoting a cleaner and more sustainable energy mix.²¹ Furthermore, net energy metering initiative is undertaken to mitigate the country's chronic energy shortages by incentivizing the generation of additional electricity through distributed renewable energy systems, helping bridge the gap between supply and demand. The State of Industry Report of NEPRA 2022 highlights that net energy metering significantly contributes towards minimizing T&D

²⁰ 2015, SRO 892(1)/2015, NEPRA

²¹ Notification dated 06, February, 2018, AEDB

losses and provides flexibility in investments for augmentation or development of distribution facilities.²²As per the data acquired from AEDB, the current status of Net Energy Metering in Pakistan, up to June 30, 2023, is exhibited in the table below:

Table-1

Sr. No.	Name of DISCO	Installed Net energy metering Connections	Capacity Installed (MW)
1	IESCO	10,968	130.5
2	LESCO	20,511	311.80
3	MEPCO	9,775	187
4	FESCO	5,165	92.11
5	HESCO	176	6.66
6	SEPCO	61	5.19
7	QESCO	13	.80
8	TESCO	1	.18
9	GEPCO	4,871	85.59
10	*BTPL	492	4.63

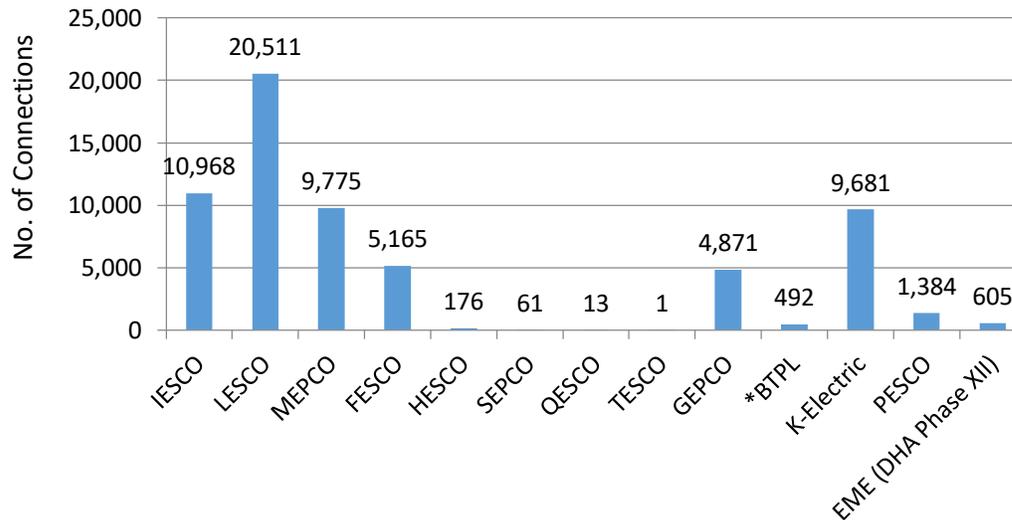
²² 2022, State of Industry Report, NEPRA, p. 68

11	K-Electric	9,681	202.49
12	PESCO	1,384	20.97
13	EME (DHA Phase XII)	605	7.14
Total		63,703	1,055.03

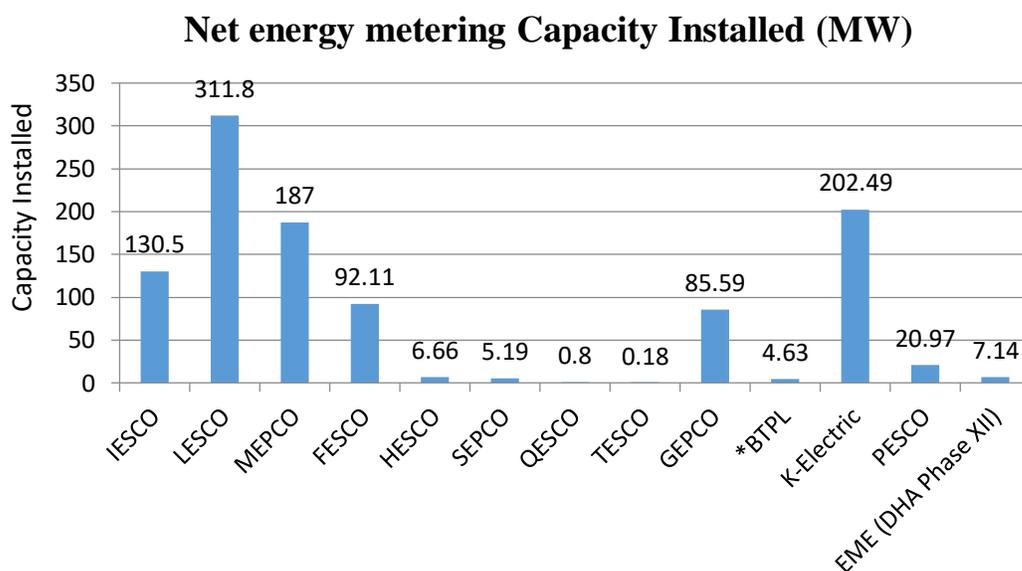
(*Bahria Town Private Limited)

LESCO and IESCO lead the rest by having maximum numbers of net energy metering connections. However, the efforts of HESCO, TESCO, SEPCO and QESCO with regard to the promotion of net energy metering seem abysmal and discouraging.

Installed Net Metering Connections



As far as the installed capacity for generation is concerned, LESCO is the frontrunner, followed by K-Electric and MEPCO.



4.5 Scope & Methodology

4.5.1 Scope

The impact audit was carried out during the year 2023-24 in two electricity distributing companies in Pakistan i.e., LESCO and IESCO, along with CPPA-G. The purpose of the audit was to understand any notable differences that were brought in by the net energy metering initiative.

In particular, the study sought to investigate whether the implementation of net energy metering has a measurable impact on reducing Transmission and Distribution (T&D) losses in the electricity grid. To address this question, a systematic sampling technique was used to identify feeders with the highest number of net energy metering connections. Due to constraints such as time limitations and other practical factors, a subset of the top 15 feeders was selected as sample for further inspection.

4.5.2 Methodology

The methodology employed for the impact audit consists of a broad and comprehensive approach, involving the collection of data from various key stakeholders in the power sector. These stakeholders include the distributing companies, the Central Power Purchasing Agency-Guaranteed (CPPA-G), the Alternative Energy Development Board (AEDB), and the National Electric Power Regulatory Authority (NEPRA). This diversified data was diligently gathered to form a strong and robust foundation for conducting in-depth analyses. To ensure the data was effectively utilized, it was meticulously organized into spreadsheets. This systematic arrangement facilitated comparisons and contrasts among different variables. Scatterplot tool was employed to ascertain a correlation between variables; furthermore, regression analysis was carried out to shed light on whether net energy metering can be associated with the reduction in T&D losses. Moreover, to gain insight into the viewpoints of Net energy metering Consumers, questionnaire was developed and administered. This qualitative aspect added depth to the study's findings, leading to a more comprehensive assessment of the implications and effectiveness of net energy metering from the consumer's standpoint.

4.6 Audit findings

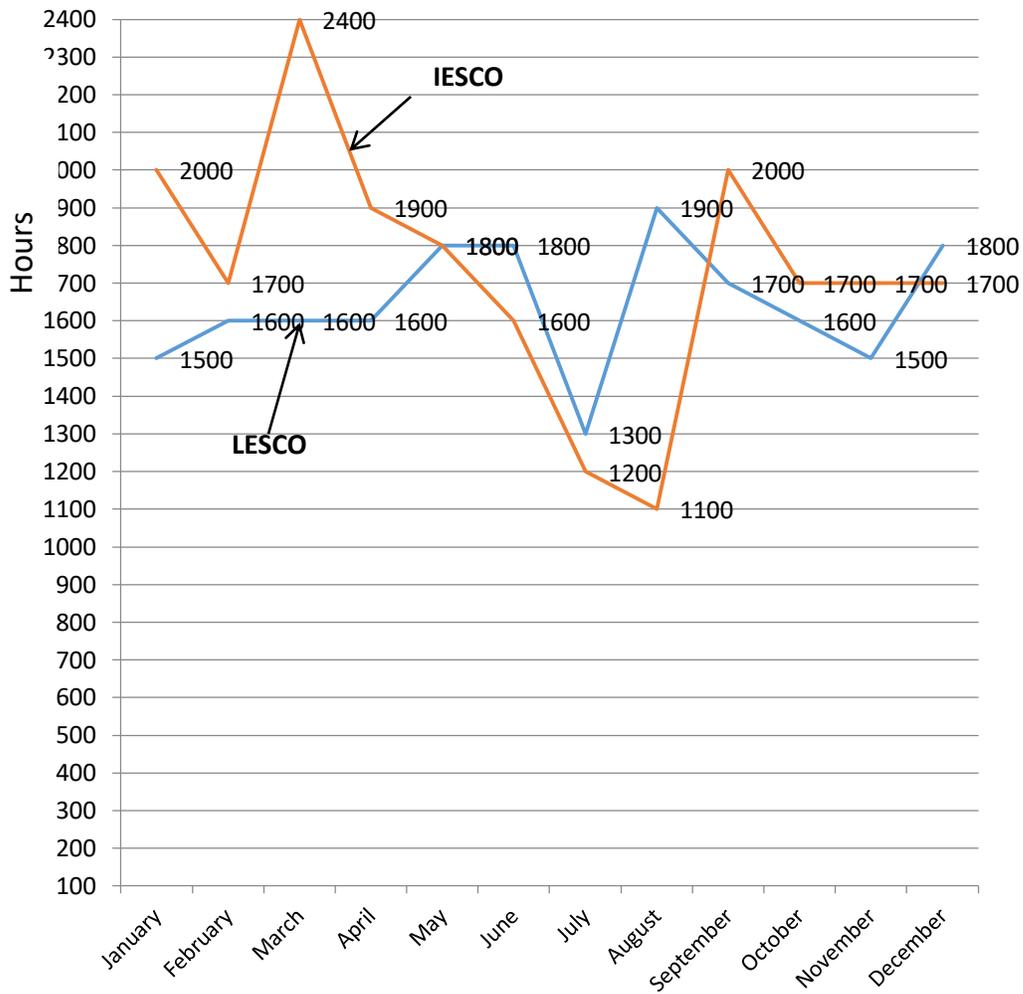
4.6.1 Impact of Net Energy Metering to Decrease the Deficit of Electricity during the Hours of Peak Demand in a Month

One of an important objective of the net energy metering initiative is to mitigate the shortage of electricity in the country especially during the time of peak demand. The data gathered from both LESCO and IESCO highlights that the peak demand for electricity typically occurs between 1300 and 1900 hours in LESCO and between 1100 and 2400 hours in IESCO in a day during the whole year.

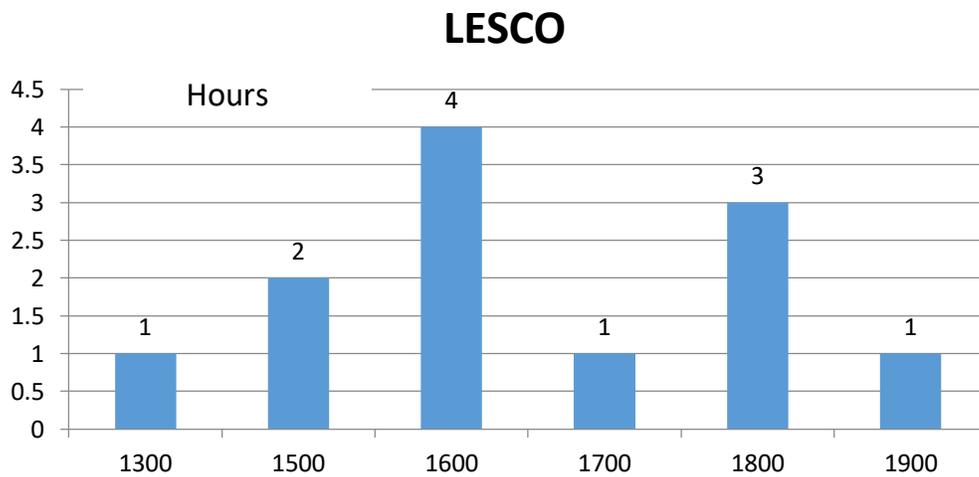
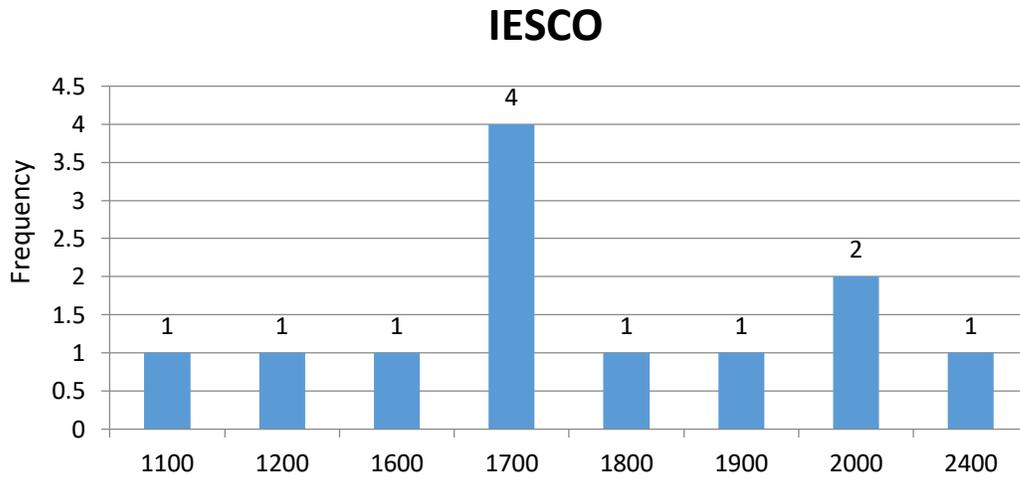
Table-2

Period	Date & time of peak in LESCO	Date & time of peak in IESCO
July-2022	05-07-2022 (1500 HRS)	07.07.2022 (2000 HRS)
Aug-2022	13-08-2022 (1600 HRS)	10.08.2022 (1700 HRS)
Sept-2022	01-09-2022 (1600 HRS)	01.09.2022 (2400 HRS)
Oct-2022	04-10-2022 (1600 HRS)	01.10.2022 (1900 HRS)
Nov-2022	01-11-2022 (1800 HRS)	24.11.2022 (1800 HRS)
Dec-2022	27-12-2022 (1800 HRS)	29.12.2022 (1600 HRS)
Jan-2023	24-01-2023 (1300 HRS)	24.01.2023 (1200 HRS)
Feb-2023	01-02-2023 (1900 HRS)	03.02.2023 (1100 HRS)
Mar-2023	16-03-2023 (1700 HRS)	15.03.2023 (2000 HRS)
Apr-2023	17-04-2023 (1600 HRS)	17.04.2023 (1700 HRS)
May-2023	23-05-2023 (1500 HRS)	23.05.2023 (1700 HRS)
June-2023	14-06-2023 (1800 HRS)	23.06.2023 (1700 HRS)

The data reveals that in LESCO there is a consistent pattern in the occurrence of maximum demand of electricity; however, the pattern in IESCO for maximum demand in a day is more sporadic.



To be more exact, when we remove the outliers from the considerations, it can be deduced that the maximum demand in IESCO happened with greater frequency between 1500 and 1800 hours, while, the same phenomenon occurred in IESCO between 1700 and 2000 hours.



In order to develop a relation between the time of maximum demand and the contribution from net energy metering during the same time, it was necessary to look into

the presence of sunshine, which is the primary element for the generation of energy through solar panels, during the hours of peak demands. As per the study conducted by the University of Queensland, Australia, “PV output rises with increasing sunshine levels.”²³ The World Meteorological Organization defines sunshine as the sum of the time during the day for which the direct *normal irradiance exceeds 120 W/m2*.²⁴ If the fact of the availability of sunshine could be established then it will be easier to determine the efficacy of net energy metering during the hours of peak demands in both of the companies.

For this purpose, solar radiation data pertaining to Pakistan was collected from the World Bank website.²⁵ The threshold of 120 W/m2 was applied on the direct normal irradiance received in Lahore for the year 2016-17. The output highlights the availability of sunshine during the day. Thereafter, a comparison was made between the presence of sunshine and the time of the peak demand occurred during the day so that the contribution of net energy metering in the generation of electricity is determined.

Table-3

Lahore Electric Supply Company	
Date & Time of Peak Demand	Avg. Time of Decline in Sunshine
05-07-2022 (1500 HRS)	1623 HRS
13-08-2022 (1600 HRS)	1700 HRS
01-09-2022 (1600 HRS)	1620 HRS

²³https://sustainability.uq.edu.au/files/6527/SolarResourceKit_0818.pdf

²⁴2014, World Meteorological Organization, https://library.wmo.int/viewer/56225?medianame=CIMO_Guide_2014_en_I_8_

²⁵ 2023, World Bank, <https://datacatalog.worldbank.org/search/dataset/0038550/Pakistan---Solar-Radiation-Measurement-Data>

04-10-2022 (1600 HRS)	1550 HRS*
01-11-2022 (1800 HRS)	1520 HRS**
27-12-2022 (1800 HRS)	1630 HRS**
24-01-2023 (1300 HRS)	1607 HRS
01-02-2023 (1900 HRS)	1637 HRS**
16-03-2023 (1700 HRS)	1647 HRS*
17-04-2023 (1600 HRS)	1723 HRS
23-05-2023 (1500 HRS)	1720 HRS
14-06-2023 (1800 HRS)	1813 HRS

**indicates that +/- 15 minutes net energy metering contributes in the system*

***points to no contribution of net energy metering in the system*

The analysis highlights a significant contribution of net energy metering towards the system from April to September and in January. However, October and March are categorized as medium in terms of energy generation during peak demand. On the other hand, there is no observed contribution to energy generation during peak demand in November, December, and February.

Table-4

Islamabad Electric Supply Company	
Date & Time of Peak Demand	Avg. Time of Decline in Sunshine
07.07.2022 (2000 HRS)	1700 HRS*
10.08.2022 (1700 HRS)	1803 HRS
01.09.2022 (2400 HRS)	1723 HRS*

01.10.2022 (1900 HRS)	1630 HRS*
24.11.2022 (1800 HRS)	1323 HRS*
29.12.2022 (1600 HRS)	1623 HRS
24.01.2023 (1200 HRS)	1720 HRS
03.02.2023 (1100 HRS)	1717 HRS
15.03.2023 (2000 HRS)	1630 HRS*
17.04.2023 (1700 HRS)	1817 HRS
23.05.2023 (1700 HRS)	1720 HRS
23.06.2023 (1700 HRS)	1747 HRS

**points to no contribution of net energy metering in the system*

In the case of IESCO, it was observed that during July, September, October, November and March the sunshine diminished before the onset of peak demand time. Nevertheless, apart from these five months, net energy metering positively contributed towards the system during peak demand period.

The amount of contribution made by net energy metering in the system is reflected in the table below:

Table-5

IESCO					
Month	Max Demand (MWH)	Drawl (MWH)	Shortfall (MWH)	Export by Net Metering (MWH)	% Shortfall saved by Net Metering
Jul-22	2554	2140	414	7.6	1.80

Aug-22	2550	2285	265	8.2	3.00
Sep-22	2347	2019	328	9.8	2.90
Oct-22	1808	1717	91	12.1	11.74
Nov-22	1253	1237	16	11.1	40.96
Dec-22	1475	1279	196	8.9	4.34
Jan-23	1656	1356	300	7.5	2.44
Feb-23	1498	1383	115	10.1	8.07
Mar-23	1332	1200	132	14.2	9.71
Apr-23	1698	1652	46	19.7	29.98
May-23	2220	2009	211	23.9	10.17
Jun-23	3035	2644	391	20.5	4.98

Table No. 5 highlights that the shortfall of electricity during the peak demand time is curtailed by net energy metering. Had there been no net energy exported, the amount of shortfall would have risen by the equal amount. To elaborate further let's take the example of the month of July-2022. In this month IESCO faced the shortfall of 414 MW. Presumably, if there was no export witnessed from net energy metering during July the shortfall would have risen to 421.6 MW (414+7.6). Thus, the net energy metering saved the shortfall by 1.80% during that month.

However, it is important to mention here that in order to evaluate the data on realistic grounds table no. 5 needs to be read along with table no. 4. The comparison between both the tables will lead to the conclusion that the aversion of shortfall as described in table no. 5 may be disregarded for the months of November, December and February as there was no sunshine available during the time of peak demand.

Table-6

LESCO					
Month	Max Demand (MW)	Drawl	Shortfall	Export by Net Metering	% Shortfall saved by Net Metering
Jul-22	6099	5450	649	6.5	0.99
Aug-22	5539	4929	610	8.2	1.33
Sep-22	5115	4535	580	8.7	1.48
Oct-22	4411	3967	444	12.2	2.67
Nov-22	3042	2949	93	11.6	11.09
Dec-22	3033	2681	352	9.3	2.57
Jan-23	3288	2258	1030	7.5	0.72
Feb-23	3062	2792	270	11.8	4.19
Mar-23	3111	2801	310	17.1	5.23
Apr-23	4140	3756	384	22.5	5.54
May-23	5074	4660	414	22.6	5.18
Jun-23	5779	4980	799	20.6	2.51

Table No. 6 may also have the same explanation as given above with regard to table no. 5. Moreover, the comparison of table no. 6 is to be drawn with table No. 3 for considering the impact of sunshine on the contribution of net metering.

It may be concluded that net energy metering curtails the shortfall during the time of peak demand; however, it is influenced by other variables such as the availability of sunshine for the generation of energy through solar panels. Thus, if the time of the availability of sunshine and that of the peak demand of electricity coincide, net energy metering will have a valuable contribution margin to the system, reducing shortfall in the process.

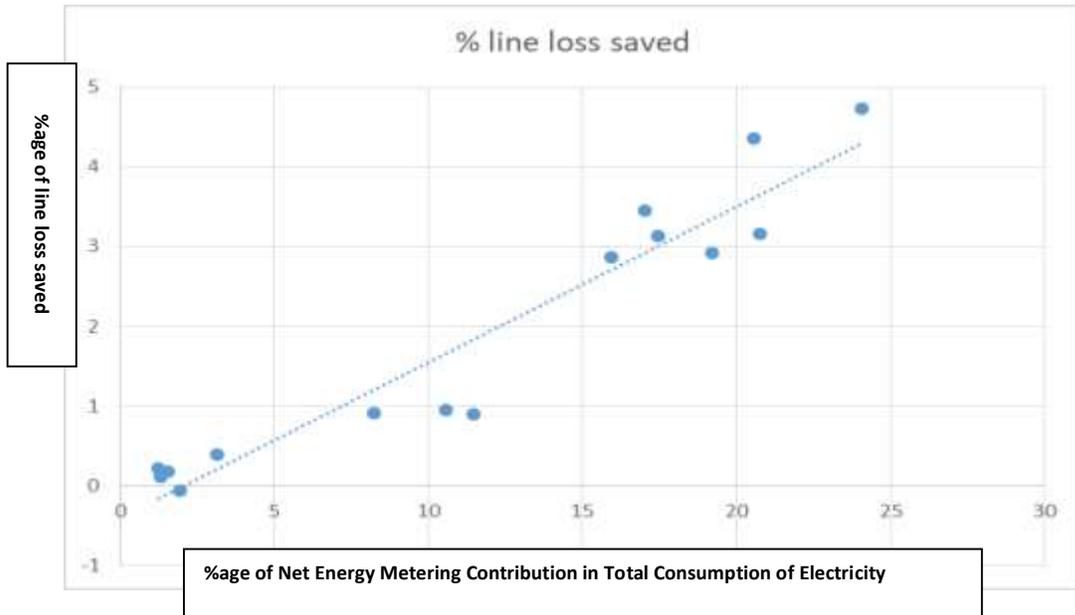
The finding was taken up with the management in August, 2023 and reported to the Ministry in December, 2023. The management of IESCO was unresponsive, however, LESCO management replied that they recognized the 2015 Distributed Generation & Net Metering Regulations, updating over time. The AEDB, now PPIB, played a key role, supporting the 2020 goal of 20-30% renewable energy by 2030. The 2021 and 2023 policies emphasized net metering and renewable targets, with LESCO compliant since 2016, aiming for 60% by 2030, improving system efficiency

The DAC in its meeting held on December 15 & 18, 2023 directed the management of IESCO & LESCO to take into consideration the Impact Audit on Net Metering and give their joint input within a month.

Audit recommends implementation of DAC's decision.

4.6.2 Line Losses saved with the impact of Net energy metering - Rs.65.781 million

Line losses are generally defined as those losses that occur at HT lines due to distance of feeders from consumers, and excessive load on the feeders. As NMCs do not use HT lines therefore the amount of line losses equaling to the units exported through net energy metering are saved.



In order to analyze the above-mentioned argument, a sample of 15 feeders with maximum number of Net energy metering consumers was taken from LESCO and IESCO. The data was meticulously organized as reflected in table no. 7; Column no. 5 in the table elaborates the actual losses suffered by the respective feeder. However, in column no. 11, those losses are shown which could have occurred at the feeders had there been no energy supplied by the net energy metering consumers (NMCs). In the presumed absence of the NMCs, the exported units as shown in column 6 would have been transmitted by the feeder, thus enhancing the line losses.

In order to ascertain the correlation between percentages of net energy metering in total consumption of electricity (explanatory variable) and that of line losses saved

(dependent variable), data was incorporated in scatterplot; the trend line exhibited a positive relationship between both the variables.

Table-7

FEEDER NAME	UNITS RECEIVED	UNITS BILLED	UNITS LOST	%LOSSES (5)	EXPORTED UNITS (6)	% of Total Consumption (7)	Units not lost due to Net energy metering (8)	Probable Units Lost without Net energy metering (9)	Probable % Line Losses (10)	% Line Losses saved (11)
LESCO										
RDC-14	13976100	12004131	1971969	14.11	390033	3.15	55,032.02	2,027,001	14.50	0.39
PHASE-8	21642060	19330586	2311474	10.68	344370	1.57	36,780.34	2,348,254	10.85	0.17
RDC-4	22720225	18670512	4049713	17.82	284345	1.24	50,682.40	4,100,395	18.05	0.22
EXPRESS FEEDER PHASE-V 4	12417342	12805024	-387682	-3.12	248888	1.96	(7,770.54)	(395,452)	(3.18)	(0.06)
DEFENCE NO.6	19502360	17941273	1561087	8.00	264627	1.34	21,182.35	1,582,269	8.11	0.11
IESCO										
SECTOR-E	17456313	15310542	2145771	12.3	4150159	19.21	510,469.56	2,656,240.56	15.22	2.92
AOWHS	7324710	6433758	890952	12.2	1920926	20.78	234,352.97	1,125,304.97	15.36	3.16
NAVY-1	13490570	11236038	2254532	16.7	2775007	17.06	463,426.17	2,717,958.17	20.15	3.45
EX-LAWYER COLONY DHA-I	5572906	4632135	940771	16.9	1444104	20.58	244,053.58	1,184,824.58	21.26	4.36
SECTOR-B	10542147	8966571	1575576	14.9	2000488	15.95	298,072.71	1,873,648.71	17.77	2.87
SECTOR-H	5577997	4742853	835144	15	1768057	24.07	265,208.55	1,100,352.55	19.73	4.73
SECTOR-G	7571809	6451615	1120194	14.8	1605024	17.49	237,543.55	1,357,737.55	17.93	3.13
G-15 SECTOR	14471812	13051684	1420128	9.8	1319676	8.36	129,328.25	1,549,456.25	10.71	0.91
GULBERG-5	15030539	13992193	1038346	6.9	1952451	11.50	134,719.12	1,173,065.12	7.80	0.90
NEW RACE COURSE	11673271	10780670	892601	7.6	1382345	10.59	105,058.22	997,659.22	8.55	0.95

After establishing a strong correlation between the two variables a regression analysis was carried out. Following two hypotheses were tested:

H₀: There is no relationship between percentage of net energy metering in total consumption and percentage of line losses saved.

H_a: There is strong relationship between percentage of net energy metering in total consumption and percentage of line losses saved.

Microsoft Excel was used to execute the regression analysis:

Table-8

Summary Output of Regression Analysis carried out on Microsoft Excel	
Multiple R	0.9575
Coefficients for % of Total Consumption	0.19527
P-value	2.155E-08

Multiple R is the “correlation coefficient”. It is a measure of the applicability of the regression model. Moreover, it also indicates the strength of the linear relationship between the variables. For example, a value of 1 means a perfect positive relationship and a value of zero means no relationship at all. In this case, the value of multiple R is .9575 i.e. 96% which is significantly on higher side showing a strong positive correlation between the two variables.

The coefficient for percentage of Total Consumption is approximately 0.195. The positive sign indicates that as Consumption of net energy metering increases, percentage of line losses saved also tends to increase. There is a positive correlation between these two variables. For every 1% increase in consumption of net energy metering in total share of electricity, percentage of line losses saved

increases by an average of .195%. The p-values for the coefficients indicate whether the dependent variable is statistically significant. When the p-value is less than the significance level (.05), the null hypothesis can be rejected. In this case, the p-value of 2.155E-08 is extremely small. Such a minuscule p-value strongly suggests that the observed correlations between the percentage of net energy metering in total energy consumption and the percentage of line losses saved are not mere coincidences. Instead, they are highly statistically significant. Thus, the null hypothesis stands rejected. The results are conclusive enough to establish the argument that as the contribution of net energy metering increases in the system, the percentage of line losses saved is also increased.

Furthermore, the effect of other variables such as the sacking of line superintendents cannot be incorporated in this finding because it is the policy of the company to rotate and transfer the line superintendents as per the need. Moreover, during discussion with the management it was revealed that the company generally avoids transferring the line superintendents because of their knowledge and understanding of a particular area. So, due to the shortage of the availability of staff including the LSs, it is important that workers with broader experience are retained in the field. Lastly, the changes in line losses may not be solely attributable to a qualitative variable like sacking of line superintendent.

The finding was taken up with the management in August, 2023 and reported to the Ministry in December, 2023. The management of IESCO was unresponsive, however, LESCO management replied that they recognized the 2015 Distributed Generation & Net Metering Regulations, updating over time. The AEDB, now PPIB, played a key role, supporting the 2020 goal of 20-30% renewable energy by 2030. The 2021 and 2023 policies emphasized net metering and renewable targets, with LESCO compliant since 2016, aiming for 60% by 2030, improving system efficiency

The DAC in its meeting held on December 15 & 18, 2023 directed the management of IESCO & LESCO to take into consideration the Impact Audit on Net Metering and give their joint input within a month.

Audit recommends implementation of DAC's decision.

4.6.3 Shifting the burden of capacity purchase price (CPP) from Net energy metering consumers to Non net energy metering consumers in LESCO & IESCO - Rs.3,408.937 million

According to Section 7, 31(4) and 31(7) of the NEPRA Act 1997, NEPRA is mandated to determine a uniform consumer end tariff at national level.

During the activity of impact audit for the year 2022-23 on net energy metering it is observed that the cost of electricity is recovered through sale of energy to end consumers on volumetric basis i.e. the cost of electricity is distributed on units consumed by the consumers. As a result, the more the number of units are sold the lesser will be the per unit rate and vice versa. The shifting of net energy metering consumers on alternative resources results in increased cost of electricity for other non-net energy metering consumers. As per NEPRA determined consumer end tariff, dated July 22, 2022, the capacity purchase price component represented 49.7% of power purchase price during the year 2022-23, whereas the capacity charges for the financial year 2023-24 is worked out at around 71% of the total projected power purchase price of DISCOs as per NEPRA's determined power purchase reference for the financial year 2023-24. The net energy metering facility is not a firm capacity; therefore, a suitable size of firm capacity power plant is also required in order to meet the power demand of net meter consumer. The distribution companies have to reserve the energy quota for the net energy consumers as the net energy consumers are fully dependent on centralized generation during night hours for which the capacity payments have to be made to IPPs. Moreover, long term contracts with take or pay capacity regime are already committed resulting in capacity adequacy for next few years. As per state of industry report 2021-22, the installed capacity of power plants is 40,813MW against a peak demand of 28,253MW. The Indicative Generation Capacity Expansion Plan (IGCEP) has forecasted demand of 41,338MW against installed capacity of 69,372MW by the year 2031.

The financial impact of capacity charges due to reduced consumption of electricity from the national grid by the net energy metering consumers is allocated by DISCOs across its customer base. Thus the net energy metering increases the marginal cost of capacity charges for the consumers without net energy metering system. The net energy metering consumers averted the share of capacity purchase price to the extent of Rs 3,408.937 million [Average per unit cost of CPP X (Units produced by NM generators – Units purchased by IESCO & LESCO)] during the year 2022-23, which was shifted on the non-

net energy metering consumers resulting in increase of per unit cost to non-net energy metering consumers.

The finding was taken up with the management in August, 2023 and reported to the Ministry in December, 2023. The management of IESCO was unresponsive, however, LESCO management replied that they guided by AEDB (now PPIB) and NEPRA, had embraced net metering since 2015. Actively implementing since 2016, these efforts aligned with policies targeting up to 30% renewable energy by 2030. The National Electricity Plan of 2023 aimed for 60% renewables, reflecting a nationwide, collaborative push for distributed generation and efficient energy use.

The DAC in its meeting held on December 15 & 18, 2023 directed the management of IESCO & LESCO to take into consideration the Impact Audit on Net Metering and give their joint input within a month.

Audit recommends implementation of DAC's decision.

4.6.4 Non-recovery of use of system charges (UoS) from net energy metering consumers in LESCO & IESCO - Rs.638.300 million

According to Section 7, 31(4) and 31(7) of the NEPRA Act 1997, NEPRA is mandated to determine a uniform consumer and tariff at national level.

The Net energy metering consumers use DISCOs system wires for import and export of energy however the UoS charges and system services are not being recovered from them. Non-recovery of use of system charges and system charges increases the marginal cost of distribution, transmission and ancillary services and cause extra burden on non-metering consumers. The NTDC use of system charges and CPPA-G fee (System services) should also be applicable to all net energy metering consumers. This system service charge is not addressed in the existing regulation resulted in non-recovery of UoS charges for an amount of Rs.638.300 million [Average per unit cost of UoS x (Units produced by NM generators – Units purchased by IESCO & LESCO)] during 2022-23.

The finding was taken up with the management in August, 2023 and reported to the Ministry in December, 2023. The management of IESCO was unresponsive, however, LESCO management replied that they guided by AEDB (now PPIB) and NEPRA, had

embraced net metering since 2015. Actively implementing since 2016, these efforts aligned with policies targeting up to 30% renewable energy by 2030. The National Electricity Plan of 2023 aimed for 60% renewables, reflecting a nationwide, collaborative push for distributed generation and efficient energy use.

The DAC in its meeting held on December 15 & 18, 2023 directed the management of IESCO & LESCO to take into consideration the Impact Audit on Net Metering and give their joint input within a month.

Audit recommends implementation of DAC's decision.

4.6.5 Undue burden on Exchequer due to aversion of recovery of Inter DISCO Tariff Rationalization Surcharge (IDTRS) in LESCO & IESCO - Rs.549.238 million.

As per NEPRA Act Section 31.8 “Notwithstanding anything contained in this Act and in addition to the tariff, rates and charges notified under sub-section (7) and this sub-section, each electric power supplier shall collect such surcharges from any or all categories of consumers, as the Federal Government may charge and notify in the official Gazette from time to time, in respect of each unit of electric power sold to any or all categories of consumers and deposit the amount so collected in such manner as may be prescribed. The amount of such surcharges shall be deemed as a cost incurred by the electric power supplier and included in the tariff notified under sub-section (7):”

During the impact audit of LESCO & IESCO it is revealed that in order to maintain a uniform consumer end tariff at national level, the consumer end tariff of better performing DISCOs is enhanced by inter DISCOs tariff rationalization surcharge which is built-in consumer end tariff to give relief to the consumers of inefficient DISCOs. However, the net energy metering consumers avoided the payment of IDTRS through self-generation of energy units to the extent of Rs.549.238 million [Average per unit cost of IDTRS X (Units produced by NM generators – Units purchased by IESCO & LESCO)] during the year 2022-23. Non-recovery of IDTRS from net energy consumers would be an extra burden on national exchequer as the GoP has to inject more subsidy into the system to maintain uniform rate of tariff.

The finding was taken up with the management in August, 2023 and reported to the Ministry in December, 2023. The management of IESCO was unresponsive, however, LESCO management replied that they guided by AEDB (now PPIB) and NEPRA, had embraced net metering since 2015. Actively implementing since 2016, these efforts aligned with policies targeting up to 30% renewable energy by 2030. The National Electricity Plan of 2023 aimed for 60% renewables, reflecting a nationwide, collaborative push for distributed generation and efficient energy use.

The DAC in its meeting held on December 15 & 18, 2023 directed the management of IESCO & LESCO to take into consideration the Impact Audit on Net Metering and give their joint input within a month.

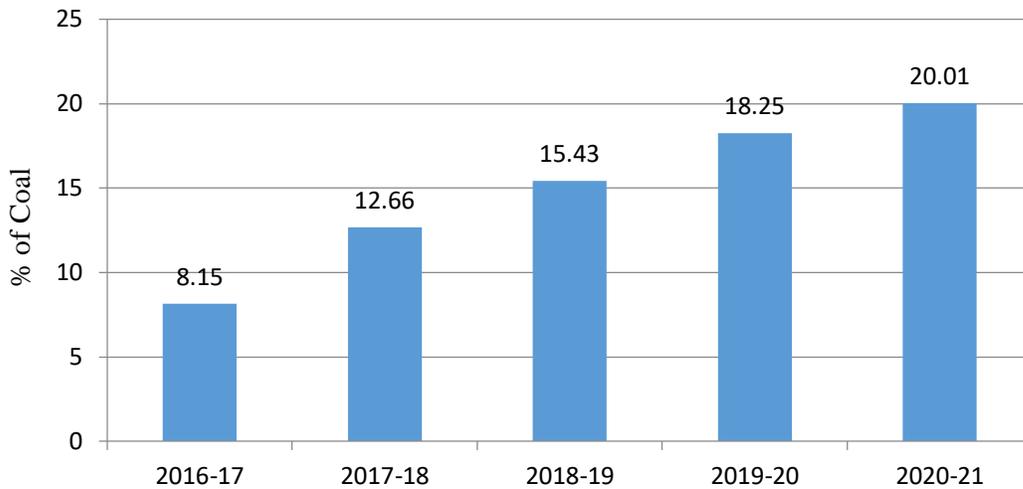
Audit recommends implementation of DAC's decision.

4.6.6 Environmental Impact of Net energy metering – Reducing Carbon Emissions by 374,206.5 tons a year

Net energy metering policy by NEPRA highlights the importance of net energy metering in the generation of cleaner and greener energy. Pakistan's two-third electricity generation is based on fossil fuels and this has been a trend over the past decade.²⁶ Notably, in recent years Pakistan has shifted its focus towards coal-fired electricity, resulting in substantial growth in coal-based production of energy over the past five years.

²⁶ 2021, Dawar Butt, Sunil Dahiya, CO₂ Emissions from Pakistan Energy Sector

% of Coal in the production of Energy



[Source: NEPRA State of Industry Report 2022 (p. 103)]

Here, a comparison is drawn examining the carbon footprints generated by coal and net energy metering to uncover any noteworthy environmental effects attributed to net energy metering.

The report titled “The Promise of Solar Energy: A Low-Carbon Energy Strategy for the 21st Century” published by United Nations mentions that the Carbon dioxide (CO₂) emissions for PV panels are in the range of 25 to 32 g/kWh, while a coal-fired power plant emits about 200g/kWh.²⁷

Table-9

²⁷ 2007, United Nations, <https://www.un.org/en/chronicle/article/promise-solar-energy-low-carbon-energy-strategy-21st-century>

Type	Capacity (MW)	Units kWh (million)	Per unit Carbon Footprints (grams)	Carbon Footprints (grams in million)	Carbon Footprints (tons)	Carbon emission Saved (Tons)	Carbon Footprints saved	Equal to Trees Plantation (M)
Solar	1005	1,496.6	32	47,892.7	52,792.62			
Coal	1005	1,936.8	200	387,367.2	426,999.1	374,206.5	87.6%	15.6

(*Calculation are attached as Annex-I)

It can be deduced from the table above that implementing net energy metering has a significant and beneficial impact on reducing carbon emissions. Even though the solar panels used in net energy metering do carry the “Carbon Debt” which means that the mining of the components used in solar panels, the production of solar panels and the transportation of the same cause carbon emission, yet, when it is compared with the carbon footprints of a coal-fired power plant, the adoption of net energy metering results in a remarkable reduction of 87.6% of carbon emissions into the atmosphere.

As the current installed capacity of net energy metering in Pakistan stands at 1,005 MW, almost 374,206.5 tons of carbon emission in the atmosphere is saved each year in comparison to a coal plant of the same generation capacity. This achievement is equivalent to the environmental benefit of planting approximately 15.6 million trees.

Pakistan ratified Paris Agreement in 2016, which necessitated the stricter greenhouse gases regulations. The Paris Agreement (Article 4, paragraph 2) requires each Party to prepare, and communicate to the UNFCCC, every five years, successive nationally determined contributions (NDCs) that it intends to achieve. Net energy metering can be an important factor contributing towards the satisfactory accomplishment of the goals set by Paris agreement.

The finding was taken up with the management in August, 2023 and reported to the Ministry in December, 2023. The management of IESCO was unresponsive, however, LESCO management replied that they complied with NERRA's updated Net Metering Regulations since 2015. Led by AEDB (now PPIB) and NEPRA, this initiative aligned with policies targeting 20-30% renewable energy by 2025-2030, aiming for 60% by 2030, necessitating continuous regulatory updates.

The DAC in its meeting held on December 15 & 18, 2023 directed the management of IESCO & LESCO to take into consideration the Impact Audit on Net Metering and give their joint input within a month.

Audit recommends implementation of DAC's decision.

4.6.7 Aversion of cost of establishing a Power Plant amounting to Rs.437,250.11 million

As per the Article 9 of the NEPRA ARE (Alternative & Renewable Energy) Distributed Generation/Net energy metering Rules issued by NEPRA in 2014, the responsibility of the installation and maintenance of the Distributing Generation system lies with the Distributed Generator. Thus, it emancipates the company as well as the government of Pakistan from bearing any burden of investment for the generation of electricity. A comparison is generated between the Quaid e Azam Solar Park and Net energy metering facilities to further elucidate the above-mentioned argument.

The first phase of Quaid e Azam solar Park was completed in 2015 with the capacity of generating 100 MW of electricity. As per NEPRA, the establishment of QeA Solar Park cost 144.92 million²⁸ dollars and the annual operating cost is 3.07 million dollars.

Table-10

Source	Capacity (MW)	CAPEX (\$)	OPEX (\$)
Quaid-e-Azam Solar Power Plant	100	144.92M	3.07M
Net energy metering	1055	1,528.9M**=Rs.437,250.11	32.39M***

***Estimated Cost, had a solar power plant of the capacity of 1055MW was to be established (144.92*1055/100)*

**** (3.07*1055/100)*

To date, the cumulative installed capacity of net energy metering in the country stands at 1055 MW. This achievement has not incurred any expenses for

²⁸ Case no. NEPRA/TRF-303/QASPL-2015/8359-8361, NEPRA, dated: June 2nd, 2016, Page. No. 2

the government, as there has been no investment required for the installation of net energy metering facilities. If a solar power plant with the capacity of 1055 MW was to be established then, extrapolating the cost of Quaid e Azam Solar Power Plant, the new project would have an estimated cost of 1582.5 million USD. Moreover, net energy metering has been saving the annual operational cost as well which would have had an impact of around 32.39 million USD per annum.

One of the key objectives of the net energy metering initiative is to promote renewable energy so that the dependence on expensive fuels may be minimized. The results drawn from the comparison of net energy metering with Quaid e Azam Solar Park underscores the notion that, in this regard, the initiative of net energy metering along with ensuring a cleaner and greener production of energy may also alleviate the national exchequer from any sort of expense-related burden.

The finding was taken up with the management in August, 2023 and reported to the Ministry in December, 2023. The management of IESCO was unresponsive, however, LESCO management replied that they complied with NERRA's updated Net Metering Regulations since 2015. Led by AEDB (now PPIB) and NEPRA, this initiative aligned with policies targeting 20-30% renewable energy by 2025-2030, aiming for 60% by 2030, necessitating continuous regulatory updates.

The DAC in its meeting held on December 15 & 18, 2023 directed the management of IESCO & LESCO to take into consideration the Impact Audit on Net Metering and give their joint input within a month.

Audit recommends implementation of DAC's decision.

4.6.8 Credit unpaid to Distributed Generators - Rs.1,154.588 million

As per the clause 3 of rule 11 of the NEPRA ARE (Alternative & Renewable Energy) Distributed Generation/Net energy metering Rules issued by NEPRA in 2014, “if the kWh supplied by Distributed Generator exceed the kWh supplied by DISCO, the net kWh shall be credited against Distributed Generator’s next billing cycle for future consumption, or shall be paid by the DISCO to the Distributed Generator annually in accordance with the Applicable Tariff at the option of Distributed Generator.”

Out of total consumers of Net energy metering, LESCO and IESCO had credit balances to be received against 10,522 and 11,475 consumers respectively. The total amount to be paid to these consumers was Rs.1,154.588 million. According to the rule mentioned in the criteria, the Distributed Generators had the option to either get paid against the credited units in their favor or get the units stored in the system for future netting off against the imported units. The net credit balance in favor of 21,997 DGs in both companies highlighted that there was unwillingness on the part of the management to pay the Distributed Generators their due credit amounts.

Table-11

Company	Consumers with unpaid Credits	Total Amount of Credit (Rs.)
LESCO	10,522	528,888,374
IESCO	11,475	625,699,819
Total	21,997	1,154.588 M

The finding was taken up with the management in August, 2023 and reported to the Ministry in December, 2023. The management of IESCO was unresponsive, however, LESCO management replied that they complied with NERRA's updated Net Metering Regulations since 2015. Led by AEDB (now PPIB) and NEPRA, this initiative aligned

with policies targeting 20-30% renewable energy by 2025-2030, aiming for 60% by 2030, necessitating continuous regulatory updates.

The DAC in its meeting held on December 15 & 18, 2023 directed the management of IESCO & LESCO to take into consideration the Impact Audit on Net Metering and give their joint input within a month.

Audit recommends implementation of DAC's decision.

4.7 Conclusion

With prudent management, the net energy metering program can prove to be a powerful tool to encourage distributed power generation from Pakistan's indigenous renewable resources and establish a distributed renewable energy industry in the country. The net metering offers significant benefits to increasing the supply of sustainable energy at peak demand time thus relieving the overburdened/ overloaded distribution system, reduction in T&D losses and improvement in voltage profile of local area network. Moreover, the Distribution Generation using solar helps control environmental degradation through reduced carbon emissions.

In this context of this study, following recommendations are proposed:

1. Encouraging the net energy metering program to promote distributed power generation from Pakistan's indigenous renewable resources, fostering a distributed renewable energy industry.
2. Addressing the financial implications for non-net metering consumers, as they bear the increased marginal costs of distribution, transmission, and ancillary services due to reduced electricity consumption from the national grid by net metered consumers.
3. Recovering Use of System charges from net metering consumers for the use of the distribution system, as net metering involves the wheeling of power from generators to consumers using the distribution system.

4. Reviewing tariff regulations for net metering consumers and the introduction of a two-part tariff in the schedule of tariff to recover capacity charges from net metering consumers
5. Carrying out a detailed technical study to determine the maximum feasible induction of net metering into the system, to ensure system stability and efficiency



AUDIT REPORT

ON

THE ACCOUNTS OF

PAKISTAN RAILWAYS

AUDIT YEAR 2023-24

AUDITOR-GENERAL OF PAKISTAN

DIRECTORATE GENERAL AUDIT (RAILWAYS)

Chapter -1

Public Financial Management Issues in PR

The financial statements (Balance Sheet and Profit & Loss Account) of Pakistan Railways have not been prepared in accordance with the requirements of International Financial Reporting Standards (IFRS), International Public Sector Accounting Standards (IPSAS) and Pakistan Railways Accounts Code. The financial statements do not present the true and fair view due to recording revenue receipts on accrual basis, expenditure on cash basis and non-maintenance of books of accounts on double entry system. An incessant qualified audit opinion on appropriation accounts of Pakistan Railways is being given for the last one decade and adverse opinion is being given on commercial accounts since 2018-19. But no substantial remedial/ corrective measures were taken by PR management particularly on abiding issues i.e. following of accounting principles, presentation of fixed and deferred assets, recording of GPF interest, accumulation of suspense balances, non-realization of accounts receivable and incorrect recording of foreign loans. Qualifications on appropriation accounts and financial statements of PR are based on the following observations.

1.1.1 Audit Paras

1.1.2 Overstatement of revenue receipts due to booking on accrual basis and understatement of expenditure owing to booking on cash basis

Para 1001 of Pakistan Railway Code for the Accounts Department (Vol-I) provides that Pakistan Railways is as much a government concern as a commercial enterprise. Its accounts should, therefore, not only follow the essential formalities of commercial accounting but also conform to the requirements of government accounting.

Contrary to this, Pakistan Railway recognizes its earnings both on accrual and cash basis i.e. sale of tickets was recognized on cash basis whereas leasing of property & land and receivables from government departments and private parties

were recognized on accrual basis. Further, all working expenses were recognized on cash basis. This issue relates to accounting policy of PR and was being raised since last one decade but the management failed to take any measure for its resolution.

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 14.11.2023. DAC directed the FA&CAO/PR to submit a revised reply based on the discussion and the progress mentioned in the area of adoption of accrual accounting systems within one week.

Audit recommends that accrual basis of accounting be implemented as per the decision of Railway Board and progress be shared with audit.

1.1.2 Overvaluation of fixed assets due to non-recording of depreciation expense, losses, thefts and accidents

Para 377 of Pakistan Railways Code for the Accounts Department provides that losses or deficiencies should be recorded in the books of account in accordance with the chart of accounts. If any transactions under these categories are recorded under a respective head, the losses relating thereto should be written off under respective head also. Further, the objective of IAS 16 is to prescribe the accounting treatment for property, plant, and equipment. The principal issues are the recognition of assets, determination of their carrying amounts, depreciation charges and impairment losses to be recognized in relation to them. Furthermore, Para 3.2.7 of Accounting Code for Self-Accounting Entities provides that statement of fixed assets will provide the following details:

- Owner division/departments
- Assets categories
- Cost at the beginning of reporting period (for each category)
- Additions during the reporting period (at cost)
- Disposal during the period (at cost)
- Cost at end of reporting period (for each category)

Moreover, the Para 3.2.7.2 of Accounting Code for Self-Accounting Entities states that the statement will be based on information supplied by the

division/departments on a specified form (from their fixed assets register) as set out in chapter 13 of (APPM) before the 7th of each month. The form supplied by the division/departments shall be signed by the Principal Accounting Officer of each concerned division/department.²⁹

During review of the commercial accounts of the Pakistan Railways as on 30th June, 2023 and respective notes thereon, it was observed that all fixed assets in the balance sheet were shown at their original/historic cost instead of depreciated cost. Furthermore, if any asset was disposed-off by sale, obsolescence or damaged due to accidents or any other contingency, its value was not deducted from the total assets appearing in the balance sheet. As the entity was not charging depreciation on fixed assets and proper record of assets was not being maintained over the system, assets were being overstated. Furthermore, capital replacement /improvement expenditure was not being added to the relevant head of fixed asset which resulted in under valuation of fixed assets. The value of land was also shown at original/ historic cost and the improvement/ appreciation in the value of land over the years was not taken into accounts.

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 14.11.2023. DAC directed the PO (FA&CAO/PR) to convene a meeting with CEO/PR and all AGMs to resolve the matter and come up with the way forward within a period of one month.

Audit recommends that mechanism for transfer of information between executive and accounts regarding depreciation, loss of assets, accidents, thefts etc. may be decided beside formulation of accounting policy to incorporate changes in the accounts.

1.1.3 Non-recording of accrued liability on account of interest and exchange risk premium on foreign loan -Rs 29.35 billion

International Accounting Standard 1.15 provides that the financial statements must “present fairly” the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the

²⁹Management Report on Accounts of Pakistan Railways FY 2022-23

effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the framework. Economic Affairs Division after taking foreign loans from donor agencies re-lends these to Pakistan Railways at 8% interest rate and 6% exchange risk premium. Further, Para 5.3.3.3 of Accounting Code for Self-Accounting Entities stipulates that liabilities will be recognized on cash or on a committed basis, with the commitment or expense being made against the appropriation given for that expenditure.

Contrary to the above, Audit observed that closing balances of foreign loans and credits amounting to Rs 29.35 billion did not include the amount of interest and exchange risk premium at the rate of 8% and 6% respectively accrued as on 30th June, 2023. Balances were reflected in the accounts using principal amount in Pak rupees instead of foreign currency. This resulted in inadequate disclosure of liability on account of principle and interest on foreign loans. Further, it was observed that during the year no payment on account of interest or exchange risk premium was made which depicts that it has been accrued but not disclosed in financial statements.³⁰

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 14.11.2023. DAC directed the PO (FA&CAO/PR) to submit a revised reply along-with documentary evidences based on the discussion within one week.

Audit recommends that the commercial accounts of PR be prepared as per IPSAS and liabilities be recorded in the books of accounts from FY 2023-24 and onward as Railway Board has accorded approval to shift the accounts of PR on accrual basis.

1.1.4 Non-recording of accrued pension liability in financial statements of Pakistan Railways - Rs 9.15 billion

³⁰ Management Report on Accounts of Pakistan Railways FY 2022-23

International Accounting Standard 1.15 provides that the financial statements must “present fairly” the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the framework.

During audit of commercial accounts of Pakistan Railways, it was observed that an amount of Rs 9,149.81 million stood as payable on account of pension, gratuity, commutation, arrears of GPF etc. However, this liability has not been accounted for in the financial statements of Pakistan Railways as on 30th June, 2023. This state of affair shows that liabilities were understated and the balance sheet has not been prepared fairly. Moreover, this amount should be treated as current liability in balance sheet as it is payable to the employees of Pakistan Railways and if this liability was recorded in the books of accounts the loss of PR would increase by that amount (**Annexure-3**).³¹

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 14.11.2023. DAC directed the PO (FA&CAO/PR) to submit a revised reply along with documentary evidences based on the discussion within one week. The PO assured the DAC that once the ERP system is in place the compliance of the said para shall be completed by 2023-24.

Audit recommends that this liability should be recorded from next FY which was accumulating since 2021-22 and PR is unable to make payments to retired employees but nothing is disclosed in financial statements. Further, the compliance of DAC directives and commitments made by the PO should be ensured.

1.1.5 Non-recording of accrued liability on account of interest on long term debt (overdraft) – Rs 5.59 billion

As per IAS 1.15, the financial statements must "present fairly" the financial position, financial performance and cash flows of an entity. Fair presentation

³¹ Management Report on Accounts of Pakistan Railways FY 2022-23

requires the true representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the framework.

During audit it was observed that SBP converted the overdraft facility of PR into long term debt namely Pakistan Investment Bond (PIB) with the residual maturity of eight years and carrying market based yield in April 2022. However, accrued liability on account of interest on long term debt amounting to Rs 5.59 billion payable by PR was not shown on liability side of balance sheet. The bookkeeping necessitates that all the business transactions are required to be recorded through journalizing system but the transaction of accrued liability was neither journalized in the books of accounts nor it was recorded in June final account of PR. This resulted in non-recording of interest on account of long term debt and the financial statements did not depict true and fair picture of liabilities of PR towards SBP.³²

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 14.11.2023. The PO (FA&CAO/PR) assured the DAC that once the ERP system is in place the compliance of the para shall be completed by 2023-24. DAC directed that the recoding of accrued liabilities on account of interest on long term debt shall be ensured.

Audit recommends that current portion of interest should be booked in accounts as PR has to make payment of principal and interest after eight years. Further, the compliance of DAC directives and commitments made by the PO be ensured.

1.1.6 Understatement of goods earnings due to incorrect recording – Rs 596.79 million

Para 1018 of Pakistan Railways Code for the Accounts Department (Vol-II) provides that the essential duty of accounts officer in the matter of check of traffic earnings is to see, that the person to whom the service is rendered pays the

³² Management Report on Accounts of Pakistan Railways FY 2022-23

proper amount and that Pakistan Railway servants or agents receiving payment correctly account for the same.

During audit of SAO/Revenue for the year 2022-23, while reviewing the goods balance sheets of following stations, it was observed that the goods earnings was understated by Rs 596.79 million due to incorrect recording of goods earnings. The earning was incorrectly accounted for by these stations resulted into understatement of goods revenue.

Understatement of goods earnings (FY 2022-23)

(Rs in million)

SN	Name of Railway Stations	Division	Amount
1	Jhimpir	Karachi	13.79
2	Bin Qasim	Karachi	583.00
Total			596.79

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 14.11.2023. DAC directed the concerned PO to complete the revision of accounts in accordance with the CGA guidelines. DAC further directed the audit team to verify the compliance of the directives and after the satisfactory compliance this para shall settle. 33 Audit verification revealed that some rectifications have been made in the record and verified by audit but the amount of Rs 596.79 million has not yet been booked in the accounts and has not been rectified. This caused understatement of earnings of PR.

Audit recommends that necessary rectification may be carried out and duly reconciled record be provided to Audit.

1.1.7 Non-existence of policy for the redemption/adjustment of deferred assets of Rs 142.06 billion and non-reflection of change in policy for booking of expenditure

As per accounting guidelines the term deferred assets is defined as, a deferred asset is an expenditure that is made in advance and has not yet been consumed. The expenditure is made in advance and items purchased are expected to be consumed either within a few months or a large number of reporting periods. The deferred assets concept is not applied when a business uses the cash basis of accounting. Thus, these items would be charged to expenses at once under the cash basis of accounting. Further, as per IAS-1 the financial statements comprise the

³³ Management Report on Accounts of Pakistan Railways FY 2022-23

notes to the accounts, summary of significant accounting policies and other explanatory notes and IAS 8 prescribe the criteria for selection and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies.

During audit, it was observed that the balance under the head Deferred Assets was Rs 142.06 billion as on 30th June, 2023 and no expenditure was booked to this head during the year. Further, no policy exists regarding the redemption/adjustment of deferred assets. However, as per IAS/IFRS the renewal and replacement expenditure also falls under the capital expenditure and should have been charged to relevant class of fixed assets along with detail of assets developed. This not only resulted in non-redemption of deferred assets but also incorrect valuation of fixed assets of PR. ³⁴ Moreover, previously the Depreciation Reserve Fund expenditure was booked to this head of account but during the current year the expenditure was charged to the fixed assets. There was a major shift in policy of booking of expenditure under this head which has not been disclosed in the FS.

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 14.11.2023. DAC directed that this issue may be reviewed and re-examined at the level of clearing house for final decision.

Audit recommends that the policy may be decided and communicated to audit.

1.1.8 Wrong booking of interest as receivable on GPF not accepted by Finance Division - Rs 17.46 billion

According to Para 316 of Pakistan Railway Code for the Accounts Department, the amounts due to Pakistan Railways for services rendered, supplies made, or for any other reason, are correctly and promptly assessed and recovered as soon as they fall due, that all receipts are properly brought into account and that all receipts are correctly classified. Moreover, International Accounting Standard

³⁴ Management Report on Accounts of Pakistan Railways FY 2022-23

1.15 provides that the financial statements must “present fairly” the financial position, financial performance and cash flows of an entity. Fair presentation requires the faithful representation of the effects of transactions, other events, and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expenses set out in the framework.

During audit, it was observed that an amount of Rs 17,455.64 million was shown as receivable from Federal Government on account of interest charged on GPF on the balance held by Federal Government after separation of account from Federal Government during 1971. This amount was appearing as current assets in the balance sheet of Pakistan Railways as on 30th June, 2023 against note No. 17(1). However, Finance Division vide its letter No. F 4 (6) CF. 11/97 Part 1411 dated 15th September, 2006 did not agree with the above referred liability towards Pakistan Railways. The respective issue relating to accounting policy of PR was being raised since last one decade but the management could not take any measure for its resolution. Moreover, in the clearing house meeting held in December 2017, it was decided that Rs 1.5 billion would be allocated each year under revenue grant to amortize the balance in subsequent years; however, no provision of fund has been made in budget for the FY 2022-23.³⁵

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 14.11.2023. DAC directed the concerned PO to refer the matter to Finance Division and pursue the matter vigorously to get a final decision in this regard to resolve the issue.

Audit recommends that current status of matter with Finance Division be provided and clarification may be given regarding write off of Rs 17.46 billion under this head. Further interest on GPF should be charged to profit & loss account as an expense from the F.Y 2023-24.

1.1.9 Non-adjustment of inventory/store suspense balances – Rs 13.01 billion

³⁵ Management Report on Accounts of Pakistan Railways FY 2022-23

According to Para 1601 of Pakistan Railways Code for the Accounts Department (Vol-I) every balance should be proved each month as far as possible, i.e. it should be compared and reconciled with other parts of the accounts where the figures appear, and it should be seen that the total is supported by details, and that the items are current and efficient. The proof of the balances at the end of each financial year must be completed. Para 1122 further provides that the various subsidiary registers should be totaled up, and reconciled with the General Books before the closing of next month's accounts. Further, there is no provision of suspense adjustments/ balances in Code for Self-Accounting Entities.

During audit, it was observed that the suspense accounts were being shown in balance sheet under inventories note no.12 these balances under revenue grant were accumulating unnecessarily since 2010-11 except for reversal entry which was being made during the year on account of capital grant.

Inventory/stores suspense balances

		(Rs in million)	
SN	Description	2021-22	2022-23
1	Sales (scrap)	3,918.63	3,625.25
2	Balance in workshop manufacturing suspense accounts	5,636.04	5,069.89
3	Suspense-other accounts	3,089.33	2,478.65
4	Adjustment/ reversal suspense	-	1,839.15
Total		12,644.00	13,012.94

Moreover, balances under aforementioned revenue heads of inventory have been showing an increasing trend for the last many years. In the year 2010-11 this amount was Rs 2,985 million, which rose to Rs 13,013 million (336%) in 2022-23. The suspense balances represents unadjusted expenditure which may result in increase of working expenses, if adjusted.³⁶

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 14.11.2023. DAC viewed the issue very seriously and directed FA&CAO/PR to make strenuous efforts for clearing the

³⁶ Management Report on Accounts of Pakistan Railways FY 2022-23

suspense account as early as possible. He should prepare a road map and share with the D.G Audit.

Audit recommends that necessary steps may be taken for adjustment of suspense balances at the earliest. Further, the road map for the adjustment of suspense balances be shared with audit.

1.1.10 Accumulation and non-adjustment of miscellaneous advance (suspense balances) on account of revenue and capital – Rs 5.40 billion

According to Para 1601 of Pakistan Railways Code for the Accounts Department (Part-I) every balance should be proved each month as far as possible, i.e. it should be compared and reconciled with other parts of the accounts where the figures appear, and it should be seen that the total is supported by details, and that the items are current and efficient. The proof of the balances at the end of each financial year must be complete. Further, section-16.4.2.1 of Accounting Policies and Procedure Manual stipulates that the suspense account should be cleared on monthly basis. There is no provision of suspense adjustments/balances in Code for Self-Accounting Entities.

During audit, it was observed that advances against local purchases Rs 1,603.12 million was not being adjusted regularly. Similarly, Pakistan Railways paid utilities bills like electricity, sui-gas and others to its service providers and subsequently recover the amount partially from domestic consumer. The amount paid to utility providers was much higher than actually recovered from domestic consumers. Resultantly, PR is suffering losses on account of less recovery/adjustment of advances for local purchase and utility charges. Further, an amount of Rs 3,794.96 million on account of capital suspense was being shown under the head purchases. The amount is shown under prepayments and advances on assets side of balance sheet which has not been adjusted (**Annexure-4**).³⁷

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 14.11.2023. DAC viewed the issue very

³⁷ Management Report on Accounts of Pakistan Railways FY 2022-23

seriously and directed FA&CAO/PR to make strenuous efforts for clearing the suspense account as early as possible, prepare a road map and share with Audit.

Audit recommends that these pre-payments and advances are required to be adjusted in books of accounts at the close of FY. The write off of Sui-Gas charges be expedited besides adjustment of remaining amount. The compliance of DAC directives be ensured.

1.1.11 Non-adjustment of Railway remittances (transfer divisional) – Rs 12.34 billion

Para 1133 of Pakistan Railways Code for the Accounts Department provides that every endeavor should be made to bring to account all the transactions of a year in the accounts of the year to which they pertain, but if any transactions are advised to the Accounts Officer for adjustment after the books of the year have been finally closed, they should be reported to the Member Finance (MoR) as required under paragraph 1428.

Railway remittances (transfer divisional) represent net balance of remittance transactions between different accounting units of Pakistan Railways. The amount under this head was Rs 625.27 million in the Financial Year 2010-11. Presently, the amount under this head has reached to Rs 12,342.91 million as on 30th June, 2023. Hence, there was a substantial increase of Rs 11,717.64 million (1,874%) during last one decade. Further, there was a substantial increase of Rs 4,785.05 million (63%) during the current year.³⁸

This state of affair shows that the adjustments in the accounts of PR were not being made and pending due to multiple issues like late origination of Transfer Certificates by the originating units, non-acceptance by the responding units for want of verification of vouchers by the consumers, insufficiency of vouchers and inadequacy of budget under the relevant heads etc. Audit is of the view that if PR

³⁸ Management Report on Accounts of Pakistan Railways FY 2022-23

adjusted this amount in books of accounts the amount of loss would increase to that extent.

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 14.11.2023. DAC took a serious view and showed displeasure over no progress being made since the last directives for resolving the issue. DAC directed the PO (FA&CAO/PR) to immediately take action and submit compliance to the audit with documentary evidence.

Audit recommends that there was substantial increase of Rs 4.78 billion (63%) during the current year, therefore, efforts should be made to minimize the balance under transfer divisions in compliance of DAC directives.

1.1.12 Unauthorized utilization of cash balances of security deposit of private parties and GPF - Rs 18.60 billion and Rs 8.35 billion respectively

Rule-7 of General Financial Rules regarding withdrawal of moneys from the public account provides that unless otherwise expressly authorized by any law or rule or order having the force of law moneys may not be removed from the public account for investment or deposit elsewhere without the consent of the Ministry of Finance.

During audit, it was observed that securities and deposits amounting to Rs 20.07 billion was shown under current liabilities of PR. This represents security deposit of contractors, private bodies, freight deposit and employees. This consisted of public money deposited into PR account which was required to be adjusted or paid back to the depositors. PR maintains a separate bank account in SBP i.e. Railway deposit account with SBP-XX and the balance available under this head was Rs 1.47 billion. Thus, there was a difference of Rs 18.60 billion which, represents that the amount has been utilized by PR for meeting its operational requirements.³⁹

Similarly, the liability of PR on account of GPF was Rs 8.36 billion and the cash balance available in Account XXI with SBP was Rs 14.29 million. The

³⁹ Management Report on Accounts of Pakistan Railways FY 2022-23

remaining amount of Rs 8.34 billion has been utilized by PR for meeting its operational requirements. This resulted in unauthorized utilization of security deposits of contractors and GPF of employees by PR amounting to Rs 26.95 billion. Detail is given below;

Public account liabilities and available balance with SBP

(Rs in billion)

Liability on account of	Amount	Amount available in SBP accounts	Amount utilized by PR
Securities and deposits SBP AC-XX	20.07	1.47	18.60
GPF SBP AC- XI	8.36	0.01	8.35
Total	28.43	1.48	26.95

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 14.11.2023. DAC directed the FA&CAO/PR for the verification of record regarding account No.20 and 21 for the financial year 2022-23.

Audit recommends that the security deposit of employees, contractors and freight deposit kept in account-III has been utilized by PR for making payments. Security deposits should be kept in account-XX instead of Consolidated Fund account-III. The amount kept in account-XXI is far less than the GPF liability and no budgetary provision is provided for making these payments.

1.1.13 Non-recovery of account receivables (claims) - Rs 11.63 billion

Para 316 (a) of Pakistan Railways Code for the Accounts Department provides that the amounts due to Pakistan Railways for services rendered, supplies made, or for any other reason, are correctly and promptly assessed and recovered as soon as they fall due. Accounts Receivable represents the credit sales of a business, which have not yet been collected from its customers. Companies allow

their clients to pay for goods and services over a reasonable extended period of time, provided that the terms have been agreed upon.

During audit, it was observed that no efforts appear to have been made by the management to realize long outstanding receivables ranging from prior to 2005-06 to 2022-23. As per record of aging of bills receivables (claims) an amount of Rs 2,045.60 million is more than (05) five years old and its recovery seems to be doubtful and an amount of Rs 3,143.45 million is less than (05) five years old. Further, an amount of Rs 6.29 billion was also receivable on account of unrealized earnings on traffic accounts and its recovery seems to be doubtful and it may become bad debt sooner or later.⁴⁰

Receivables of PR (FY 2022-23)

(Rs in billion)	
Description	Amount
Unrealized earnings (Traffic Account)	6.29
Bills receivable	5.34
Total	11.63

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 14.11.2023. DAC directed the FA&CAO/PR to prepare the break-up of the receivable and resubmit the reply after incorporating the disclosure in the financial statements.

Audit recommends that disputed amounts more than 10 years old should be written off as these are bad debts and no chances of recovery. Efforts should be made to recover the remaining amounts under bills receivable and unrealized earnings. Proper disclosure as per directives of DAC be given.

⁴⁰ Management Report on Accounts of Pakistan Railways FY 2022-23

1.1.14 Irregular/ unauthorized transfer of funds from PSDP account to revenue account-III and deposit account-XX- Rs 642.17 million and Rs 500.00 million

Para 5.4 of General Financial Rules (DDO Handbook) that no authority can incur expenditure or enter into any liability involving expenditure from the public, account, until the expenditure has been sanctioned by a general or special order of the President of Pakistan or of any other authority, to which the powers have been delegated. Further the proposed expenditure should have been provided for in the authorized grants and appropriations for the year. No money can be removed from the public account for investment or deposit elsewhere without the prior consent of Ministry of Finance. Further para 5.7 (i) states that the duty of controlling officer is not only to see that the total expenditure is kept within the limits of the appropriation, but he has also to see that the funds are expended in the public interest and for those objects only for which the money was provided.

During audit it was observed during the reconciliation of bank accounts that amount of Rs 642.17 million and Rs 500.00 million were transferred to Revenue Account-III and Deposit Account-XX respectively from PSDP Account -XVIII. These funds were provided by Finance Division with the approval of President of Pakistan for approved projects of PR. This payment constitutes Federal Government investment in Pakistan Railways. Therefore, the PSDP funds provided to PR by Finance Division for specific approved projects could not be transfer/ utilized for any other purpose. Thus the transfer of funds by PR management from PSDP account to other accounts was unauthorized and constitutes incorrect utilization of funds. ⁴¹

Transfer of funds from PSDP account

(Amount in Rs)

SN	PSDP (A/C XVIII)	Revenue (A/C III)	Deposit (A/C XX)
1	No.FD/B-I/Misc-1/2022 Date 11/09/2023	1,483,191	

⁴¹ Management Report on Accounts of Pakistan Railways FY 2022-23

2	No.FD/B-I/Misc-1/2022 Date 23/05/2023	404,980	
3	No.FD/B-I/Misc-1/2022 Date 03/04/2023	535,648	
4	No.FD/B-I/Misc-1/2022 Date 10/03/2023	8,855,564	
5	No.FD/B-I/Misc-1/2022 Date 08/02/2023	413,648,866	
6	No.FD/B-II/AC-XVII/2022 Date 19/01/2023		500,000,000
7	No.FD/B-II/AC-XVII/2022 Date 26/09/2022	382,359	
8	No.FD/B-II/AC-XVII-1/2022 Date 13/09/2022	17,952,322	
9	No.FD/B-II/AC-XVII-1/2022 Date 06/07/2022	198,903,251	
Total		642,166,181	500,000,000

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 14.11.2023. DAC conveyed displeasure over this action of irregular transfer of funds from PSDP account to Revenue account and D.G/Planning MoR was directed to ensure that such practice should be stopped with immediate effect. D.G/Planning was directed to issue displeasure letters to the PDs involved in such practices as a final warning.

Audit recommends that amounts were transferred without the approval of Finance Division. The practice may be discontinued and the compliance of DAC directives be ensured.

1.1.15 Overstatement of revenue of Pakistan Railways due to incorrect recognition policy of gain on sale of scrap – Rs 2.61 billion

Para 176 of Pakistan Railways Stores Manual provides that when stores are scrapped from stock, they have to be written off the relevant new or second-hand ledgers. Before this is done, responsibility for these losses should, as far as possible, be fixed on consuming branches and their acceptance obtained for raising debit against them. Para 181 further provides that a copy of the issue-note referred to in Para 176 will be sent to the departmental officer and submitted along with the minus depot stock sheet, which should not be prepared until responsibility for the loss has been fixed. If no consuming branch can be held responsible, the loss issue note should be sent to the Controller of Stores for acceptance.

During audit of SAO/Revenue for the financial year 2022-23, it was observed that Pakistan Railways' revenue was overstated by Rs 2,608.73 million

due to incorrect recognition of gain on sale of scrap under the sub-head 542 of the Abstract-Z. The gain was recorded being the difference of amount realized on sale of the scrap minus book value of the scrap. However, audit apprehends that gain recognition policy was incorrect as Pakistan Railways did not recognize depreciation/losses in the Financial Statements. This resulted into over statement of revenue of Pakistan Railways.⁴²

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 14.11.2023. DAC directed that a committee comprising AGM/M (head), F&CA/PR and CCS should come up with proper SOPs for correct recognition of gain on sale for scrap and other assets (capital/revenue). The recommendations of the committee duly approved by CEO/PR may be forwarded to Railway Board for final decision.

Audit recommends that the practice of recognizing gain on sale of scrap is not in accordance with the IAS standards and it distorts profit and loss account. Further, losses on account of fixed assets have not been booked in accounts. The report of committee constituted by DAC may be shared with audit.

1.1.16 Unauthorized cash deposit to account-III for amount kept under Deposit Misc.-XX –Rs 105.00 million

Para-1455 of Pakistan Railways General Code Volume-I stipulate, that the correct head of Chart of Accounts should be recorded on each voucher by the drawing officer. This head of account should also show whether the expenditure is charged or other than charged and should mention the fund from which payments are being made.

During audit of SAO/GB for the financial year 2022-23, while reviewing Journal Slip No. 10 of December-2022 of AO/X Section, it was observed that a TC No. TAB-05/X dated 23.11.2022 was sent by Traffic Accounts Branch to AO/X for crediting the Deposit Misc./X Account. The amount was correctly credited to Deposit Misc./X vide above stated journal slips. However, the amount was

⁴² Management Report on Accounts of Pakistan Railways FY 2022-23

incorrectly deposited in account-III with SBP instead of account-XX maintained for deposit misc. The account-III was maintained for crediting revenue earnings of PR and was utilized for incurring revenue expenditure. Therefore, the amount of Rs 105.00 million kept for deposit Misc. was utilized for meeting revenue expenditure.⁴³

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 14.11.2023. DAC directed the PO to take the corrective measures and provide the documentary evidence to audit.

Audit recommends that latest status of transfer of funds be shared with Audit for verification.

1.1.17 Unauthorized booking of capital expenditure to revenue and vice versa – Rs 102.70 million

Para 1455 of Pakistan Railways General Code provides that the correct head of Chart of Accounts should be recorded on each voucher by the drawing officer. This head of account should also show whether the expenditure is charged or other than charged and should mention the Fund from which payments are being made.

During audit at divisional levels it was observed that capital expenditure of Rs 64.51 million relating to PSDP and Rs 26.07 million relating to deposit work was misclassified and booked to revenue heads. Further, expenditure of Rs 12.11 million on account of capital cost of handing over of PR colonies to WAPDA electricity distribution companies for direct billing was booked to revenue expenditure. The capital cost includes installation of electricity transmission lines, meters and transformers etc. in PR colonies. This expenditure was of capital nature and was required to be booked to capital head, however, it was booked to revenue head A03303 (electricity). This resulted in unauthorized booking of capital/deposit work expenditure Rs 102.70 million to revenue (**Annexure-5**).⁴⁴

⁴³ Management Report on Accounts of Pakistan Railways FY 2022-23

⁴⁴ Management Report on Accounts of Pakistan Railways FY 2022-23

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 14.11.2023. DAC directed the FA&CAO/PR to submit documentary evidence to DG audit for verification where the verification is involved.

Audit recommends that the instances of misclassification of expenditure have been noticed at different accounting unit level which needs to be rectified. The supporting record has not been provided for verification.

Chapter -2 PAKISTAN RAILWAYS

2.1 A) Introduction

Pakistan Railways is a state owned enterprise with a mission “to provide a competitive, safe, reliable, market oriented, efficient and environment friendly mode of transport”. It is managed by the Railway Board. The Secretary, Ministry of Railways is the Principal Accounting Officer and also ex-officio chairperson of the Railway Board. The affairs of Pakistan Railways are administered by the following authorities.

- i. CEO/Senior General Manager
- ii. GM/Manufacturing
- iii. GM/Welfare and Special Initiatives

The core functions of Railway operations are administered by the Chief Executive Officer/Senior General Manager, who is assisted by three Additional General Managers in infrastructure, mechanical and traffic units besides the principal officers of respective departments. There are seven operational divisions viz Peshawar, Rawalpindi, Lahore, Multan, Sukkur, Karachi, Quetta and one Workshop Division at Mughalpura Lahore. Each division is administered by a Divisional Superintendent (DS). The divisional superintendent is assisted by divisional officers in their respective fields. The fields include civil, mechanical, electrical, signal, telecom engineering, traffic, commercial and personnel. Likewise, manufacturing unit is headed by the General Manager/ M&S who is assisted by MD/Locomotive Factory Risalpur, MD/Carriage Factory Islamabad

and MD/Concrete Sleeper Factory Lahore.

The welfare activities of Pakistan Railways are administered by the GM/Welfare and Special Initiatives (W & SI), who is assisted by Director General/Pakistan Railway Academy Walton, Director Education and Chief Health & Medical Officer.

The administrative head of the Railway Accounts Department is Member Finance in the Railway Board who is assisted by three Financial Advisors & Chief Accounts Officers. Moreover, there is a Chief Internal Auditor who heads the Internal Audit Wing and reports directly to the Principal Accounting Officer.

There are four subsidiaries of Pakistan Railways, each headed by a Chief Executive Officer. These companies are registered under the company's Ordinance 1984 repealed by Companies Act 2017 and their financial audit is conducted by chartered accountants.

- a) Pakistan Railways Advisory & Consultancy Services (PRACS)
- b) Railway Constructions Pakistan Limited (RAILCOP)
- c) Pakistan Railway Freight Transport Company (PRFTC)
- d) Railway Estate Development and Marketing Company (REDAMCO)

PRACS was established in 1976 as a public limited company. Its main objectives are to prepare the feasibility reports for new Railway lines and render technical assistance in connection with the designing, modernization and maintenance of Railway installations, workshops, bridges and rolling stock. Presently, its main activities are sale of Railway tickets and managing certain trains on joint venture basis. RAILCOP was established in 1980 as a public limited company. Its main objective is to develop and upgrade Railway infrastructure.

PRFTC was established on 8th Jan, 2015 with the objective to explore avenues of public private partnership and to enter into joint venture with private entities, domestic as well as international, for procurement of rolling stock (locomotives & hoppers wagons) or to bring in any other private investment in Railway system as and when required.

REDAMCO was established on 12th March, 2012 with the objective to manage the non-rail business of PR under MoR. Mandate of the company was to act on behalf of MoR for the purpose of land development/ commercialization and non-core businesses excluding train tariff revenues, rolling stock manufacturing and repair/ maintenance facilities of PR. REDAMCO remained dysfunctional from October 2019 to November 2022 and was revived by the Federal Cabinet on 24th May, 2022.

B) Comments on Budget and Accounts

Pakistan Railways prepares appropriation accounts and commercial accounts. In appropriation accounts the revenue and capital grants are presented while in commercial accounts the financial statements are presented. Since last decade the qualified audit opinion is being given on appropriation accounts and qualified and adverse audit opinion on commercial accounts. The comments on appropriation and commercial accounts are given hereunder:

2.1.1 Comparative analysis of budget and expenditure

Revenue grant

A comparative analysis of revenue budget and revenue expenditure depicts the variation of original/final grant and expenditure.

Revenue budget and expenditure FY 2022-23

(Rs in million)

Items	Original Allocation	Supplementary Allocation (Surrender)	Final Allocation	Expenditure	Variation	
					Excess/ (Saving)	% age
Grant No. 85 Revenue Expenditure						
Voted	104,515.00	6,271.32	110,786.00	111,819.98	1,033.98	1.00
Charged	0	0	0	0	-	-
Total	104,515.00	6,271.32	110,786.00	111,819.98	1,033.98	1.00

Source: Appropriation Account of PR 2022-23

The comparison between allocated budget and actual expenditure clearly showed that the actual expenditure incurred under “voted” portion of revenue grant was more than the final allocation and there was excess of Rs 1,033.98 million

(1%). The budget allocation was not made under the charged portion and no expenditure incurred even though liability on account of interest on foreign loans was outstanding. The overall excess under both heads of revenue grant was 1%. Financial assistance of Rs 47.5 billion was provided by Federal Government for payment of pay and pension and to meet the operational shortfall of PR.

2.1.2 PSDP grant

The actual expenditure of PSDP grant was less than the original allocation which resulted in saving of Rs 2,794.44 million i.e. 11.03%. This clearly depicts inability of PR management for efficient spending of the allocated budget.

PSDP budget and expenditure FY 2022-23

(Rs in million)

Grant No.131 PSDP grant of Pakistan Railways						
Items	Original allocation	Supplementary Allocation	Final Allocation	Expenditure	Variation	
		(Surrender)			(Saving)	% age
Voted (Capital)	32,648.04	(7,304.51)	25,343.52	22,549.07	(2,794.44)	(11.03)
Charged	-	-	-	-	-	-
Total	32,648.04	(7,304.51)	25,343.52	22,549.07	(2,794.44)	(11.03)

Source: Appropriation Account of PR 2021-22

2.1.3 Comparative analysis of financial statements of Pakistan Railways

Para 4.3.3.1 of the Accounting Code for Self Accounting Entities stipulates that all revenue receipts will be accounted for on cash received basis whereas Pakistan Railways recognizes its earning on accrual basis, and all expenses on cash basis. Resultantly, earnings of Pakistan Railways are overstated and expenditures

are understated. The analysis of financial statements of Pakistan Railways i.e. profit and loss account and balance sheet for the FY 2022-23, is given hereunder.

2.1.3.1 Profit & Loss Account

Pakistan Railways suffered net loss of Rs 48,195.28 million during the FY 2022-23, it was Rs 963.15 million (2.04%) higher as compared to previous year.

Profit and loss account of PR (FY 2020-21 to 2022-23)

(Rs in million)

Particulars	2022-23	2021-22	2020-21	Variation	% age
				Increase (Decrease)	
1	2	3	4	5 (2-3)	6
Gross Earnings	63,717.92	60,091.72	48,648.81	3,626.20	6.03
Total Working Expenses	111,914.79	107,136.39	95,465.23	4,778.40	4.46
Operating Surplus/ Loss	(48,196.87)	(47,044.67)	(46,816.42)	(1,152.20)	2.45
Interest on Debt	-	(422.89)	(418.56)	422.89	100.00
Miscellaneous Receipts	1.59	1.73	2.86	(0.14)	-8.09
Net Profit / (Loss)	(48,195.28)	(47,232.13)	(50,152.41)	(963.15)	2.04

Source: Financial statements of Pakistan Railways FY 2022-23 (Commercial Account)

The profit & loss account indicated that:

- i) Total operational working expenses amounting to Rs 111,914.79 million were much higher than the gross earnings of Rs 63,717.92 million. The difference between working expenses and gross earnings was quite high which resulted in operational loss of Rs 48,196.87 million. This indicated that Railway administration could not achieve the breakeven point even since many years.
- ii) Interest on overdraft was accrued of Rs 5.59 billion during the year 2022-23 which was not charged to profit & loss account.
- iii) Federal Government provided Rs 47,500 million in the form of subsidy (grant-in-aid) to set off loss of Rs 48,195.27 million.

2.1.3.2 Balance Sheet

Balance sheet is a financial statement that reports an entity's assets, liabilities and equity. The financial position of Pakistan Railways for last two years depicts the increase in total assets.

Balance sheet of PR (FY 2020-21 to 2022-23)

(Rs in million)

Particulars	2022-23	2021-22	2020-21	Variation	
				Increase/ (Decrease)	% age
1	2	3	4	5 (2-3)	6
Capital & net worth	276,904.39	247,333.94	237,916.56	29,570.45	11.96
Revenue reserves	57,293.28	57,988.55	58,410.06	(695.27)	(1.20)
Long term liabilities	80,930.46	79,673.37	75,804.81	1,257.09	1.58
Current liabilities	26,722.45	24,497.01	19,349.69	2,225.44	9.08
Total liabilities & capital	441,850.58	409,492.87	391,481.12	32,357.71	7.90
Fixed assets	211,173.42	186,858.84	175,630.74	24,314.58	13.01
Deferred assets	142,056.51	142,056.51	142,056.51	0.00	0.00
Current assets	88,620.67	80,577.52	73,793.87	8,043.15	9.98
Total assets	441,850.60	409,492.87	391,481.12	32,357.73	7.90

Source: Financial Statements of Pakistan Railways FY 2021-22 (Commercial Accounts)

Balance sheet reflected the following areas of concern:

- i) The overdraft facility of PR was converted by SBP into long term debt of Rs 43,157.38 million including suspended mark up of Rs 4,563.30 million.
- ii) Increase in capital & net worth by Rs 29,570.45 million (11.96%) was due to investment by the Federal Government for development programs and booking of assets received from PRFTC.
- iii) The increase in current liabilities (9.08%) was less than the increase in current assets (9.98%). The current ratio of PR is 1:4. This depicts that PR is unable to meet its obligations when fall due.

2.1.4 Comments on the Financial Statements of Subsidiaries of Pakistan Railways

A) Pakistan Railway Freight Transport Company (PRFTC)

PRFTC was established on 8th January, 2015 with the objective to explore avenues of public private partnership and to enter into joint venture with private entities, domestic as well as international, for procurement of rolling stock (locomotives & hoppers wagons) or to bring in any other private investment in Railway system as and when required.

Comparative analysis

PRFTC earned net profit of Rs 74.53 million after tax during the FY 2022-23, last year the company earned net profit of Rs 53.42 million. This state of affair shows that the net profit of company after tax had increase by Rs 21.11 million (39.5%) as compared to previous year.

Profit & Loss Account of PRFTC

(Rs in million)

Particulars	Note	2022-23	2021-22	Variation	% age
Revenue	16	120.16	120.00	0.16	0.1
Cost of revenue	17	12.58	15.99	(3.41)	(21.4)
Gross profit		107.58	104.01	3.57	3.4
Administrative and general expenses	18	52.31	60.25	(7.95)	(13.2)
Other income	19	49.76	31.53	18.23	57.8
Operating profit		105.03	75.29	29.75	39.5
Bank charges	20	0.07	0.05	0.02	36.0
Profit before taxation		104.96	75.24	29.73	39.5
Taxation	21	30.44	21.81	8.63	39.6
Profit after taxation		74.52	53.43	21.10	39.5
EPS		7.45	5.34	2.11	39.5

Source: Financial statements of PRFTC for the FY 2022-23

The analysis of profit and loss account of PRFTC indicated the following facts:

- i. The revenue of the company on account of “facilitation services” remained stagnant at Rs 120.00 million. A small amount of revenue Rs

0.16 million on account of “freight operation of Sukkur Express” (new business) has been recognized during 2022-23.

- ii. Other income identified hefty growth of 57.80% (Rs 18.23 million) as compared to previous year. This was mainly due to rise in profit on deposits and profit on Habib Metro Bank Treasury Bills.
- iii. Cost of revenue showed significant decrease of 21.40% (Rs 3.42 million) as compared to previous year. This has positive impact on profitability of the company which was mainly due to reduction in expenses on account of salaries, transshipment charges and transaction advisory services.
- iv. Administrative and general expenses indicated decrease of 13.20% (Rs 7.95 million) which raised the net profit of the company. This was mainly due to reduction in expenses on account of salaries, utilities, advertisement and repair and maintenance costs.
- v. Taxation on company’s profit has been increased by 39.60% (Rs 8.63 million) which was mainly due to growth in profit before taxation.
- vi. Profit after taxation signified substantial growth of 39.50% (Rs 21.11 million). This was mainly due to two factors i.e. increase in other income and decrease in administrative expenses. Earnings per share (EPS) have also showed significant positive growth of 39.50% in 2023 as compared previous year.

Balance Sheet of PRFTC

(Rs in million)

Particulars	Note	2022-23	2021-22	Variation	% age
Non-current assets					
Property & equipment	5	13.890	35.225	(21.335)	(61)
Long term loans	6	1.182	3.042	(1.860)	(61)
Current assets					
Trade and other receivables	7	782.730	650.968	131.762	20
Loans and advances	8	51.366	56.700	(5.334)	(9)
Cash and bank balances	9	284.212	321.892	(37.680)	(12)
		1,133.380	1,067.827	65.553	6
Share capital and reserves					
Issued, subscribed and paid-up share capital	10	0.0001	0.0001	0.000	0
Share deposit money	11	9.999	9.999	0.000	0
Un-appropriated profit		901.731	827.200	74.531	9
Non-current liabilities					
Deferred taxation	12	0.226	0.207	0.019	9
Current liabilities					
Trade and other payables	13	7.726	5.038	2.688	53
Financial liabilities	14	194.172	167.226	26.946	16
Provision for taxation		19.526	58.157	(38.631)	(66)
Total		1,133.380	1,067.827	65.553	6

Source: Financial statements of PRFTC for the FY 2022-23

The analysis of balance sheet of PRFTC indicated the following facts:

- i. The property and equipment indicated a 61% decrease in current year. The decrease was mainly due to depreciation on fixed assets and cancellation of contract of installation of weighbridge. The company has paid an amount of Rs 19.20 million to the contractor. The contract has been terminated and an amount of Rs 11.76 million is recoverable from contractor.
- ii. The loan and advances showed 9% decrease in the current year. Loan and advances includes advance income tax amounting to Rs 45.31

million forcibly collected by FBR through an order dated 28.06.2023 based on demand for the tax year 2016. Further, advance for expenses has been increased from Rs 1.99 million to Rs 4.33 million.

- iii. Trade and other receivables indicated 20 % increase in the current year. This comprised of receivables from PR and receivable from Hussain Corporation, contractor of weighbridge.
- iv. Trade and other payables showed 53% escalation as compared to previous year. This increase was mainly due to increase in other payables. However, detail of other payable is not provided in notes to the Financial Statements.
- v. Financial liabilities showed 16% rise in current year. This liability comprised of un-utilized portion of finance facility provided by Energy Department, Government of the Punjab (finance facility less cost of Yousafwala project). The raise in financial liabilities was mainly due to disposal of leftover stock of project during the year.

B) Railway Estate Development and Marketing Company (REDAMCO)

REDAMCO was established on 12th March, 2012 with the objective to manage the non-rail business of PR under MoR. Mandate of the company was to act on behalf of MoR for the purpose of land development/ commercialization and non-core businesses excluding train tariff revenues, rolling stock manufacturing and repair/ maintenance facilities of PR.

REDAMCO generated total revenue of Rs 2,128.00 million from 2012 to 2019 when the company decided to wind up its operations. The winding up proceedings of the company have not been carried out and the company remained dysfunctional until before 2nd August, 2022 when the company has been revived

by MoR dated 3rd August, 2022 after revival by the Federal Cabinet on 24th May, 2022. However, the company started its operations in November 2022.

Profit & Loss Account of REDAMCO

(Amount in Rs)

Particulars	Note	2023	2022	Variation
Income	13	10,243,237	252,545	9,990,692
Administrative expenses	14	(8,164,737)	(240,000)	(7,924,737)
Profit before taxation		2,078,500	12,545	2,065,955
Taxation	15	(819,459)	(20,204)	(799,255)
Profit after taxation		1,259,041	(7,659)	1,251,382
EPS		125.90	(0.77)	127

Source: Audited financial statements for the FY 2022-23

- i) There was a substantial increase in the income and expenses of the company due to the fact that company carried out its operations only for one month in FY 2021-22 as compared to FY 2022-23.
- ii) Record of land and selling rights projects were taken up by the REDAMCO from the concerned Railway offices and divisions.
- iii) The company incurred administrative expenses of Rs 7.21 million, which mainly include salaries of Rs 4.80 million.

Balance Sheet of REDAMCO

Description		2023	2022	Variation
	Note	Rupees	Rupees	Rupees
Non - current assets				
Operating assets	4	5,150,000	-	5,150,000
Security deposit	5	471,600	-	471,600
Total		5,621,600	-	
Current assets				
Advances	6	47,210	-	
Income tax refund due from the government	7	26,821,616	26,807,262	14,354
Bank balances	8	101,833,022	41,483,691	60,349,331
Total		128,701,848	68,290,953	
Total assets		134,323,448	68,290,953	
Share capital and reserves				
Authorized capital:				
Issued, subscribed and paid-up capital	9	100,000	100,000	
Un-appropriated profit		3,285,266	2,026,225	
Total		3,385,266	2,126,225	1,259,041
Current liabilities				
Employee benefits payable	10	1,229,580	1,229,580	
Trade and other payables	11	129,708,602	64,935,148	64,773,454
Total		130,938,182	66,164,728	
Total equity & liabilities		134,323,448	68,290,953	

Source: Audited financial statements for the FY 2022-23

- i) The significant amount of Rs 26.82 million of income tax refund under the head current assets was challenged in appellate tribunal inland revenue which is still not fixed for hearing.
- ii) The value shown in operating assets under the head non-current assets depicted transfer of four vehicles from MOR.

- iii) The increase in bank balances of Rs 60.35 million represents amount collected by REDAMCO against selling rights, rent due and bank profits.
- iv) Land leasing charges collected by the REDAMCO from the projects are treated as payable to MOR after deducting company's share @15%. An amount of Rs 129.70 million has been shown under the head Current Liabilities as trade payables out of these payables, an amount of Rs 122.79 million is payable to Pakistan Railways.

C) Pakistan Railways Advisory & Consultancy Services (PRACS)

PRACS was established in 1976 as a public limited company. Its main objectives are to prepare the feasibility reports for new Railway lines and render technical assistance in connection with the designing, modernization and maintenance of Railway installations, workshops, bridges and rolling stock. Presently, its main activities are sale of Railway tickets and managing certain trains on joint venture basis.

Comparative analysis

PRACS suffered net loss of Rs 138.02 million after tax during the FY 2022-23, last year the company earned net profit of Rs 12.80 million after tax. This state of affair shows that the net loss of company after tax had drastically increased by Rs 150.82 million (1,178%) as compared to previous year.

Profit & Loss Account of PRACS

(Rs in million)

Particulars	2022-23	2021-22	Variation	%age
Revenue- net	123.61	258.20	(134.58)	(52.10)
Cost of revenue	217.66	192.60	25.05	13.00
Gross (Loss/Profit)	(94.04)	65.59	(159.64)	(243.30)
Administrative expenses	57.36	57.80	(0.44)	(0.70)

Operating (Loss/Profit)	(151.40)	7.79	(159.19)	(2,042.2)
Other income	11.75	15.12	(3.37)	(22.30)
(Loss)/Profit before tax	(139.65)	22.91	(162.56)	(709.30)
Taxation	1.63	10.12	(8.49)	(83.80)
(Loss)/profit after tax	(138.02)	12.80	(150.82)	(1,178.20)

Source: Audited financial statements for the FY 2022-23

- i. The company suffered gross loss of Rs 94.04 million during FY 2022-23 due to reduction in revenue by Rs 134.58 million (52%) and increase in cost by Rs 25.05 million (13%) as compared to previous FY 2021-22.
- ii. The revenue generation from operating activities revealed that PRACS sustained loss on sale of tickets of Rs 40.62 million, on train management Rs 48.63 million, on consultancy services Rs 2.68 million and on heritage cell department Rs 2.12 million.
- iii. During the FY 2022-23 there was significant increase of Rs 59.27 million in cost of revenue of train management of Rehman Baba Express, as it was 'nil' in FY 2021-22.
- iv. The major cause of loss was due to failure of management to explore new business ventures from open market as the company was totally dependent upon Pakistan Railways to generate revenue.

Balance Sheet of PRACS

(Rs in million)

ASSETS	2022-23	2021-22	Variation	%age
Non-current assets				

ASSETS	2022-23	2021-22	Variation	%age
Property and equipment	22.36	18.82	3.54	18.8
Deferred tax assets	-	-	-	-
Current assets				
Trade receivable-net	291.73	303.01	(11.27)	(3.7)
Advances, deposits, prepayment and other receivables	166.43	215.83	(49.40)	(22.9)
Tax refunds due from government	198.48	193.43	5.05	2.6
Cash and cash equivalents	161.45	230.21	(68.76)	(29.9)
Total current assets	818.09	942.47	(124.39)	(13.2)
Total assets	840.45	961.29	(120.85)	(12.6)
EQUITY AND LIABILITIES				
Share capital				
Issued subscribed and paid up share capital	72.00	72.00	-	
Revenue reserve				
Un-appropriated profit (retained earnings)	524.76	700.13	(175.38)	(25.1)

ASSETS	2022-23	2021-22	Variation	%age
Non-current liabilities				
Staff retirement benefits	199.69	141.59	58.11	41
Current liabilities				
Trade and other payables	42.45	37.46	4.99	13.3
Provision for taxation	1.55	10.12	(8.57)	(84.7)
Total current liabilities	43.99	47.58	(3.58)	(7.5)
Contingencies and commitments	-	-		
Total liabilities	243.69	189.16	54.53	28.8
Total equity and liabilities	840.45	961.29	(120.85)	(12.6)

Source: Audited financial statements for the FY 2022-23

- i) There was an outstanding amount of Rs 291.73 million depicted under the head trade receivable which has not been recovered, only a meager amount of Rs 11.27 million was recovered in comparison to last year.
- ii) There was substantial decrease of Rs 175.38 million (25%) under the head retained earnings during the FY 2022-23.
- iii) There was decline in current ratio from 19.8:1 to 18.6:1 as compared to previous year; it was mainly due to reduction in deposit accounts under cash and cash equivalents by Rs 140.21 million.

D) Railway Constructions Pakistan Limited (RAILCOP)

The financial statements of RAILCOP have not been provided to Audit till finalization of this report. Therefore, comments on the accounts of RAILCOP have not been offered.

2.2 Audit Profile of Pakistan Railways

(Rs in million)

SN	Description	Total Nos.	Audited	Expenditure audited	Revenue/ Receipts audited
1	Formations (Phase-I FY 2022-23)	30	30	48,673.75	1,072.43
	Formations (Lean Period FY 2021-22)	25	25	11,005.55	20,052.83
2	Assignment Accounts SDAs Etc. (excluding FAP)	-	-	-	-
3	Authorities/Autonomous Bodies etc. under the PAO	-	-	-	-
4	Foreign Aided Projects (FAP)	01	01	56.48	
Total		56	56	59,735.78	21,125.26

2.3 Classified Summary of Audit Observations

Audit observations amounting to Rs 67.08 billion were raised in this report during the current audit of Pakistan Railways and its subsidiary companies. This amount also includes recoveries of Rs 16.97 billion pointed out during 2022-23. Summary of the audit observations classified by nature is as under:

Compliance Audit Report 2023-24

(Rs in million)

SN	Classification	Amount
1	Fraud and Serious Irregularities	168.27
2	Land Management	33,238.51
3	Civil Works	467.39
4	Procurement Management	4,148.41
5	Inventory and Store Management	5,048.45
6	Revenue Management	2,037.96
7	Governance and Administrative Management	1,037.03
8	Railway Track & Rolling Stock	5,375.19
9	Financial Management issues	15,554.66
Total		67,075.87

2.4 Comments on the Status of Compliance with PAC Directives as on 31.12.2023

Audit Year	Total Paras	Total No. of Actionable Points	Compliance received	Compliance not received	Percentage of compliance
1985-86	34	34	24	10	70
1986-87	29	29	25	04	86
1987-88	31	31	19	14	61
1988-89	19	19	11	08	58
1989-90	41	41	29	12	71
1990-91	42	42	37	05	88
1991-92	36	36	20	16	55
1992-93	99	13	01	12	07
1993-94	67	67	52	15	77
1994-95	123	123	76	47	61
1995-96	153	21	13	08	62
1996-97	65	05	0	05	0
1997-98	56	07	07	07	100
1998-99	50	28	13	15	46
1999-00	58	56	39	17	69
2000-01	48	48	28	20	58
2001-02	28	28	10	18	36
2003-04	24	11	03	08	27
2004-05	22	22	17	05	77
2005-06(A)	46	46	35	11	76
2006-07	34	34	18	16	53
2007-08	68	29	06	23	21
2008-09	101	101	39	62	37
2009-10	151	72	01	71	1
2010-11	88	03	0	03	0
2011-12	97	0	0	0	0
2012-13	73	0	0	0	0
2013-14	59	39	0	39	0
2014-15	86	0	0	0	0
2015-16	84	43	0	43	0
2016-17	49	01	0	01	0
2017-18	70	12	0	12	0
2018-19	79	07	0	07	0
2019-20	114	103	01	102	0.97
2020-21	23	0	0	0	0
2021-22	78	0	0	0	0

2022-23	87	0	0	0	0
---------	----	---	---	---	---

Compliance of PAC directives remained in the range 11% to 100% during the period of 1985-2000 except for the year 1996-97. However, after the year 2000 with few exceptions, there has been a continuous downward trend in compliance of PAC directives till 2023. Non-compliance of PAC directives is challenging the course corrective measures on part of PR, resulting in recurrence of irregularities of similar nature.

2.5 Audit Paras

Fraud and Serious Irregularities

2.5.1 Loss due to deficiencies/pilferage in Coaching and Goods Stock –Rs 80.00 million

Modified Standard Operating Procedure as communicated vide Chief Mechanical Engineer's letter No. 264-W/0/21/12/2008-09 dated 09.12.2010 laid down detailed internal controls to be put in place to stop theft/pilferage of material from Railway coaches and wagons.

During audit of the Mechanical Department Workshops Mughalpura, Lahore in September 2023, it was observed that internal controls to prevent theft/pilferage as suggested in the above mentioned Modified Standard Operating Procedure were not put in operation due to which deficiencies of fittings in coaching and goods stocks valuing Rs 80.00 million were observed for the year 2022-23. Audit further observed that value of deficiencies was calculated by the PR management at 25% of the actual cost of items instead of actual impact of the loss. Thus, PR suffered loss of Rs 80.00 million due to slackness of the management.

The matter was taken up with the management in September 2023 and discussed in DAC meeting dated 01.02.2024. DAC constituted a fact finding inquiry committee comprising DG/Vigilance and CMM to probe the matter and submit report within one month. Compliance of DAC directives was awaited.

Audit recommends that Railway management should immediately devise a strategy with the help of concerned departments to minimize such losses. Disciplinary action be taken against those held responsible for non-implementation

of SOP besides recovery of the amount from them. The loss may also be reported in Financial Statements of Pakistan Railways.

DP 12545

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2019-20, 2021-22 & 2022-23 vide paras No 2.5.6, 2.5.66 & 2.5.54 having financial impact of Rs 181.90 million. Recurrence of same irregularity is a matter of serious concern.

2.5.2 Loss due to theft of imported material installed at Bin Qasim Station - Rs 47.22 million

According to para 1801 of Pakistan Railway General Code, means should be devised to ensure that every railway servant realizes fully and clearly that he will be held personally responsible for any loss sustained by government through fraud or negligence on his part.

During audit of project “Rehabilitation of Railway Assets Damaged during Riots of December 2007” in April 2022, it was observed that signaling system at Bin Qasim Railway Station was upgraded in 2017-18 by installing imported material and equipment. Theft cases of signaling material and equipment valuing Rs 47.22 million were occurred at Bin Qasim Railway Station from May 2021 to January 2022. These theft incidences resulted in loss of Rs 47.22 million to PR due to poor security arrangements.

The matter was taken up with the management in September 2023 and discussed in DAC meeting held on 29.12.2023. DAC constituted an inquiry

committee comprising Deputy COPS/Time Table, Deputy/CSE and Deputy/CME/C&W to conduct a fact finding inquiry, fix responsibility, suggest course corrective measures and submit report with proper evidence within fifteen (15) days. Compliance of DAC directives was awaited.

Audit recommends that security arrangement should be improved and strenuous efforts be made by Pakistan Railways Police to reach the criminals.

DP 12211

2.5.3 Embezzlement of government money through fake procurement – Rs 15.99 million

According to para 1801 of Pakistan Railway General Code, means should be devised to ensure that every railway servant realizes fully and clearly that he will be held personally responsible for any loss sustained by government through fraud or negligence on his part. Further, in terms of Federal Board of Revenue (FBR) letter No 1 (42)/ STM/2009/99638 dated 24.07.2013, purchase of taxable goods may only be made from sales tax registered persons against sales tax invoices and payment be made through Banking Channels.

During audit of the project “Special Repair of 100 DE Locomotives (New)” in March 2023 it was observed that the Project Director initiated 101 local purchase cases for furniture & fixture and office equipment valuing Rs 15.99 million for the period from December 2020 to May 2021. The office equipment and furniture of the closed Project “Special Repair of 100 DE Locomotives (Old)” was transferred to this new project. Therefore, initiation of 101 cases for procurement of office equipment and furniture was unjustified. Further, following irregularities were also observed in procurement cases:

i. Funds of Rs 2.19 million only were provided in the PC-I for office equipment and furniture. Whereas, PD initiated procurement cases of Rs 15.99 million which also include procurement for other departments valuing Rs 6.79 million.

ii. The members of shopping committee of these cases stated that quotations were obtained by the PD himself. Moreover, in 67 cases out of 101, bills and tax invoices of M/s Baria Enterprises, Lahore were provided who refused to own them. This indicated that fake quotations and invoices were provided by the PD.

iii. The PD drawn cash himself and payment to the firms was not made through cheques as instructed by the FBR.

iv. These purchases were made during the year 2020-21. However, the material valuing Rs 10.56 million was not received till March 2023 despite alleged payment.

This resulted in embezzlement of government money of Rs 15.99 million through fake local purchase cases in the absence of proper shopping committees, genuine quotations/ bill/invoices and non-receipt of materials.

The matter was taken up with the management in August 2023 and discussed in DAC meeting held on 05.09.2023. DAC was informed that an inquiry was conducted by PD 75 Locos, CCP and FA & CAO and the case was also under trail with Federal Investigation Agency (FIA). DAC directed the PO to vigorously pursue the case with FIA for early recovery of the amount. The Railway administration should also strengthen its internal controls to avoid such practices in future. The PO will submit progress report within one month. Compliance of DAC directives was awaited.

Audit recommends that case with FIA be perused vigorously besides recovery of the misappropriated amount. Procurement and financial management controls be strengthened to avoid recurrence.

DP 12187

2.5.4 Loss due to tempering of record to enhance the leased area, lease terms and reducing lease rentals – Rs 21.71 million

According to Rule 19 (vi) of General & Financial Rules, the contracts should be placed only after tenders have been openly invited. Moreover, as per

Pakistan Railways competitive leasing policies, the leasing for stacking purposes should be for one year extendable for another term of 1 years with 20% increase.

During audit of the Property & Land, Karachi in September 2023 it was observed that the auction was held on 17.06.2015 for leasing out of 1,277.67 sq. yards for stacking purpose at Karachi City Station and possession of the land was handed over to the lessee on 18.08.2015. Subsequently agreement was executed on 15.04.2016 with increased area to 1,787 sq. yards. Deputy Director, P&L manipulated the lease rentals from Rs 3,790,000 to Rs 2,710,000 and lease term from 1 year to 3 years. Later, the lessee occupied excess area of 383 sq. yards as per measurement taken by the Divisional Engineer-I and DD/P&L, Karachi on 15.08.2016. Thus the lessee had possession of 2,170 sq. yards due to tempering of PR land record by connivance of PR management and lessee. This resulted in loss to PR on account of short deposit of lease charges due to tempering of record and lease rentals amounting to Rs 21.71 million for the period from August 2015 to January 2019.

The matter was taken up with management in December 2023 and discussed in DAC meetings dated 16.01.2024 and 25.01.2024. DAC directed a fact-finding inquiry by DG/P&L, CEN/Open Line and COPS, to be completed within three weeks. It was also directed to file recovery suit within one week. Compliance of DAC directives was awaited.

Audit recommends that matter be inquired to fix responsibility for irregular enhancement of leased out area, lease terms and reducing lease rentals by tempering the record and short recovery of lease rentals. Action be taken against culprit(s) besides strengthened the internal controls.

DP 12509 & 12520

Note: The issue was also reported earlier in the Audit Report for Audit Year 2018-19 vide para No. 2.4.9 having financial impact of Rs 1.52 million. Recurrence of same irregularity is a matter of serious concern.

2.5.5 Embezzlement of vending stall earnings -Rs 3.35 million

According to para 1801 of Pakistan Railway General Code, means should be devised to ensure that every Railway servant realizes fully and clearly that he will be held personally responsible for any loss sustained by government through fraud or negligence on his part.

During audit of Commercial & Transportation Department, Sukkur in February 2023, it was observed that the contractor of Super Model Stall at Rohri Railway Station deposited only Rs 421,900 in booking office on 28.12.2019 through self-generated fake letter. However, the contractor was asked to deposit 30% of bid money amounting to Rs 2,421,900 for third year on 02.12.2019. This resulted in short deposit of Rs 2,000,000. The matter was inquired by a committee of Divisional Officers, who pointed out four other cases of similar fraud amounting to Rs 1,347,300. In three (03) cases out of four (04) the same contractor was involved. This resulted in fraudulent short deposit of PR dues amounting to Rs 3.35 million.

The matter was taken up with the management in December 2023 and discussed in DAC meeting held on 12.01.2024. DAC directed the CCM to submit a comprehensive reply. DAC further directed the CCM that the contractor should also be blacklisted and the case with the FIA be vigorously pursued for recovery of remaining amount. Compliance of DAC directives was awaited.

Audit recommends that amount involved be recovered besides lodging an FIR. Financial management controls be strengthened to avoid recurrence.

DP 12622

Land Management

2.5.6 Non-mutation of title of 20,830 acres land in favour of Pakistan Railways

According to the Presidential Order 1 and 2 of 1970 subsequently covered through Article No. 274 (2) of the Constitution of Islamic Republic of Pakistan,

Railways again became federal subject and assets owned by Railways were ordered to be transferred back in the name of federal government.

During audit of the following four (04) formations of Property & Land Department in September 2023, it was observed that the title of 20,830.04 acres Railway land over four divisions was not transferred to Pakistan Railways by the provincial governments. The Railway land was under possession and use of the provincial governments. Moreover, PR has no dedicated revenue trained staff at sectional level to reconcile unclaimed land.

(Rs in million)				
SN	DP No.	Formation	Area (acres)	Value of land
1	12448	P&L, Multan	782.51	13,772.00
2	12390	P&L, Sukkur	233.53	81.52
3	12407	P&L, Rawalpindi	4,382.00	-
4	12431	P&L, Karachi	15,432.00	-
Total			20,830.04	13,853.52

The matter was taken up with the management in November to December 2023. DAC in its meeting held on 16.01.2024 and 29.12.2023 directed the DG/P&L to provide documentary evidence regarding mutation of land in favour of Pakistan Railways and implement verdict of Supreme Court in remaining patches of land. Compliance of the DAC directive was awaited.

Audit recommends that matter be taken up at appropriate level to resolve the issue, deployment of dedicated revenue staff and maintenance of independent land record. Title of the land be got transferred in favor of Pakistan Railways as per Presidential Order 1970 and orders of Honorable Supreme Court of Pakistan.

Note: The issue was also reported earlier in the Audit Report for Audit Year 2020-21 vide para No. 2.5.2 having financial impact of Rs 977.19 million. Recurrence of same irregularity is a matter of serious concern.

2.5.7 Encroachment of 3,502 kanals Railway land – Rs 13,819.53 million

Para 803 of Pakistan Railways Code for the Engineering Department provides that it is the duty of Railway administration to preserve unimpaired the title to all land in its occupation and to keep it free from encroachment.

During audit of seven (07) formations of Property & Land Department, Vigilance Directorate and Commercial & Transportation Department in September 2023, it was observed that 3,502.52 kanals of commercial Railways land valuing Rs 13,819.53 million was encroached by private parties and government departments, during the period from 1988 to 2023, (**Annexure-6**). Thus, PR was deprived of valuable assets and potential earnings due to unauthorized occupation of Railway land.

The matters were taken up with the management in August to December 2023 and discussed in DAC meetings from September 2023 to January 2024. The DAC showed displeasure on the laid back attitude of the POs over the encroachments and directed to retrieve the land and lodge FIRs against all encroachers. Compliance of DAC directives was awaited.

Audit recommends that action be taken for early retrieval of sites and responsibility be fixed against those found negligent. Land management be improved to avoid recurrence.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2018-19, 2019-20 & 2021-22 vide paras No. 2.4.68, 2.5.49, 2.5.8, 2.5.11, 2.5.14 having financial impact of Rs 13,197.49 million. Recurrence of same irregularity is a matter of serious concern.

2.5.8 Unauthorized inclusion of 776 kanals Railway land in katchi abadis by Government of Punjab – Rs 4,474.62 million

As per para 2 (iii) and category-III of Director Property & Land's letter No. 469-W/KA-202/Pt-III (P&L) dated 23.05.2008, katchi abadi entirely located on

such Railway Land which is required for operational/commercial purpose falls in category-III. The land that falls in category-III is not recommended for issuance of NOC. Whole abadi needs to be relocated on provincial government land. Para 803 of Pakistan Railway Code for the Engineering Department provides that it is duty of Railway administration to preserve unimpaired the title to all land in its occupation and to keep it free from encroachment.

During audit of Property and Land Department, Multan and Rawalpindi in September 2023, it was observed that Railway management issued NOC for 382 kanal and 01 marlas Railway land on 17.04.2001 in order to regularize the katchi abadis established before 23rd March, 1985 in Multan and Rawalpindi Divisions. However, DG Katchi Abadis, Government of Punjab regularized 1,158 kanals of Railway land vide notification dated 05.11.2001. This resulted in unauthorized inclusion of Railway land measuring 775 kanal 19 marlas valuing Rs 4,474.62 million in katchi abadis by Government of Punjab as detailed below.

(Rs in million)

SN	DP No.	Formation	NOC issued by PR (area)	Regularized by DG Katchi Abadis (area)	Excess area	Value of land
1	12447	P&L Multan	345 kanal 7 marlas	1,048 kanal	702 kanal 13 marlas	3,254.84
2	12403	P&L Rawalpindi	36 kanal 14 marlas	110 kanals	73 kanal 06 marlas	1,219.78
Total			382 kanal 01 marlas	1158 kanal	775 kanal 19 marlas	4,474.62

The matter was taken up with the management in November and December 2023. Against Sr.No.1, DAC in its meeting held on 16.01.2024 directed the DG/P&L to vigorously pursue the matter for vacating the stays of the encroachers in katchi abadis and take over the possession as soon as the litigation was over. Against Sr.No.2, DAC in its meeting held on 29.12.2023 directed the PO to vigorously pursue this important issue of retrieval of precious land in the court of law. Further, DAC constituted an inquiry committee comprising D.G/Vigilance and CCM to enquire and fix responsibility for negligence of officers and loss of land on account of katchi abadis. The inquiry report should be submitted within one month. Compliance of DAC directives was awaited.

Audit recommends that the matter may be taken up with the Chief Secretary, Government of Punjab for retrieval of excess land and relocation of excess katchi abadis to provincial government land. Internal controls regarding assets management be improved to avoid recurrence.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2018-19, 2019-20 and 2020-21 vide paras No. 2.4.14, 2.5.106 and 2.5.21 having financial impact of Rs 1,606.26 million. Recurrence of same irregularity is a matter of serious concern.

2.5.9 Unauthorized commercial utilization of land leased out for Al-Shifa Trust Eye Hospital – Rs 466.73 million

According to clause 1 and 3 of the agreement dated 30.06.1997 executed between Pakistan Railways and Al-Shifa Trust Eye Hospital, the lessee shall use the land only for the purpose of Al-Shifa Trust Eye Hospital.

During audit of the Property & Land Department, Sukkur in September 2023, it was observed that 20,538 square yards of commercial land was leased out at nominal rent of Rs 1 per square yard for a period of 33 years to a welfare project Al-Shifa Trust Eye Hospital vide two agreements dated 30.06.1997 and 25.06.2009. In violation of the agreements, Al-Shifa Trust Hospital sublet its premises on revenue sharing basis to Educareer Sindh Institute, Sukkur in March 2019. Moreover, Al-Shifa Trust Eye Hospital is also operating a marriage lawn since 2012 and also allowed cellular companies to install BTS towers in 2018.

Thus, PR was deprived of premium and annual rent amounting to Rs 466.73 million of land used by the Al-Shifa Trust Eye Hospital for commercial purposes.

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 02.01.2024 wherein DAC showed displeasure over negligence and irregularities committed in leasing of land to Al-Shifa Trust Eye Hospital. DAC constituted three-member committee comprising DG/Vigilance, DIG and CCFM to conduct inquiry to fix responsibility and submit the report within one month. Compliance of DAC directives was awaited.

Audit recommends that matter be inquired to fix responsibility for not taking appropriate action for commercial leasing of land which was originally leased out for welfare purpose. Action be taken against those held responsible besides recovery of lease premium and rent on commercial basis.

DP 12411

2.5.10 Loss due to lease of marquees at low benchmark - Rs 218.37 million

According to policy dated 07.12.2020, for leasing of land for marriage lawn/marquee, the base rate for annual rent was required to be calculated on the basis of 10 % of average market and DC price (commercial rate) of the approved sites of big cities and 8% on the average of market and DC price for small cities. Moreover, as per clause 8 of the policy, the annual rent would be increased @ 15% compound per annum of the approved bid price for remaining years respectively.

During audit of following two formations of Property & Land Department in September 2023, it was observed that two pieces of Railway land measuring 630.92 marlas were auctioned for marriage lawn. Railway management auctioned the land by fixing low benchmark which resulted in loss of Rs 218.37 million to PR as detailed below.

(Rs in million)

SN	DP No.	Formation	Area in marlas	Period	Benchmark should be fixed	Benchmark fixed	Total Loss

					(base year)	(base year)	
1	12402	P&L, Rawalpindi	78.60	2021-26	25.49	1.10	189.12
2	12395	P&L, Multan	552.32	2020-24	6.63	0.77	29.25
Total			630.92				218.37

The matter was taken up with the management in November 2023. Against Sr. No.1, DAC in its meeting held on 02.01.2024 showed displeasure over negligence and irregularities committed in leasing of land for Marquee. DAC constituted a three-member inquiry committee comprising DG/Vigilance, CPO and CF&AO to fix responsibility and submit report to the DAC within one month. Against Sr. No.2, DAC directed the CEO/Sr.GM to personally look into the matter. DAC further directed the PO to submit comprehensive reply. Compliance of DAC directives was awaited.

Audit recommends that matter be inquired to fix responsibility for incorrect fixation of rent in violation of the policy in vogue. Action be taken against those held responsible besides revisiting the agreements and recovery of the amount involved.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2018-19, 2019-20 and 2021-22 vide paras No. 2.4.55, 2.5.84 and 2.5.49 having financial impact of Rs 3,866.25 million. Recurrence of same irregularity is a matter of serious concern.

2.5.11 Non-recovery of commercialization charges from LARECHS due to change of purpose – Rs 177.37 million

The Executive Committee of Railway Board in its meeting held on April 2002 approved the policy regarding commercialization of plots in Railway

Housing Societies. The committee approved commercialization charges at 50% of the average of the D.C price and current market value of land. Market value will be considered only if it will be higher than DC value.

During audit of Property and Land Department Workshops, Mughalpura in November 2023, it was observed that residents of Lahore Railway Employees Cooperative Housing Society (LARECHS) utilized the residential plots for commercial activity in the form of petrol pumps, hotels, restaurants, general stores, shops, and clinics without obtaining NOC and payment of commercialization charges. Audit observed that ninety (90) sites were being used for commercial activity. This resulted in loss of Rs 177.37 million to PR due to irregular utilization of residential land for commercial activity without obtaining NOC and payment of commercialization charges.

The matter was taken up with management in December 2023 and discussed in DAC meeting held on 16.01.2024. DAC nominated a fact finding inquiry committee comprises of DG/P&L, CEN/OL and DIG to fix responsibility for failure to implement the policy and assessment of commercialization fee to be realized within one month. Compliance of DAC directives was awaited.

Audit recommends that matter be inquired to fix responsibility for irregular utilization of railway land for commercial purpose without obtaining NOC and paying commercialization fee. Action be taken against the defaulters besides recovery of the amount involved. Internal controls regarding assets management be improved to avoid recurrence.

2.5.12 Non-regularization of commercial encroachment under Remedial Management Policy - Rs 97.13 million

According to Policy for Remedial Management of Unauthorized Commercial Structures of Railway Land circulated by Joint Director/P&L vide letter dated 01.06.2016, in case of regularization of encroachment, the unauthorized occupants would pay 50% of DC value of land as premium with 7% of present DC value as annual rent. The outstanding rent of the previous years shall liable to be paid since 01.01.2002 by depreciating the present day rent @ 25% to preceding 3 years up to 01.01.2002.

During audit of following three (3) formations of Property and Land Department in September and November 2023, it was observed that 633 shops were illegally constructed by the private individual on Railway land during 1980 to 2020. Further, a piece of land measuring 6.88 marlas was under occupation of Hamza Sugar Mills since 2016. The occupants of these shops and commercial land showed willingness for regularization of their structures under remedial management policy; however, their cases were not finalized till audit.

(Rs in million)

SN	DP No.	Formation	Description	Period	Loss of revenue
1	12404	P&L Rawalpindi	409 Shops	1980 to 2020	49.52
2	12626	P&L Lahore	120 Shops	-	31.36
3	12423	P&L Multan	104 Shops	2016	13.55
			6.88 marla land encroached by Hamza Sugar Mills	2016	2.70

Total	97.13
--------------	--------------

PR management failed to retrieve or regularize these shops under remedial management policy due to which PR was deprived of potential revenue of Rs 97.13 million.

The matter was taken up with the management in November 2023. Against Sr. No.1, DAC in its meeting held on 02.01.2024 directed the DG/P&L to conduct survey of 409 shops within one month and start anti-encroachment operation after completion of one month. DAC further directed to fix responsibility and take action against those held responsible. Progress against each encroachment should be shared with DAC. Against Sr. No.2, DAC in its meeting held on 25.01.2024 directed the DG/P&L to expedite the process and submit supporting documents in support of progress made so far within two weeks. Against Sr. No.3, DAC in its meeting held on 25.01.2024 directed to issue charge sheet to the concerned IOW and AIOW and displeasure note to Dy: Director/P&L, Multan Division for their negligence. Recovery notices be served to all the encroached area shops and Hamza Sugar Mills with timeline of one month and in case of negative response, encroached area should be retrieved under intimation to this forum. Compliance of DAC directives was awaited.

Audit recommends that matter be inquired to fix responsibility for non-regularization of commercial encroachments under remedial management policy. Action be taken for regularization or retrieval of PR land. Assets management controls be improved to avoid recurrence.

2.5.13 Non-recovery of commercial rent and electricity charges from illegal occupants of Railway accommodations - Rs 55.33 million

As per Rule-8 of Pakistan Railways policy for allotment of Railway accommodation 2019, occupation of house beyond authorize retention period shall be treated as unauthorized occupation and apart from any other action, which may be taken under the rules, rent at 7½% per annum of the updated assessed capital value of the house including the cost of land will be charged for this period.

During audit of the Deputy General Manager in August 2023, it was observed that five (05) retired Railway offices were in illegal possession of Railway accommodations in Mayo Garden, Lahore and a bungalow at Pringle Road, Lahore for the period ranging from 2016 to 2023. Further, an official was residing in Officer's Flats Walton, Lahore without any allotment since 2008. As per PR policy, commercial rent was required to be recovered from the illegal occupants but neither commercial rent and electricity charges were recovered nor got these accommodations vacated till date of audit. This resulted in loss of Rs 55.33 million to PR due to non-recovery of commercial rent and electricity charges from the illegal occupants of Railway accommodations.

The matter was taken up with the management in December 2023 and discussed in DAC meeting held on 05.01.2024. DAC directed the DGM that the objected residences be got vacated and amount raised against the defaulters be recovered. Documentary evidence of vacation/recovery be shared with DAC within one week. Compliance of DAC directives was awaited.

Audit recommends that responsibility may be fixed for non-vacation of Railway accommodations and non-recovery of commercial rent and electricity charges despite lapse of seven years. Action be taken against those found at fault besides recovery of the amount involved.

DP 12473

2.5.14 Irregular handing over of land without realizing advance lease charges – Rs 7.73 million

According to clause-3(d) of the revised Railway Land Leasing Policies dated 07.12.2020, the successful bidder shall be liable to pay 50% of the annual rent on the date of auction in the Railway treasury. Further clause-3(f) provides that in case of successful bidder failed to deposit the remaining 50% amount within a week, the already deposited money shall be confiscated in favour of Pakistan Railway. Moreover, successful bidder who failed to deposit the remaining amount shall not be allowed in future to participate in bidding.

During audit of Property and Land Department, Multan in September 2023, it was observed that agricultural land measuring 17.21 acres was auctioned, for 05 years, on 17.05.2023 at Railway Station, Vehari. The highest bid of Rs 305,000 per acre offered by M/s Abid Hussain was approved by the Divisional Superintendent on 15.06.2023 and offer letter was issued on 16.06.2023. The bidder failed to deposit the remaining bid money of Rs 2.57 million within 07 days of approval of bid but applied for cancelation of bid by virtue of misunderstanding on lessee's part about rental charges. Railway administration made no decision on the fate of leased property although the possession of the property had been handed over to the lessee without observing codal formalities and realizing rental charges amounting to Rs 5.16 million. Audit observed that even after lapse of 106 days Railway administration neither recovered the remaining bid money nor forfeited the already deposited money Rs 2.57 million. This resulted in loss of Rs 7.73 million to PR on account of non-forfeiture of bid money of first highest bidder and non-offer to second highest bidder.

The matter was taken up with the management in December 2023 and discussed in DAC held on 25.01.2023. DAC directed the PO that amount pointed out by Audit be recovered and documentary evidence be furnished to Audit within 15 days. Compliance of DAC directives was awaited.

Audit recommends that matter be inquired to fix responsibility for non-recovery of rental charges and non-vacation of land under intimation to Audit.

DP 12457

2.5.15 Non-realization of land lease charges from Airport Housing Society – Rs 25.05 million

According to Clause-1 of the agreement dated 24.04.2007 executed between Pakistan Railway and Airport Housing Society, the rental charges shall be paid yearly in advance on receipt of bill from Railway administration. The rental charges shall be reassessed after every three years according to market value at that time and the agreement shall be revised after every three years.

During audit of Property & Land Department, Rawalpindi in September 2023, it was observed that Pakistan Railways leased out 183.3 marla Railway land to Airport Housing Society, Rawalpindi for construction of road vide agreement dated 24.04.2007. Airport Housing Society paid one-year rental charges of Rs 1.02 million in advance on 16.02.2007. Subsequently, Railway administration failed to recover the annual lease charges for the period from July 2008 to June 2023. Moreover, the lease agreement was also not revised after every three years. This resulted in non-revision of agreement and non-recovery of rental charges of Rs 25.05 million.

The matter was taken up with the management in September 2023 and discussed in DAC meeting held on 29.12.2023. DAC directed the CPO to convey displeasure to the Joint Director/P&L who came unprepared for the meeting. DAC further directed the DG/P&L to submit reply within three days. Compliance of DAC directives was awaited.

Audit recommends that matter be inquired to fix responsibility for non-revision of agreement and non-recovery of outstanding rent. Action be taken against those held responsible besides recovery of the amount involved. Contract and financial management controls be strengthened to avoid recurrence.

DP 12399

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2018-19 & 2021-22 vide audit para No. 2.5.53 & 2.5.11 having financial impact of Rs 20.06 million. Recurrence of same irregularity is a matter of serious concern.

2.5.16 Loss of earnings due to non-construction of shops - Rs 12.67 million

As per para 7 (ii) of revised Railway Land Leasing Polices for construction of rail market on Railway land dated 12.12.2018, the rent will be deposited by lessee before the start of 7th month as a rent of six months.

During audit of the Property and Land Department, Quetta in September 2023, it was observed that one hundred and twenty (120) shops were demolished on request of Government of Baluchistan in 2018 for widening of Joint Road, Quetta. The Project Director, Quetta Development Package deposited Rs 550 million with PR in 2018 for construction of shops but shops had not been constructed despite lapse of five years. This resulted in loss of earnings of Rs 12.67 million to PR on account of rent of shops.

The matter was taken up with the management in December 2023 and discussed in DAC meeting held on 25.01.2024. DAC directed the DG/P&L to expedite the construction work and share compliance report with the Audit. Compliance of DAC directives was awaited.

Audit recommends that matter be inquired to fix responsibility for non-construction of shops and action be taken against those found at fault besides recovery of the amount involved. Internal controls regarding land management be strengthened to avoid recurrence.

DP 12552

2.5.17 Loss due to irrational fixation of benchmark for lease of shops - Rs 11.02 million

According to Para 807 of Pakistan Railway Code for the Engineering Department, all Railway land should be managed on commercial lines, and each Railway administration should endeavor to develop the resources of, and put to profitable use, any areas in its occupation which, though not eligible for disposal are lying idle and can be put to profitable use. Such land is referred to hereinafter as 'available' land.

During audit of the Property and Land Department, Sukkur in September 2023, it was observed that auction of 21shops at market No. 2 near Ayub Gate

Sukkur held on 19.09.2019 and highest bid of Rs 28.22 million was received which was delayed due to court cases by existing occupants. However, a fresh auction of these shops was held on 15.06.2023 and highest bid of Rs 17.20 million against 21 shops was accepted by the management. The benchmark for auction dated 15.06.2023 was fixed as Rs 800,000 per shop which was 47% below the benchmark of Rs 1,500,000 fixed in last auction dated 19.09.2019. This resulted in loss of Rs 11.02 million to PR due to irrational fixation of benchmark.

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 02.01.2024. DAC showed displeasure over negligence and irregularities committed in the auction of 21 commercial shops. DAC constituted three-member inquiry committee comprising DG/Vigilance, DIG and CCFM to conduct inquiry within one month to fix responsibility and submit the report to the DAC. Compliance of DAC directives was awaited.

Audit recommends that matter be inquired to fix responsibility for irrational fixation of lesser benchmark. Action be taken against those held responsible besides recovery of the loss under intimation to Audit.

DP 12391

2.5.18 Irregular handing over of possession of land before auction -Rs 7.66 million

According to clause 1 of the Revised Policy for re-licensing of already constructed shops on Railway land dated 27.12.2020, the open auction shall be conducted for licensing the already constructed shops for a period of 05 years in transparent manner by advertising the shops in print and electronic media.

During audit of the Property & Land Department, Multan in September 2023, it was observed that PR management leased out fourteen (14) already constructed shops during the period from 2019 to 2021 in Bahawalpur and Bhakkar. Possession of the shops was handed over to the lessees even before commencement of auction proceedings. The auction proceedings were mere

travesty and comparative statements were fabricated to extend favor to specific individuals as evident from joint possession certificate endorsed by concerned Inspector of Works. Thus, fraudulent handing over possession of shops before auction proceedings made revenue of Rs 7.66 million suspicious. Further, the lease agreements were neither endorsed nor objected by senior management which tantamount to evasion of responsibility and exposed significant loopholes in internal control framework.

The matter was taken up with the management in December 2023 and discussed in DAC meeting held on 16.01.2024. DAC nominated a fact finding inquiry committee comprises of J.D/P&L, Dy: DS/Multan and DAO/Multan to look into the matter and fix responsibility for the anomalies pointed out by Audit within three weeks. Compliance of DAC directives was awaited.

Audit recommends that matter be inquired to fix responsibility for commission of fraud and evasion of responsibility. Action be taken against those held responsible besides recovery of the loss. Internal controls regarding land management be strengthened to avoid recurrence

DP 12456

2.5.19 Extension in lease of defaulter lessee by extending undue favour - Rs 7.44 million

According to clause-4 of the agreement dated 21.04.2020, the licensee was bound to pay six months' rent in advance on expiry of every due period with grace period of one month. Further, clause-18 provides that late deposit would warrant imposition of penalty @ 2 % per month on the default amount. Any delay beyond

30 days would constitute breach liable to forfeiture of security money and termination of the contract or as deemed fit by the Divisional Superintendent (DS).

During audit of the Property and Land Department, Sukkur in September 2023, it was observed that marriage hall at Railway Swimming Pool, Sukkur was leased out to Mr. Asad Ali for a period of three years w.e.f. 06.01.2020. The lessee had not deposited lease charges of Rs 2.12 million for the period from 06.01.2020 to 05.01.2023 but the Railway management had not terminated the contract or imposed any penalty. Further, the DS Sukkur extended the lease period w.e.f. 06.01.2023 with occupancy charges of Rs 590,500 per month which was also not recovered from 06.01.2023 to 05.10.2023. This resulted in loss of Rs 7.44 million to PR due to extending undue favour to the defaulter lessee by the Railway management.

Furthermore, on 27.04.2023, a fresh auction was held and the highest bid of Mr. Muhammad Ali for Rs 6.31 million per annum was accepted on 30.05.2023. However, possession was not handed over as the old lessee had not vacated the site up to 05.10.2023 with the connivance of Railway management.

The matter was taken up with the management in November 2023 and discussed in the DAC meeting held on 29.12.2023. DAC directed the PO to file recovery suit against the contractors and blacklist them. DAC further directed the PO to review the extension of all defaulting contractors and conduct new auctions after terminating their contracts within one month. Compliance of DAC directives was awaited.

Audit recommends that matter be inquired to fix responsibility for extension in lease period without recovery of outstanding rental charges from former lessee and non-handing over possession of marriage hall to the new successful bidder. Action be taken against those held responsible besides recovery of the amount from lessee or from employee responsible under intimation to Audit.

DP 12419

2.5.20 Loss due to non-handing over of Railway land to highest bidder – Rs 3.68 million

According to Para 807 of Pakistan Railway Code for the Engineering Department, all Railway land should be managed on commercial lines and Railway administration should endeavor to develop the resources of, and put to profitable use, any areas in its occupation which are lying idle and can be put profitable use. Further, Para 803, stipulates that Railway administration should preserve unimpaired the title to all land in its occupation and keep it free from encroachment.

During audit of the Property & Land Department, Lahore in November 2023, it was observed that 01 Kanal land was leased out to Mr. Noor Muhammad for stacking purpose vide agreement dated 26.06.2015 @ Rs 53,000 per year with 20% annual increase. The new auction was held on 09.06.2018 wherein Mr. Muhammad Boota was declared highest bidder @ Rs 515,000 per year. The bidder deposited the 50% bid money of Rs 275,000. The procession of land was not handed over to successful bidder and after 03 years his bid money was refunded on 20.08.2021. Thus, due to negligence and connivance of PR management, procession of land was not handed over to Mr. Boota in 2018 which resulted in loss of Rs 3.68 million to PR. Further, audit also observed that Rs 757,852 was recoverable from ex-lessee Mr. Noor Muhammad and land was still under his possession.

The matter was taken up with the management in December 2023 and discussed in DAC meeting held on 25.01.2024. DAC showed displeasure over inaction at division and headquarters level. DAC constituted an inquiry committee

comprising DG/Vigilance and DG/P&L with the direction to furnish report within two weeks. Compliance of DAC directives was awaited.

Audit recommends that matter be inquired to fix responsibility for non-retrieval of land from ex-lessee and not handing over its possession to the new successful bidders. Action be initiated against those held responsible besides recovery of the loss from the ex-lessee or employee (s) found at fault under intimation to Audit.

DP 12498

2.5.21 Loss due to leasing of shops at lower rates – Rs 2.66 million

According to Para 1801 of General Code, means should be devised to ensure that every Railway servant realizes fully and clearly that he will be held personally responsible for any loss sustained by government through fraud or negligence on his part.

During audit of Property & Land Department, Multan in September 2023, it was observed that open auction for leasing constructed shops at Double Pattak, Multan was conducted on 30.04.2021. Two adjacent shops No.4 and 6 were leased out to Mr. Ilyas Ali at huge difference of rates i.e. Shop No. 6 was leased out at annual rent of Rs 60,000 and No. 4 at Rs 215,000. Audit also observed that another auction was held on 17.04.2023 for leasing of shop No. 7 & 8 at same location. The highest bids of annual rent ranging from Rs 63,500 to Rs 67,000 were received and accepted by PR management without considering the annual rent of shop No. 4 before fixation the benchmark. This reflected that due care was not exercised by the Divisional administration while leasing out of these shops and undue favour was extended to the lessees. Thus Pakistan Railways sustained a loss of Rs 2.66 million due to leasing of shops at lower rates.

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 16.01.2024. DAC nominated a fact finding inquiry committee comprises of J.D/P&L, Dy DS/Multan and DAO/Multan to look into the matter, reassess the bench mark for auction and fix responsibility for the anomalies pointed out by Audit within three weeks. Compliance of DAC directives was awaited.

Audit recommends that matter be inquired to fix responsibility for negligence in fixation of benchmark. Action be taken against those found at fault besides recovery of the amount involved. Financial management controls be strengthened to avoid recurrence.

DP 12428

Note: The issue was also reported earlier in the Audit Report for Audit Year 2019-20 vide paras No 2.5.59, 2.5.84 having financial impact of Rs 640.47 million. Recurrence of same irregularity is a matter of serious concern.

Civil Works

2.5.22 Non-realization of revised cost of deposit work – Rs 135.90 million

According to Para 9 of the Chief Engineer/Open Line's notification dated 08.07.2008, it would be mandatory for sponsors that the entire estimated cost is deposited in advance and in case of part payment the tenders would not be invited and the period of completion would start from the date of full deposit of estimated cost. Further, Para 10 provides that the division will invite tenders only after approval of plan, sanction of estimate and deposit of funds.

During audit of following two formations in August 2023, it was observed that Railways management prepared estimate of Rs 144.33 million for deposit work of new siding at PAF Shahbaz Base, Jacobabad in January 2019. Following irregularities were observed;

- i. The sponsoring agency deposited an amount of Rs 132.74 million from February 2018 to October 2019. Railway management also reduced the cost of estimate to Rs 132.74 million in November 2019. The work was delayed due to which its cost increased to Rs 224.15 million as per revised estimate dated March 2023 but increased cost of Rs 91.41 million was not deposited by the sponsoring agency.

- ii. Establishment & maintenance charges of Rs 17.01 million were not revised and departmental charges of Rs 27.48 million were not included in the estimate.

This resulted in non-recovery of Rs 135.90 million from the sponsoring agency as detailed below:

(Rs in million)

SN	DP No.	Formation	Details	Amount
1	12344	Civil Engineering Department HQ	Non-recovery of increased cost of work	91.41
2	12334	Civil Engineering Department Sukkur	Non-inclusion of departmental charges	27.48
3	12320	Civil Engineering Department Sukkur	Non-revision of establishment & maintenance charges	17.01
Total				135.90

The matter was taken up with the management in October 2023 and discussed in DAC meeting held on 21.11.2023. DAC directed the PO to pursue the matter for recovery of remaining amount under intimation to Audit. Compliance of DAC directives was awaited.

Audit recommends that estimate of the work be revised by including revised costs of departmental, establishment and maintenance charges and increased cost be recovered from the sponsoring agency. Internal controls regarding deposit works and contract management be strengthened to avoid recurrence.

Note: The issue was also reported earlier in the Audit Report for Audit Year 2022-23 vide para No 2.5.79 having financial impact of Rs 1.34 million. Recurrence of same irregularity is a matter of serious concern.

2.5.23 Non-encashment of performance guarantee of contractors failed to complete the work - Rs 130.67 million

According to clause 5.1 and 10.4 of contract agreement executed between Pakistan Railways and Equinox (Pvt) Ltd for up-gradation of Bin Qasim Yard, the contractor would furnish an unconditional and irrecoverable Bank Guarantee (Performance Bond) representing 5% of the total contract amount. The Performance Bond shall be kept valid by the contractor till defect liability period and forfeited in case of contractor's default.

During audit of following three (03) formations in March and August 2023, it was observed that contractors failed to complete the works and to rectify the defects pointed out by Railway management. The bank guarantees and retention money amounting to Rs 130.67 million submitted by the contractors were not encashed/ forfeited by Railway management as the same had expired.

(Rs in million)

SN	DP No.	Formation	Details of irregularity	Amount
1	12258 12264 12437	Rehabilitation of Railway Assets Damaged during Riots of December 2007 Project	The contractor of up-gradation of Bin Qasim Yard failed to complete the work and defects valuing Rs 35.92 million pointed out by PR were not rectified. Performance Bond of Rs 66.38 million	120.91

			and retention money of Rs 54 million were not forfeited.	
2	12266	Project of Replacement of Old and Obsolete Signal Gear (LON-SDR)	Completion date of train dispatch office at Lahore station was 31.05.2018 but contractor failed to complete the work despite three extensions up to 31.12.2022. Bank guarantee of Rs 5.45 million and retention money of Rs 2.73 were not forfeited.	8.18
3	12378	Civil Engineering Department, Peshawar	The contractor of Improvement/ up gradation of Station Yard, Station Building, of Jahangira, left the work incomplete on 10.10.2023. The bank guarantee was expired on 10.02.2023 but was not got renewed and en-cashed.	1.58
Total				130.67

The matter was taken up with the management from September to December 2023. Against Sr. No.1, DAC in its meeting held on 02.01.2024, 23.01.2024 & 01.02.2024, constituted a fact finding inquiry committee comprising DG/Vigilance and FA&CAO/PR to probe the matter of non-submission of appeal in the appellate forum against the award given by the arbitrator against Pakistan Railways. Against Sr. No. 2, DAC in its meeting held on 01.02.2024 directed the CS&TE to immediately submit a compliance report against recovery of Rs 10.38 million. Against Sr. No. 3, DAC in its meeting held on 23.01.2024 directed the CEN/Open Line to ensure recovery of Rs 1.58 million from pending bills of the contractor and recovery particulars be shared with Audit. Compliance of DAC directives was awaited.

Audit recommends that matter be inquired to fix responsibility for non-encashment of bank guarantees and retention money of contractors who failed to complete the works despite expiry of completion period. Internal controls regarding contract management be strengthened to avoid recurrence.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2019-20 & 2021-22 vide paras No 2.5.46 & 2.5.36 having financial impact of Rs 7.72 million. Recurrence of same irregularity is a matter of serious concern.

2.5.24 Short/non-recovery of train detention charges - Rs 56.77 million

According to Para 6(iv) of instructions regarding execution of deposit works circulated by Chief Engineer, Open Line vide letter dated 08.07.2008, in case of temporary arrangements the detention to trains charges for the entire period of construction would be worked out and debited to the sponsors and included in the estimated cost.

During audit of following two formations of Civil Engineering Department in August 2023, it was observed that two deposit works regarding widening/conversion of three girder bridges between Kalanchwala - SamaSatta and construction of road underpass bridge at km 16/3-7 between Golra-Fathejang Railway Station on Golra Sharif-basal section (CPEC) were executed by PR during the period from 2020 to 2022 for Irrigation Department, Punjab and National Highway Authority respectively. The train detention charges were not charged and short charged as per actual train detention during of execution of works. This resulted in loss of Rs 56.77 million to PR due to non/short recovery of train detention charges from sponsoring agencies.

(Rs in million)

SN	DP No.	Formation	Sponsor	As per estimate	Actual Charges	Amount recoverable
1	12381	Civil Engineering Department, Multan	Irrigation Department Punjab	Nil	47.10	47.10

2	12432	Civil Engineering Department, Rawalpindi	National Highway Authority	16.99	7.02	9.67
Total						56.77

The matter was taken up with the management in November 2023. Against Sr. No.1, management replied that reconstruction of these bridges was requirement of Railways because the bridges were submerged; therefore, train detention charges were deleted from the estimate to keep the estimate within the deposited amount. The reply was not acceptable because estimate was required to be prepared before execution of work including train detention charges. Against Sr. No.2, DAC in its meeting held on 12.01.2024 directed the CEN/Open Line to submit a revised reply. Compliance of DAC directives was awaited.

Audit recommends that responsibility be fixed for non-recovery of train detention charges and non-inclusion of detention charges in estimate. Action be taken against those held responsible besides recovery of the amount involved either from sponsoring agencies or from those found at fault.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2018-19 & 2021-22 vide paras No 2.5.53 & 2.5.69 having financial impact of Rs 24.06 million. Recurrence of same irregularity is a matter of serious concern.

2.5.25 Non-execution of maintenance agreements of upgraded level crossings – Rs 47.10 million

According to Para 2035 of Pakistan Railways Code for the Engineering Department, a formal agreement should be executed between the parties concerned before a deposit work is undertaken.

During audit of Civil Engineering Department, Rawalpindi in August 2023, it was observed that seven unmanned level crossings were upgraded to manned level crossings on the requests of provincial governments during 2016-17. However, PR had not executed agreements with sponsoring agencies for their operation and maintenance. Pakistan Railways incurred an amount of Rs 47.10

million on the maintenance and operation of these level crossings from January 2017 to June 2023 but the same had not been recovered from sponsoring agencies due to non-availability/execution of agreements. Thus, non-execution of agreements for operation and maintenance of upgraded level crossing resulted in loss of Rs 47.10 million to the PR.

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 23.01.2024. DAC directed the CEN/Open Line to expedite the matter of recovery of Rs 47.10 million with provincial governments and make an action plan to streamline the recovery of operational & maintenance charges of level crossings timely. DAC further directed the CEN/Open Line and DS/Rawalpindi to expedite recovery under intimation to this forum.

Audit recommends that matter be taken up at higher forum of road owning authorities for signing of operation and maintenance agreements. Amount already incurred by the PR be recovered and contract management controls be improved to avoid recurrence.

DP 12382

2.5.26 Short recovery of land lease charges from CDA against deposit work – Rs 38.25 million

As per para 5(i) policy for leasing out the Railway land to government departments for construction of roads dated 11.11.2014, the lease period shall be 33 years with further extension of 33 years on the mutual consent of both the department. Further para 5 (ii) provides that the concerned government department shall be liable to pay 100% of the DC rate of the ongoing year as land lease charges in advance. In addition, the ground rent shall also be liable to pay in advance for the lease period 33 years @ 2 per Sft per annum.

During audit of Civil Engineering Department, Rawalpindi in August 2023, it was observed that Railway management requested the Capital Development Authority (CDA) in February 2020 to deposit estimated cost of Rs 96.65 million including land lease charges of Rs 76.50 million for 204 marlas of land regarding construction of road over bridge at Khayaban-e-Margala from G.T. road to sector D Islamabad. Subsequently, Railway management reduced the land lease charges

to Rs 38.25 million in violation of ibid policy. This resulted in short recovery of land lease charges of Rs 38.25 million from CDA.

The matter was taken with the management in December 2023 and discussed in DAC meeting held on 16.01.2024. DAC directed the DG/P&L to revisit the policy and chalk out plan for early recovery from the department and submit a revised reply within two weeks. Compliance of DAC directives was awaited.

Audit recommends that matter be inquired at an appropriate level to fix responsibility for less recovery of land lease charges in violation of policy. Action be taken against those held responsible besides recovery of the amount involved. Financial management controls be strengthened to avoid recurrence.

DP 12611

2.5.27 Non-imposition of penalty on incomplete portion of supply of ballast – Rs 28.45 million

Clause-12.1 of conditions of contract stipulates that if the contractor has not taken all practicable steps to remedy the default with fourteen (14) days after receipt of the employer's notice, the employer may by a second notice given within a further twenty-one (21) days, terminate the Contract and after termination the employer shall be entitled to a sum equivalent to twenty percent (20%) of the value of the works not executed.

During audit of following two formations of Civil Engineering Department in August 2023, it was observed that four contracts for supply of ballast worth Rs 163.54 million were awarded to contractors during 2021-22. The contractors made supply of ballast valuing Rs 21.30 million and stopped further supply for want of price escalation. The request of the contractors was not accepted by the management being not covered under the agreements; therefore, remaining ballast valuing Rs 142.24 million was not supplied by the contractors till August 2023. On default of the contractors, the Railway administration neither terminated the contracts nor recovered penalty of Rs 28.45 million (@ 20% of balance supply.

(Rs in million)

SN	DP No.	Formation	No. of Works	Total value of works	Value of Works executed	Value of works not executed	Penalty amount @20%
1	12326	Civil Engineering Department, Multan	03	145.557	14.145	131.412	26.28
2	12321	Civil Engineering Department Quetta	01	17.990	7.156	10.834	2.17
Total				163.547	21.301	142.246	28.45

The matter was taken up with the management in October 2023. Against Sr. No.1, DAC in its meeting held on 21.11.2023 directed the PO to immediately expedite the action and compliance report along with evidence may be submitted to Audit within two weeks. Against Sr. No.2, DAC in its meeting held on 29.12.2023 directed the CEN/OL to blacklist the contractor and his blacklisting should be informed across all Railways Divisions. Compliance of the DAC directives was awaited.

Audit recommends that matter may be inquired to fix responsibility for non-recovery of 20% value of unsupplied ballast according to the terms of the contracts and its recovery should be ensured. Contract management should also be improved to avoid recurrence.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2018-19 & 2019-20 vide paras No 2.4.75 & 2.5.37 having financial impact of Rs 14.67 million. Recurrence of same irregularity is a matter of serious concern.

2.5.28 Imposition of penalty for breach of agreement by PR – Rs 13.96 million

Para 1801 of Pakistan Railway General Code stipulates that means should be devised to ensure that every Railway servant realizes fully and clearly that he will be held personally responsible for any loss sustained through fraud or negligence on his part.

During audit of the Civil Engineering Department, Sukkur in August 2023, it was observed that an open auction of 38 shops at Auto Plaza, Rohri held on 21.09.2016. The highest bid amounting to Rs 13.96 million of Syed Shafqat Ali Shah was approved on 16.02.2017 but Railway management failed to construct the shops. The bidder filed a suit in court of Civil Judge, Sukkur on 29.09.2021. The court ordered PR on 16.05.2022 to construct and handover the shops within four months otherwise a sum of Rs 27.93 million including penalty of Rs 13.96 million be paid to the bidder. In complete disregard to the orders of the court, the shops were not constructed and handed over to the successful bidder by PR. This resulted in loss of Rs 13.96 million to PR on account of penalty imposed by the court. This depicts negligence and slackness on the part of Railway management.

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 02.01.2024. The DAC was informed that the department had challenged the decision of the civil court in High Court and next hearing date was fixed for 12.01.2024. Further, PR had not paid any penalty so far and no loss was sustained by the department. DAC directed the PO to hire the best RCL to contest the case in the best possible manner in favour of the department. Compliance of DAC directives was awaited.

Audit recommends that matter be probed to fix responsibility for inordinate delay in construction of shops and action be taken against those held responsible. Land and contracts management should be improved to avoid recurrence.

DP 12377

2.5.29 Less recovery of land lease charges from a sponsor - Rs 6.08 million

According to Clause 15 of the Policy for leasing out the Railway land to government department for construction of roads dated 20.05.2019 in case the request for construction of road on Railway land is received from private housing

society with the NOC from District administration or road authority, the same shall be referred to Secretary/Chairman Railways for approval by recommending 100% DC/Market value (commercial rate) whichever is higher as land lease charges and Rs 3 per Sft per annum as ground rent for five years in advance.

During audit of the Civil Engineering Department, Rawalpindi in August 2023, it was observed that the estimate No.150/21-22 dated 30.09.2022 of deposit work for construction of underpass at km 1374/6-7 on Lalamusa-Rawalpindi Section was framed on the request of CEO/Buraq City. The value of 43.43 marla land was required to be assessed at market rate of Rs 700,000 per marla whereas value of land was calculated on DC rate of Rs 560,000 per marla which was lesser than market rate. Thus, PR sustained loss of Rs 6.08 million due to less recovery of land lease charges from the sponsor due to poor contract management and non-observance of rules.

The matter was taken up with the management in August 2023 and also discussed in DAC in meeting held on 19.01.2024. DAC took a serious view of the irregularity and ordered a fact-finding inquiry committee comprising CNE/Open Line, COPS and DG/Vigilance. DAC directed to submit inquiry report within three weeks with proper recommendation and responsible officials/officers. Compliance of DAC directives was awaited.

Audit recommends that matter be probed to fix responsibility for less recovery of land lease charge in violation of policy in vogue and amount involved be recovered from the sponsor. Internal controls be strengthened to avoid recurrence.

DP 12620

2.5.30 Non-deduction of 25% shrinkage of pitching stone – Rs 5.31 million

According to Para 1227 of Pakistan Railways Code for Engineering Department, it is not usually convenient to record in measurement books detailed measurement of work done by contractor in connection with the working of pitching stone. Further, as per Joint Engineering, Accounts and Operating Circular No.1, deduction of shrinkage for pitching stone at 25% of the quantity be made.

During audit of the Civil Engineering Department Sukkur in August 2023, it was observed that a contract for embankment of PAF Siding Jacobabad including supply of 179,050 Cft pitching stone was awarded to M/s Muhammad Shafique Ahmed & Co. in September 2022. The contractor supplied 196,751 Cft pitching stone for which payment of Rs 21.25 million was made without deduction of shrinkage charges @ 25% of the quantity supplied. This resulted in loss of Rs 5.31 million to the PR due to non-deduction of shrinkage of pitching stone.

The matter was taken up with the management in October 2023 and discussed in DAC meeting held on 02.01.2024. DAC directed the CEN/OL to submit the revised reply along with documentary evidence within one week. Compliance of DAC directives was awaited.

Audit recommends that amount involved be recovered from the contractor. Financial and contract management controls be strengthened to avoid recurrence.

DP 12315

2.5.31 Unauthorized excess issuance of material for sidings – Rs 4.90 million

According to Para 9 of the Chief Engineer/Open Line's notification dated 08.07.2008, it would be mandatory for sponsors that the entire estimated cost is deposited in advance and in case of part payment the tenders would not be invited and the period of completion would start from the date of full deposit of estimated cost.

During audit of Civil Engineering Department, Multan in August 2023, it was observed that:

- i. PR received Rs 5.49 million for repair of Military Siding, Rajput Nagar. However, material worth Rs 9.29 million was issued resulting in excess issuance of material valuing Rs 3.80 million. Later on, completion report was drawn on the basis of amount already received from sponsor instead of actual material issued to the Siding. The cost of excess material Rs 3.80 million was not recovered from sponsor.

- ii. Track material valuing Rs 1.09 million was issued irregularly for maintenance of private siding at Piranghaib without receipt of funds from the sponsor and without approval of competent authority.

This resulted in loss of Rs 4.89 million to PR due to unauthorized and excess issuance of material.

The matter was taken up with the management in October 2023 and also discussed in DAC meeting held on 21.11.2023. DAC directed the PO to submit comprehensive reply along with documentary evidence within two weeks. Compliance of DAC directives was awaited.

Audit recommends that matter be inquired to fix responsibility for unauthorized and excess issuance of material. Action be taken against those held responsible besides recovery of the amount involved either from the sponsoring agencies or from those found at fault.

DP 12337

Procurement Management

2.5.32 Misprocurement in violation of PPRA Rules – Rs 3,395.35 million

Para 3 of PPRA's letter dated 26.08.2022 clarifies that imposing the prerequisite of enlistment/registration of the bidder to participate in procurement process is not permissible under procurement regulatory framework. Since such practices defeat the spirit of principles of procurement and polarize the market, prevent new entrants, discourage competition. The National Accountability Bureau (NAB) after consultation with PPRA issued instructions vide letter dated 08.01.2014 that registration or enlistment of contractors by a procuring agency is not needed under PPRA Rules 2004 nor any charging of fee on this account is admissible and this practice should be stopped forthwith as it supports corrupt practices.

During audit of the project "Special Repair of 100 DE Locomotives (New)" in March 2023, it was observed that five (5) Tender Bulletins were issued from June 2020 to June 2022 for procurement of material on FOB and FOR basis. These

tenders were advertised on single stage two envelop method basis. It was mentioned in the eligibility criteria that only LP approved local firms and regular approved firms for FOB were allowed to participate. The whole process was in violation of PPRA rules and clarifications, which restricted the competition and resulted in irregular procurements. Thus, irregular procurement of material valuing Rs 3,995.35 million was made only from registered firms in violation of the rules *ibid*.

The matter was taken up with the management in April 2023 and discussed in DAC meeting held on 02.01.2024. DAC evaluated the reply of CME/Loco which affirms the practice/policy of Pakistan Railways regarding registration of firm. DAC directed the CME/Loco to get the clarification from the PPRA authorities. Compliance of DAC directives was awaited.

Audit recommended that matter be inquired to fix responsibility for restricting the competition irregularly and making irregular procurement against PPRA Rules. Action may be taken against the defaulter(s) and internal controls be strengthened to avoid recurrence.

DP 12278

2.5.33 Irregular award of contract and non-supply of material – Rs 329.90 million

In terms of Clause 20 of Special Terms & Conditions of Tender, the successful bidder will have to deposit the security money @ 5% of the total value of contract within 14 days from issuance of letter of acceptance. Further, Clause 7 (c) provides that bid security shall be forfeited if the successful bidder fails to submit performance security within specified period. Furthermore, Clause 9 (iii) of the purchase order provides that the warranty shall be valid for 12 months from date of receipt of last supply of material. Inspectors (AENs) will be appointed as member of inspection committee for different lots to ensure quality of material.

During audit of the Chief Controller of Purchases in August 2023, it was observed that contract for procurement of 15,000 Wooden Sleepers (56,250 Cft) valuing Rs 310,500,000 and 50,000 kg Coal Tar Creosote valuing Rs 19,400,000 was awarded to M/s I. Trade Karachi vide Purchase Order dated 26.05.2022. Following irregularities were observed:

- i) Acceptance letter was issued to contractor on 25.02.2022 whereas performance security was submitted by contractor after a period of more than two months instead of 14 days. The bid should have been cancelled after forfeiture of bid security.
- ii) The contractor supplied only 2,284 sleepers (15%) valuing Rs 47.26 million within delivery period i.e. 25.05.2023. However, Railway management neither terminated the contract by forfeiture of security deposit nor extended the delivery period with imposition of LD charges amounting to Rs 14.48 million. Moreover, the bank guarantee of Rs 16.49 million submitted by the firm was expired but same was not got renewed.
- iii) The supplied wooden sleepers were inspected by one AEN whereas different inspectors were required to be appointed for each lot as per purchase order.

This resulted in irregular award of contract valuing Rs 329.90 million in violation of terms & conditions of tenders besides loss to PR on account of non-recovery of LD charges and non-renewal of bank guarantee.

The matter was taken up with management in December 2023 and discussed in DAC meeting dated 01.02.2024. DAC directed the CCP to submit revised reply along with supporting documents within three days. Compliance of DAC directives was awaited.

Audit recommends that matter be inquired to fix responsibility for irregular award of contract and non-renewal of bank guarantee causing loss due to non-supply of material. Procurement and contract management controls be improved to avoid recurrence.

DP 12472

2.5.34 Non-forfeiture of performance guarantee and commission of contractor due to defective functioning of Electric Arc Furnace –Rs 124.80 million

Clause 8 of Purchase Order No. 15/0046/00-0/1-2017 dated 07.03.2018 for Supply, installation and commissioning of Electric Arc Furnace provides that in case of warranty replacement/short shipment, freight, custom duty/sales tax, charges will be paid/recovered from the firm M/s Trans Globe. PR will be at liberty to deduct the outstanding/recoverable amount from any payment from firm due from Railways or through encashment of Bank Guarantee/CDR or any other financial document available with Railway against security deposit, earnest money etc.

During audit of Steel Shop Mughalpura in November 2023, it was observed that the work for installation and commissioning of Electric Arc Furnace costing USD 1,480,560 was not completed as per terms and conditions of purchase order. The workshop management pointed out certain deficiencies in supply, installation and commissioning in August 2023. Resultantly, the Electric Arc Furnace was not properly operational due to contractor's fault despite lapse of five years. The Railway management had neither taken steps for proper functioning of furnace nor performance guarantee of Rs 41.60 million and commission Rs 83.20 million were forfeited.

The matter was taken up with the management in November 2023 and discussed in DAC meeting dated 01.02.2024. DAC directed the CCP to submit revised reply along with supporting documents within three days Compliance of DAC directives was awaited.

Audit recommends that matter be inquired at appropriate level for non-rectification of deficiencies in supply, installation and commissioning of electric arc furnace. The shortcomings be corrected by forfeiting the available security deposits of contractor.

DP 12525

2.5.35 Fudge payment on procurement of imported spare parts and non-receipt of material – Rs 102.95 million

According to POO 580 dated 27.01.2016 and POO 582 dated 10.10.2017, Letter of Credit (LC) would be established on Original Equipment Manufacturer (OEM), however in special cases it would be established in the name of authorized principal of manufacturer on the recommendation of tender committee. In this scenario firm would submit manufacturer compliance certificate along-with shipping documents to the bank at the time of LC negotiation.

During audit of Railway Constructions Pakistan Limited (RAILCOP) in March 2023, it was observed that Ballast Cleaning Machine (BCM) along with spare parts was procured from Plasser & Theurer, Austria in 2016. RAILCOP management prepared a purchase requisition on 25.03.2021 for procurement of spare parts for BCM valuing Rs 102.95 million through LC-39 in 2022. Audit observed that no LC was opened by RAILCOP and spare parts were purchased from a local supplier M/s Waris International. Further, audit verification revealed that alledged newly procured material was not found in the store of Track Machine Shop at Raiwind rather spare parts purchased in 2016 were available. The review of record revealed that 73% inventory was available in the store at the time of new procurement and only 27% of inventory was consumed during last 5 years. Moreover, manufacturer compliance certificate and shipping documents showing authenticity of procurement were not available on record. This resulted in fudge payment against already available spare parts of Ballast Cleaning Machine amounting to Rs 102.95 million.

The matter was taken up with the management in December 2023 and discussed in the DAC meeting held on 30.01.2024. DAC directed the MD/Railcop to resubmit the reply in the light of discussion held during the para within one week. Further, DAC directed DG/Vigilance to conduct a fact finding inquiry and submit report within one month. Compliance of DAC directives was awaited.

Audit recommends that matter be investigated to fix responsibility for fudge payment to a contractor without receipt of material and amount of loss be recovered from the defaulter(s). Procurement management controls be improved to avoid recurrence.

2.5.36 Irregular expenditure in violation of PPRA rules – Rs 64.76 million

Rule 9 of the Public Procurement Regularity Authority (PPRA) Rules-2004, provides that a procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly without any splitting or regrouping of the procurements so planned.

During audit of two formations of PSDP Projects instances of splitting of purchases worth Rs 64.76 million in violation of PPRA rules were observed. It was also observed that splitting of purchases was done to avoid the approval and concurrence of higher authorities.

(Rs in million)

SN	DP No	Formation	Description	Amount
1	12160	“Special Repair of 100 DE Locomotives (New)”	Locomotive spare parts	59.41
2	12223	Project of re-commissioning of 05 accidental locos	Locomotive spare parts	5.35
Total				64.76

The matter was taken up with the management in August and September 2023 and discussed in DAC meetings held on 19.09.2023 and 17.10.2023. DAC directed the PO to submit a comprehensive reply along with documentary evidence within one week. Compliance of DAC directives was awaited.

Audit recommends that matter be probed to fix responsibility for splitting up of procurements of similar nature resulting in mis-procurement. Irregular expenditure be got regularized from the concerned forum, and Internal controls be strengthened to avoid recurrence.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2018-19, 2019-20 & 2020-21 vide paras No 2.4.17, 2.5.44 & 2.5.6 having financial impact of Rs 510.04 million. Recurrence of same irregularity is a matter of serious concern.

2.5.37 Loss due to non-receipt of imported parts despite advance payment – Rs 25.60 million

As per Article-4 of contract agreement-2016 executed between Pakistan Railways and Equinox (Pvt) Ltd regarding terms of payment, the total contract price shall be paid to the contractor as per the invoices submitted according to the respective scope of work as detailed in Appendix-I and allowing partial payments against partial delivery /shipment and services.

During the audit of project, “Rehabilitation of Railway Assets Damaged during Riots December 2007”, it was observed that a contract was awarded to Equinox (Pvt) Ltd for procurement of imported material on FOB basis for up-gradation of Bin Qasim Yard including all new signaling works and provision of communication with adjacent stations in 2016. As per Appendix-1 (bill of quantities) 08 sets of Axle Counter Block Section (Imported) were required to be supplied by Equinox. However, only 04 sets were received and installed and balance quantity of 04 sets was not provided but payment had been made. Resultantly, PR suffered loss of Rs 25.60 million on account of excess payment to Equinox due to non-supply of desired quantity as per BoQ.

The matter was taken up with the management in September 2023 and discussed in DAC meeting held on 17.10.2023 directed the PO to submit comprehensive revised reply within one week to Audit. Compliance of DAC directives was awaited.

Audit recommends that matter be taken up with the contractor for supply of material without further delay otherwise punitive action be taken against them as per provisions of the agreements. Contract management controls be strengthened to avoid recurrence.

DP 12212

2.5.38 Installation of defective weighbridge – Rs 19.20 million

As per Clause 3.1 of bidding documents, the manufacturer/supplier shall guarantee the weighbridge components regarding appropriate and safe design, material, and workmanship and for satisfactory performance for a period of 18 months from date of installation in the track or 24 months from date of shipment, whichever is earlier. Further, Clause 3.2 provides that the manufacturer/supplier shall provide warranty for carrying out repair free of cost or by replacing the parts which became defective during warranty period.

During audit of the Pakistan Railways Freight Transportation Company (PRFTC) in March 2023, it was observed that contract for supply, installation, commissioning, operating and maintenance of computerized weighbridge (Dynamic System) at Begmaji (Rohri) with cost of Rs 34.38 million was awarded to M/s Hussain Corporation on 16.06.2021. The contractor installed the weighbridge on 26.02.2022 and conducted seven trials that gave imperfect weight measurement. However, an amount of Rs 19.20 million (60% of bid value) was paid to the contractor in April 2022 despite the fact that the weighbridge was not working properly. After lapse of eight (8) months, PRFTC terminated the contract on 02.12.2022. This resulted in loss of Rs 19.20 million to the PRFTC due to installation of defective weighbridge.

The matter was taken up with the management in September 2023 and discussed in DAC meeting held on 12.09.2023. DAC was informed that an amount of Rs 10.50 million had been recovered from the contractor and remaining amount would be recovered from his payments against other works. DAC directed the PO to get the recovered amount verified from Audit within one week and balance amount be recovered latest by 30.09.2023. Compliance of DAC directives was awaited.

Audit recommends that documentary evidence in support of already recovered amount be provided and efforts be made to recover the balance amount under intimation to Audit.

DP 12220

2.5.39 Loss due to award of contract at higher rates – Rs 18.18 million

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

During audit of the Chief Controller of Purchases in August 2023, it was noticed that tenders dated 06.12.2019 for procurement of two overhead cranes were not finalized within bid validity and same were purchased at higher rate, from the same bidder, through subsequent tender. Further, it was observed that tenders dated 11.03.2021 for procurement of ten DG Sets were not finalized at the first instance on the plea of higher rate, however same were purchased through subsequent tenders at higher rates.

(Rs in million)

SN	DP No.	Items	Qty	1 st Tender		2 nd Tender		Amount
				Rate	Date	Rate	Date	
1	12322	Overhead Cranes	02	31.42	06.12.2019	36.20	09.04.2021	9.55
2	12342	DG Sets	10	2.39	11.03.2021	3.25	01.10.2022	8.63
Total								18.18

This resulted in loss of Rs 18.18 million to Pakistan Railways due to delay in finalization of tender case of overhead cranes and unjustified dropping of first tenders of DG sets.

This matter was taken up with the management in October 2023 and discussed in DAC meeting held on 21.11.2023. DAC was not satisfied with management reply and directed the PO to submit revised reply within two weeks. Compliance of DAC directives was awaited.

Audit recommends that responsibility be fixed and action be taken against those held responsible for non-finalization of tenders in time which caused loss to the PR. Internal controls regarding procurement management be strengthened to avoid recurrence.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2018-19, 2019-20 & 2022-23 vide paras No 2.5.59, 2.5.87, 2.5.59 having financial impact of Rs 7,376.80 million. Recurrence of same irregularity is a matter of serious concern.

2.5.40 Unjustified acceptance of unsuitable material – Rs 16.65 million

Clause 3.2 of the Purchase Order No. 3CF/4P/0700/2021 dated 23.11.2021 provides that all ways and means would be used for inspection of the material to certify that the material is in conformity with specifications/ standards/designs mentioned in the purchase order. Further, as per Clause 9 of the enclosure to the above Purchase Order, the seller warrants that material would be in accordance with the particulars mentioned in the Purchase Order.

During audit of the project Special Repair of 600 Coaches and 1200 Bogie Wagons in March 2023, it was observed that 181 sets of Rubber Bulge valuing Rs 16.65 million were procured from M/s Pak Alliance, Lahore vide Purchase Order No. 3CF/4P/0700/2021 dated 23.11.2021. The material was tested by the Chief Chemist & Metallurgist, Lahore and reported that the Average Shore Hardness was 67 against minimum requirement of 70. This indicated that material was unsuitable but the same was accepted by Railway management. This resulted in acceptance of unsuitable material valuing Rs 16.65 million by extending undue favour to the contractor.

The matter was taken up with the management in August 2023 and discussed in DAC meeting held on 05.09.2023. The DAC directed the PO to submit comprehensive reply along with documentary evidence within one week. Compliance of DAC directives was awaited.

Audit recommends that matter be inquired to fix responsibility for acceptance of material not conforming to Railway specifications. Internal controls regarding procurement be strengthened to avoid recurrence.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2018-19, 2019-20, 2021-22, 2022-23 vide paras No 2.4.65, 2.5.90, 2.5.24, 2.5.25, 2.5.9, 2.6.12, 2.5.9 having financial impact of Rs 326.66 million. Recurrence of same irregularity is a matter of serious concern.

2.5.41 Non/short recovery of performance security – Rs 14.65 million

According to Chief Engineer/Open Lines Letter No. 128-W/ 0/24/PT-II(W-I) dated 09.02.2017, 10% performance guarantee of works having face value more than Rs 10 million was required to be recovered from the contractor in the shape of CDR or bank guarantee as per standard specimen of PEC.

During audit of the Civil Engineering Department, Sukkur in August 2023, it was observed that four works of supply, stacking and loading into Railway wagons 2” size mechanically crushed stone ballast at Khanpur, Walhar, Sadiqabad and Sukkur valuing Rs 200.57 million were awarded to different contractors from April 2022 to July 2023. All the contracts had value more than Rs 10 million but performance security @ 10% was not obtained. In two cases, performance guarantee was obtained @5% and in remaining two cases no guarantee was obtained. This resulted in short/ non-recovery of performance guarantee of Rs 14.65 million due to non-observance of rules.

The matter was taken up with the management in October 2023 and discussed in the DAC meeting held on 12.01.2024. DAC directed the CEN/Open Line to resubmit a reply and reconcile the amount with Audit. Compliance of DAC directives was awaited.

Audit recommends that matter be inquired to fix responsibility for short/non-recovery of performance guarantee and amount of performance guarantee be recovered from the contractors. Internal controls regarding contract and procurement management be improved to avoid recurrence.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2018-19, 2019-20, 2020-21, 2021-22, 2022-23 vide paras No 2.4.72, 2.5.28, 2.5.5,

2.5.36, 2.5.38 having financial impact of Rs 216.08 million. Recurrence of same irregularity is a matter of serious concern.

2.5.42 Irregular award of a civil work without open competition – Rs 14.09 million

According to Rule 20 of Public Procurement Rules - 2004, the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.

During audit of the Civil Engineering Department, Multan in August 2023, it was observed that Railway management awarded a contract for widening/conversion of bridges No. 131, 131A and 131B along with permanent raising of track between Kalanchwala and Samasatta Railway stations for Rs 136.98 million to M/s Techno Time Construction in January 2022. During execution of work, another work for providing temporary diversion of double track valuing Rs 14.09 million was also awarded to the same contractor in December 2022 without open competition through addendum slip. This resulted in irregular award of a civil work valuing Rs 14.09 million without open competition.

The matter was taken up with the management in October 2023 and discussed in DAC meeting held on 21.11.2023. DAC directed the CEN/Open Line to resubmit a reply based on the discussion held. Compliance of the DAC directives was awaited.

Audit recommends that matter be inquired to fix responsibility for award of work without open competition, in violation of PPRA Rules-2004 and action be taken against the defaulter(s). Internal controls regarding contract and procurement management be strengthened to avoid recurrence.

DP 12328

2.5.43 Irregular award of cash collection contract – Rs 7.73 million per annum

According to Rule 31 (1) no bidder shall be allowed to alter or modify his bid after the bids have been opened. However, the procuring agency may seek and accept clarifications to the bid that do not change the substance of the bid. Rule 40 (1) also provides that without changing the cost and scope of work or services, the

procuring agency may negotiate with the successful bidder with a view to streamline the work or task execution, at the time of contract finalization.

During audit of the Pakistan Railway Advisory and Consultancy Services (PRACS) in March 2023, it was observed that cash collection contract of Rahman Baba Express was awarded to Silk/Emaan Islamic Bank for Rs 7.73 million per annum which was irregular due to following reasons:

- i. Tender was advertised on 09.10.2022 without formulating and issuance of bidding documents to the bidders. Minutes of pre-bid conference were not available on record in clear violation of PPRA rules *ibid*.
- ii. In violation of PPRA rules, the bid offered by Silk / Emaan Islamic Bank was altered from Rs 800 per outlet to Rs 650 per outlet.
- iii. The bank was not collecting cash from all the designated points as per MOU and booking agencies were depositing the cash into Allied bank at their own. Further, the bank was also not collecting cash on daily basis and in certain cases cash was deposited in to Allied bank instead of Silk bank by the security companies nominated by the bank for cash collection. This made the whole process of cash collection risky and cumbersome. No action was taken by the management against the bank for violation of MOU.

The matter was taken up with the management in December 2023 and discussed in the DAC meeting held on 30.01.2024. DAC directed the MD/PRACS to collect all the relevant documents from Audit and resubmit reply along with documentary evidence to Audit. Compliance of the DAC directives was awaited.

Audit recommends that responsibility be fixed for irregular award of contract without observance of PPRA rules and violation of MOU by bank. Action be taken against those held responsible besides regularization of contract from competent forum.

2.5.44 Short and defective supply of material - Rs 5.88 million

Para 316 (a) of Pakistan Railways Code for the Accounts Department provides that the amounts due to Pakistan Railways for services rendered, supplies made, or for any other reason, are correctly and promptly assessed and recovered as soon as they fall due.

During audit of Railway Constructions Pakistan Limited (RAILCOP) in March 2023, it was observed that M/s RAILCOP executed an agreement dated 25.02.2022 with M/s MI Enterprises for supply of 600 metric ton 3mm Mild Steel Shuttering at Marshaling Yard Pipri, Karachi. RAILCOP made 100% advance payment of Rs 6.97 million from March to May 2022 but contractor delivered only 300 metric ton shuttering and remaining 300 metric ton valuing Rs 3.48 million was not supplied. Further, the same contractor supplied 3,200 Y Angles worth Rs 2.40 million on 18.03.2022, which were returned by RAILCOP being substandard. Security money of the contractor Rs 2.25 million was released but replacement of defective material was not received. This indicated that unjustified payment of Rs 5.88 million was made to the contractor against short and defective supply of material due to negligence of management and weak internal controls.

The matter was taken up with the management in August 2023 and discussed in DAC meeting held on 05.09.2023. DAC took serious view of the issue and directed the PO to strengthen internal controls. DAC further directed pursue the case with FIA vigorously and recoveries be made. Compliance report along with documentary evidence be submitted to Audit within one month. Compliance of the DAC directives was awaited.

Audit recommends that responsibility be fixed for making unjustified 100% advanced payment. Action be taken against those held responsible besides recovery of the amount involved either from the contractor or from the person found at fault.

DP 12194

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2018-19, 2019-20, 2021-22 vide paras No 2.4.15, 2.5.36, 2.5.22 & 2.5.22 having financial impact of Rs 465.97 million. Recurrence of same irregularity is a matter of serious concern.

2.5.45 Unauthorized amendments in bid after opening of LC - Rs 4.76 million

In terms of clause 18 of the terms & conditions of tender No. 15/0010/00-0/1-2021 dated 09.11.2021, the bidder must supply the warranty certificate (in original), from the manufacturer along with technical bid. Clause 6 further stipulates that 100 % FOB value of the order shall be paid to the manufacturer through a confirmed and irrevocable Letter of Credit (LC). However, on recommendation of tender committee, the LC can be opened in the name of authorized principal of manufacturer.

During audit of the Chief Controller of Purchases Lahore in August 2023, it was observed that a single bid of M/s Tecno worldwide Impex Lahore for supply of Probe Search Units for Ultrasonic Flaw Detector Rail Tester was accepted without original warranty certificate of the manufacturer. LC valuing Rs 4.76 million (JPY 3,133,104) was opened on 14.06.2022 wherein, warranty certificate was modified on the request of the firm as 'warranty certificate from manufacturer/principal'. Purchase order dated 01.03.2022 was opened in the name of manufacturer "Tokyo Keiki Rail Tecno Inc Tokyo Japan" but same was irregularly modified in the name of principal "Ogawa Seiki Co. Ltd. Tokyo Japan". Moreover, original delivery period was 31.08.2022 but contractor failed to supply the material up to 31.10.2023. This resulted in irregular acceptance of defective bid of material valuing Rs 4.76 million in violation of tender conditions.

The matter was taken up with the management in December 2023 and discussed in DAC meeting dated 01.02.2024. DAC directed the CCP to submit revised reply along with supporting documents within three days. Compliance of DAC directives was awaited.

Audit recommends that matter be inquired to fix responsibility for irregular acceptance of defective bid and amendments made after opening of LC. Internal controls regarding procurement management be strengthened to avoid recurrence.

2.5.46 Excess payment to the contractor for unexecuted work – Rs 3.91 million

According to Composite Schedule of Rates (Sukkur Division) 2016 item 5.7.1 (a) (ii) regarding reinforced/pre-stressed concrete, the rates included rendering surface smooth and plastering done for making up all surfaces after removing centering. If plastering for smoothing surface was not done the rate be reduced by 10%.

During audit of Civil Engineering Department, Sukkur in August 2023, it was observed that work regarding reinforced/pre-stressed concrete for construction of four RCC Box Culvert Bridges on PAF Siding, Shahbaz Air Base Jacobabad, was executed without plastering for smoothing surface. However, payment was made to the contractor @ Rs 343 per Cft instead of 10% reduced rate of Rs 308.70 per Cft. This resulted in excess payment of Rs 3.91 million to the contractor due to weak internal controls and slackness of management.

The matter was taken up with the management in October 2023 and discussed in DAC meeting held on 21.11.2023. DAC directed the Audit to reexamine the reply submitted by the CEN/Open Line. In compliance of DAC directives, Audit reexamined the matter and was of the view that plastering was not done; therefore, payment was required to be made at reduced rates mentioned in the CSR 2016.

Audit recommends that matter be inquired to fix responsibility for excess payment to the contractor and amount in question be recovered from the contractor. Internal controls regarding contract management be strengthened to avoid recurrence.

DP 12343

Note: The issue was also reported earlier in the Audit Report for Audit Year 2021-22 vide para No 2.5.21 having financial impact of Rs 38.37 million. Recurrence of same irregularity is a matter of serious concern.

Inventory and stores management

2.5.47 Non-Disposal of Scrap/released material - Rs 4,681.66 million

Para 2403 of Pakistan Railways Code for the Stores Department provides that the Store Department should arrange for the regular collection of all scrap from consuming departments and for its disposal to the best advantage of the Railways. If scrap is to be disposed-off by public auction, arrangements should be made for its collection at convenient points for the purpose of such sales.

During audit of eleven (11) different formations of Pakistan Railways from September to December 2023, twelve (12) cases of accumulation of scrap and released material were observed. This indicated that scrap/released material was not disposed of due to poor management which resulted in blockage of capital amounting to Rs 4,681.66 million (**Annexure-7**).

The matter was taken up with the management in August to November 2022 and discussed in DAC meetings held on 21.11.2023 17.10.2023 and 05.01.2024. DAC directed the POs to ensure effective material management at central and divisional level. DAC further directed the PO to submit revised reply supported with documentary evidence. Compliance of DAC directives was awaited.

Audit recommends that action for proper disposal of scrap be taken. Responsibility for unnecessary retention of scarp be fixed and remedial measures be adopted to avoid recurrence.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2018-19, 2019-20, 2021-22 & 2022-23 vide paras No 2.4.39, 2.5.57, 2.5.29 & 2.5.18 having financial impact of Rs 3,536.86 million. Recurrence of same irregularity is a matter of serious concern.

2.5.48 Excessive procurement and non-consumption of material – Rs 224.72 million

According to Para 2217 of Pakistan Railways Code for the Stores Department, items of stores which have not been issued from stock for Railway

consumption for the period of two years will be declared as surplus stock. Further, Para 2233 stipulates that the Stores Department of Railway should be organized to deal effectively with the disposal of surplus stock, either by sale or issue, or transfer to other Railways.

During audit of the Mechanical Department, Workshops Division Mughalpura, Lahore in September 2023, it was observed that material valuing Rs 192.73 million was lying unutilized in Carriage & Wagons and Loco Depots for the period ranging from 24 to 414 months. Further, it was observed that material valuing Rs 31.99 million was available above maximum limit. This indicated that material was purchased in excess of requirements and subsequently not utilized due to poor inventory management which resulted in blockage of capital Rs 224.72 million.

(Rs in million)

SN	Description	Material lying from 24 to 414 months	Material above maximum limit	Total
1	Carriage and Wagons Depots	83.22	0.83	84.05
2	Loco Depots	109.51	31.16	140.67
Total		192.73	31.99	224.72

The matter was taken up with the management in December 2023 and discussed in DAC meeting held on 01.02.2024. DAC showed displeasure on the ignorance and time over run in handling this issue and ordered a fact finding inquiry

by DG/Vigilance, FA&CAO/PR and CCP and submit the report within one month. Compliance of DAC directives was awaited.

Audit recommends that action be taken for blockage of capital due to excessive and above maximum procurement of material. A policy should be framed for surplus material. Action be taken for beneficial consumption of material and inventory management be improved to avoid blockage of capital.

DP 12559

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2018-19, 2019-20, 2021-22, 2022-23 vide paras No 2.4.43, 2.5.22, 2.5.28 & 2.5.19 having financial impact of Rs 1,870.74 million. Recurrence of same irregularity is a matter of serious concern.

2.5.49 Non-replacement of defective material – Rs 102.44 million

According to Para 761 of Pakistan Railways Code for the Stores Department, stores should be checked with the standard specifications or drawing on which the order is based. Further, Clause 12.5 of the Maintenance Contract No. PR/DEL Maintenance/2017 dated 15.07.2017 provides that warranty replacement will be arranged by the seller at the earliest but not later than 90 days.

During audit of the following four (04) formations from March to September 2023, it was observed that spare parts of rolling stock valuing Rs 102.44 million supplied by the contractors were found defective after fitment during 2018 to 2023. PR management failed to get replacement of defective material, till finalization of Audit Report, despite lapse of considerable period of time.

(Rs in million)					
SN	DP No.	Formation	Description of material	Period	Amount

1	12323	Chief Controller of Purchase	Spare parts of locomotives	March 2020 to May 2023	49.42
2	12537	Mechanical Department Workshops Mughalpura	Primary Vertical Oil Dampers	2018 to 2020	37.65
3	12538	Mechanical Department, Workshops Division, Mughalpura	Spare parts of locomotives	April 2019 to Dec 2022	12.07
4	12142	Project “Special Repair of 100 DE Locomotives (New)”	Spare parts of locomotives	2020-21	3.30
Total					102.44

The matter was taken up with the management in July to December 2023. Against Sr.No.1, 2 & 3 DAC in its meetings held on 21.11.2023 & 01.02.2024 directed the PO to submit revised reply along with documentary evidence within one week. Against Sr.No.4, DAC in its meeting held on 05.09.2023 directed the PO to ensure replacement of defective material within warranty period. The PO should ensure that corrective measures had been taken to resolve such issues in a timely manner and compliance report be submitted to Audit within two weeks. Compliance of DAC directives was awaited.

Audit recommends that responsibility be fixed for delay in getting replacement of material. The defective material be got replaced without further delay and procurement management be improved to avoid recurrence.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2018-19, 2019-20, 2020-21, 2021-22, 2022-23 vide paras No 2.4.70, 2.5.16, 2.5.7,

2.5.30 & 2.5.20 having financial impact of Rs 2,353.31 million. Recurrence of same irregularity is a matter of serious concern.

2.5.50 Blockage of capital due to unnecessary production of track material – Rs 39.63 million

According to Para 807 of Pakistan Railways General Code, every public officer should exercise the same vigilance in respect of expenditure incurred from government revenues as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

During audit of Railway Constructions Pakistan Limited (RAILCOP) in March 2023, it was observed that 11 items of track material valuing Rs 39.63 million manufactured in the Track Workshop Raiwind were not issued since September 2018. RAILCOP manufactured track material in Track Workshop Raiwind on the demand of Pakistan Railways. However, non-issuance of manufactured material despite lapse of more than five years indicated that these items were manufactured without any demand. This resulted in blockage of capital of Rs 39.63 million due to unnecessary production of material.

The matter was taken up with the management in September 2023 and discussed in the DAC meeting held on 12.01.2024. DAC directed the MD/Railcop & CEN/Open Line to examine the conditions that led to production which could not be utilized despite laps of four years which predicts that the order was made without rational analysis.

Audit recommends that matter be inquired to fix responsibility for unnecessary production of material. Action be taken against those held responsible and internal controls regarding inventory and contract management be strengthened.

DP 12262

Revenue Management

2.5.51 Irregular booking of goods without verification of weight

Para 15.2 of Pakistan Railway Commercial Manual stipulates that when the weight of a consignment had already been declared by senders on the Consignment Note such declaration should invariably be tested by weighing it. Para 15.5 further provides that at station provided with weighbridge the whole of the consignment or wagon load should be weighed.

During audit of following two formations in February 2023, it was observed that goods were booked from Karachi Bunder, Karachi City and Port Bin Qasim stations on the basis of weightment sheets of private weighbridges without verification by Railway officials. Freight charges were also calculated on the basis of unverified weightments due to which chances of under weightment could not be ruled out. Thus, irregular booking of goods without verification of weightment by Railway officials made the freight charges of Rs 13,875.37 million unauthentic.

(Rs in million)

SN	DP No.	Formation	Period of	Amount
1	12282	Station Superintendent Port Bin Qasim Station Karachi	July 22 to June 23	12,575.62
2	12169	Commercial & Transportation Department Karachi	July 22 to January 23	1,299.75
Total				13,875.37

The matter was taken up with management in August 2023. Against Sr.No.1, DAC directed the CCFM and CMM to take course corrective measures within one week and submit a comprehensive reply with supporting documents. Against Sr.No.2, DAC in its meeting held on 19.09.2023 directed the inquiry committee headed by Dy: COPS/Power, Dy: CEE and Dy: CEN/Track to conduct inquiry within two weeks. DAC further directed the Railway administration to take measures to avoid such practices in future. Compliance of DAC directives was awaited.

Audit recommends that responsibility be fixed for irregular booking of freight on the basis of unverified weightment sheets and suitable action be taken against the defaulters. Internal controls be strengthened to avoid recurrence.

Note: The issue was also reported earlier in the Audit Report for Audit Year 2022-23 vide para No. 2.5.96 having financial impact of Rs 2,070.67 million. Recurrence of same irregularity is a matter of serious concern.

2.5.52 Loss due to non-imposition of penalty to contractors – Rs 805.20 million

As per clause 3.1.1 and 3.1.2 of the agreement executed between Pakistan Railways and M/s Irfanullah and M/s Ocean Mark, the later will endeavor to transport six trains per month of containers from Karachi Port and Port Muhammad Bin Qasim to Azakhel Dry Port. In case of their failure to transport minimum 120 TEUs Containers per month, penalty charges per wagon should be recovered as short transportation charges on levied rates from FDA.

During audit of Karachi Bunder Dry Port in March 2023, it was observed that M/s Ocean Mark and M/s Irfanullah failed to provide 06 trains per month. The contractors failed to provide the committed freight business as per provision of the agreements but penalty clause regarding short transportation was not invoked. Thus, PR suffered loss on account of non-imposition of penalty amounting to Rs 805.20 million on account of short transportation by the contractors during July 2021 to January 2023.

The matter was taken up with management in December 2023 and discussed in DAC meeting held on 30.01.2024. DAC directed the CMM to submit comprehensive reply in consultation with DS/Karachi within one week. Compliance of DAC directives was awaited.

Audit recommends that responsibility be fixed for not invoking penalty clause of the agreements despite failure by of the contractors to provide committed freight business. Action be taken against the defaulters and implementation of agreements be improved to avoid recurrence.

DP 12478

2.5.53 Loss of earnings due to non-auction of surplus sites – Rs 610.94 million

According to Para 807 of Pakistan Railway Code for the Engineering Department, all Railway land should be managed on commercial lines, and each Railway administration should endeavor to develop the resources of, and put to

profitable use, any areas in its occupation which, though not eligible for disposal are lying idle and can be put to profitable use. Such land is referred to hereinafter as 'available' land.

During audit of six (06) different formations from March to September 2023, it was observed in nine (09) instances of surplus sites which included vending stalls, parking stand, shops and godowns etc. remained un-auctioned from 2013 to 2023. This resulted in loss of potential earnings of Rs 610.94 million due to negligence of PR management (**Annexure-8**).

The matter was taken up with the management in July to December 2023 and discussed in DAC meetings held on 19.09.2023, 17.10.2023, 02.01.2024 and 25.01.2024. DAC took serious view of the delay in processing the auctions. DAC directed the POs to submit comprehensive reply supported with documentary evidence within one week. Compliance of DAC directives was awaited.

Audit recommends that the matter may be probed to fix responsibility for non-auction of surplus sites despite lapse of up to ten years. Efforts be made for the auction of surplus sites without further delay and property & land management be improved to avoid recurrence.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2018-19 and 2019-20 vide paras No. 2.4.60 and 2.5.83 having financial impact of Rs 1,257.83 million. Recurrence of same irregularity is a matter of serious concern.

2.5.54 Loss due to non-levy of storage charges – Rs 358.69 million

Para-2321(m) of Pakistan Railway Code for the Stores Department stipulates that materials not removed within one month from date of sanction to the sale or such other time as may have been specified will be subject to storage charges at rates that will be fixed by the Railway. Further, clause-6(b) of Standard Directions to Tenderers for sale of scrap provides rates of storage charges @ Rs 5 per 1,000 per day of the cost of total balance scrap not lifted.

During audit of the District Controller of Stores (Main Depot) Mughalpura, Lahore in September 2023, it was observed that Railway management issued 10 sale orders of 10,194 M. Ton scrap valuing Rs 1,312.97 million to M/s Peoples Steel Mills (Pvt.) Ltd. in February 2023 with lifting period of 05 months up to

22.07.2023. Subsequently, lifting period was extended till 31.10.2023 without storage charges but contractor failed to lift 5,515 M. Ton scrap. The extension in the lifting period without storage charges was unjustified being not covered under any legal authority. This resulted in loss to PR due to non-levy of storage charges of Rs 358.69 million for the period from July to October 2023.

The matter was taken up with management in December 2023 and discussed in DAC meeting dated 01.02.2024. DAC directed the CCS to submit a comprehensive reply in the light of discussion held during the meeting within one week. Compliance of DAC directives was awaited.

Audit recommends that matter be inquired to fix responsibility for non-levy of storage charges and action be taken for recovery of the amount involved. Internal controls be strengthened to avoid recurrence.

DP 12540

2.5.55 Non-imposition of penalty on M/s MLCFL due to failure in providing committed freight business - Rs 189.91 million

Clause 2.1(b) of the agreement dated 09.06.2014 executed between Pakistan Railway and M/s Maple Leaf Cement Factory Ltd (MLCFL) for transport and delivery of coal/ petcoke/ cement and return transport and delivery of cement/ clinker, 22,000 Tons every month from the factory to the dispatch points intimated by MLCFL. Clause 3.12 further provides that in case, the quantity of the cargo to be transported, as provided by MLCFL, is less than the quantity mentioned in the agreement (after taking into account the allowed variation of 10%), then PR shall be allowed to debit the freight deposit account with such amount as calculated by the Review Committee as penalty, such penalty shall be equal to 50 % of the per ton freight charge in lieu of the deficient quantity.

During audit of the Commercial & Transportation Department Karachi in February 2023, it was noticed that M/s MLCFL transported only 11,524 tons cement against the agreed quantity of 418,000 tons (22,000 x 19 months) from Daud Khel to Karachi Bunder during the period from July 2021 to January 2023. The Railway management had not invoked penalty clause on short transportation of cement/ clinker by M/s MLCFL. This indicated that undue favor was extended

to the contractor due to which PR suffered loss of Rs 189.91 million for the period from July 2021 to January 2023.

The matter was taken up with the management in July 2023 and discussed in DAC meeting held on 05.09.2023. The DAC directed the PO to submit a comprehensive reply along-with documentary evidence by today. Compliance of DAC directives was awaited.

Audit recommends that matter be inquired for non-recovery of penalty charges provided in the agreement and amount involved be recovered from the contractor. Internal controls regarding contract management be strengthened to avoid recurrence.

DP 12156

2.5.56 Non-payment of round-trip charges and unilateral stoppage of booking of coaches – Rs 48.23 million

According to Clause 6.1 of the agreement dated 01.01.2023 for commercial management of Rahman Baba Express, PRACS was required to deposit 07 days' advance payment of Rs 43,972,313 with CCT Lahore along with payment on account of attachment of additional coaches if any.

During audit of Pakistan Railway Advisory and Consultancy Services (PRACS) in March 2023, it was observed that commercial management of Rahman Baba Express was handed over to PRACS w.e.f. 01.01.2023. On the request of PRACS, composition of the train was fixed as 19 coaches by adding four economy class coaches vide letter dated 20.12.2022 with round trip payment of Rs 52.86 million. PRACS unilaterally stopped booking of additional coaches w.e.f. 05.02.2023 and reduced the weekly round trip advance payment to Rs 4.40 million. These additional coaches were remained attached and running empty with the train, however, on the request of PRACS, these coaches were detached by PR w.e.f. 15.03.2023. This non-professional act of PRACS management put Railway into loss of Rs 48.23 million due to non-payment of round-trip charges of additional coaches from 05.02.2023 to 15.03.2023.

The matter was taken up with the management in August 2023 and discussed in DAC meeting held on 19.09.2023. DAC directed the PO to submit a

comprehensive reply in consultation with CCM within one week. Compliance of DAC directives was awaited.

Audit recommends that matter may be inquired to fix responsibility for non-recovery of payment from PRACS against four additional coaches attached with the Rahman Baba Express. The amount involved be recovered from PRACS and contract management be improved to avoid recurrence.

DP 12183

2.5.57 Loss of earnings due to non-provision of freight wagons - Rs 22.49 million

Para 1801 of Pakistan Railway General Code provides that means should be devised to ensure that every Railway servant realizes fully and clearly that he will be held personally responsible for any loss sustained by government through fraud or negligence on his part.

During audit of the Karachi Bunder Dry Port in March 2023, it was observed that four contractors placed demands for 151 freight wagons from June 2021 to January 2023 but wagons were not arranged in time due to which demands were cancelled. Thus, non-provision of freight wagons not only adversely affected the revenue of PR but also diverted the customers to the road transportation. This resulted in loss of earnings of PR amounting to Rs 22.49 million due to poor management.

The matter was taken up with the management in September 2023 and discussed in DAC meeting held on 02.01.2024. DAC directed the COPS to resubmit the reply in the light of discussion on the para within one week. Compliance of the DAC directives was awaited.

Audit recommends that the matter of non-provision of wagons be investigated to fix responsibility and action be taken against the persons found at fault. Rolling stock management be improved to avoid recurrence.

DP 12286

2.5.58 Unjustified recovery of land lease charges at lesser rate – Rs 2.50 million

According to policy of PR for leasing of land for stacking purposes dated 11.08.1987, the rent of railway land licensed for stacking purpose would be 7.5% of market value.

During audit of Property & Land Department Lahore in November 2023, it was observed that a piece of land measuring 02 acres was leased out to Chishtian Logistics for coal stacking purpose at Chichoki Mallian vide agreement dated August 2003. Railway management fixed and collected lease charges @ 1% against the approved rate of 7.5%. PR management recalculated the land lease charges in 2020 and pointed out differential of Rs 2.50 million till 31.12.2019 but this amount was not recovered from the lessee due to negligence.

The matter was taken up with the management in December 2023 and discussed in DAC meeting held on 25.01.2024. DAC directed the DG/P&L and CMM to submit revised reply to Audit within one week. Compliance of the DAC directives was awaited.

Audit recommends that matter be probed to fix responsibility for less recovery of lease charges and against the policy in vogue and action be initiated against the person(s) held responsible. The amount involved be recovered from the lessee and land management be improved to avoid recurrence.

DP 12495

Governance and Administrative Management

2.5.59 Underutilization of Pakistan Locomotive Factory, Risalpur - Rs 408.89 million

In its meeting held on 17th and 18th December, 1979 ECNEC decided to set up a Locomotive Factory for progressive manufacture of Diesel Electric/Electric Locomotives. It was stated in the PC-I of this project dated May 1989 that management of proposed factory as well as other manufacturing concerns under PR would be entrusted to an autonomous organization to be created for running these units on commercial lines. This project was started to acquire self-sufficiency in meeting with the requirements of locomotives to cater for the transportation

needs of Pakistan Railways. PLF Risalpur was commissioned in January 1993 with production capacity of 25 locomotives per annum on single shift basis.

During audit of the Pakistan Locomotive Factory (PLF), Risalpur in September 2023, it was observed that 102 locomotives were manufactured in the factory during the period from 1993 to 2015 and afterwards no locomotive was manufactured. Subsequently, management fixed monthly targets for repair of locomotives/coaches & wagons and manufacturing of their spare parts. The revised production targets of PLF could not be achieved during the years 2021-22 and 2022-23. However, overtime allowance of Rs 36.25 million was paid. During the years 2021-22 and 2022-23, an expenditure of Rs 904.25 million was incurred on PLF but value of works done remained at Rs 495.37 million. The above state of affairs indicated that Pakistan Railways suffered loss of Rs 408.88 million during the year 2021-22 and 2022-23 due to under-utilization of PLF.

The matter was taken up with the management in December 2023 and discussed in the DAC meeting held on 12.01.2024. The DAC directed the MD/PLF to resubmit the reply after proper reconciliation of production targets viz a viz under-utilization of the capacity as pointed out by Audit within two weeks. Compliance of the DAC directives was awaited.

Audit recommends that production facility of PLF should be utilized for the purpose for which it was created and every effort be made to achieve periodic targets to avoid operational losses.

DP 12425

2.5.60 Irregular expenditure on engagement of TLA in excess of sanctioned strength – Rs 178.02 million

According to Para 111 of Pakistan Railway Establishment Code, the number of posts sanctioned for each grade in a department shall in no case be exceeded without the sanction of the competent authority to create a post, either permanent or temporary.

During audit of the Carriage Factory, Islamabad in August 2023, it was observed that class-iv employees were appointed on TLA basis against PSDP

project of 400 coaches. Despite completion of the project in 2016-17, employees were retained by the management and were working in Carriage Factory. They were paid salaries of Rs 178.02 million during the period from July 2021 to June 2023 from revenue budget irregularly as they were engaged in excess of sanctioned strength. This resulted in loss of Rs 178.02 million to the PR due to weak internal controls.

The matter was taken up with the management in November 2023 and discussed in the DAC meeting held on 12.01.2024. DAC directed the MD/CFI to resubmit the revised reply. Compliance of DAC directives was awaited.

Audit recommends that matter be probed for irregular retention of work charged employees after completion of project. Action be taken against those held responsible besides improving the Human Resource management controls.

DP 12365

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2018-19, 2019-20, 2021-22 & 2022-23 vide paras No 2.4.32, 2.5.11, 2.5.65 & 2.5.36 having financial impact of Rs 207.72 million. Recurrence of same irregularity is a matter of serious concern.

2.5.61 Unauthorized payment of Fixed Daily Allowance - Rs 154.39 million

Para 12 (16) Schedule II of Rules of Business 1973 provides that Finance Division is responsible for framing of rules on pay and allowances, retirement benefits, leave benefits and other financial terms & conditions of Service. Further Para 12 (1) (h) provides that no Division shall, without previous consultation with the Finance Division, authorize the issue of any orders, other than orders in pursuance of any general or special delegation made by the Finance Division.

During audit of following three formations for the FY 2022-23, it was observed that Fixed Daily Allowance of 20 days per month amounting to Rs 154.39 million was paid to all employees of Railways Police Department by the Ministry of Railways without approval of the Finance Division during the period from January 2022 to August 2023. This resulted in unauthorized and irregular payment of Fixed Daily Allowance of Rs 154.39 million.

(Rs in million)

SN	DP No.	Formation	Period of Irregularity	Amount
1	12616	CA Peshawar Division	Jan-2022 to Aug-2023	63.75
2	12574	CA Multan Division	July 2022 to June 2023	51.15
3	12632	CA Workshops Division, Mughalpura	July 2022 to June 2023	39.49
Total				154.39

The matter was taken up with the management in December 2023 and discussed in DAC meeting held on 23.01.2024. DAC directed that the already constituted committee comprising of Member Finance & AGM/Traffic to expedite and submit the enquiry report in connection with Audit Para 2.6.4 (DP 12088) of AR 2022-23 within one month. Compliance of DAC directives was awaited.

Audit recommends that the matter be probed to fix responsibility for the unauthorized payment of the Fixed Daily Allowance without prior approval by the Finance Division. Amount involved either be recovered from the concerned employees or from those found at fault under intimation to Audit.

Note: The issue was also reported earlier in the Audit Report for Audit Year 2022-23 vide para No 2.6.4 having financial impact of Rs 239.22 million. Recurrence of same irregularity is a matter of serious concern.

2.5.62 Unjustified payment of Overtime Allowance – Rs 128.21 million

Para 453 of Pakistan Railways Code for Mechanical Department provides that except in very exceptional cases, no overtime should be worked in shops without prior sanction of the Works Manager.

During audit of the Carriage Factory, Islamabad and Steel Shop, Mughalpura in August and November 2023, it was observed that overtime

allowance was paid to the employees during 2021-23 although the production targets were not achieved.

(Rs in million)

SN	DP No.	Formation	Production Targets	Targets Achieved	% Achieved	Period	Amount
1	12413	Carriage Factory, Islamabad	127 coaches	95 coaches	75%	2022-23	87.57
2	12532	Steel Shop, Mughalpura	30,682 metric ton steel	6,232 metric ton steel	20%	2021-23	40.64
Total							128.21

In Carriage Factory, Islamabad physical verification by the team of FA&CAO/M&S on 20.01.2023 and 21.01.2023 revealed that only 30% labour was available in shops. The FA&CAO/M&S recommended that factory labour deployed at the residences of officers and MOR be called back to meet shortfall and completion of production works without payment of overtime. Thus, due to negligence of management an amount of Rs 128.21 million was paid on account of overtime during July 2021 to June 2023 without achievement of targets.

The matter was taken up with the management in November and December 2023. Against Sr. No.1, DAC in its meeting held on 23.01.2024 directed the MD/CFI to provide revised reply indicating all facts explained in the meeting along with documentary evidence to Audit. Against Sr.No.2, DAC in its meeting held on 01.02.2024 directed the CME/C&W to submit revised reply along with supporting documents within three days. Compliance of DAC directives was awaited.

Audit recommends that matter be probed to fix responsibility for unjustified payment of overtime allowance and internal controls be strengthened to avoid recurrence.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2018-19, 2019-20, 2021-22 & 2022-23 vide paras No 2.4.61, 2.5.92, 2.5.9, 2.5.38, 2.5.27 having financial impact of Rs 555.31 million. Recurrence of same irregularity is a matter of serious concern.

2.5.63 Irregular appointment of Officers and Staff - Rs 90.58 million

According to policy for engagement of employees against TLA in Pakistan Railways circulated by the Chief Personnel Officer dated 15.07.2014, TLA employees should be engaged strictly in accordance with the eligibility criteria for direct recruitment i.e. qualification/age etc. Further, as per Finance Division (Regulation Wing) letter No. F.4(9)R-3/2008-499 dated 12.08.2008, the staff for development projects funded from PSDP was required to be recruited from open market on contract basis.

During audit of seven (07) different formations of Pakistan Railways from February to September 2023, in eleven (11) instances it was observed that employees were engaged without adopting prescribed procedure i.e. advertisement in the newspapers/website, age and qualification. This ostensibly was avoided to appoint the ineligible persons on favoritism. This resulted in irregular expenditure of Rs 90.58 million on pay and allowances of these employees (**Annexure-9**).

The matter was taken up with the management from February to September 2023 and discussed in DAC meetings in October 2023. DAC directed the POs to submit a comprehensive revised reply within one week. Compliance of DAC directives was awaited.

Audit recommends that responsibility be fixed for irregular appointment of staff and disciplinary action be taken against the person(s) held responsible. Staff appointed irregularly may immediately be discontinued and future recruitments be made as per laid down procedures.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2018-19, 2021-22 & 2022-23 vide paras No 2.4.25, 2.5.40 & 2.5.29 having financial impact of Rs 232.68 million. Recurrence of same irregularity is a matter of serious concern.

2.5.64 Unjustified payments against a disconnected electric connection – Rs 21.86 million

Para 1801 of Pakistan Railways General Code provides that every Railway servant will be held personally responsible for any loss sustained through fraud or negligence on his part.

During audit of the Workshops Division Mughalpura for the year 2023-24, it was observed that panel of Railway Power House connection No.2 became defective therefore LESCO team disconnected the electric supply on 26.05.2022. Estimated cost of the new panel was Rs 2.10 million which was not replaced and electric supply remained disconnected but PR management made monthly payment during July 2022 to December 2023 without consumption of a single unit. Thus, PR suffered loss of Rs 21.86 million on account of unjustified payments against a disconnected electric connection due to inefficient management.

The matter was taken up with the management in December 2023 and discussed in DAC meeting held on 01.02.2024. DAC showed displeasure on the ignorance and time overrun in handling this issue and ordered a fact finding inquiry by DG/Vigilance and FA&CAO/PR to probe the matter, fix responsibility and submit report within two weeks. Compliance of DAC directives was awaited.

Audit recommends that responsibility be fixed for making payments against a disconnected electric connection without consumption of a single unit. Action be taken to stop further payments against an ineffective electric connection and internal controls be strengthened to avoid recurrence.

DP 12633

2.5.65 Increase in cost of transfer of electricity network due to delay in payment - Rs 18.95 million

Para 1801 of Pakistan Railway General Code provides that means should be devised to ensure that every railway servant realizes fully and clearly that he will be held personally responsible for any loss sustained by government through fraud or negligence on his part.

During audit of the Workshops Division Mughalpura for the year 2022-23, it was observed that case for payment against demand notice of LESCO amounting to Rs 35.95 million for handing over of Railway Baja Line Colony to LESCO was initiated in September 2022 but payment was not made till June 2023. Subsequently, LESCO authorities increased the amount of demand notice to Rs 54.90 million in September 2023. Furthermore, handing over of Railway colony to LESCO was also delayed due to which PR suffered extra loss on account of purchase of electricity at higher rate and supply to consumers at lesser rates. Thus, delay in deposit of demand notice resulted in loss of Rs 18.95 million to PR besides, delay in handing over of Railway Baja Line Colony to LESCO.

The matter was taken up with the management in December 2023 and discussed in DAC meeting held on 01.02.2024. DAC showed displeasure on the ignorance and time overrun in handling this issue and ordered a fact finding inquiry by DG/Vigilance and FA&CAO/PR to probe the matter, fix responsibility and submit report within two weeks. Compliance of DAC directives was awaited.

Audit recommends that responsibility be fixed for delay in making payment of demand notice to LESCO for handing over electric supply of Railway Colony. Payment should be made without delay to avoid further loss and financial management controls be improved to avoid recurrence.

DP 12634

2.5.66 Wasteful expenditure on online tracking system – Rs 11.00 million

Para 1801 of Pakistan Railway General Code states that means should be devised to ensure that every railway servant realizes fully and clearly that he will be held personally responsible for any loss sustained by government through fraud

or negligence on his part and also for any loss arising from fraud or negligence on the part.

During audit of Ministry of Railways, Islamabad in October 2023, it was observed that Ministry of Information Technology sponsored a turnkey project “online tracking system for cargo handling, freight wagons and locomotives” valuing Rs 54.66 million. However, most of the material was either lost or taken away by the vendor and the project failed due to the following reasons;

- i. The project was required to be completed on 24.10.2011 but project was closed in June 2015 without completion.
- ii. On 12.06.2015, Railway management pointed out numerous faults in the system and declared the project incomplete. The milestones i.e. supply/delivery, installation and operation of tracking hardware, RFID readers etc. were neither discussed nor achieved before signing the User Acceptance Certificate (UAC). However, the Project Review Committee signed the UAC on 16.06.2015.
- iii. There was shortage of hardware material provided to vendor i.e. out of 184 trackers supplied to vendor, 121 were shown as installed in locomotives and remaining 63 trackers were missing. The installed 121 trackers were also not traceable in any locomotive. Further, 201 RFID readers issued to vendor were not available in any locomotive.

This depicted that the project has been failed and tracking material either lost or taken away by the vendor due to inefficiency of Railway management resulting in wasteful expenditure of Rs 11 million on account of development, customization and implementation of software application, training & installation of devices. Further, the initiative taken by Ministry of IT for improvement in freight operations of PR was also shattered by PR management.

The matter was taken up with the management in October 2023 and discussed in DAC meeting held on 30.01.2024. DAC directed the Director/IT to submit revised reply along with documentary evidence in consultation with COPS,

CME/Loco on the basis of observations raised by the Audit within two weeks. Compliance of DAC directives was awaited.

Audit recommends that the matter may be inquired for fixing responsibility for loss of the government money and non-achievement of envisaged benefits of the project. The amount of loss be recovered from the person held responsible under intimation to audit.

DP 12627

2.5.67 Loss due to damage of Railway quarter by CDA – Rs 9.15 million

Para 316 (a) of Pakistan Railways Code for Accounts Department stipulates that the amounts due to Railways for services rendered, supplies made or for any other reasons are correctly and promptly assessed and recovered as soon as they fall due.

During audit of Carriage Factory Islamabad in August 2023, it was observed that Capital Development Authority (CDA) damaged Railway Block No. 15 on 06.03.2023 while widening IJP road Islamabad. This indicated that PR management failed to safeguard interest of the organization. Thus, PR suffered loss of Rs 9.15 million due to damage of a Railway Quarter and non-recovery of cost of damages from the CDA.

The matter was taken up with the management in October 2023 and discussed in DAC meeting held on 21.11.2023. DAC directed the MD/CFI to expedite the matter with the CDA and submit compliance report to the Audit. Compliance of the DAC directives was awaited.

Audit recommends that cost of damages to the Railway Quarter be recovered from the CDA and internal control be strengthened to avoid recurrence.

DP 12331

2.5.68 Irregular expenditure on pay & allowances of Railway employees from PSDP Funds – Rs 7.69 million

According to Austerity Measures regarding PSDP expenditure for the year 2022-23 circulated by the Ministry of Railways on 30.12.2022, salary of regular

PR officers and officials engaged in the project was required to be charged to revenue.

During audit of following two projects in March and April 2023 it was observed that pay & allowances of Project Directors, who were regular employees of PR, were paid from the PSDP funds instead of Revenue in contravention to instructions of MOR. Further, leave encashment and pay & allowances of ex-PDs were also charged to the project irregularly. This resulted in irregular booking of revenue expenditure of Rs 7.69 million to the project from June 2021 to April 2023.

(Rs in million)

SN	DP No.	Formation	Description	Period of irregularity	Amount
1	12252	Project of Re-commissioning of 05 Accidental	Pay & Allowance of PD were charged to the project instead of	July 2022 to April 2023	3.82
2	12141	Project Special Repair of 100 DE	Leave Encashment of Ex-PD	October 2022	2.55
3	12137	Project Special Repair of 100 DE	Pay & Allowance of Ex-PD	June to September	1.32
Total					7.69

The matter was taken up with the management in July and September 2023. Against Sr.No.1, DAC in its meeting held on 17.10.2023 directed the PO to submit a comprehensive revised reply within one week. Against Sr. No.2 & 3, the DAC in its meeting held on 05.09.2023 took serious view of such practices and directed the PO to regularize the payments within two weeks. Compliance of DAC directives was awaited.

Audit recommends that responsibility be fixed for unjustified utilization of PSDP Funds for revenue expenditure. Project management controls be improved to avoid recurrence.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2018-19, 2021-22 vide paras No 2.4.21, 2.5.58 having financial impact of Rs 380.92 million. Recurrence of same irregularity is a matter of serious concern.

2.5.69 Unauthorized continuation of service beyond superannuation – Rs 4.87 million

S.No.1.1 (13) (ii) of Esta Code Chapter 9 provides that a Civil Servant shall retire from service on completion of sixty (60) years of his age.

During audit of the Carriage Factory, Islamabad (CFI) for the year 2022-23, it was observed that an amount of Rs 3.60 million was paid to Mr. Muhammad Wajid, Senior Auditor on account of pay & allowances and TA/DA for the period from February 2021 to March 2023 after the date of superannuation. As per CNIC his date of birth was 27.01.1961 and therefore, his date of retirement was 26.01.2021. However, the said employee had performed duty till 03.04.2023 and absconded afterwards. Further, an amount of Rs 1.27 million was outstanding against the employee on account of House Building and Motor Car Advance. Thus, irregular payments of Rs 4.87 million were made to the employee after the date of his superannuation due to poor Human Resource management.

The matter was taken up with the management in September 2023 and discussed in DAC meeting held on 02.01.2023. DAC directed the FA&CAO/M&S to expedite the process of reconciliation & verification of information provided by the fact-finding inquiry and to decide future course of action. Compliance of DAC directives was awaited.

Audit recommends that matter be inquired to fix responsibility for irregular continuation of service of employee beyond superannuation. Amount involved be recovered and internal controls be strengthened to avoid such recurrence.

DP 12300

2.5.70 Less recovery of electricity cost from employees - Rs 3.42 million

According to National Electric Power Regulatory Authority (NEPRA) SROs dated 31.05.2022, 20.10.2022, 07.02.2022 and 13.04.2023 Quarterly Tariff Adjustments notified were required to be recovered from the consumers with monthly electric bills. Further, as per NEPRA notification dated 06.03.2023 the rate of Financing Cost Surcharge of Rs 0.43 per units was increased to Rs 3.82 per unit. Furthermore, Electricity Duty @ 1.5% of the electric consumption was also applicable on the electric bills.

During audit of the Pakistan Locomotive Factory (PLF), Risalpur in September 2023, it was observed that management of PLF Risalpur purchased electricity in bulk from Peshawar Electricity Supply Company (PESCO) in 2022-23 for utilization in service buildings and supply to residents of PLF Colony. Audit observed that following components of the electricity cost were not being included in the monthly electricity bills of the residents of PLF Colony, Risalpur.

SN	Description	Amount (Rs)
1	Quarterly Tariff Adjustment	2,105,837
2	Financing Cost Surcharge	892,222
3	Electricity Duty	419,052
Total		3,417,111

Thus, due to non-recovery of quarterly tariff adjustment, Financing Cost Surcharge and Electricity Duty from residents of PLF Colony, PR suffered loss of Rs 3.42 million during the year 2022-23.

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 19.01.2024. DAC showed displeasure over the intentional ignorance of MD/PLF despite very clear instructions in the policy. DAC further directed the MD/PLF to recover the electric charges immediately and submit compliance to Audit. Compliance of DAC directives was awaited.

Audit recommends that amount of electricity cost less charged be recovered from the Railway employees. Correct recovery of electricity cost from residents of Railway Colonies be ensured in future.

DP 12625

Railway Track & Rolling Stock

2.5.71 Loss due to excess consumption of fuel - Rs 4,904.32 million

In terms of Chief Operating Superintendent, PR letter No. 39-FA/0/2 dated 29.04.2019, a locomotive consumes 22 liters fuel in case of one-minute detention/stoppage out of scheduled running.

During audit of following four (4) formations of Commercial & Transportation Department in February 2023, it was observed that a large number of trains were detained on account of defects in rolling stock, signal and electric failures and infrastructure hurdles etc. Thus, PR suffered loss of Rs 4,904.32 million on account of extra consumption of fuel due to train detentions. In addition to financial loss, punctuality of trains was also affected.

(Rs in million)

SN	DP No.	Formation	Amount
1	12287	Commercial & Transportation Department, Sukkur	3,387.58
2	12150	Commercial & Transportation Department, Multan	1,411.14
3	12186	Commercial & Transportation Department, Rawalpindi	75.10
4	12240	Commercial & Transportation Department, Karachi	30.50
Total			4,904.32

The matter was taken up with the management from July to September 2023 and discussed in DAC meetings held on 12.09.2023 and 19.01.2024. DAC directed the POs (COPS, CSE, CME/Loco, CEE and CEN/OL) to submit comprehensive revised reply with proper justification and reasons for excessive consumption of HSD on their account to COPS office. The COPS was directed to develop an institutional mechanism of excess consumption of HSD on various factors on daily basis, which would help in addressing the highest contributing factor. Compliance of the DAC directives was awaited.

Audit recommends that matter be probed to fix responsibility for unnecessary detentions causing financial loss and mechanism be devised to avoid unnecessary detentions of trains.

Note: The issue was also reported earlier in the Audit Report for Audit Year 2022-23 vide para No 2.5.58 having financial impact of Rs 18.65 million. Recurrence of same irregularity is a matter of serious concern.

2.5.72 Loss of damages to rolling stock due to operational failures – Rs 221.24 million

Para 372 of Pakistan Railways Code for the Accounts Department provides that the defalcation or loss should be reported to the Accounts Office and Statutory Audit and should be investigated by the Executive in association with Accounts representative with a view to fix responsibility.

During audit of following five (5) formations of Commercial & Transportation Department in February 2023 it was observed that five train accidents occurred due to wrong marshaling of trains, use of overdue maintenance wagons, poor maintenance of track, failure of automatic block system and weak administrative controls over staff. This indicated that the management failed to implement standard parameters and standard operating procedures regarding track & rolling stock maintenance due to which PR suffered loss of Rs 221.34 million.

(Rs in million)				
SN	DP No.	Formation	Description	Amount
1	12221	Commercial & Transportation Department, Sukkur	Collusion of Millat Express (17 Up) with Sir Syed Express (36 DN) on 25.06.2021	177.87
2	12159	Commercial & Transportation Department, Multan	Derailment of 07 wagons of ZBKH Goods train at Chichawatni on 01.10.2021	24.80

3	12134	Commercial & Transportation Department, Karachi	Derailment of 35 wagons during April 2020 to March 2022	16.07
4	12146	Commercial & Transportation Department, Rawalpindi	Accident of Mianwali Express (147-Up) on 25.02.2022	1.40
5	12199	Commercial & Transportation Department, Peshawar	Accident of Daudkhel Coal Special Goods Train on 01.05.2020	1.20
Total				221.34

The matter was taken up with the management in July to September 2023 and discussed in DAC meetings held on 12.09.2023 and 19.09.2023. DAC directed the PO to give a comprehensive response within one week. Further DAC directed the Railway administration to devise a mechanism for realistic costing of Railway accidents and account of such losses in the books. Railway administration should also take steps for effective disciplinary actions keeping in view gravity of the accidents. Furthermore, other interventions including capacity building, refresher courses and competency tests were recommended to avoid recurrence of accidents. A compliance report should be submitted to Audit within two weeks. Compliance of the DAC directives was awaited.

Audit recommends that each accident case be inquired to fix responsibility for loss on account of poor maintenance of infrastructure and non-observance of standard procedures. Internal controls be strengthened to avoid recurrence.

Note: The issue was also reported earlier in the Audit Report for Audit Year 2018-19 vide para No 2.4.69 having financial impact of Rs 905.24 million. Recurrence of same irregularity is a matter of serious concern.

2.5.73 Loss due to non-imposition of late payment surcharge - Rs 199.44 million

According to Ministry of Railway's letter dated 26.11.20219, the late payment surcharge at the rate of 10% annually on operational & maintenance charges of level crossings & sidings owned/sponsored by federal / provincial governments, military authorities, semi government and private organizations as well as on land lease and rental charges calculated on monthly basis w.e.f 01.07.2019.

During audit of the following four (4) formations in August 2023, it was observed that sponsoring agencies of level crossings and sidings failed to make payments of operational and maintenance charges within due time but late payment surcharge was not imposed by PR management.

(Rs in million)

SN	DP No.	Formation	Period of irregularity	Amount
1	12591	Certification Audit , Multan	2022-23	115.83
2	12436	Civil Engineering Department, Lahore	2021-23	77.89
3	12122	Certification Audit , Multan	2021-22	7.33
4	12348	Civil Engineering Department Quetta	2022-23	5.72
Total				206.77

Sponsoring agencies failed to make payments in time due to which huge operational and maintenance charges were accumulated against them. PR management had not imposed late payment surcharge on the outstanding bills, in violation of rules, due to which PR suffered loss of Rs 199.44 million.

The matter was taken up with management in July to December 2023. DAC in its meetings dated 19.01.2024 and 30.01.2024 took serious view of the ignorance of concerned officials/officers and directed the CEN to issue explanation to all. In

case of unsatisfactory reply charge sheets be issued to them under intimation to the forum. All dedicate efforts should be directed towards recovery of late payment surcharge and recovery particulars be shared with this forum. All other Divisions should also be informed to be careful and cautious regarding this surcharge payment. Compliance of DAC directives was awaited.

Audit recommends that responsibility be fixed for non-imposition of late payment surcharge and amount involved be recovered from the sponsoring agencies. Agreements of all level crossings and sidings be revised with inclusion of clause of late payment surcharge and its implementation be ensured.

2.5.74 Infructuous expenditure on classified repair of locomotives – Rs 37.07 million

According to Maintenance Regulations, the periodicity for Class-1 repairs of all DE Locomotives except DPU-20/30 was 06 years or 1,200,000 KMs whichever was earlier. Further, Para 807 (i) of Pakistan Railway General Code provides that every public officer should exercise the same vigilance in respect of expenditure incurred from government revenues as a person of ordinary prudence would exercise in respect of the expenditure of his own money.

During audit of Central Diesel Locomotive (CDL) Workshop Rawalpindi in September 2023, it was noticed that an expenditure of Rs 37.07 million was incurred on classified repair of 03 GRU-20 locomotives (5042, 5043 & 5044) which were turned out from CDL Shop Rawalpindi during the period from September to November 2022. Later on, these locomotives were temporarily deleted in January 2023 and subsequently permanently deleted on 05.08.2023. These locomotives were gone through C-I schedule repair having periodicity of six years therefore, after incurring heavy expenditure reasonable service should have been obtained from these locomotives. This indicated that infructuous expenditure of Rs 37.07 million was incurred on classified repair of three locomotives which could not be made operational and deleted within 01 to 04 months after repair.

The matter was taken the management in December 2023 and discussed in DAC meeting held on 01.02.2024. DAC constituted a fact finding inquiry committee comprising DG/Vigilance and CMM to probe the matter and submit report within one month. Compliance of DAC directives was awaited.

Audit recommends that responsibility for infructuous expenditure be fixed and disciplinary action be taken against the defaulters. Internal controls be strengthened to avoid recurrence

DP 12471

2.5.75 Irregular award of contracts to a contractor participated in bids with two different names - Rs 6.42 million

According to Clause 2 (i) of Revised PPRA Rules 2004, corrupt and fraudulent practices in respect of procurement process, shall be either one or any combination of the practices including “collusive practices” which means any arrangement between two or more parties to the procurement process designed to stifle open competition for any wrongful gain, and to establish prices at artificial, non-competitive levels. Further, Rule 19 (i) provides that bidders shall be blacklisted and debarred for participation in any public procurement for the period of not more than ten years, if corrupt and fraudulent practice as defined in these rules is established against them.

During audit of the Peshawar Division for the year 2022-23, it was observed that two firms i.e. M/s Muhammad Asghar & Co. and M/s Islam-ud-Din & Co offered bids for up-gradation of level crossings No.135 & 143 on 01.02.2022. Both the works were awarded to M/s Muhammad Asghar & Co being the lowest bidder. Audit noticed that as per FBR record, Mr. Waseem Asghar was owner of both the businesses. This indicated that one contractor fraudulently participated in these tenders through two different names to create artificial competition. Thus, contracts valuing Rs 6.41 million were awarded to a contractor through fraudulent activities without fair competition.

The matter was taken up with the management in December 2023 and discussed in DAC meeting dated 01.02.2024. DAC constituted a fact finding inquiry committee comprising DG/Vigilance and FA&CAO/Revenue to probe the matter and bring the facts to this forum within one month. Compliance of DAC directives was awaited.

Audit recommends that matter be inquired to fix responsibility for irregular award of contracts to a contractor participated in the bids through two different

names. Punitive action be taken against the contractor according to blacklisting policy of PR and contract management be improved to avoid recurrence.

DP 12594

Note: The issue was also reported earlier in the Audit Report for Audit Year 2019-20 vide para No 2.5.21 having financial impact of Rs 276.55 million. Recurrence of same irregularity is a matter of serious concern.

2.5.76 Loss on account of damaged sleepers – Rs 5.56 million

M/s P-TEC clarified in their letter dated 01.02.2019 that maximum damage percentage of sleepers in factories equipped with their equipment is 1%. Moreover, Para 1801 of Pakistan Railway General Code provides that means should be devised to ensure that every Railway servant realizes fully and clearly that he will be held personally responsible for any loss sustained by government through fraud or negligence on his part.

During audit of the Managing Director, Concrete Sleeper Factories, Lahore in August 2023, it was observed that total 110,959 sleepers were manufactured and 3,120 sleepers (2.8%) were declared condemned in 2022-23. This indicated that 2,393 sleepers were damaged in excess of allowed limit of 1%. Thus, PR suffered loss of Rs 5.56 million due to poor management and lack of supervisory controls in the concrete sleeper factories.

The matter was taken up with the management in December 2023 and discussed in the DAC meeting held on 30.01.2024. DAC directed that a fact finding inquiry be conducted by the DG/Vigilance and FA&CAO/M&S within one month to fix responsibility for the loss. Compliance of DAC directives was awaited.

Audit recommends that matter may be inquired to fix responsibility against the person(s) found at fault for the negligence causing excessive defective production of sleepers. The amount of loss be recovered from the person(s) held responsible and supervisory controls be strengthened to avoid recurrence.

DP 12560

2.5.77 Loss due to theft of Permanent way material and assessment of loss at low rates – Rs 1.14 million

According to para 372 of Pakistan Railways Code for the Accounts Department, the defalcation or loss should be reported to the Accounts Officer and Statutory Audit and should be investigated by the Executive in association with Accounts representative with a view to fix responsibility.

During audit of Civil Engineering Department, Rawalpindi in August 2023, it was observed that rails were stolen from Malakwal yard in Rawalpindi Division during the period from March & April 2021. However, the assessment of loss was made at Rs 688,799 whereas scrap value of stolen rails was Rs 1,141,529. Thus the assessment of loss was made at low rates. The FIR was registered but amount of loss had not been recovered. Thus PR suffered loss of Rs 1.14 million on account of theft of material due to negligence and slackness of the management.

The matter was taken up with the management in December 2023 and discussed in DAC meeting held on 12.01.2024. DAC directed the CEN/Open Line to pursue the matter with the police department for recovery of the theft material and resubmit the reply on the basis of outcome of legal proceedings. Compliance of DAC directives was awaited.

Audit recommends that matter be probed to fix responsibility for low assessment of theft material. Action be taken against those held responsible besides recovery of the amount involved. Security arrangement be improved to avoid recurrence.

DP 12439

Financial Management

2.5.78 Irregular utilization of pension grants for salary and contractor's payment – Rs 5.05 billion

According to Finance Division (CF Wing) Office Memorandum No. 4(2)-CF-II/2020-21/903 dated 16.11.2020, the Ministry of Railways, with the approval

of PAO, may incur an additional expenditure of Rs 1.00 billion per month solely for the payment of pension in addition to the regular monthly release from the sanctioned budget. This dispensation may continue till the payment of outstanding pension dues during the financial year 2020-21 up-to a maximum of Rs 6.00 billion. Further, as per Budget Order 2022-23 and MOR letter No. FD/B-II/Release-1/2022 dated 26.08.2022 funds of Rs 45.00 billion under Grant 85 were provided to PR to meet monthly pension expenditure.

During audit of the Ministry of Railways in October 2023 it was observed that Federal Government provided financial assistance of Rs 47.50 billion to Pakistan Railways clearly mentioning that amount should be credited to Account XVII-(Pension), however, PR management re-appropriated an amount of Rs 5.05 billion to Account XI-(Pay) and Account III (Scrap & other). The objective of the grant-in-aid to relieve PR pensioner by clearing pension liability was adversely affected due to irregular utilization of funds for other purposes. This resulted in irregular utilization of funds of Rs 5.05 billion from pension account to pay and others accounts.

(Rs in billion)

SN	DP No.	Period	No. of cases involved	Transferred From	Transferred To	Amount
1	12600	31.01.23 to 11.11.23	06	A/C XVII (Pension)	A/C XI (Pay)	4.35
2	12598	15.02.23 to 12.09.23	03	A/C XVII (Pension)	A/C III (Scrap & Others)	0.70
Total						5.05

The matter was taken up with the management in December 2023 and discussed in DAC meeting held on 16.01.2024. DAC directed Dir/Admin, MoR to resubmit comprehensive reply. Compliance of DAC directives was awaited.

Audit recommends that responsibility may be fixed for irregular utilization of funds provided for payment of pension and expenditure irregularly incurred be got regularized from Finance Division. Financial management should be improved to avoid recurrence.

DP 12598 & 12600

2.5.79 Irregular booking of goods without having FDA at respective stations – Rs 4,385.70 million

As per CCFM letter No. 2 M&R/147-R/X/CCM/F dated 09.01.2020 necessary instructions were issued to ensure utilization of Freight Deposit Account where it is opened. In case, party had no Freight Deposit Account (FDA) at a station the payment should be made in cash.

During audit of Port Bin Qasim and Karachi Bunder Dry Port Stations in February and March 2023, it was observed that imported coal was booked by Marshaling Yard Pipri (MYP) and Karachi Bunder (KBX) Dry Port Stations without having FDA at respective station. The FDA was maintained at Port Bin Qasim station while its adjustment was being made through MYP and KBX Dry Port Stations. This resulted in irregular booking of goods amounting to Rs 4,385.70 million from FDA in violation of rules *ibid*.

(Rs in million)

SN	DP No.	Formation	Period of irregularity	Amount
1	12229	Port Bin Qasim Station Karachi	Jul 21 to Jun 22	2,940.87
2	12232	Karachi Bunder Dry Port	Sep 22 to Jan 23	1,444.83
Total				4,385.70

The matter was taken up with the management in September 2023 and also discussed in DAC meeting held on 10.10.2023. DAC directed the PO to coordinate with DS Karachi and submit a comprehensive reply regarding violation of

threshold of FDA ceiling and FDA accounts on the stations pointed out by the Audit. Compliance of DAC directives was awaited.

Audit recommends that reasons be explained for irregular booking of goods from FDA of Port Bin Qasim. Internal controls be strengthened to avoid recurrence.

2.5.80 Irregular transfer from Freight Deposit Accounts – Rs 1,360.62 million

As per CCFM letter No. 2 M&R/147-R/X/CCM/F dated 09.01.2020 necessary instructions were issued to ensure utilization of Freight Deposit Account where it is opened. In case party had no FDA at a station the payment should be made in cash.

During audit of following two stations in February and March 2023, it was observed that FDA balances of different parties were irregularly transferred from one station to another station to give undue favor to the parties having no FDA at other stations. This resulted in irregular transfer of FDA balance amounting to Rs 1,360.62 million in violation of the rules *ibid*.

(Rs in million)

SN	DP No.	Formation	Contractor (M/s)	Period of transfer	Amount
1	12225	Port Bin Qasim Station Karachi	03 Firms	Jun 22 to Oct 22	1,330.54
2	12249	Karachi Bunder Dry Port	16 Firms	Dec 21 to Oct 22	30.08
Total					1,360.62

The matter was taken up with the management during September to November 2023. DAC in its meeting held on 10.10.2023 and directed the PO to coordinate with DS Karachi and submit a comprehensive reply regarding violation

of threshold of FDA ceiling and FDA accounts on the stations pointed out by the Audit. Compliance of DAC directives was awaited.

Audit recommends that matter be inquired to fix responsibility for irregular transfer of FDA balances of different firms from one station to another just to facilitate them. Action be taken against the persons found at fault and SOPs regarding maintenance of FDA should be followed in true letter and spirit.

2.5.81 Non- recoupment of Freight Deposit Account – Rs 858.18 million

As per clauses of agreements executed between Pakistan Railways and different parties the minimum limit of maintaining Freight Deposit Account (FDA) was fixed. If, FDA balance falls below the minimum limit the same was required to be recouped at the earliest to the extent of limit described in the respective agreements.

During audit of following three formations in February and March 2023, it was observed that contractors failed to maintain agreed amount of minimum Freight Deposit Account during the period from July 2021 to January 2023. As on 30.06.2022 and 31.01.2023, the FDA balance of five contractors was Rs 321.82 million against the required balance of Rs 1,180.00 million. This resulted in non-recoupment of FDA as detailed below:

(Rs in million)

SN	DP No	Formation	Contractor (M/s)	Minimum FDA	Actual FDA		Deficient FDA
					Date	Amount	
1	12216	PRFTC	HSR	1,000.00	30.06.22	318.40	681.60
2	12179	Karachi Bunder, Dry Port	Irfanullah & Co	50.00	31.01.23	0.01	49.99
			Chistian Logistic	50.00	-	0.01	49.99

			Ocean Mark	50.00	-	0.00	50.00
3	12246	East Wharf Keamari, Station	Fatima Fertilizer	30.00	30.06.22	3.40	26.60
Total				1,180.00	-	321.82	858.18

The matter was taken up with the management in August and September 2023. Against Sr. No. 2, DAC in its meeting held on 19.09.2023 directed the PO to ensure that the agreements relating to FDA accounts are implemented in true letter and spirit. Against Sr. No. 1 and 3, DAC in its meeting held on 10.10.2023 directed the CCFM to submit a comprehensive reply regarding violation of threshold of FDA ceiling pointed out by Audit. Compliance of DAC directives was awaited.

Audit recommends that matter be inquired to fix responsibility for non-observance of contractual clauses regarding maintenance of FDA. Maintenance of minimum balance in FDA should be ensured and financial management controls be strengthened to avoid reoccurrence.

Note: The issue was also reported earlier in the Audit Report for Audit Year 2022-23 vide para No 2.5.46 having financial impact of Rs 851.80 million. Recurrence of same irregularity is a matter of serious concern.

2.5.82 Non-deduction of advance tax – Rs 731.74 million

Section 236-A of income tax ordinance 2001 states that any person making sale by public auction / tender of any property or goods shall collect tax including award of any lease to any person @ 10% and 15% from the filers and non-filers, respectively, for further remittance to Income Tax authorities on the day the tax is deducted.

During audit of fourteen (14) different formations of Pakistan Railways from February to September 2023, it was observed that in sixteen (16) instances an amount of Rs 731.74 million on account of sales tax and advance income tax was not deducted from contractors in complete disregard to above instructions (**Annexure-10**). Audit also observed the cases of procurement from unregistered suppliers and making payment without obtaining sales tax invoices. This resulted in loss to public exchequer due to weak internal controls.

The matter was taken up with the management from February to September 2022 and discussed in DAC meetings held on 05.09.2023, 19.09.2023, 02.01.2024, 16.01.2024 and 30.01.2024. DAC directed the POs to recover the tax from contractors and submit comprehensive reply supported with documentary evidence within one week. Compliance of DAC directives was awaited.

Audit recommends that matter be probed to fix responsibility for procurement of items from unregistered suppliers and making payment without obtaining GST invoices as well as non-deduction of taxes. Action be taken against those held responsible besides recovery of amount from the employee concerned.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2018-19, 2019-20, 2021-22 & 2022-23 vide paras No 2.4.57, 2.5.70, 2.5.34 & 2.5.36 having financial impact of Rs 1,767.41 million. Recurrence of same irregularity is a matter of serious concern.

2.5.83 Non-recovery of Railway dues from private parties – Rs 712.12 million

Para 316 (a) of Pakistan Railways Code for the Accounts Department stipulates that the amounts due to Railways for services rendered, supplies made or for any other reasons are correctly and promptly assessed and recovered as soon as they fall due.

During audit of twenty-one (21) different formations of Pakistan Railways from February to November 2023, it was observed that in thirty (30) cases an amount of Rs 712.12 million was recoverable from various private parties on account of rental charges, LD charges, ground rent, demurrage charges and electric charges etc. for the period from 2015 to December 2023 (**Annexure-11**). Railways

management failed to realize the Railway dues from private parties due to poor accounts receivables management.

The matter was taken with the management from July to December 2023 and discussed in DAC meetings held on 05.09.2023, 19.09.2023, 17.10.2023, 21.11.2023, 29.12.2023, 02.01.2024, 05.01.2024, 09.01.2024 and 16.01.2024. The DAC directed the POs to file recovery suits against the defaulting contractors and blacklist them. DAC further directed to recover the Railway due and submit a comprehensive reply supported with documentary evidence to Audit. Compliance of DAC directives was awaited.

Audit recommends that action be taken against those held responsible besides ensuring recovery of amount under intimation to Audit.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2018-19, 2019-20, 2020-21 & 2021-22 vide paras No 2.4.53, 2.5.66, 2.5.18 & 2.5.69 having financial impact of Rs 9,176.49 million. Recurrence of same irregularity is a matter of serious concern.

2.5.84 Non-recovery of freight, demurrage and warfage charges – Rs 495.31 million

Para 316 (a) of Pakistan Railways Code for the Accounts Department stipulates that the amounts due to Railways for services rendered, supplies made or for any other reasons are correctly and promptly assessed and recovered as soon as they fall due.

During audit of Commercial & Transportation Department, Multan and Rawalpindi in February 2023, it was observed that an amount of Rs 495.31 million was outstanding against M/s PSO on account of Freight Charges, Demurrage & Wharfage and Dip Shortage etc. for the period ranging from 2008 to 2023. This indicated that PR management failed to reconcile and realize the long outstanding dues despite lapse of fifteen years. Thus, negligence of PR management resulted in non-recovery of Railway dues amounting to Rs 495.31 million.

(Rs in million)

SN	DP No.	Formation	Description	Amount
----	--------	-----------	-------------	--------

1	12131	Commercial & Transportation Department, Multan	Freight	302.30
2	12204	Commercial & Transportation Department, Rawalpindi	-do-	182.77
3	12289	Commercial & Transportation Department, Rawalpindi	Demurrage & Wharfage	6.05
4	12288	Commercial & Transportation Department, Rawalpindi	Dip Shortage and missing	4.19
Total				495.31

The matter was taken up with the management from July to September 2023. Against Sr. No. 1 and 2, DAC in its meeting held on 12.09.2023 directed the PO to immediately recover all the due freight charges in terms of provisions of agreement and arrange regular review of the recoveries to avoid recurrences. The PO should submit a compliance report to Audit within two weeks. Against Sr. No.3, DAC in its meeting held on 29.12.2023 directed the CCFM to take this matter with PSO authorities after proper investigation of demurrage and wharfage charges and recover the dues from regular transactions of PSO within two weeks. Against Sr.No.4, DAC in its meeting held on 12.01.2024 directed the CCFM to resolve the issue through Research & Development (R&D) at the forum of Triple Helix project. DAC further directed that the agreement should be reviewed with legal department for inclusion of dip shortage through formal meetings with PSO for stopping the unilateral deduction on account of dip shortage. Compliance of DAC directives was awaited.

Audit recommends that matter be investigated to fix responsibility for non-recovery of Railway dues from M/s PSO despite lapse up to fifteen years. Financial and contract management controls be strengthened to avoid recurrence of the issue.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2020-21, 2021-22 vide paras No 2.5.19 & 2.5.68 having financial impact of Rs 366.07 million. Recurrence of same irregularity is a matter of serious concern.

2.5.85 Non-recovery of Railway dues on account of assisted sidings/level crossings – Rs 479.36 million

Para 316 (a) of Pakistan Railways Code for the Accounts Department stipulates that the amounts due to Railways for services rendered, supplies made or for any other reasons are correctly and promptly assessed and recovered as soon as they fall due.

During audit of six (06) different formations of Pakistan Railways from August to September 2023, it was observed that in seven (07) instances an amount of Rs 479.36 million was recoverable from various government departments and private parties such as NHA, Defense, Provincial Highway Department, etc. on account of operational and maintenance charges of level crossings and sidings for the period from July 2004 to June 2023 (**Annexure-12**). Railway management failed to streamline accounts receivable management due to which these dues were accumulated.

The matter was taken up with the management in October 2023 to December 2023 and discussed in DAC meetings held on 21.11.2023, 05.01.2024 and 12.01.2024. DAC directed the POs to review the time frame of advance payments against operation and maintenance charges of level crossings and enhance advance payment from three years to ten years. DAC further directed the POs to submit revised reply showing status of recovery supported with documentary evidence. Compliance of DAC directives was awaited.

Audit recommends that action may be taken against those held responsible besides ensuring recovery of the amount involved under intimation to Audit. Internal Controls regarding Accounts Receivable Management be improved to ensure recovery of Railway dues in time.

Note: The issue was also reported earlier in the Audit Report for Audit Year 2018-19 vide para No. 2.5.56 having financial impact of Rs 2,638.04 million. Recurrence of same irregularity is a matter of serious concern.

2.5.86 Non-recovery of Railway dues from government departments – Rs 381.56 million

Para 316 (a) of Pakistan Railways Code for the Accounts Department stipulates that the amounts due to Railways for services rendered, supplies made or for any other reasons are correctly and promptly assessed and recovered as soon as they fall due.

During audit of seven (07) different formations of Pakistan Railways, it was observed in nine (09) instances that an amount of Rs 381.56 million was recoverable from various government departments and Authorities including Food Department, WAPDA, Postal Department, Customs Department etc. for the period from July 2000 to June 2023 (**Annexure-13**). Railway management failed to realize Railway dues within prescribed time due to poor accounts receivables management.

The matter was taken up with the management from July to December 2023 and discussed in DAC meetings held on 05.09.2023, 17.10.2023, 29.12.2023, 05.01.2024, 16.01.2024 and 25.01.2024. DAC directed the POs to recover the Railway dues and submit a comprehensive reply supported with documentary evidence to Audit. Compliance of DAC directives was awaited.

Audit recommends that action may be taken against those held responsible besides ensuring recovery of the amount involved under intimation to Audit.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2019-20, 2020-21, 2021-22 & 2022-23 vide paras No. 2.5.67, 2.5.19, 2.5.68 & 2.5.60 having financial impact of Rs 5,395.89 million. Recurrence of same irregularity is a matter of serious concern.

2.5.87 Non-recovery of penalty for failure to collect and deposit railway receipt - Rs 359.63 million

According to Clause 10 of the agreement, executed between PR and National Bank of Pakistan (NBP) for collection of Railway receipts and remittance into Railway revenue account with State Bank of Pakistan (SBP) dated 18.03.2021, in the event of NBP's failure to collect and deposit Railway receipts within the specified period NBP shall pay markup @ KIBOR (Karachi Inter Bank Offered

Rate) rate notified by SBP for the delayed period.

During audit of the Ministry of Railways in October 2023, it was observed that NBP remitted revenue receipts of Pakistan Railways in the Railway Account with SBP through bank drafts/cheques with abnormal delay. As per Clause 10 of the agreement, penalty/interest amounting to Rs 359.63 million was calculated by the PR management for the period from July 2015 to June 2023. This indicated that Railway receipts were deposited in Railway account in SBP with delay and penalty/interest charges were not recovered from NBP due to poor contract management.

The matter was taken up with the management in December 2023 and discussed in DAC meeting held on 23.01.2024. DAC directed the Director Administration to submit a revised reply within one week. Compliance of DAC directives was awaited.

Audit recommends that matter may be taken up with the NBP to streamline the revenue collection/deposit process and ensure periodic reconciliation for recovery of penalty/interest on delayed deposit if any. The agreement with NBP be implemented in its true letter & spirit.

DP 12585

Note: The issue was also reported earlier in the Audit Report for Audit Year 2022-23 vide para No 2.6.6 having financial impact of Rs 78.97 million. Recurrence of same irregularity is a matter of serious concern.

2.5.88 Loss due to deduction from PR bank account by FBR due to non-collection of tax from contractor – Rs 334.40 million

As per Section 160 of the Income Tax Ordinance 2001, the withholding agent would be personally liable to collect/deduct advance income tax u/s 236A of said ordinance. In case of failure to collect and deposit of the advance income tax, the Commissioner would serve notice u/s 140 read with section 69 & 138, for the purpose of recovering tax within time specified therein. The Commissioner may proceed to recover from the taxpayer the said amount by attachment and sale of

any movable or immovable property of the taxpayer if tax amount not paid within specified time.

During audit of FA&CAO/Revenue for the year 2022-23, it was noticed that Pakistan Railways failed to collect income tax from M/s Syed Jamil and Company for the tax year 2019 and 2020 despite tax demand. Consequently, FBR attached the bank account of Pakistan Railways and an amount of Rs 334.40 million was deducted from PR Bank account in March 2023 against tax demand and default surcharge. This resulted into loss amounting to Rs 334.40 million to Pakistan Railways due to weak financial controls and slackness of the management.

The matter was taken up with the management in December 2023 and discussed in DAC meeting held on 12.01.2024. DAC directed the CCFM to expedite efforts for the recovery of Rs 334.40 million from the FBR through an expert tax lawyer. DAC further directed to hold meeting with CCM and CMM to sort out the issue of litigation with the existing contractor amicably ensuring no revenue loss should be occurred during the conflict resolution. Compliance of DAC directives was awaited.

Audit recommends that matter be investigated to fix responsibility and action be taken against those held responsible. A mechanism regarding collection of withholding tax, its timely remittance and reconciliation with FBR be devised under intimation to Audit.

DP 12564

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2019-20, 2021-22 & 2022-23 vide paras No 2.5.38, 2.5.75, 2.5.77, 2.5.69 having financial impact of Rs 1,467.01 million. Recurrence of same irregularity is a matter of serious concern.

2.5.89 Unauthorized retention of Railway earnings – Rs 197.81 million

Para 1402 of Pakistan Railways General Code provides that all money received by or tendered to government officers on account of revenues should be deposited in full

in the treasury or bank specified by the Ministry of Finance in consultation with the State Bank of Pakistan without any delay.

During audit of Property and Land Department, Workshop Division, Mughalpura in November 2023, it was observed that revenue generated from commercial lease of shops, wheel barrows, nurseries, marriage lawns, institutes amounting to Rs 197.81 million was irregularly deposited in four (04) private bank accounts during July 2021 to June 2023. Railway earnings were initially deposited in private bank accounts and transferred to Railway Fund Account with delay of 20 to 180 days. Thus, Railway earnings of Rs 197.81 million were irregularly deposited in private bank accounts and transferred to Railway Fund with delay up to six months instead of forthwith deposit to railway treasury.

The matter was taken up with management in December 2023 and discussed in DAC meeting held on 16.01.2024. DAC directed the committee headed by Member Finance to expedite and finalize their recommendations for this important issue because there was dire need to streamline the public finance in the light of rules & polices of shops, marquees and markets etc.

Audit recommends that matter may be inquired to fix responsibility for unauthorized deposit and retention of Railway earnings in private bank accounts and action be taken against defaulters. Internal controls regarding financial management be strengthened to avoid recurrence.

DP 12480

2.5.90 Non-recovery of freight concession from contractor – Rs 47.44 million

According to Clause 5.6 of the agreement for transportation of coal and containerized traffic between PR and Chistian Logistic, contractor shall install a

pit/conveyer belt system for unloading of coal within five months from execution of this agreement at Faisalabad Dry Port. Further, Clause 5.7 provides that contractor failed to install pit/conveyer belt system for unloading of coal from hopper wagons within stipulated time at Faisalabad Dry Port, the benefits given through special rates shall be recovered from the FDA.

During audit of the East Wharf Keamari Station in February 2023, it was observed that an agreement was executed between PR and Chistian Logistic on 05.12.2018 for transportation of coal and containerized traffic from Bin Qasim/Keamari to Faisalabad Dry Port. As per agreement, Chistian logistic was required to install pit/conveyer belt at Faisalabad Dry port within five months i.e. 05.05.2019 but it was installed on 05.03.2020. Conveyer belt was installed with delay of ten months but benefit on account special reduced rates amounting to Rs 47.45 million was not recovered from FDA as per clause of the agreement due to weak internal controls and slackness of management.

The matter was taken up with the management in November 2023 and discussed in the DAC meeting held on 29.12.2023. DAC was informed by the CCFM that the said para was concerned with agreement clause which was dealt by CMM office. DAC directed the CCFM to ensure that the said para be communicated and discussed with CMM for a detailed reply. Compliance of DAC directives was awaited.

Audit recommends that amount in question be recovered from the FDA account without further delay. Internal controls be strengthened to avoid such recurrence.

DP 12366

2.5.91 Unauthorized deposit of Railway earnings into private bank accounts - Rs 42.95 million

Para 1402 of Pakistan Railways General Code provides that all monies received by or tendered to government officers on account of revenues should be deposited in full in the treasury or bank specified by the Ministry of Finance in consultation with the State Bank of Pakistan without any delay. Further, Para 822 of Pakistan Railway Code for the

Engineering department provides that the net receipts from the management of Railway land should be adjusted in accounts by credit to Abstract Z Sundry Other Earnings.

During audit of the Property & Land Department, Sukkur in September 2023, it was observed that revenue generated from commercial lease of marriage lawn in Railway Officer's Club Sukkur was unauthorizedly deposited in a private bank accounts maintained with MCB and UBL bank, Sukkur since April 2013. This resulted in unauthorized deposit of Railway earnings of Rs 42.95 million in a private bank accounts instead of government treasury from 01.04.2013 to 14.09.2023.

The matter was taken up with management in November 2023 and discussed in DAC meeting held on 12.01.2024. DAC directed the committee headed by Member Finance to expedite and finalize their recommendations for the issue because there was dire need to stream line the public finance in the light of rules & polices of similar clubs/Gymkhana etc.

Audit recommends that the deposit of Railways' earnings into private account should be stopped immediately and disciplinary action be initiated against responsible officers. The amount be transferred to government treasury forthwith under intimation to Audit.

DP 12410

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2018-19, 2019-20, 2020-21 & 2021-22 vide paras No. 2.4.3, 2.5.3, 2.5.14 & 2.5.55 having financial impact of Rs 253.97 million. Recurrence of same irregularity is a matter of serious concern.

2.5.92 Loss due to payment of late payment surcharge on utility bills – Rs 31.85 million

Para-1801 of Pakistan Railway General Code provides that “means should be devised to ensure that every Railway Servant realizes fully and clearly that he will be held personally responsible for any loss sustained by government through fraud or negligence on his part”.

During audit of following three formations of Mechanical Department in September 2023 it was observed that management failed to make payment of Electricity and Sui-Gas bills in time due to which heavy penalties in the shape of late payment surcharge were paid. Thus, due to negligence and mismanagement an amount of Rs 31.85 million was paid as penalty of late payment of utility bills during the period from March 2022 to June 2023.

(Rs in million)

SN	DP No.	Formation	Utility Service	Period	Amount
1	12440	Mechanical Department Workshops Mughalpura	Sui-Gas	2022-23	16.81
2	12477	Pakistan Locomotive Factory, Risalpur	Electricity	03/2022 to 01/2023	11.80
3	12508	Steel Shop Mughalpura	Sui-Gas	2022-23	3.24
Total					31.85

The matter was taken up with the management in December 2023 and discussed in DAC meeting held on 19.01.2024. DAC directed the FA&CAO/PR and CEN/Open Line to submit comprehensive position from all divisions for loss due to late payment along with SOP, duly endorsed by Senior Management Committee within two weeks. Compliance of DAC directives was awaited.

Audit recommends that responsibility be fixed for delayed payments of electricity bills and system of utility bills payment be streamlined to avoid loss on this account.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2018-19, 2020-21, 2021-22 & 2022-23 vide paras No 2.4.66, 2.5.11, 2.5.53, 2.5.70

having financial impact of Rs 52.04 million. Recurrence of same irregularity is a matter of serious concern.

2.5.93 Unauthorized maintenance of private Bank Accounts for local purchase – Rs 17.62 million

According to Rule 12 of the Rules of Business-1973, no Division shall, without previous consultation with the Finance Division, authorize the issue of any orders, other than orders in pursuance of any general or special delegation made by the Finance Division, which will affect directly or indirectly the finances of the Federation.

During audit of the Civil Engineering Department, Karachi in August 2023, it was observed that 17 bank accounts were opened in the name of Officers of Karachi Division as per Divisional Accounts Officer's letter dated 28.03.2022. Railway funds amounting to Rs 17.62 million were transferred in these bank accounts for local purchases. This resulted in unauthorized maintenance of private bank accounts and transfer of Railway funds of Rs 17.62 million in violation of rules.

The matter was taken up with the management in November 2023 and discussed in the DAC meeting held on 21.11.2023. DAC directed that such practices of private account should immediately be discontinued and all such accounts be closed. Compliance of DAC directives was awaited.

Audit recommends that irregular practice of maintenance of private bank accounts for deposit of Railway funds should be stopped henceforth and accounts pointed out by Audit be closed. Financial management controls be strengthened to avoid such recurrence.

DP 12385

2.5.94 Irregular utilization of track maintenance material for deposit works without receipt of funds in Railway Fund Account – Rs 31.01 million

Para 2031 of Pakistan Railway Code for the Engineering Department states that all deposit works will be executed in the same manner as Railway works. The expenditure including the departmental charges incurred on the work undertaken

on behalf of the other government department should be as far as possible, be charged direct to the department concerned as and when incurred, the estimated cost of which has already been deposited with the Railway and credited to deposit miscellaneous.

During audit of the Civil Engineering Department Rawalpindi in August 2023, it was observed that Permanent-Way material valuing Rs 31.01 million purchased from Revenue Fund Account-III was utilized for deposit works of construction/up gradation of level crossings and military sidings during the period from 01.07.2018 to 21.12.2021. The Track Supply Officer requested the Divisional administration on 08.04.2022 for transfer of funds of Rs 31.01 million in Revenue Account. However actual funds were not transferred from Deposit Misc. Account to Revenue Fund Account-III except paper adjustment of material valuing Rs 14.54 million. This resulted in irregular utilization of track maintenance material for deposit works without actual transfer of funds of Rs 31.01 million in the Railway Fund Account-III due to poor financial management.

The matter was taken up with the management in August 2023 and discussed in DAC meeting held on 23.01.2024. DAC directed the CEN/Open Line to reconcile the documents showing duplicate MRs with Audit and remaining amount be transferred from Rawalpindi Division to TSO under intimation to Audit within one month. Compliance of DAC directives was awaited.

Audit recommends that Railway receipts may be transferred from Deposit Misc. Account to Earnings Account-III and financial management controls be improved to avoid recurrence.

DP 12615

Note: The issue was also reported earlier in the Audit Report for Audit Year 2022-23 vide para No 2.5.64 having financial impact of Rs 86.83 million. Recurrence of same irregularity is a matter of serious concern.

2.5.95 Non-recovery of advance payment of unsupplied equipment – Rs 28.54 million (US\$ 101,213)

Item 5 & 6 of Appendix No. 1 of the contract No. DP/IDB/2009/ Signal-I & II dated December 2009 executed between Ministry of Railways and Consortium, comprising M/s Bombardier Transportation Sweden AB and China Railway Signal & Communication Corporation, China states that 10 & 20 Light Motor Trolleys would be procured against payment of US\$ 168,688 & US\$ 337,377 respectively.

During audit of the Project of Replacement of Old and Obsolete Signal Gear (LON-SDR) in May 2023, it was observed that 20% advance payment of 30 Light Motor Trolleys amounting to US\$ 101,213 was made to the Consortium. Meanwhile, sample Trolley received was not according to the specification therefore, it was decided 06.12.2021 that no Motor Trolley would be procured from the Consortium. However, despite lapse of sufficient time, 20% advance payment US\$ 101,213 was not received back due to weak internal controls. As per time value of money this amount would be increased to Rs 28.54 million (101,213 x Rs 282) till 2023.

The matter was taken up with the management in August 2023 and also discussed in DAC meeting held on 05.09.2023. DAC directed the PO to submit a comprehensive reply along with documentary evidence within one week and compliance report be submitted to Audit within two weeks specifically for signing revised contract and adjustments of the amounts in US dollars. Compliance of DAC directives was awaited.

Audit recommends that responsibility may be fixed for non-recovery of advance payment of equipment not supplied by the contractor despite lapse of more than 13 years. The amount in question may be recovered from the contractor and internal control be strengthened to avoid recurrence.

DP 12171

2.5.96 Irregular investment of government money without approval of the Finance Division - Rs 4.50 million

According to Section 23(2) of the Public Financial Management (PFM) Act 2019 no authority shall transfer Public moneys for investment or deposit from government account including the assignments accounts to other bank account without prior approval of the federal government.

During audit of the Property & Land Department Workshop, Mughalpura in November 2023, it was observed that revenue of Rs 4.50 million generated from leasing of Railway land during the period from 2018 to December 2023 was invested in private bank account (HBL) by Divisional Sports Officer. No record regarding justification and authorization of this bank account was provided to Audit. This resulted in irregular investment without approval of the Finance Division.

The matter was taken up with the management in December 2023 and discussed in DAC meeting held on 16.01.2024. DAC directed the committee headed by Member Finance to expedite and finalize their recommendations for this important issue as there was dire need to stream line the public finance in the light of rules & polices of Shops, Marquees, and Markets etc.

Audit recommends that responsibility may be fixed for unauthorized investment of government money without approval of Finance Division. Financial management should be improved to avoid recurrence.

DP 12485

2.5.97 Unauthorized expenditure from public money - Rs 4.33 million

The clause viii of Finance Division (Expenditure Wing) office memorandum No.F.7(1)Exp.IV/2016-340 dated 7th July 2022 states that there shall be complete ban on official lunches/dinners/hi-tea except for foreign delegations. According to para 822 of Pakistan Railway Code for the Engineering Department the net receipts from the management of Railway land should be adjusted in accounts by credit to Abstract Z-Sundry Other Earnings.

During audit of Mechanical Engineering Department Workshops Division Mughalpura Lahore in 2023, it was observed that revenue of Rs 4.41 million was generated from five sports grounds situated in Workshop division during the year 2022-23. The earning from sports grounds was being managed by the WM/Loco working as Divisional Sports Officer and revenue generated from these grounds was being deposited in a private bank account up to June 2023. Out of this, an amount of Rs 4.33 million was expensed out on officers' dinners/lunches and Hi-teas in violation of instructions of Finance division during the financial year 2022-23. Further, stipend and other miscellaneous expenses were also incurred from this account which were not allowed to be paid from railway earnings. This resulted in unauthorized utilization of Rs 4.33 million from public money due to weak internal financial controls.

The matter was pointed out to the management in December 2023 and discussed in the DAC meeting held on 01.02.2024. DAC directed DS/Workshop to submit a comprehensive reply along with documentary evidence within three days. DAC clubbed this para with Audit Para No. 2.4.3/2018-19 (DP 8859 and 8940) with the direction to inquiry committee to finalize its report within two weeks. Compliance of DAC directives was awaited.

Audit recommends that responsibility be fixed and action be taken against those at fault. Internal controls be strengthened to avoid recurrence.

DP 12551

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2018-19 and 2021-22 vide paras No 2.4.3 and 2.5.55 having financial impact of Rs 83.35 million. Recurrence of same irregularity is a matter of serious concern.

2.6 Significant issues related to Specialized Audit Reports

2.6.1 Non-finalization of Public Private Partnership of Railway Hospitals – Rs 37.72 billion

Public Procurement Regulatory Authority Rule- 38-B states that the procuring agency shall consider single bid in goods, works and services if it (a) meets the evaluation criteria, ensures compliance of specifications and other terms & conditions expressed in advertisement or bid solicitation documents; (b) is not in conflict with any provision of the Ordinance; (c) conforms to the technical specifications; (d) has financial conformance in terms of rate reasonability. Furthermore, Para 1801 of General Code for Pakistan Railway states that every public officer should exercise the same vigilance in respect of public expenditure and public funds generally as a person of ordinary prudence would exercise in respect of the expenditure and the custody of his own money.

During audit of Pakistan Railways medical facilities in May 2023, it was observed that M/s International Consultant submitted final feasibility report on 07.12.2020 regarding outsourcing/ rehabilitation of seven (07) hospitals on Build-Operate-Transfer model for 30 years. As per financial outlay submitted by the consultant, there was a collective/committed financial benefit of Rs 37.72 billion (Rs 28.64 billion fixed rent and Rs 9.17 billion revenue share) to Pakistan Railway. The same was approved by the Pakistan Railways Steering Committee on 07.07.2020. Accordingly, a tender was floated on 05.08.2021 and M/s ZBK submitted bid along with security of Rs 60 million for all seven hospitals. M/s ZBK was technically and financially qualified. But, after a period of 4 months the process was closed under the direction of SRGM on 06.01.2022. Senior General Manager also directed to submit case to the Tender Evaluation Committee for review and avoidance of any mis-procurement. But the case was closed by the GM/W&SI without submitting it to Tender Evaluation Committee which resulted into a loss of potential earning of Rs 37.72 billion due to non-finalization of PPP model.

The matter was taken up with the management in December 2023 and discussed in DAC meeting held on 12.01.2024. DAC directed the CM&HO to capitalize on the salient features highlighted in the feasibility study for

outsourcing/insourcing of Railway hospitals. The feasibility study as rightly pointed out by the audit team had become a tangible asset which should be fully utilized in outsourcing/insourcing of Railway hospitals. Compliance of DAC directives was awaited.

Audit recommends that matter be investigated to fix responsibility for non-implementation on recommendations of the feasibility study. Action be taken for beneficial utilization of Railway Hospitals on PPP mode to reduce burden on PR and provide better health facilities to the employees of PR.

DP 12515

2.6.2 Misappropriation of HSD oil – Rs 506.63 million

Clause 1, Chapter-III of Mechanical Manual of Pakistan Railways provides that fuel being the largest item of expenditure on the Railway, it is essential that accurate accounts of all fuel received and issued must be kept and the strictest economy observed in its use. Any tendency towards waste must be checked and constant attention paid to the prevention of coal thefts. All arrangements in connection with the supply of fuel for the whole line are made on behalf of the Chief Operating Superintendent. Divisional Mechanical Engineers or others responsible officers who have fuel in their charge, will be held responsible for all details connected with receipt, issue and custody of same.

During audit of HSD Oil Utilization for the FY 2021-22, it was observed that as per record (GM-31) a quantity of 5.03 million liters HSD oil was shown as available in fuel tanks of 203 locomotives at Karachi, Rohri, Samasatta and Rawalpindi Sheds. Whereas, fuel tanks capacity of these locos was 1.42 million liters only. Audit apprehended that if the fuel tanks of these locomotives were filled to full capacity even then the quantity of 3.61 million liters HSD oil valuing Rs 506.63 million was in excess to available capacity and hence stands suspicious. This indicated that fuel valuing Rs 506.63 million was misappropriated and misreported in record as available in fuel tanks of locomotives (**Annexure-14**).

The matter was taken up with management in December 2023 and discussed in DAC meeting held on 31.10.2023. DAC took a serious view of the matter and constituted an inquiry committee headed by the AGM/Infra,

FA&CAO/Revenue, COPS and CME/Loco to submit the inquiry report within one month to Audit. Further course of action shall be decided after the outcome of the fact-finding inquiry. Compliance of DAC directives was awaited.

Audit recommends that matter be probed to fix responsibility for misappropriation of HSD oil. Internal controls be strengthened to avoid recurrence.

DP 12510

2.6.3 Loss due to unfavorable addition/alteration in agreement between PR & IIMCT – Rs 157.51 million

According to agreement signed between PR and IIMCT dated 17.08.1998 that the status and standard of Pakistan Railways Hospital Rawalpindi be improved to the level of an excellent Teaching Hospital and in the larger interest of Railway and welfare of serving/retired employees along with dependents entirely at its own cost and expense.

During audit of medical facilities in Pakistan Railways in May 2023, it was observed that PR entered into an agreement with IIMCT on 17.08.1998. The agreement was revised twice on 10.06.2004 and 01.07.2019. Audit observed that some of the clauses of agreements were amended against the interest of Pakistan Railways and to provide undue favour to IIMCT i.e. increase in reimbursement cases, IIMCT built new structure for MBBS students in violation of agreement. This resulted in an additional financial burden on Pakistan Railways of Rs 157.51 million (**Annexure-15**).

The matter was taken up with the management in 08.06.2023 and also discussed in DAC meeting held on 28.12.2023, 04.01.2024 and 30.01.2024. DAC directed the CM&HO to make clause wise discussion with Audit and submit comprehensive reply to Audit within one week. Compliance of DAC directives was awaited.

Audit recommends that responsibility be fixed for unfavorable addition/deletion/alteration in agreement. Action be taken against those held responsible besides recovery of amount involved.

DP 12654

2.6.4 Unjustified consumption of fuel on shunting services – Rs 68.88 million

The General instructions of fuel economy measures circulated by Chief Operating Superintendent dated 28.3.22 provides that the shunting engines be economically utilized and wastage be eliminated through actual analytical ways. Moreover, Para C-III provides that locomotives capable of re-starting without any trouble viz weak batteries/other starting problem, must not be remain idling after reasonable period of ½ hour.

During audit of HSD oil Utilization for the FY 2021-22, it was observed that as per time table for passenger trains dated 15.10.2021, maximum 30 minutes were allowed for shunting and placing of a train before its departure. Whereas, locomotives were persistently utilized on shunting services up to 24 hours in excess to allowed time. Resultantly, a quantity of 0.49 million liters HSD oil valuing Rs 68.88 million (**Annexure-16**) was consumed unjustifiably on unproductive purpose as detailed below:

(a) Karachi division utilized 4.29 million liters HSD oil on account of shunting services during the FY 2021-22. The fuel consumption for the month of June 2022 on shunting services was test checked and it was observed that the Karachi based locos were persistently utilized on shunting services up to 24 hours daily. Resultantly, a quantity of 228,766 liters HSD oil valuing Rs 32.13 million was utilized in excess of the actual workings.

(b) Four Passenger Trains (UP and DN) were shunted at Sialkot and Narowal Railway Stations. Time allowed for shunting and placing of above four passenger trains @ 30 minutes each comes to two hours. However, the shunting locos worked up to 18 hours daily during FY 2021-22. Resultantly, excess quantity of 20,529 liters HSD oil valuing Rs 2.88 million was consumed.

(c) Faisalabad Shed was allocated two shunting locomotives for ten (10) UP and DN trains (4 originating and 6 passing trains). Time allowed for shunting and placing of above 10 trains was 5 hours @ 30 minutes each, whereas, locomotives were utilized on shunting services from 8 to 18 hours daily in excess of allowed time. This resulted in excess consumption of 241,034 liters HSD oil valuing Rs 33.86 million.

The above state of affairs resulted in wasteful consumption of 0.49 million litres fuel valuing Rs 68.88 million on shunting services. Moreover, the log books of locos were not maintained and hours/mileage meters were also out of order. Therefore, absence of log books and non-functioning of hours/ mileage meter of shunting locos indicated that reported abnormal consumption of HSD oil was actually misappropriated.

The matter was taken up with management in December 2023 and discussed in DAC meeting held on 31.10.2023. DAC directed the COPS that a SOP should be framed for efficient utilization of shunting locomotives. DAC constituted an inquiry committee comprising Dy: COPS/Power and Dy:CEN/North to conduct a fact finding inquiry regarding the extra ordinary consumption of HSD for shunting purpose at Narowal/Faisalabad and all other locations, where the locomotives were kept idle and running for long hours. The inquiry report should be submitted to Audit within two weeks along with SOPs of shunting locomotives. Compliance of DAC directives was awaited.

Audit recommends that matter be probed to fix responsibility for unjustified excess consumption of fuel on shunting services. Actual working of shunting locos be recorded through mileage and hours meters.

DP 12513

2.6.5 Loss due to irrational fixation of fuel quota for LOMS without devising SOP – Rs 58.05 million

Para-1801 of Pakistan Railway General Code Vol-I provides that every public officer should exercise the same vigilance in respect of public expenditure and public funds generally as a person of ordinary prudence would exercise in respect of the expenditure and the custody of his own money.

During audit of HSD oil utilization for the FY 2021-22, it was observed that Railway management fixed a quota of 746,000 litres for locomotives on miscellaneous services (LOMS) irrationally without assessing division wise availability of running locos and work load. The fuel quota for Lahore Division was fixed @ 620 litres per loco per year, whereas, the quota of other divisions was excessively fixed ranging from 2,200 liters to 2,941 liters (72% to 79%) per loco

per year. Resultantly, 413,261 liters of HSD oil valuing Rs 58.05 million was consumed excessively at other sheds as compared to Lahore. Moreover, no Standard Operating Procedure (SOP) was framed to rationalize and monitor the consumption of HSD oil on account of LOMS (**Annexure-17**).

The matter was taken up with management in December 2023 and also discussed in DAC meeting held on 31.10.2023. DAC directed the PO (COPS) to revisit their previous reply and a fresh comprehensive reply be submitted in the light rational fixation of fuel according to workload and allocation of locos to all sheds to the Audit within two weeks. Compliance of DAC directives was awaited.

Audit recommends that matter be probed to fix responsibility for irrational and excess fixation of fuel quota for LOMS. SOPs may be framed to rationalize and monitor the consumption of fuel on account of LOMS to avoid financial leakages.

DP 12514

2.6.6 Wasteful consumption of HSD oil on idle locomotives before departure of trains - Rs 12.64 million

Para 204 Chapter-II of Operating Manual provides that the engine crew must be on duty at least 45 minutes before the booked departure of the engine from shed. Para-B of Fuel Economy measures circulated by Chief Operating Superintendent dated 29.03.2022 provides that unnecessary detention of trains/locomotives in the traffic yards and stabling of locos on way side stations be avoided.

During audit of HSD oil Utilization for the FY 2021-22, it was observed during review of yard detention time of Lahore based locos that locomotives remained in start condition at yard after leaving the shed till departure of trains for 4,736 hours after allowing for admissible margin of 45 minutes. Similarly, yard detention of goods trains over the entire system of Pakistan Railways for the month of March 2021 and March 2022 was examined and found that locomotives remained idle at yards for 1,694 hours till departure of goods trains. The position showed that locomotives on passenger and freight services remained idle in start condition at yard for 6,430 hours unjustifiably. The idle working of locomotives resulted into wasteful consumption of HSD oil valuing Rs 12.64 million irregularly

and caused loss to Pakistan Railways due to negligence of Railway management (**Annexure-18**).

The matter was taken up with management in December 2023 and discussed in DAC meeting held on 31.10.2023. DAC took a serious view of the wasteful consumption of HSD oil on idle locomotives and directed COPS to come-up with proper SOP for the idle locomotives within two weeks. DAC directed that comprehensive reply may be submitted along with SOPs. DAC also directed that the fuel management system which is in tendering process must address and resolve the issues pointed out in the special study report of locomotives for audit year 2022-23. Compliance of DAC directives was awaited.

Audit recommends that matter be probed to fix responsibility for idling locomotives at yard before departure of trains. Remedial measures be adopted to avoid such recurrence.

DP 12512

2.6.7 Theft of HSD oil from under repair locomotives – Rs 7.03 million

Para-1801 of Pakistan Railways General Code provides that every public officer should exercise the same vigilance in respect of public expenditure and public funds generally as a person of ordinary prudence would exercise in respect of the expenditure and the custody of his own money.

During Special Study on “HSD Oil Utilization” for the FY 2021-22, it was observed that 723,436 liters fuel was available in fuel tanks of locomotives (Lahore and Karachi based) at time of arrival in shed for trip maintenance. During trip maintenance at sheds 7% fuel was consumed unjustifiably ranging from 28 to 3,778 liters from fuel tank of locomotives after allowing margin of one-hour consumption (as per record of OP-28). This indicated that 50,046 liters fuel valuing Rs 7.03 million was pilfered which caused loss to Pakistan Railways (**Annexure-19**).

The matter was taken up with management in December 2023 and discussed in DAC meeting held on 31.10.2023. DAC directed the PO (COPS) to review the previous reply and resubmit afresh reply along with documentary evidence to Audit within two weeks. DAC also directed that a fact finding inquiry

be conducted by the DG/Fuel and the report be submitted within one month. Compliance of DAC directives was awaited.

Audit recommends that matter be investigated to fix responsibility for theft of HSD oil. Action be taken against responsible besides enhancing the scope of investigation over entire system of Pakistan Railways.

DP 12511

(a) 2.6.8 Fraudulent consumption of HSD oil on account of deleted/non-functional locomotives - Rs 2.22 million

Para 1801 of Pakistan Railways General Code states that “means should be devised to ensure that every railway servant realizes fully and clearly that he will be held responsible for any loss sustained by government through fraud or negligence.

During audit of High Speed Diesel (HSD) oil utilization in locomotives for the FY 2021-22, it was observed that six ALU-95 locomotives working in Mughalpura Workshop were temporarily deleted on 03.01.2022. Despite temporary deletion of these locomotives the consumption of 15,825 liters HSD oil valuing Rs 2,222,938 was reported during the months of January 2022 and April 2022. This reflects that HSD oil was fraudulently issued and consumed on account of deleted locomotives and caused loss to Pakistan Railways due to connivance of Railway officials.

The matter was taken up with the management in June 2023 and also discussed in DAC meeting held on 31.10.2023. DAC took a serious view of the matter and directed that a fact-finding inquiry should be conducted by DG/Fuel and report should be submitted to Audit within two weeks. Compliance of DAC directives was awaited.

Audit recommends that matter be probed to fix responsibility for irregular issuance of HSD oil on account of deleted locomotives, the loss be recovered from the persons held responsible and internal controls be strengthened to avoid such recurrence.

DP 12655

CHAPTER 3

THEMATIC AUDIT

EFFECTIVE UTILIZATION OF PSDP PORTFOLIO BY PAKISTAN RAILWAYS

TABLE OF CONTENTS

	Page No.
3 Thematic Audit of Effective Utilization of PSDP Portfolio by Pakistan Railways	
3.1 Introduction	157
3.2 Background	158
3.3 Establishing the Audit Theme	159
3.3.1 Reasons for Selection	159
3.3.2 Purpose/ Objective	160
3.3.3 Scope of Audit	161
3.4 Legal Framework Governing the Theme	161
3.5 Stakeholders and Government Organizations Identified as Directly/ Indirectly Involved	162
3.6 Role of Important Organisations	162
3.7 Organization's Financials	164
3.8 Field Audit Activity	164

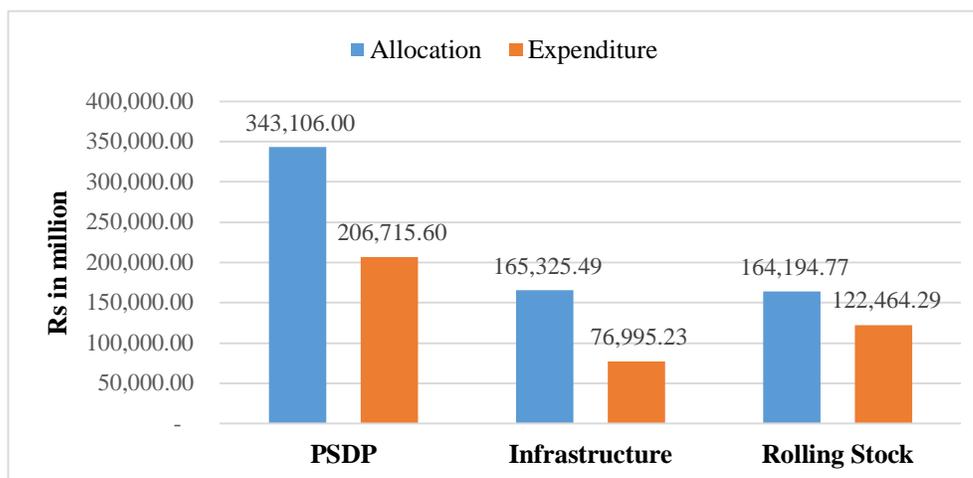
3.8.1	Audit Methodology	165
3.8.2	Audit Analysis	165
3.8.2.1	Review of Internal Controls	165
3.8.2.2	Critical Review of PSDP Portfolio	168
3.8.2.3	Significant Audit Observations	181
3.9	Departmental Responses	212
3.10	Recommendations	212
3.11	Conclusion	213

3. THEMATIC AUDIT OF EFFECTIVE UTILIZATION OF PSDP PORTFOLIO BY PAKISTAN RAILWAYS

3.1. Introduction

Pakistan Railways had been resuscitated through capital investments since 1972 by Federal Government under Public Sector Development Program (PSDP) primarily for up-gradation of rolling stock and allied infrastructure. Total funds allocated by Federal Government to Railway sector through PSDP was Rs 343.11 billion, out of which Rs 206.72 billion had been spent during last decade (**Annexure-20**).⁴⁵

Allocation and expenditure on infrastructure and rolling stock (2013-14 to 2022-23)



Source: Planning Commission of Pakistan & Financial Statements of PR for the last decade

During last ten years, PR initiated 43 projects for Infrastructure and 24 projects for Rolling Stock development/up-gradation out of which 26 and 19 were completed respectively. PSDP portfolio remained rolling stock dominated with consumption of 60.80% of total funds (**Annexure-21 & 22**).

⁴⁵ Financial Statements of PR 2013-14 to 2022-23

3.2 Background

The performance and financial health of Pakistan Railways had been deteriorated since 1972, with significant incline towards losses from Rs 32.52 billion to Rs 48.62 billion raising federal government's annual assistance from Rs 33.50 billion to Rs 47.50 billion layered over PSDP investment of Rs 206.72 billion during last decade. The shrinkage and deterioration of PR's rolling stock was due to the fact that majority of vehicles had outlived their useful life, thereby, necessitating hefty repair and maintenance costs and shortened gaps between major overhauls.⁴⁶ The allied infrastructure of track and bridge had been dilapidated partly due to piece meal rehabilitation endeavors and onslaught of natural calamities, resulting into retarding engineering restrictions, nullifying the impact of any improvement in rolling stock and resulting in excessive operational costs (**Annexure-23**).

Pakistan Vision 2025 stipulates delineates that Pakistan Railways will be transformed into a profitable organization by increasing optimum speed and freight share significantly. National Transport Policy-2018 aims at transforming Pakistan Railways into profitable organization and quality service provider for passengers and freight traffic. Railway infrastructure will be modernized and expanded to improve capacity, provide connectivity across the country, and development of a separate freight corridor on Railway tracks.

Pakistan committed to achieve Sustainable Development Goals (SDGs) through its national development agenda. The National Economic Council (chaired by the Prime Minister) approved the National SDGs Framework in 2018. The theme selected for audit is closely connected with the prioritized categories of SDG-11. Thematic Audit of "Effective Utilization of PSDP Portfolio by PR" assessed the effectiveness of Federal Government investment for revival and up-

⁴⁶ CAREC report on Railway Sector Assessment for Pakistan, March 2021

gradation of Pakistan Railways in accordance with Pakistan Vision-2025, National Transport Policy-2018 and SDGs.

3.3 Establishing the Audit Theme

The Planning Commission undertakes state policy development initiatives for the growth of the national economy and the expansion of the public infrastructure of the country. It emphasizes the utilization of economic resources of the country efficiently for socio-economic welfare of the people. This objective may be achieved only when development projects are planned and executed with effective management.⁴⁷ The selected theme is established with respect to optimum utilization of funds to achieve the planned objectives within the gestation period of projects for up gradation of Railway's rolling stock, allied infrastructure and achievement of relevant goals.

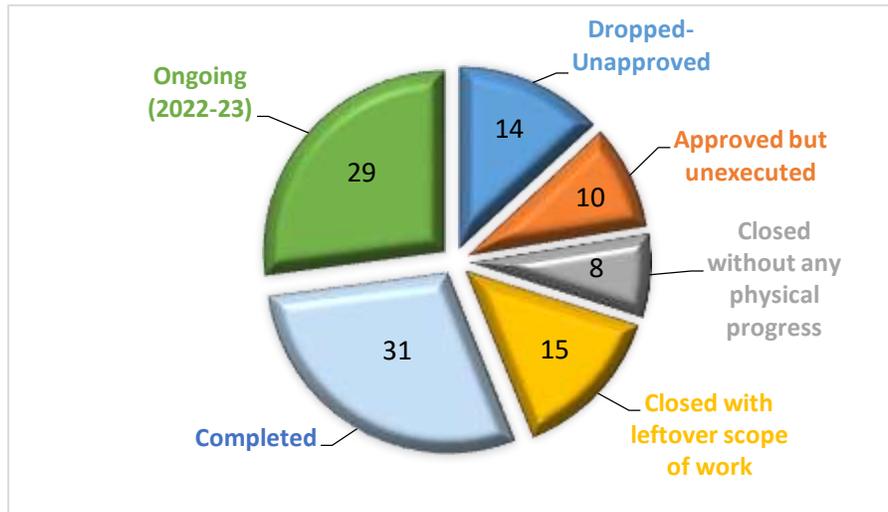
3.3.1 Reasons of selection

During last decade, PR initiated 83 PSDP projects⁴⁸ for up-gradation and rehabilitation in four sub-sectors i.e. Infrastructure, Rolling Stock, Governance and Business Development. Only 37% of the projects (31 projects) had been completed with full scope of works from 2013-14 to 2022-23. Out of 83 projects, 10% (08) were prematurely closed at their initial stages, 18% (15) were closed with unfinished scope of works, and 35% (29) were on-going as on 30.06.2023. Since the initiation of capital investment by Federal Government, 67 % of total investment had been utilized on above projects from 2013-14 to 2022-23 which is significantly material and is assessed in instant audit (**Annexure-24**).

⁴⁷ Planning Commission Guidelines for Project Management

⁴⁸ Detailed and short nomenclature of projects (Annexure-45 & 46)

Status of PSDP Projects (2013-14 to 2022-23)



Source: MoR & Planning Commission of Pakistan

Pakistan Vision 2025 and National Transport Policy-2018 clearly provide objective milestones for medium and long term development of Pakistan Railways transportation system under the overarching regime of national transportation development framework.⁴⁹ SDG-11, Target 11.2 obligates Pakistan to “Provide affordable and sustainable transport systems”, which was directly dependent upon and related to up-gradation and rehabilitation of Pakistan Railways through Federal Government development portfolio.

3.3.2 Purpose/Objectives

The objectives of thematic audit were following:

⁴⁹ Pakistan Vision-2025 Page No.71, 87, 88 & 103 and National Transport Policy Page No. 3, 7, 11, 15, 19 & 20.

- i. To identify the inefficiency and ineffectiveness regarding utilization of funds against allocation and identify causes thereof,
- ii. To find the gaps between planned objectives and their achievement within or beyond project planned gestation period,
- iii. To determine whether the PSDP Investment Plan is in place and sufficient for achievement of relevant targets under National SDGs framework of Pakistan,
- iv. To review whether project initiation and project management is in accordance with applicable rules and regulations

The objectives also include review of projects prioritization and throw-forward mechanism. Examine the causes of non-achievement of targets with respect to inadequate allocations and cash releases, or PR incapacity which led to ineffective utilization of PSDP portfolio. Audit intends to find out internal and external factors impeding optimal effective utilization of PSDP portfolio by Pakistan Railways.

3.3.3 Audit Scope

Audit examined the record related to 83 projects along with allocation of Rs 343.11 billion in respect of effective utilization of PSDP portfolio of Pakistan Railways for the period from 2013-14 to 2022-23 at Ministry of Railways, Islamabad and Railway headquarters, Lahore. Audit reviewed and examined the record and information covered under the TORs. Following TORs of thematic audit were developed:

- i. Analysis of PSDP portfolio with regard to annual demand, budgetary allocations, cash releases and their utilization,
- ii. Analysis of PSDP portfolio with regard to achievement of annual physical targets and projects objectives within their gestation period,
- iii. Assessment of adequacy of PSDP Investment Plans for achievement of relevant goals under National SDGs framework of Pakistan, and
- iv. Review the planning, execution and impact assessment in selected PSDP projects.

3.4 Legal framework governing the PSDP projects

Legal framework adopted for the current assignment included Manual for Development Projects, Public Financial Management Act-2019, Guidelines for Project Management, Guidelines for Appointment of Independent Project Director, Classification of Development Expenditure, Planning Commission Performa I to V, Pakistan Railways Engineering Code, Pakistan Railways Mechanical Code and other applicable internal controls.

3.5 Stakeholders and government organizations identified as directly/indirectly involved

It was very important that all stakeholders and government organizations be kept informed of the changing financial position of Pakistan Railways keeping in view the complexity and diversity of its operations. The following Government organizations were directly and indirectly involved as major stockholders:

- i. Ministry of Railways
- ii. Pakistan Railways
- iii. Ministry of Finance
- iv. Ministry of Planning, Development and Special Initiative
- v. Ministry of Defense
- vi. Ministry of Industries and Production

3.6 Role of important organizations

The Ministry of Railways (MoR) is responsible for administrative control, policy formulation and strategic planning including concerns like sustainability and long term development. *Project management activities are carried out at three different levels: (a) Sponsoring Ministry, which makes policy decision, (b) Project*

Director, who supervises day to day affairs of the project and (c) Projects wing of Planning Commission which acts as central agency to oversee execution of projects.⁵⁰

Project identification & formulation is the responsibility of MoR. Development projects are prepared on the approved formats (PC-I, II) and according to guidelines of Planning Commission.

A comprehensive project appraisal/assessment is carried out in the Planning Commission at approval stage. The projects having financial outlay up to Rs 2,000 million are approved by the DDWP, projects costing more than Rs 2,000 million but less than Rs 10,000 million are submitted to the CDWP for their consideration. ECNEC is the forum for projects having worth more than Rs 10,000 million. After sanction by Planning Commission, MoR issues administrative approval for the project. The final authority in the approval of funds is the National Economic Council (NEC). Funds are released by Ministry of Finance.

MoR is responsible for appointment of project directors for execution of projects in consultation with Planning Division, Finance Division and Establishment Division. The physical activities like civil work, procurement of machinery & equipment and train operations are undertaken in accordance with the approved Work Plan/Activity Chart under the supervision of Additional General Manager Infrastructure, Mechanical, and Traffic accordingly.

After the completion of a project, MoR draws completion report (PC-IV) and forwards it to projects wing of Planning Commission. MoR is responsible for submission annual performance report (PC-V) over a period of five years, to Planning Commission.

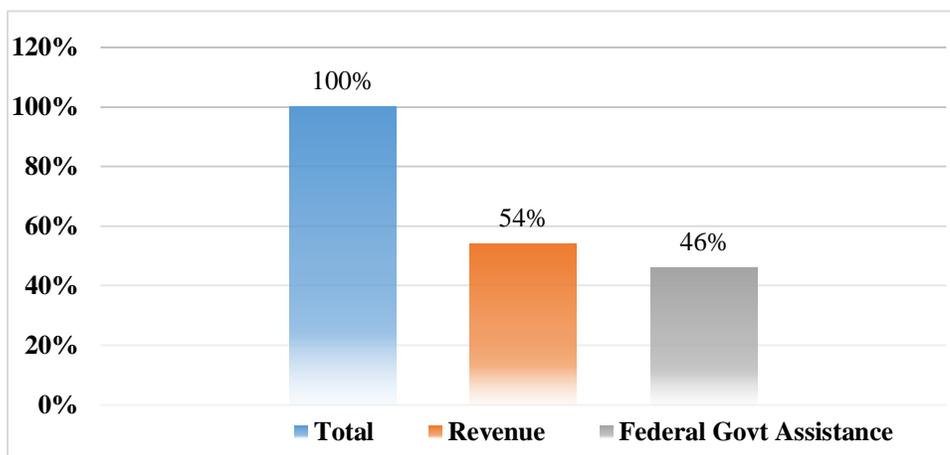
The evaluation of on-going and completed projects is one of the basic responsibilities of the Planning Commission. The analyst looks systematically at the elements of success or failure in the project experience to learn how to plan better for future. There are two layers to monitoring i.e. internal and external monitoring. Internal monitoring is the responsibility of MoR through concerned AGMs. External monitoring is undertaken by outside agencies like the projects wing of the Planning Commission and donor agencies.

⁵⁰ Planning Commission Guidelines for Project Management

3.7 Organization's Financials

Pakistan Railways covered only 54% of its total expenditure from revenue generation in last ten years (2013-14 to 2022-23), a gap of 46% of revenue expenditure was met by assistance from Federal Government. The accumulated losses for last ten years piled up to Rs 387.30 billion and Federal Government had to bridge the deficit by injecting Rs 406.96 billion through grant in aid. Whereas, an amount of Rs 206.72 billion was invested by Federal Government through PSDP as development fund, which did little good to ameliorate financial woes of the entity.

Sources of funds of Pakistan Railways (2013-14 to 2022-23)



Source: Commercial Accounts of Pakistan Railways

Analysis of last ten years' financial data of PR depicted that there was an upward trend of losses in spite of heavy funding by Federal Government and numerous development projects. The gap (loss) between revenue and expenditure was widened by fifty percent during the last decade, which raises serious concerns about the sustainability of the organization as a going concern in next decade, if the same trend continues unabated.

3.8 Field Audit Activity

The record related to PSDP projects was examined at PR Headquarters and Ministry of Railways Islamabad. Audit activity was kept limited to scrutiny of record; physical verifications of assets could not be conducted due to time constraints. The audit was conducted in accordance with the International Standards of Supreme Audit Institutions (ISSAIs) as envisaged in Financial Audit Manual (FAM) of DAGP.

3.8.1 Audit Methodology

Audit was based on analysis of qualitative and quantitative data i.e. Pakistan Vision, 2025, National Transport Policy-2018, Pakistan Railway Strategic Plan-2018, Pakistan Railways Investment Plan, Financial Statement of Pakistan Railways, PSDP expenditure statement, Project Concept Notes, PC-I to PC-V, project management, project execution and other related data. The manual methodologies/procedures used during audit were i.e. inquiry, observation, inspection, vouching, tracing, confirmation and analytical procedures. Moreover, data was analyzed through CAATs. The compliance of applicable rules and policies was also reviewed.

3.8.2 Audit Analysis

Audit analysis is comprised of review of internal controls and detailed assessment of cash inflow and effective utilization of PSDP portfolio, role and performance of PR and all other details along with impediments affecting the performance of PR.

3.8.2.1 Review of Internal Controls

Internal controls framework related to PSDP portfolio were studied and analyzed to get an overall understanding throughout the project life cycle i.e. Manual for Development Projects, Public Financial Management Act-2019, Guidelines for Project Management, Guidelines for Appointment of Independent Project Director, Classification of Development Expenditure, Planning Commission Performa I to V, Pakistan Railways Engineering Code, Pakistan Railways Mechanical Code and other applicable internal controls. The specific

instances of internal controls weaknesses and non-compliance of internal control were found through observations and evaluation of internal control system.

Internal controls placed to prevent and deter irregularities were advisory and recommendatory in nature and did not involve any punitive measures to mitigate the risks. The following repeated regulatory violations in project management were observed during thematic audit due to weak internal controls:

Stage-wise assessment of internal controls

SN	Internal Controls (IC)	Assessment of Internal Controls	Reference of ICs
1	Feasibility study shall be mandatory for projects costing Rs 500 million or above	PR initiated 45 projects without feasibility studies during last decade	Para 2.55 of Manual for Development Projects-2021
2	Project scope includes only project requirements necessary to achieve envisaged objective. Cost estimates must be prepared with due care and diligence so that these only require revision on an exceptional basis	35% of projects frequently revised PC-Is of 26 projects were revised 1 time to 3 times due to vague scope and unrealistic cost estimates	Para 2.48 of Manual for Development Projects-2021
3	No proposal for revision in cost or scope will be brought within two years of approval/execution of a project	15 projects revised within two years of approval/execution	Guidelines for Project Management-2005
4	For estimation of project implementation period, implementation of similar	Time overrun in 77% of portfolio	Para 2.57 of Manual for Development Projects-2021

SN	Internal Controls (IC)	Assessment of Internal Controls	Reference of ICs
	projects in the past be considered	58 projects experienced time overrun 1 to 15 years	
5	PD should not be transferred during currency of project	PD transferred up to 19 times 442 PDs were posted in 75 projects	Guidelines for Appointment of Independent Project Director in Development Projects
6	Independent PD mandatory for projects costing Rs 3,000 million and above	Independent PDs not appointed in 24 projects	
7	<i>For project closure, executing agency should state that whether project has been implemented as per approved cost, scope and time. In case of variation, reasons are provided</i>	15 projects were closed with left over scope of works but reasons of variation in scope, cost and time were not provided in PC-IVs	<i>Para 6.12 checklist for project closure (item No. 16) of Manual for Development Projects-2021</i>
8	Project objectives should be linked to the SDGs indicating the specific goals, being addressed by the project	30 projects were initiated but project objectives were not linked to the SDGs indicating the specific goals, being addressed by these projects	Para 2.42 of Manual for PSDP projects - 2021

SN	Internal Controls (IC)	Assessment of Internal Controls	Reference of ICs
9	The fund's utilization capacity of the executing agency must be kept in view while determining the financial phasing of the project	Funds amounting to Rs 112.74 million remained utilized	Para 2.55 of Manual for Development Projects
10	Economic analysis (NPV) is done by pricing of project inputs and output and calculating net present value is of the ways to establish that public money was worth spending on development projects	However, there was net loss on investment in 11 rolling stock projects	Para 3.22 of Manual for Development Projects-2021
11	At the project closure, submission of the PC-IV to the Planning Commission by the sponsoring agency is mandatory without any exception	PC-IVs of 23 completed projects were prepared with a delay of 1 to 6 years	Para 6.7 Manual of Development Project-2021
12	Sponsor shall be responsible to submit annual report on operation and maintenance, outcome, and impact of	132 PC-Vs of 46 completed projects were not prepared/submitted	Clause (c) of subsection 1 of Section 18 of PFM Act, 2019

SN	Internal Controls (IC)	Assessment of Internal Controls	Reference of ICs
	projects on PC-V format for five consecutive years		
13	The scope of the project must be clearly mentioned	Scope of 6 projects related to Special Repair and re-commissioning of rolling stock was vague	Para 2.45 of Manual for Development Projects-2021

The repeated regulatory violations in project management resulted into ineffective utilization of PSDP portfolio for development of Pakistan Railways.

3.8.2.2 Critical Review of PSDP Portfolio

A. Achievement of targets

Pakistan Vision-2025 states that Railway will be revived as a socially and financially viable organization by increasing share of rail in transportation sector from 4% to 20% by increasing speed from 95 km/h to 120/140 km/h, doubling of tracks on main line sections, enhancing line capacity with a modern signaling system and development of a separate freight corridor on Railway tracks.⁵¹

National Transport Policy-2018 states that Rail transport in Pakistan will connect urban centers, the ports and specific industrial zones. For passengers, PR will cater primarily to frequent and direct inter-urban passenger transport services, providing connectivity between urban centers and public transport hubs. The primary role of rail in the freight sector is to provide direct long-haul freight transport between industrial zones across the country and to the ports. Railway

⁵¹ Pakistan Vision-2025 Page No.71, 87, 88 & 103

infrastructure will be modernized and expanded to improve capacity, provide connectivity across the country and improve reliability of services.⁵²

Critical review of performance of Pakistan Railways against the targets set by Federal Government revealed that the share of Pakistan Railways in transportation sector had not been raised to desired level despite lapse of eight years (2015 to 2023) and funds allocation of Rs 343.11 billion. A fivefold increase in PR's share in transportation sector was dependent on two tangible factors (i) reasonably sized and operationally sound rolling stock (ii) resilient infrastructure, coupled with intangible factor of pragmatic business development programs for effective and efficient utilization of tangible factors.

The average availability of locomotives for operational use stood at 484 during 2010-15 which had been reduced to 461 in 2023, even though a hefty sum of Rs 122.50 billion had been doled out as PSDP funds for twenty-four projects related to rolling stock improvement during last decade. The negative tendency in terms of value for money was a logical consequence of rampant cost and time overruns in majority of projects. The fact was a testimony that the trend will continue in future. Internal controls placed to prevent and deter overruns were advisory and recommendatory in nature and do not support the high risk areas of project implementation. Ideally, the level of investment on rolling stock was directly proportional to term of useful life span earned by such investment but there were weak internal controls to bar earlier than expected and duplicate repairs before the expiry of such period.

A parallel system of rolling stock overhauling was being run from revenue budget and specifications of such works blur the boundaries between PSDP and revenue funded works. Since Pakistan had no modern mechanical industry, majority of the spare parts used in rolling stock projects were imported from OEM involving foreign exchange component (FEC) which was sensitive and vulnerable to exchange rate fluctuations, thus, time overrun almost always leads to exorbitant cost overruns. Delayed completion and unexpectedly higher costs erode the

⁵² National Transport Policy Page No. 3, 7, 11, 15, 19 & 20

intended benefits of projects along with creation of operational hurdles and widening investment efficiency gap.

Most of PR's track and bridge infrastructure needs refurbishment.⁵³ Pakistan Railways claimed maximum speed of 105 kilometers per hour (kph), whereas, due to limitations of rolling stock and infrastructure, actual average speed of mail/express trains was 44 kph. The average speed of freight trains was 18.9 kph in 2022-23. The track length under speed restriction had increased from 402 km (2018) to 730 km (2023).⁵⁴ In last decade, not a single project regarding development of separate freight corridor had been initiated. Railway system had not been significantly upgraded and modernized. Separate freight corridor had not been developed as envisaged.⁵⁵

B. PSDP share of PR in transport sector

PR role in the transport sector had not been supported by appropriate volume of investment and flow of funds had been heavily tilted towards NHA. In order to achieve the targets, set in Pakistan Vision-2025 and National Transport Policy-2018, adequate funds were not allocated for up gradation and modernization of Pakistan Railways. During the last 10 years, Rs 343.10 billion were allocated to Pakistan Railways as compared to NHA allocation under PSDP head amounting to Rs 1,470.76 billion (**Annexure-20**).⁵⁶

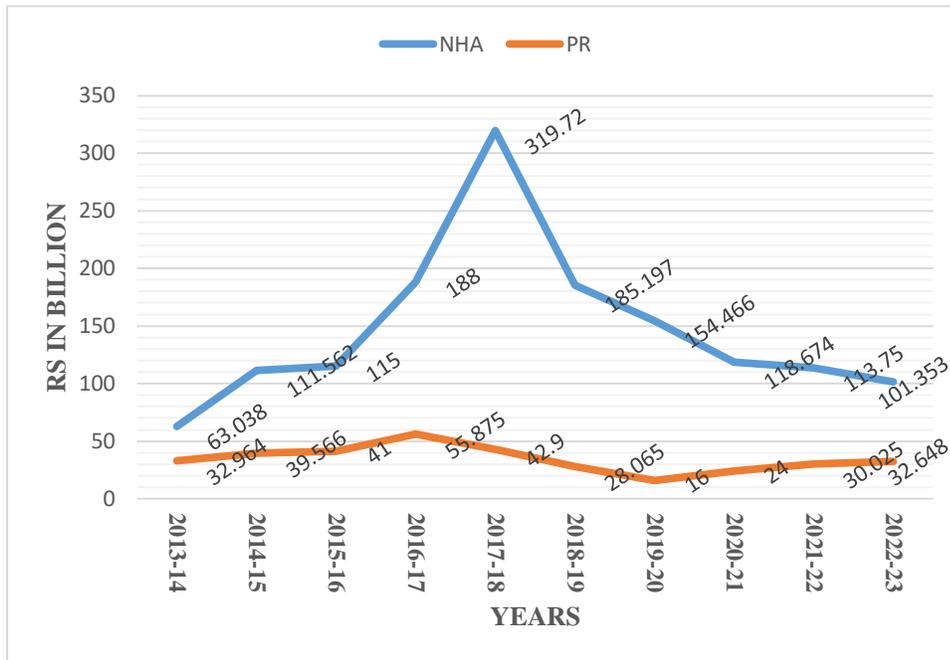
⁵³ CAREC report on Railway Sector Assessment for Pakistan, March 2021

⁵⁴ Pakistan Railways Year Book 2020-21

⁵⁵ Financial Statement of PR 2013-14 to 2022-23

⁵⁶ PSDP portfolio from 2013-14 to 2022-23 (NHA Network length 14,480 km, PR 11,492 track km)

PSDP allocation PR and NHA (2013-14 to 2022-23)



Objectives set in Vision-2025 and National Transport Policy had not been achieved due to low priority area and inefficient project management practices. Targets regarding increase in train speed and rail share, modernization of infrastructure, cross border connectivity, development of dedicated freight corridor were not achieved.

C. Linkage of PSDP with Sustainable Development Goals

Para 2.42, 3.15 and 3.18 of Manual for Development Projects provides that the project objectives should be linked to the SDGs indicating the specific goals being addressed by the project. Social and environmental analysis of projects should show, how the project is contributing to the attainment of relevant SDGs in national or sub-national contexts.

After adoption of SDGs by Pakistan in 2016, PR initiated 30 PSDP projects from 2016-17 to 2022-23 but objectives of these projects were not linked to the SDGs indicating the specific goals, being addressed by the projects. Social and environmental analysis of projects had not showed how these projects had contributed to the attainment of relevant SDGs targets in national or sub-national contexts. PC-I of these projects did not show, how these projects were able to provide affordable and sustainable transport systems (SDG-11) (**Annexure-25**).

Linkage of SDGs with project objectives

(Rs in million)

Details	Nos. of Projects	Estimated Cost	SDGs linked at planning stage
On-going projects	24	90,648.58	Nil
Completed projects	6	3,214.40	Nil
Total projects initiated after adoption of SDGs	30	93,862.98	Nil

Source: PC-Is and PC-IVs of projects

Critical review of PC-I of thirty projects initiated after adoption of SDGs revealed that project objectives were not linked with relevant SDG targets at the planning stage.

D. Management of PSDP portfolio by Pakistan Railways

Pakistan Railways had a development portfolio comprising 107 projects from 2013-14 to 2022-23.

(Rs in million)

SN	Particulars	Nos. of Projects	Estimated Cost	Expenditure
1	Not executed	24	125,367.70	-

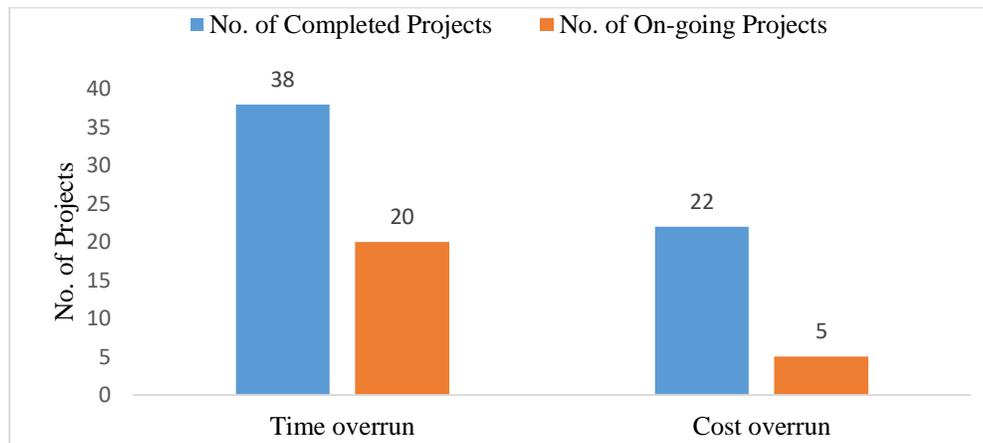
2	Premature closure	8	94,639.37	4,891.14
3	Closed with leftover scope of works	15	58,460.44	49,422.52
4	Completed	31	149,607.81	142,465.46
5	On-going (2022-23)	29	101,477.42	70,437.36
Total		107	529,552.74	267,216.48

Source: PSDP portfolio of PR 2013-14 to 2022-23 and PC-IVs of completed projects

Pakistan Railways had not formulated strategic investment plan for future development in the organization. Investment plan was not available with Railway management covering the requirements of number of locomotives, wagons, coaches, on the basis of passenger and freight traffic demands, size of obsolete rolling stock and infrastructure. PR commenced 08 infrastructure projects which were prematurely closed at very initial stages by incurring wasteful expenditure of Rs 4,891.14 million. Further, 24 approved projects, reflected in PSDP were not executed. Thirty percent (30%) projects of the portfolio were not initiated at all during last decade. Furthermore, 15 projects were closed with reduced scope of works. Only 31 projects were executed and completed during the last ten years. Non-execution of approved projects, premature closure during execution and closure of with leftover scope of works indicated that PR PSDP portfolio was inconsistent with the national priorities.

During last decade, 28 out of 46 completed projects were closed with time overrun from 1 year to 13 years, whereas, 22 projects were closed with cost overrun up to 212%. Similarly, 20 out of 29 ongoing projects were with time overrun from 1 year to 13 years, where, 5 ongoing projects had experienced cost overrun up to 727%.

Implementation timelines vs cost escalation (2013-14 to 2022-23)



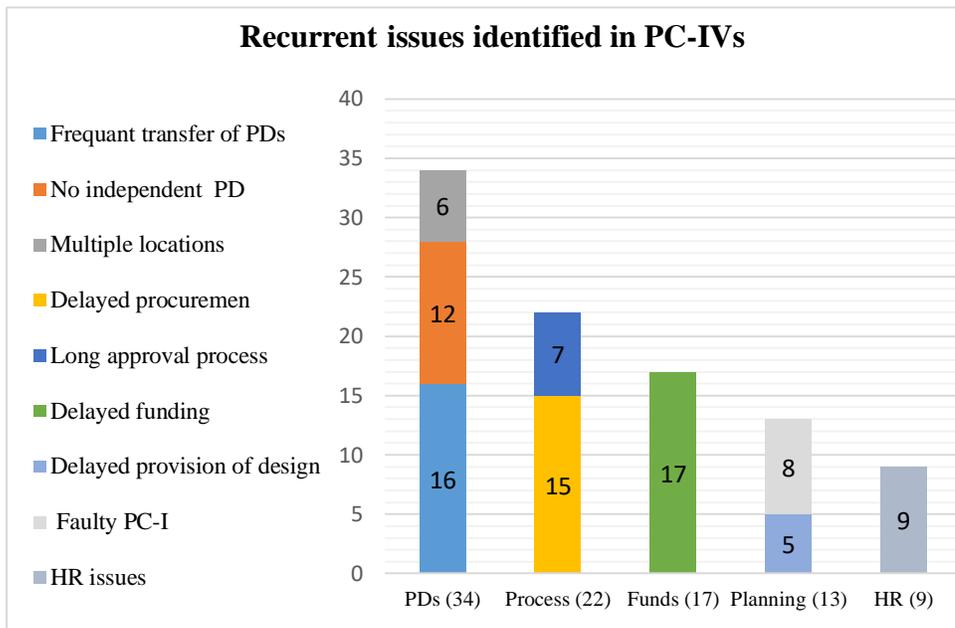
Source: Planning Commission of Pakistan & MoR

E. Recurrent issues in PSDP portfolio

PC-IVs of 46 projects were reviewed and it was found that management identified 05 recurrent issues related to project management during the execution of projects (**Annexure- 26 & 27**).

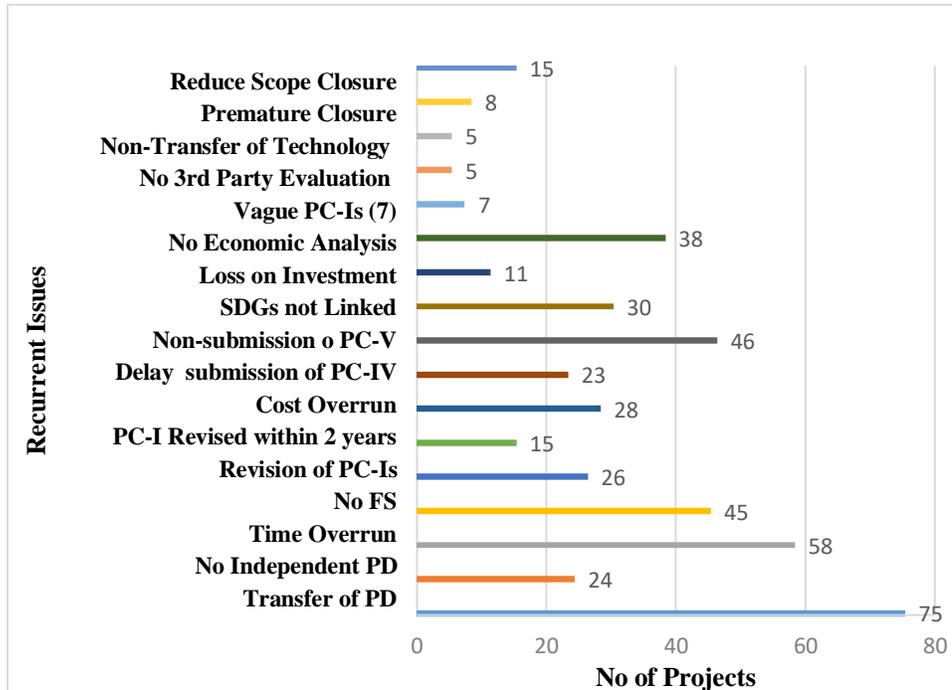
Issues related to Project Director were repeated 34 times i.e. frequent transfer of PDs during project execution, non-independence of PDs in decision making regarding project activities and insufficient control of PDs on project activities due execution at multiple locations. Issue of lengthy PR approval processes was identified by PDs in 22 projects. Delay in provision of funds was faced by PDs in 17 projects. Poor planning of project activities was highlighted by 12 PDs. Seven PDs faced problems regarding non-availability of skilled HR for execution of projects.

Audit observed that same issues were also existent in on-going projects as pointed out in observations. This indicated lack of coordination among the project activities as same issues were faced in various projects and management failed to learn the lesson in one project and implement in other projects.



Source: PC-IV of completed projects during last decade

Recurrent issues assessed by Audit



Source: PSDP portfolio of Pakistan Railways (2013-14 to 2022-23)

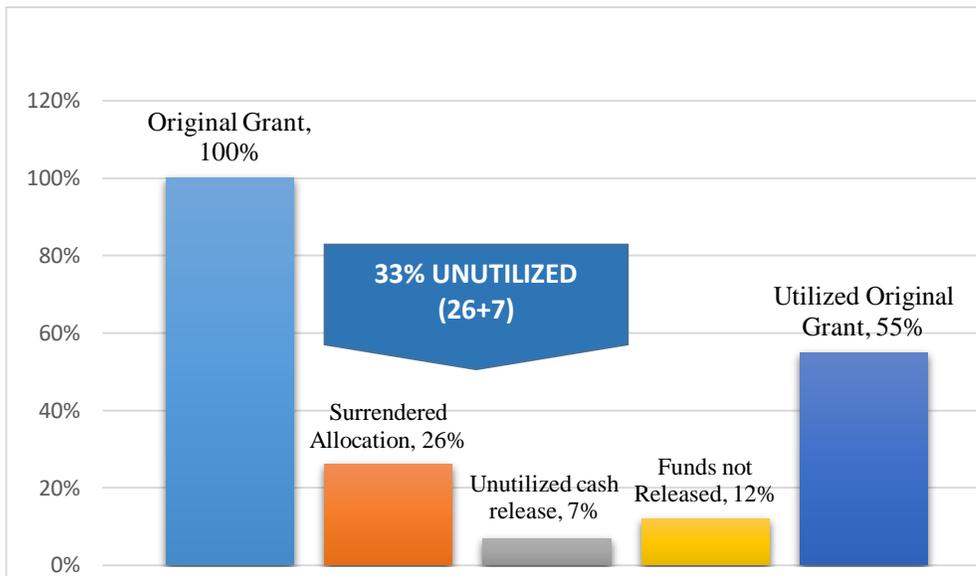
Planning remained the bottleneck in translating resources into achievements, planning documents were observed to be vague and non-specific leaving room for subsequent scope and cost revisions which germinated into consequent execution failures. Monitoring and evaluation could not fuel pragmatic and informed decision making by identifying shortcomings in projects and feedback was either delayed or altogether evaded.

F. Non-utilization of PSDP funds

During last 10 years, out of allocated PSDP grants, Pakistan Railways was able to utilize only 55 % funds on various projects. Out of allocated funds of Rs 343.11 billion, an amount of Rs 90.08 billion was surrendered by Pakistan Railways and Rs 22.66 billion remained un-utilized from cash releases. One third

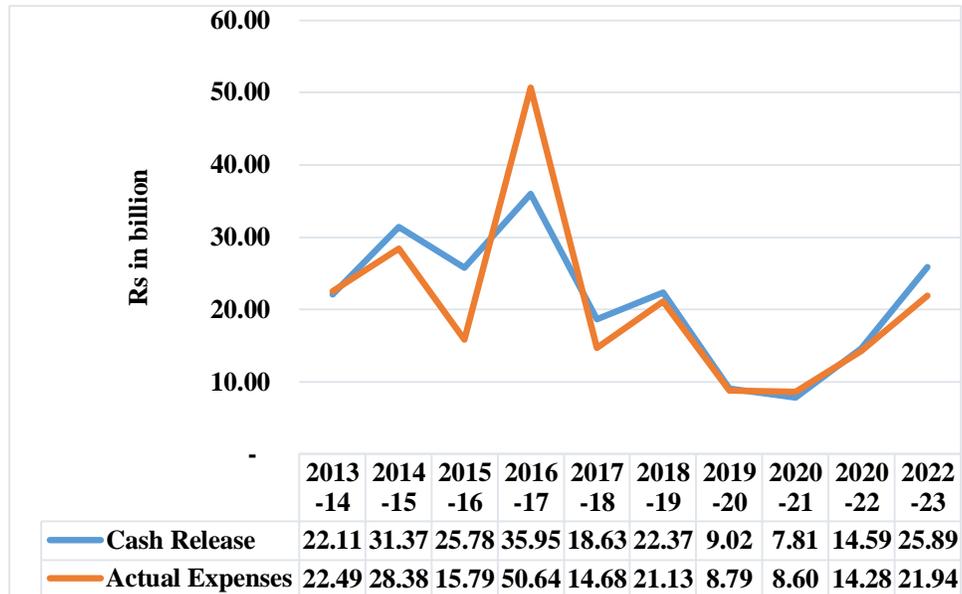
(33%) of allocation (Rs 112.74 billion) was not utilized by Pakistan Railways due to inefficiency and incapacity of Pakistan Railways.

Utilization of PSDP grant (2013-14 to 2022-23)



Source: Financial Statements of PR 2013-14 to 2022-23

PSDP cash release vs expenditure



Source: Financial Statements of PR 2013-14 to 2022-23

The figures depict the trend of cash releases vs. actual expenditure during the last ten years. Actual expenditure remained below the cash releases however, in 2016-17 and 2020-21 they were above the cash releases due to incurring of expenditure out of un-utilized cash releases of proceeding years. Thus, surrender of funds to tune of Rs 90.08 billion and non-utilization of released funds Rs 22.66 billion showed PR incapacity to effectively utilize PSDP portfolio.

G. Initiation of projects without feasibility studies

Pakistan Railways initiated 45 PSDP projects without feasibility studies and linkage between investment and benefits could not be quantified and evaluated. Execution without feasibility studies led to disconnect between set objectives and actual results.

Impact of projects without feasibility studies

Feasibility Studies Required	Not Conducted	Impact	
Feasibility studies required in 15 out of 29 on-going projects	14	3 Projects with cost overrun	Up to 53%
		9 Projects with time overrun	1-10 Years
		5 Projects with revisions in PC-1	2 Projects PC-1 revised twice and 3 projects PC-1 revised once
Feasibility studies required in 31 out of 46 Completed projects	31	18 Projects with cost overrun	Up to 212%
		27 Projects with time overrun	1-13 Years
		13 Projects closed with reduced scope	-
		17 Projects with Revisions in PC-1	11 projects revised once, 5 projects revised twice and 1 project revised thrice
Total	45	-	-

Eight (08) feasibility studies were conducted by Pakistan Railways through PSDP portfolio during 2013-14 to 2022-23 at the cost of Rs 1,058.16 million, wherein, the consultant declared seven proposals for projects as unfeasible and only one was declared feasible which could not be initiated by PR. The sample of feasibility studies conducted by consultants extrapolates that majority of the proposals for projects were not viable as per third party evaluation but the same was done away with in majority of the projects (**Annexure-28**).

H. Transformation of economical into uneconomical projects

Audit observed that 35% of project portfolio went into scope revision which establishes the fact that financial needs were understated to approving forums which led authorities towards favorable decisions at the time of inception and ground realities pushed the projects into financial unviability. Review of PC-IVs of rolling stock projects revealed that 11 projects were feasible with positive net present value (NPV) of Rs 21,794.43 million at the inception stage but out of these projects, seven (07) projects became un-economical due to negative NPV of Rs 14,072.45 million at completion stage.

Projects with negative NPV

(Rs in million)			
SN	Project Name	NPV as per PC-I (Planning Stage)	NPV as per PC-IV (Completion Stage)
1	Manufacture of 05 Locomotives	279.52	-194.25
2	Procurement of 585 Hopper Wagons and 20 Bogie Brake Vans	2,923.76	-1,084.96
3	Procurement of 58 Locomotives	11,980.46	-9,074.43
4	Procurement of 300 Traction Motors	377.66	-189.99
5	Procurement of 530 High Capacity Wagons	1,078.43	-
6	Procurement of 202 Carriages	1,751.96	-

7	Procurement of 780 Hopper Wagons and 20 Bogie Brake Vans	-	-
8	Rehabilitation of 27 Locomotives	956.27	-1,273.19
9	Special Repair to 100 DE Locomotives	112.21	-1,431.04
10	Special Repair to 800 Coaches and 2000 Wagons	363.53	-858.59
11	Rehabilitation, up-gradation and conversion of 400 Coaches	540.14	-
12	Special Repair of 150 Locomotives	1,430.49	33.10
Total		21,794.43	-14,072.45
Grand Total		Rs 35,866.88 million	

PR had not performed economic analysis of 83% completed projects at planning/ completion stages which reflected preparation of poor quality of PC-Is and PC-IVs. Transformation of economical into un-economical projects was caused by increase in capital outflow and less revenue inflow due to extension in implementation period, slow physical progress, delayed procurements, inefficient utilization of funds and PR's incapacity to execute PSDP projects. This state of affairs depicted ineffective utilization of PSDP portfolio by Pakistan Railways as completion of projects with negative NPV resulted into loss of Rs 35,866.88 million to public exchequer (**Annexure-29**).

I. Sectoral utilization of PSDP portfolio

Development portfolio of Pakistan Railways remained rolling stock dominant during the last 10 years. PR utilized 60.80% funds on rolling stock, 38.22% on infrastructure, 0.73% on governance and only 0.26% on business development. Sector wise allocation and expenditure indicated the fact that allocation on infrastructure was on top priority but on the other hand expenditure on infrastructure became second priority as the flow of utilization of funds was diverted to rolling stock. Further, 17 projects of infrastructure sector were not

commenced and 08 projects commenced but prematurely closed at their initial stage.

Sector-wise utilization of PSDP portfolio

(Rs in million)

Sector	No of Projects	Allocation	Expenditure	Allocation %	Expenditure %
Rolling Stock	24	164,194.77	122,464.29	48.79%	60.80%
Infrastructure	43	165,325.49	76,995.23	49.13%	38.22%
Governance	6	5,304.77	1,461.26	1.58%	0.73%
Business Development	2	1,708.62	514.58	0.51%	0.26%
Total	75	336,533.65	201,435.36	100%	100%

Due to imbalanced utilization of PSDP portfolio, track and allied infrastructure was neglected which resulted into non-achievement of targets set in Pakistan Vision-2025 and National Transport Policy-2018 i.e. increased train speed and line capacity, modernization of infrastructure, cross boarder connectivity and development of dedicated freight corridor.

J. Deferred revenue repairs shifted to PSDP portfolio

Analysis of PSDP portfolio of Pakistan Railways indicated that out of 75 completed and on-going projects, only 40 projects were related to development and 26 related to rehabilitation and maintenance while other 9 were related to feasibility studies. An amount of Rs 19.28 billion was incurred on deferred revenue repairs of rolling stock through five PSDP projects in last decade (**Annexure-30**).

Development and non-development projects

(Rs in million)

Nature of Project	No. of Projects	Estimated Cost	Expenditure
Development	40	203,912.44	183,333.58
Rehabilitation	21	81,154.56	58,624.15
Feasibility Study	9	1,976.90	1,083.37
Special Repair of Rolling Stock	5	22,501.78	19,284.24
Total	75	309,545.67	262,325.34

Long due and accumulated repair and maintenance works related to rolling stock were designed as development works under the PSDP portfolio and thus the concept of development was compromised ab initio.

K. Unclear scope and unrealistic cost estimates

Review of PC-Is of PSDP project indicated that PC-Is were not prepared with due care and diligence. Scope of various projects was not clear and final, which experienced repeated revisions. PC-I of 26 projects were revised due to change in scope and cost during last decade. PC-Is of 3 projects were revised thrice, 6 projects were revised twice and 17 projects were revised once during their implementation period. The estimated cost of these 26 projects showed a net increase of Rs 61,349.35 million. Further, out of 26 PC-Is, 15 PC-Is were revised within 2 years from the last revision/approval date in contravention to the guidelines of Planning Commission. This indicated that projects were initiated with unfirmed scope of work and unrealistic cost estimates, which resulted into cost overrun and non-achievement of envisaged benefits within planned gestation (**Annexure-31 & 32**).

L. Non-transfer of technology and absence of dedicated R&D wing

In last ten years (2013-14 to 2022-23), no R&D project was initiated by PR and solely dependent on OEMs for maintenance of rolling stock. Pakistan Railways initiated 5 PSDP projects for procurement / manufacture of rolling stock with transfer of technology (ToT), however, in agreements the ToT was without financial impact and delivery timelines. Consequently, PR failed to obtain drawings, instruction books and as-made tracings of rolling stock from contractors/manufacturers. Non-transfer of technology resulted into non-development of R&D wing for self-dependence in manufacturing and maintenance of rolling stock to discourage the monopoly of OEMs and lessen the burden on public exchequer. This indicated that PR focus remained on short term availability of rolling stock and dependent on OEM.

3.8.2.3 Significant Audit Observations

Observation-1

Absence of Strategic Investment Plan for development of Pakistan Railways

According to O.M No. 4(5) PIP/PC/2019-20 dated October 22, 2020, the Planning Commission of Pakistan directed the MoR to develop Strategic Investment plan to make Railways national leading profitable, competitive, sustainable service delivery public organization. The Planning Commission directed the Minister of Railways to take immediate measures to develop the Strategic Investment Plan and share it with stakeholders.

During audit, it was observed that Railway management had not formulated Strategic Investment Plan for development of Pakistan Railways. During last decade, Railway management was not fully aware about the demand of locomotives, wagons, coaches, and required infrastructure based on traffic demands. Analysis of sector-wise expenditure revealed that development portfolio of PR remained rolling stock centric and track and allied infrastructure remained neglected, 60.80 % of total funds were utilized on rolling stock, 38.22% on infrastructure 0.73% on governance whereas, only 0.26% on business development during last decade. Further, PR commenced 08 infrastructure projects which were prematurely closed at very initial stages by incurring wasteful expenditure of Rs 4,891.14 million and the stakeholders were deprived from envisaged benefits of projects. Twenty-four (24) approved projects, reflected in PSDP were not executed at all which comes to 30% of the PSDP portfolio. Absence of Strategic Investment Plan resulted in imbalanced sectoral development, premature closure of projects and non-execution of approved projects (**Annexure-33**).

Premature closure of projects

(Rs in million)

Status	Sector	No. of Projects	Estimated Cost	Allocation	Expenditure
Not Executed	Rolling Stock	7	91,608.00	3,805.00	Nil
	Infrastructure	17	33,759.70	184.20	Nil

Prematurely Closed	Infrastructure	8	94,639.36	5,571.01	4,891.13
Total		32	220,007.06	9,560.21	4,891.13

Source PSDP of Planning Commission of Pakistan 2013-14 to 2022-23 and PC-IVs

The matter was taken up with the management in November, 2023 and discussed in DAC meeting held on 26th and 27th December, 2023. DAC noted that the response to audit observation was unprofessional. The PO (DG/Planning) should provide comprehensive response covering national transport policy framework and other related documents specific to the investment planning to Pakistan Railways within one week. Compliance of DAC directives was awaited.

Audit recommends that Strategic Investment Plan be formulated considering future demand of rolling stock, infrastructure and passengers and freight traffic to make PR into profitable, competitive, sustainable service delivery public organization. The matter of closure of premature projects and non-execution of approved projects be probed to fix the responsibility for utilization of precious resources on futile works.

Observation-2

Non-transfer of unutilized released funds of PSDP projects- Rs 22,140.62 million

Para 7 of Form-17 (release of funds in assignment account) of Receipt and Payment Rules-2021 of Finance Division provides that the amount remaining unutilized at the close of the financial year would lapse. The amount remaining unutilized on the 30th June each year may be transferred and credited in the account of the Federal Government.

During audit it was observed that an amount of Rs 22,140.62 million out of released PSDP funds was not utilized in pertinent years and unutilized amount kept on accumulating during 2013-14 to 2022-23. Further, left over amount of Rs 15,625.09 million was utilized in succeeding years irregularly. During the FY 2016-17, PR management incurred PSDP expenditure of Rs 50,640.47 million against cash release of Rs 35,948.11 million and remaining expenditure of

Rs 14,617.61 million was met from savings of previous years. Balance of unutilized funds against the relevant years is given below:

Balance in PSDP Account No. XVIII

(Amount in Rs)			
Date	Balance	Unutilized funds	Expenditure
30.06.2013	216	216	-
30.06.2014	882,824,787	882,824,571	-
30.06.2015	4,550,567,046	3,667,742,259	-
30.06.2016	14,715,447,406	10,164,880,360	-
30.06.2017	97,838,468	-	14,617,608,938
30.06.2018	2,352,489,321	2,254,650,853	-
30.06.2019	4,958,017,176	2,605,527,855	-
30.06.2020	5,525,468,550	567,451,374	-
30.06.2021	4,517,986,766	-	1,007,481,784
30.06.2022	4,618,992,126	101,005,360	-
30.06.2023	6,515,530,052	1,896,537,926	-
Total	-	22,140,620,774	15,625,090,722

Source: Pakistan Railways Federal Government Account No. XVIII

Non-surrender of released funds at the end of financial years was due to ineffective public funds management, slow physical and financial progress of the projects. Further, these funds had been accumulated during last 10 years and Pakistan Railways Federal Government Account No. XVIII reflected a credit balance of Rs 6,515.53 million on 30.06.2023. Ineffective and underutilization of PSDP funds resulted in non-achievement of annual targets, envisaged benefits, delay in completion and increase in capital cost of projects.

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 26th and 27th December, 2023. DAC directed the PO (Member Finance) to provide a comprehensive reply within one week. Compliance of DAC directives was awaited.

Audit recommends that the matter be probed to fix responsibility for non-transfer of unutilized funds to Finance Division and unutilized funds may immediately be intimated to Planning Commission and transferred to Finance Division. Financial management controls be improved to avoid recurrence.

Observation-3

Non-achievements of envisaged benefits/targets– Rs 112.74 billion

Para 2.55 of Manual of Development Projects-2021 states that the financial phasing of a project is to be given for each fiscal year, related to the physical work proposed to be undertaken, keeping in view the implementation of similar projects in the past. It should be as realistic as far as possible. The funds utilization capacity of the executing agency must be kept in view while determining the financial phasing of the project. Physical phasing/implementation plan of major items/deliverables may be provided, and financial phasing should be derived from it.

During audit, it was observed that PSDP funds amounting to Rs 112.74 million remained unutilized. During last decade, PSDP allocation was Rs 343.11 billion and out of total allocated funds Rs 90.08 billion was surrendered and Rs 22.66 billion remained unutilized out of cash releases. In this way, 33% of allocation was not utilized by the concerned project directors which resulted in cost overrun, delay in completion of projects and non-achievement of planned objectives. The comparison of allocated funds, cash releases and their utilization indicated that after surrender of unrequired funds only Rs 40.06 billion were not released by Finance Division and out of released funds Rs 22.66 billion had not been utilized by the management. The above state of affairs indicated that if unreleased funds of Rs 40.06 billion had been released, the same would have remained unutilized as available funds of Rs 22.66 billion were not utilized. Thus,

the management point of view regarding non-provision of adequate funds was not correct (**Annexure-34**).

Utilization of PSDP grant by PR

(Rs in billion)

Year	Allocation	Funds Released	Released Funds utilized	Released funds Un-utilized	Surrender	Funds not released
2013-14	32.96	22.11	22.11		4.95	5.91
2014-15	39.57	31.37	28.38	2.99	1.33	6.87
2015-16	41.00	25.78	15.79	9.99	14.72	0.50
2016-17	55.88	35.95	35.95	-	-	19.93
2017-18	42.90	18.63	14.68	3.94	20.88	3.39
2018-19	28.07	22.37	21.13	1.25	5.27	0.42
2019-20	16.00	9.02	8.79	0.23	6.98	-
2020-21	24.06	7.81	7.81	-	13.24	3.01
2020-22	30.03	14.59	14.28	0.31	15.40	0.03
2022-23	32.65	25.89	21.94	3.95	7.30	-
Total	343.11	213.51	190.86	22.66	90.08	40.06
Unutilized 22.66+90.08 = Rs 112.74 billion						

Source: Financial Statements of PR 2013-14 to 2022-23

Non-utilization of allocated and released funds was caused by poor planning and poor project management e.g. initiation of projects without feasibility studies, work design, finalized tender documents, indefinite and multiple revisions in scope of works, un-realistic financial and physical phasing of projects. Initiation of projects without considering the existing workload and capacity of Railway workshops, availability of material and dedicated Project Directors, lengthy

procurement process, poor monitoring and evaluation of projects, lack of PR Strategic Investment Plan and overall institutional incapacity to execute development projects led to erosion of planned benefits.

The matter was taken with the management in November 2023 and discussed in DAC meeting held on 26th and 27th December, 2023. DAC noted that response to audit observation was unprofessional. The PO (DG/Planning & Member Finance) should provide a comprehensive response within one week. Compliance of DAC directives was awaited.

Audit recommends that the matter be probed to fix responsibility against concerned Project Directors for regular surrenders and non-utilization of released funds. Recurring issues which caused delay in project implementation be fixed by improved project management for effective utilization of PSDP portfolio.

Observation-4

Excess cost due to frequent revision of scope of projects –Rs 61,349.35 million

Para 2.45 of Manual for Development Projects-2021 provides that the project scope includes only the project requirements necessary to achieve the envisaged objective. The scope of the project must be clearly mentioned. Further, Para 2.48 provides that the cost estimates of a project must be prepared with due care and diligence so that these only require revision on an exceptional basis and project implementation is not delayed due to the non-availability of funds. Furthermore, Para 3.54 (iii) provides that to avoid frequent revisions, no proposal for revision in cost or scope will be brought within two years of approval/execution of a project. Further, Guidelines for Project Management-2005 provides that no revision of PC-I is required if the cost increase is due to depreciation of Pak rupee in foreign exchange cost.

During audit, it was observed that PC-Is of 26 projects (completed-15 and on-going-11) were revised due to need for deviation from planned scope and cost during last decade i.e. 2013-14 to 2022-23. PC-Is of 3 projects were revised thrice, 6 projects were revised twice and 17 projects were revised once during their

implementation period. The estimated cost of these 26 projects showed a net increase of Rs 61,349.35 million. Further, 15 PC-Is (6+9) were revised within two years from last revision/approval dates in violation of criteria referred above (**Annexure-31 & 32**).

Cost increases and revision of PC-Is

(Rs in million)

No of Projects	No of Revisions	Original Cost	Revised Cost	Cost escalation	Revision within year	Revision between 1-2 years	Revision after 2 years
3	3	6,023.10	16,384.10	10,360.90	1	2	6
6	2	45,075.90	84,789.36	39,713.41	4	3	5
17	1	39,443.07	50,718.11	11,275.04	1	4	12
26	38	90,542.07	151,891.57	61,349.35	6	9	23
Total number of projects =26 and total number of revisions =38							

Source PC-Is of relevant PSDP projects

During the period, 35% of projects under the portfolio were frequently revised within and beyond two years. Frequent revisions in PC-Is indicated initiation of projects without proper planning. Scope of projects was not firmed and finalized. Cost estimates were not prepared based on the current market survey, updated schedule of rates and pre-tender quotations which were revised repeatedly during execution. Furthermore, frequent revision of scope and cost of projects also delayed the implementation period of projects. Audit is of the view that had the projects been initiated based on clear, firmed and final scope determination and cost estimations, frequent revision of PC-Is could have been avoided.

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 26th and 27th December, 2023. DAC noted that response to audit observation was unprofessional. The PO (DG/Planning & CPPO) should provide a comprehensive response within one week. Compliance of DAC directives was awaited.

Audit recommends that the matter may be probed to fix responsibly for vague determination of scope and cost estimation of the projects. Scope of projects should be clear, firmed and final. Cost estimates should be prepared based on the current market surveys, updated schedule of rates and pre-tender quotations.

Observation-5

Loss due to delay in finalization of specifications of coaches and wagons - Rs 40,183.77 million

According to Para 10.1 (xv) of Guidelines for Project Management, a strong check should be exercised on time over-runs and cost over-runs. For this purpose, frequent revisions of scope and design of the projects should be avoided. Efficient and honest officers should be made responsible for supervision, implementation, and timely completion of the projects. Any instances of mal-administration, corruption, lapses and pilferage should be seriously investigated and those found responsible should be severely dealt with.

During audit of project “Procurement/Manufacture 820 High-Capacity Bogie Wagons and 230 Passenger Coaches” in August 2023, it was observed that PC-I of the Project was approved by ECNEC on 24.11.2017 with total cost of Rs 31,194 million. Target date of completion was 02.01.2022 but the project could not be completed up to August 2023, due to change in specifications of coaches & wagons. The cost of project had been revised to Rs 71,377.77 million due to incapability of PR management to finalize the specifications of coaches & wagons and complete the project within target time. This resulted in loss of Rs 40,183.77 million which depicted the negligence on the part of management.

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 21.11.2023. DAC took a serious note on the extra ordinary delay caused by poor management of the whole procurement process. The DAC directed that the Director/Procurement should submit a revised detailed reply outlining all the valid reasons for the delay within one week with documentary evidence. Compliance of DAC directives was awaited.

Audit recommends that matter be inquired to fix responsibility for inordinate delay in finalization of design and completion of project causing loss to public exchequer. Project management controls be improved to avoid recurrence.

DP 12367

Observation-6

Deceitful inclusion of operational locomotive in a rehabilitation project – Rs 97.38 million

Project of Re-commissioning of 05 number of accidental Diesel Electric (D.E) Locomotive was approved by CDWP in its meeting held 3rd-9th June, 2020 with an implementation period of 24 months. Authorization was issued in August, 2020. Scope of the project was to re-commission 5 locomotives (Loco Nos. 9021 GEU-40, 6022, 8224 AGE-30, 8228 HGMU-30 and 8218 HGMU-30) at a cost of Rs 1,582.29 million including FEC component of Rs 874.07 million with completion period of 24 months.

During audit, it was observed that locomotive No. 8218 fit for operation was fraudulently included in PC-I of above mentioned project. The said locomotive met an accident on 28.02.2020 and after necessary repair of damages at the cost of Rs 6.81 million at loco shed Mughalpura. It was dispatched to Karachi for operation on 26.06.2020 but the same locomotive was also included in the scope of project for rehabilitation at cost of Rs 73.56 million in June 2020. Subsequently, after three months of service it was deleted from operation for re-commissioning on 19.10.2020 without any justification for one year and procurement process of spares was initiated. Later on, management excluded said loco from scope of project and included another loco No 8203 through revision of PC-I on 14.09.2022 by misleading Planning Commission that cost of damage of Loco No. 8203 was less than cost of No. 8218, however, it could be repaired from revenue.

In fact, Loco No. 8218 was already in fit condition at the time of deletion and was included in the scope of project just to give undue favour of about Rs 80.00 million to the supplier. Moreover, MoR misreported to Planning Commission on 29.08.2022 that no inquiry was pending on the subject project while the reality was otherwise. As per CPPO office letter dated 16.11.2021, the inquiry committee did not fix responsibility against any officer. Inquiry may be conducted through officers of MoR to ascertain the facts about all locomotive of project and to fix responsibility accordingly. This indicated that a locomotive was fraudulently included in the scope of project due to mala fide intention which resulted into loss

of revenue valuing Rs 97.38 million (Rs 266,793 per day earning of locomotive x 365 days).

The matter was taken with the management in November 2023 and discussed in DAC meeting held on 26th and 27th December, 2023. DAC directed that the CME/Loco to submit a comprehensive reply covering detailed factual analysis of project management in the context of Pakistan Railways within two weeks. The response should also highlight course corrective measures. Compliance of DAC directives was awaited.

Audit recommends that matter be probed to fix responsibility for fraudulent inclusion of fit loco in project for re-commissioning. Loss of revenue on account of deletion of operational locomotives be recovered from responsible. Internal control be strengthened to avoid recurrence.

Observation-7

Preparation of vague PC-Is - Rs 12,661.77 million

Para 2.45 of Manual for Development Projects-2021 provides that the sponsoring agency should ensure that the project scope includes only the project requirements necessary to achieve the envisaged objective. The scope of the project must be clearly mentioned. Further, Para 2.51 states that the cost estimates must be prepared, which should be based on the current market survey, updated schedule of rates and pre-tender quotation.

During audit, it was observed that PC-I of PSDP projects were not prepared with due diligence and definite scope of work. Activities of planning stage were determined at execution stage. Details are given below:

- A. Review of PC-I of Special Repair of 100 DE locomotives (new) revealed that PC-I was prepared without mentioning identity of locomotive to be repaired along with detailed list of spare. Consequently, during execution, 94 locomotives already repaired under other projects were again included in the project. This included, 86 locomotives repaired under SR 150 project (2012-2016) and 08 locomotives repaired under SR 100 (old) project (2014-2020) and 32 locomotives were same both projects. Further, detail

of items to be procured for “line maintenance facilities” including material handling equipment and plant & machinery with a provision of Rs 252 million was missing in PC-I. Preparation of vague PC-I resulted in duplication of repair of locomotives, non-commencement of project as per plan, non-achievement of planned targets and loss of potential revenue.

- B. Similarly, PC-I of Special Repair of 600 Passenger Coaches and 1200 Bogie Wagons, approved on 19.12.2019, was prepared without detailed scope and nomenclature of coaches and wagons to be repaired was not given in PC-I. Preparation of PC-I without mentioning the nomenclature of coaches & wagons i.e. required spare parts, jigs & fixtures, tools, plant & machinery, testing equipment and line maintenance facilities which resulted in duplication of 158 coaches and 200 wagons already repaired under Special Repair of 800 Coaches & 2,000 Bogie Wagons project completed on 30.06.2020. Furthermore, two years completion period of the project was set without considering capacity of CFI and C&W Shop, Mughalpura which resulted in delay of project.
- C. Scope and cost of “Improvement of Terminal Facilities and Enhancing Security Arrangement in MYP” was drastically changed just after 06 months of approval dated 31.05.2021 at the cost of Rs 1,941.77 million. Cost of electrical works raised to Rs 1,968.00 million against the provision in PC-I Rs 257.61 million which was even above the total cost of PC-I. Location of installation of weighbridge at cost of Rs 5.44 million was not decided till 30.08.2023 and it was suggested by DS, Karachi to install the weighbridge at Karachi, Cantt. instead of MYP because there were already three weighbridges in vicinity of MYP. Last but not the least, procurement of T&P/Machinery Spares for C&W Shop, MYP at the cost Rs 32.00 million could not get mature thrice due to faulty specifications.

The matter was taken up with the management in October 2023 and discussed in DAC meeting held on 26th and 27th December, 2023. DAC took serious view of such practices. DAC directed that the management should ensure

that course corrective measures are put in place to avoid recurrence of such practices in future. The comprehensive response along with the course corrective measures should be submitted to audit within one month. Compliance of DAC directives was awaited.

Audit recommends that the matter may be probed to fix responsibility of preparation of faulty PC-Is. Detail of spare parts, nomenclature of rolling stock, types of items to be procured be incorporated at time of preparation of PC-I along with achievable project timelines.

Observation-8

Fudge payments to contractors - Rs 99.46 million

Para 1801 of Pakistan Railway General Code provides that means should be devised to ensure that every Railway servant realizes fully and clearly that he will be held personally responsible for any loss sustained by Government through fraud or negligence on his part and also for any loss arising from fraud or negligence on the part of any other Railway servant to the extent it may be shown that he contributed to the loss by his own action or negligence.

During audit, it was observed that management of RFD flood damages-2010 made fraudulent payment to three contractors without execution of works (**Annexure-35**). Following irregularities were observed:

- A. Two works of special repair to track embankment on KHB-KDA & SRQ-KDA sections (RWP Division) were awarded to M/s Great Ali Builders on 14.03.2016 with face value of Rs 3,186,000 and completion period of four months each. DS/Rawalpindi intimated the PD/RFD on 10.03.2017 that contractor had delayed the commencement of works. Management of RFD project made payment of Rs 2,807,397 to contractor through running bills by mentioning the commencement dates as 11.03.2017 and 15.02.2017 fraudulently.
- B. Similarly, two works of recoupment of short embankment on KDA-ATCY section (PSC Division) were also awarded to M/s Great Ali Builders on

02.02.2016 with face value of Rs 2,068,074 and completion period of three months each. An excess payment of Rs 500,572 was made to contractor through running bills dated 24.02.2017 by recording excess/bogus quantities. Another excess payment of Rs 667,888 was made to contractor against 2nd work through running bill by recording the excess/bogus quantity.

C. Another fraudulent excess payment of Rs 19.51 million was made to M/s Manj Brothers without execution of special repair to side and catch water drain work in Peshawar Division. The excess payment was observed through variation between the work done and payment made by the then RFD officers/officials vide CC-VI dated 01.03.2017 and FCC-VII dated 24.04.2017 by recording bogus entries on MB and bills.

D. Further, another excess payment of Rs 75.98 million was also made by RFD management to a contractor without supply of 1,184,750 Cft ballast during 2016-17. The excess payment was made by recording bogus entries on MB and payment bills.

The matter was taken up with the management in October 2023 and discussed in DAC meeting held on 26th and 27th December, 2023. DAC took serious view of such practices. DAC directed that Railway administration (CEO, AGMs, POs and Project Management Team) should ensure that such practices are avoided in future. The internal controls need to strengthen in addition to putting in place in effective monitoring evaluation system. A compliance report to this effect should be submitted within one month to audit. Compliance of DAC directives was awaited.

Audit recommends that recovery of outstanding amount to contractors without execution works and supply of remaining quantity of ballast be expedited. Internal control be strengthened to avoid recurrence under intimation to Audit.

Observation-9

Initiation of project without feasibility studies

As per Planning Commission letter dated 14th January, 2011, it is mandatory that for projects of infrastructure sector and production sector cost Rs 300 million and above, proper feasibility studies should be undertaken and submitted to P&D Division along with PC-I". Further, as per enhanced limit for proper feasibility study/PC-II dated 19th November, 2015, all infrastructure projects cost Rs 500 million or above (including projects with infrastructure components) should be based on proper feasibility study/PC-II to include, at least, reference design and bill of quantity etc. In case of project costing less than Rs 500 million it should be based on in-house feasibility study. Furthermore, para 2.8 of Manual for Development Projects-2021 provides that the requirement of PC-II shall be mandatory for infrastructure projects, each costing Rs 500 million or above, and all other projects where the infrastructure component is equal to or more than 30 percent of the total project cost.

During audit, it was observed that PR initiated 45 PSDP projects without feasibility studies which caused serious issues during execution. For instance, PSDP project of "Reconstruction of Assets Damaged during the Floods 2010" was initiated without conducting proper technical and financial feasibility study. Consequently, frequent changes in scope had caused the time overrun up to 10 years. The original PC-I of the project was approved by ECNEC on 29.07.2011 at a cost of Rs 6,365.24 million including FEC Rs 1,785.26 million. The original gestation period of the project was 24 months. The project was commenced on 01.07.2012 with a delay of one year. Despite lapse of 10 years, the management of project could not complete the project. Furthermore, cost of the project had been increased to Rs 9,597.02 million and PC-I of project had also been revised twice due to changes in scope of work and cost. This indicated that the project was initiated without technical and financial feasibility and PC-I of the project was not carefully drafted which resulted in frequent revision of scope and had cost overrun of Rs 3,231.78 million with time overrun of 10 years. Thus, the management failed to effectively utilize the PSDP portfolio (**Annexure-36**).

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 26th and 27th December, 2023. DAC directed that Railway administration should fully comply with Planning Commission

guidelines with regard to the feasibility studies which is a mandatory requirement for infrastructure projects costing Rs 500 million and above. A compliance report should be submitted to audit within one month. Compliance of DAC directives was awaited.

Audit recommends that the matter may be probed to fix responsibility for not conducting proper feasibility studies, for inordinate delay in implementation and change in scope of the project.

Observation-10

Indefinite scope of project- Rs 1,970.00 million

Para 2.45 of Manual for Development Projects-2021 provides that the scope of the project must be clearly mentioned. While presenting it, the sponsors should indicate in quantitative terms, the proposed facilities and services, which would result from its implementation. In addition, the project sponsor should provide information on: (i) Demand for project output, with its basis. (ii) Existing position regarding capacity and actual supply of output. (iii) The gap that the project is going to fill between supply and demand.

During audit, it was observed that DDWP approved PC-II of “Umbrella PC-II for Feasibility Studies and Transaction Advisory Services” on 02.04.2020 at the cost of Rs 1,970.00 million with gestation period of 36 months i.e. 30.06.2023. The main objective of the project was to conduct, feasibility and transaction advisory studies, mainly to operationalize the Public Private Partnership Mode (PPP) projects. Audit observed following deficiencies during review of PC-II:

- A. Para 3.1 of PC-II provides that, “as and when the need of carrying out any study arises, a detailed PC-II will be prepared and same will be charged to this Project, instead of adding a specific project in PSDP portfolio”. This indicated that project was initiated with indefinite scope of work. Gestation period of the project was fixed 36 months as formality for approval of the project, practically scope of the project was not possible to achieve within the timeline of the project. All studies were required to be completed up to June 2023, whereas, only 1 out of 26 study was completed up to June 2023.

The above state of affairs indicated poor project management on the part of concerned Project Director (PD) and poor monitoring & evaluation on part of Directorate of Project Planning and Monitoring & Evaluation, Ministry of Railways.

- B. No cost bifurcation and detailed nomenclature of 15 consulting services for specialized assignments were available in PC-II. Therefore, inclusion of Rs 1,338.00 million without detailed cost estimation against these studies were subjective and without any justification.
- C. Six transaction advisory services and two feasibility studies were assigned to PRFTC by MOR and an expenditure of Rs 4.41 million was incurred on these studies. Afterward, on 07.10.2021, MOR directed to cancel these immature studies on 07.10.2021 and decided to include these studies in PC-II of umbrella project. Cancellation of immature studies resulted into loss of Rs 4.41 million to public exchequer.
- D. Feasibility study and transaction advisory services for the development, operation and maintenance of KCR as modern urban Railway under PPP Mode was completed at cost of Rs 190.00 million but no project under PPP mode for development, operation and maintenance of KCR was initiated.

The matter was taken up with the management in October 2023 and discussed in DAC meeting held on 26th and 27th December, 2023. DAC directed the PO (CEN/S&C) should give a comprehensive reply with regard to effective implementation of the Umbrella PC-II relating to financing window for project feasibilities within one week. Compliance of DAC directives was awaited.

Audit recommends that the matter may be probed to fix responsibility for preparation of defective PC-II. PC-II should be prepared with due diligence based on definite scope.

Observation-11

Over dependency on original equipment manufacturers

Pakistan Railways executed eight contract agreements under PSDP projects with different rolling stock manufacturers for procurement of rolling stock along with Transfer of Technology. The manufacturers were required to provide Drawings, Manuals, Instruction Books and As-made Tracings under the clauses 29, 33, 16, 7.7 and 22 of the contract agreements. Further, as per contracts agreements between Pakistan Railways and General Electric Company (M/s Webtec) for procurement of 75 locomotives, the manufacturer was required to provide structural diagrams of locomotives necessary for maintenance and repair of locomotives in case of accidents.

During audit, it was observed that Pakistan Railways executed 5 PSDP projects of procurement/manufacture of rolling stock on CBU and CKD basis along with ToT during last decade. However, PR failed to obtain drawings, instruction books and as-made Tracings of rolling stock from manufacturers.

PSDP projects involving ToT

(Rs in million)

SN	Name of project	Cost	Gestation
1	Procurement of 58 Locomotives	19,406.61	2012-2017
2	Procurement of 75 Locomotives	45,496.00	2020-2023
3	Procurement of 585 Hopper Wagons and 20 Bogie Brake Vans for Coal Transportation	5,861.00	2015-2018
4	Procurement of 780 High Capacity Bogie Wagons and 20 Bogie Brake Vans for Coal Transportation	8,863.00	2015-2018
5	Procurement of 820 High Capacity Bogie Freight Wagons and 230 Passenger Coaches	31,194.00	2017 to June 2023 (on-going)
Total		110,820.61	-

Source: Ministry of Railways

ToT was included in contract agreements but no financial value was conditioned with successful ToT. Manufactures delivered the rolling stock but refused to provide drawings, manuals, instruction books and as-made tracings. Subsequently, a loco No 9021 out of 75 D.E. Locomotives met an accident on 13.05.2017 at Bholari-Kotri (Karachi Division) and the same was held up for want of repairs. The said locomotive was included in PC-I of Re-commissioning of 5 Accidental Locomotives which was approved by CDWP in its meeting held on 3rd-9th June, 2020 with an implementation period of 24 months at a cost of Rs 1,582.29 million. Estimated cost to re-commissioning of loco No 9021 was Rs 627.16 million in original PC-I.

1st tender No.DP/9021/2020 for re-commissioning the said loco was floated on 05.01.2021. M/s Webtec (OEM) submitted the bid but tender could not be finalized due to faulty technical tender specifications because Railway did not have drawings and maintenance manuals of 75 DE locomotives. 2nd tender No.DP/9021/2022 was floated again on 30.07.2022 but M/s Webtec did not submit the bid and informed the Railway management that their engineering department was exploring different options to re-commission the loco No. 9021 and until then, they could not participate in tender. Railway did not have any other option for repair of said locomotive and other 74 locomotives. Railway management re-estimated the repair cost of above locomotive which comes to Rs 1,122 million.

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 26th and 27th December, 2023. DAC directed the PO (CME/Loco and CME/C&W) should give a comprehensive reply specific for each project with regard to the definition/scope of TOT, TOT received, TOT balance, reasons for any non-receipt of TOT within one week. The Railway administration should also put in place mechanism where the entire TOT, as per the PC-I and contract provisions, be transferred in a timely manner. A compliance report should be submitted to audit within two weeks. Compliance of DAC directives was awaited.

Audit recommends that the matter be probe to fix the responsibility for non-transfer of technology and strenuous efforts be made to obtain Drawings, Manuals, Instruction Books and As-made Tracings of rolling stock. R&D wing may be developed for manufacturing, overhauling and maintenance of rolling stock.

Observation-12

Non-execution of track rehabilitation works and non-recovery of cost of released material and advance payment – Rs 811.46 million

Clause 70.1 of standard form of bidding documents (civil works) of Pakistan Engineering Council (PEC) provides that amounts payable to the contractor, pursuant to sub-clause 60.1, shall be adjusted in respect of the rise or fall in the cost of labour, materials, and other inputs to the works, by applying to such amount the formula prescribed in this sub-clause.

During audit, it was observed that three contracts were awarded to a contractor at cost of Rs 12,396.02 million on 19.03.2021 for track rehabilitation at 3 different locations i.e. between (i) Sama Satta-Bahawalnagar on Sama Satta-Amruka Section (183Kms), (ii) Baruli-Sohan Bridge on Kundian-Attock City Section and (iii) Rehmani Nagar-Bakrani Road on Dadu-Habib Kot Section. Contractor commenced work in Sama Satta-Amruka Section and dismantled the existing track of 126 km and did not commence work on other two sections. The contractor lifted the released material valuing Rs 775.38 million but stopped work w.e.f 21.02.2023. The contractor requested the Railway management to allow price escalation as it was not possible to execute the works unless contract price escalation was allowed. The request of contractor was not entertained. Consequently, after lapse of more than 30 months, Railway management failed to get the work done from contractor and affect recovery of released material and mobilization advance amounting to Rs 811.46 million. This resulted in non-execution of track rehabilitation work and non-recovery of cost of released material and mobilization advance Rs 811.46 million to the negligence of Railway management (**Annexure-37**).

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 26th and 27th December, 2023. DAC directed

the PO (CEN/Open Line) to submit comprehensive reply within one week. DAC also directed that the Railway administration should make price adjustment provisions in all the new infrastructure projects to avoid recurrence of such practices. Compliance to this effect should be submitted to Audit within two months. Compliance of DAC directives was awaited.

Audit recommends that the matter may be resolved with the contractor to complete the track rehabilitation work without further delay. Internal controls regarding contract management be improved to avoid recurrence.

Observation-13

Time over-run in PSDP projects

Para 2.57 of Manual for Development Projects provides that time calculated for completion of the project must be realistic. Factors like total allocation made in the Five-Year Plan, expected allocations in the PSDP, keeping in view past experience, time to be taken in preparing the detailed design(s), the invitation of tenders, and award of contract(s), availability of land, human resource, material/supplies, topography, accessibility to transportation network and risk management plan should be ensured forthwith. Further, para 2.55 states that the financial phasing of a project is to be given for each fiscal year, related to the physical work proposed to be undertaken, keeping in view the implementation of similar projects in the past. It should be as realistic as far as possible. The fund's utilization capacity of the executing agency must be kept in view while determining the financial phasing of the project.

During audit, comparative analysis of PSDP Projects' implementation was carried out with respect of time of implementation specified in original PC-I and actual time of implementation for each project.

Implementation timeline of projects (2013-14 to 2022-23)

Time overrun in Years	No. of Completed Projects	No. of On-going Projects	Total Projects
1-5	26	17	38
6-10	9	2	11

11-15	3	1	04
Total	38	20	58
No time over run	8	9	17
Grand Total	46	29	75
77 % (58/75*100)			

The analysis revealed that 38 out of 46 completed projects and 20 out of 29 on-going projects were delayed from their original implementation periods as stipulated in PC-Is. 26 completed and 17 on-going projects were delayed up to 5 years. 9 completed and 2 on-going project were delayed from 6 to 10 years, and 3 completed and 1 on-going projects were delayed from 11 to 15 years. However, only 8 projects were completed within their original gestation period. Delay in completion period in almost all projects indicated that PC-Is were not prepared with due diligence, financial and physical phasing were not prepared keeping in view the funds availability and PR capacity to utilize the funds. Financial phasing of a project was prepared on the basis of physical work proposed to be undertaken, without keeping in view the implementation problems in similar projects executed in the past. Delay in completion period resulted in cost overrun in various projects and non-achievement of planned objectives within the projects gestation period (**Annexure-38 & 39**).

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 26th and 27th December, 2023. DAC directed the POs (DG/Planning & CPPO), to submit a comprehensive reply covering detailed factual analysis of project management in the context of Pakistan Railways within two weeks. The response should also highlight course corrective measures. Compliance of DAC directives was awaited.

Audit recommends that the matter may be probed to fix responsibility against PDs and other concerned officers for delay in implementation period. PC-I should be prepared with due diligence and financial and physical phases may be prepared keeping in view the funds availability and PR capacity to execute new

projects. Independent PDs be appointed in projects costing Rs 3,000 million and above.

Observation-14

Non-appointment of dedicated and independent PDs

Guidelines for Appointment of Independent Project Director in Development Projects provide that Project Director is a focal person in project implementation, responsible for project execution in accordance with its objectives, work scope, cost, and implementation schedule. Further, appointment of an Independent Project Director is mandatory for projects costing Rs 3,000 million and above. Project Director should not be transferred during currency of the project.

During audit, it was observed that frequent posting and transfers of Project Directors (PDs) were made up to 19 times in a single project. 267 PDs were posted in 46 completed projects and 175 PDs were posted in 29 on-going projects during their execution in contravention to above guidelines. Analysis of posting/transfer of PDs versus cost and time over runs revealed that frequent transfer of PDs had positive correlation with project cost overrun and time overrun. Higher the number of PDs posted, higher the cost and time overruns. Out of 43 completed projects, 21 projects had experienced cost overrun ranging from 39% to 81% and 36 projects had experienced time overrun from 3 to 7 years. As far as ongoing projects were concerned, 5 projects had experienced average cost overrun from 7% to 262% and 11 projects had experienced average time overrun 2 to 4 years. Frequent transfer of PDs disrupted the continuity and progress of the project activities. Newly posted PDs had taken time to understand project's objectives, scope, and ongoing activities which resulted in delay in completion period and increase in project cost (**Annexure-40 & 41**).

Impact of transfers of project directors

Status of Projects	No of Projects	No of PDs Posted	Projects with Cost overrun	Average of Cost Overrun in %age	Projects with Time over run	Average of Time over run in years
Completed (46)	25	2-5	11	39%	20	3
	12	6-10	6	44%	11	6
	6	11-15	4	81%	5	7
Total	43	-	21	-	36	-
On-going (29)	10	2-5	1	7%	2	2
	13	6-10	4	262%	9	4
Total	23	-	5	-	11	-
267 PDs were posted in 46 completed projects and 175 PDs were posted in 29 on-going projects (average 6 PDs were posted in one project)						

Further, Railway management initiated 24 projects each costing Rs 3,000 million and above but independent PDs were not appointed which was mandatory as per guideline of Planning Commission. Frequent transfer posting of PDs induces diffusion of responsibility and lack of ownership in delivering stated objectives, simultaneously, absolving individual officers from the consequences of success and failure.

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 26th and 27th December, 2023. DAC directed the POs (DG/Planning & CPPO), should submit a comprehensive reply within two weeks recommending course corrective measures. Compliance of DAC directives was awaited.

Audit recommends that the matter may be looked into and SOP be issued in line with the guidelines of Planning Commission, regarding non-transfer of PD

during currency of the project and appointment of an Independent Project Director for projects costing Rs 3,000 million and above.

Observation-15

Closing of projects with left over scope of work – Rs 12,285.81 million

Para 2.45 of Manual for Development Projects-2021 provides that the sponsoring agency should ensure that the project scope includes only the project requirements necessary to achieve the envisaged objective. Further, as per Para 6.12 checklists for project closure (item No. 16) state that whether project has been implemented as per approved cost, scope and time is indicated. In case of variation, reasons are provided.

During audit, it was observed that Railway management executed 15 PSDP projects with an estimated cost of Rs 44,056.40 million but these projects were closed with left over/reduced scope of works. Out of 15 projects, 9 were closed with cost overrun 3% to 196% and time overruns 1 to 10 years. While other 6 projects were closed with un-utilized funds ranging from 3% to 45% and time overrun ranging from 2 to 13 years (**Annexure-42**).

Closure of projects with leftover scope

(Rs in million)

SN	Project Name	Approved Cost	Expenditure	Cost Overrun in percentage	Time over run in Years	Left over scope of works
1	Rehabilitation of 159 bridges	412	471.38	14%	6	61 bridges were not rehabilitated valuing Rs 293.40 million (38% of 159)
2	Acquisition of land for Railway Container yard (412 Acres)	449.94	1,332.07	196%	10	49 acres land, 400 No. Erection of boundary stones, 1 Rest house and 700 Rft boundary wall not executed valuing Rs 201.60 million (45 % of original cost)

3	Up-gradation of Railway stations to attract Sikh Tourism	659.95	994.82	51%	4	Firefighting arrangements, development of public park, turntable, foot over bridge, construction of staff quarters, and installation of CCTV cameras not executed Valuing Rs 124.58 million (19% of original cost)
4	Mechanization of Track Maintenance (440)	4,055.40	4,157.53	3%	5	Procurement of 253 machines, improvement of 2 track workshop Staff capacity building not executed (58% of 440).
5	Up-gradation of major Railway Station	846.00	1,018.17	20%	5	Work of Business Center at Gujranwala, rehabilitation of Rohri, Hyderabad and Quetta Stations not executed valuing Rs 332.20 million (39% of original cost)

Reasons for left over scope and cost of works were not mentioned against any project in PC-IV in contravention to Manual of Development Projects. Closure of projects with left over scope of works even with cost overrun up to 196% and time overrun up to 13 years indicated inefficiency and incapacity of Railway management to execute projects and utilize PSDP portfolio effectively. Further, closure of projects with left over scope of works also indicated poor determination of scope of work at planning stage and lack of monitoring and evaluation at execution and completion stages.

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 26th and 27th December, 2023. DAC directed the POs (DG/Planning & CPPO) to submit a comprehensive reply covering detailed factorial analysis of project management in the context of Pakistan Railways within two weeks. The response should also highlight course corrective measures. Compliance of DAC directives was awaited.

Audit recommends that the matter may be probed to fix responsibility for closure of projects with left over scope of works and drawl of PC-IV without mentioning the reasons for left over scope of works. Internal controls be improved to avoid recurrence.

Observation-16

Inordinate delay in submission of PC-IV and non-preparation of PC-V

Manual of Development Project-2021 provides that the financial closure should be achieved within six months of the operational closure. At the project closure, submission of the PC-IV to the Planning Commission by the sponsoring agency is mandatory without any exception. Further, section 18 of PFM Act, 2019 provide that sponsor shall be responsible to submit annual report on operation and maintenance, outcome, and impact of projects on PC-V format for five consecutive years to Planning Commission for review of impact evaluation.

During audit, it was observed that 46 projects were completed by Pakistan Railways during the period from 2013-14 to 2022-23. PC-IVs of these projects were required to be submitted to Planning Commission at time of completion/closure. PC-IVs of 23 projects were submitted with extraordinarily delay. Further, quality of most of PC-IVs was poor as required information was missing e.g. NPV analysis, issues faced during implementation, lesson learnt, and date of operational and financial closure (**Annexure-43**).

Submission of PC-IVs (2013-14 to 2022-2023)

SN	No. of Projects	Delay in Years

1	4	1
2	6	2
3	3	3
4	4	4
5	3	5
6	3	6
Total Projects	23	-

Financial data of 43 projects was not vetted by Account Office. Three projects (detailed below) were not financially closed at the time of submission of PC-IV in contravention of the Guidelines of Planning Commission of Pakistan.

Financially not closed projects

SN	Project Title	Financial liability
1	Procurement of 58 DE locomotives (2012-2017)	Excess payment of \$ 181,129 (encashment of contractor's guarantee)
2	Replacement of Three Break Down/Rescue Cranes and Five Sets of Relief train Equipment (2011-2014)	Liability to the tune of Rs 6.90 million was pending at time of drawl of PC-IV
3	Rehabilitation, Up gradation & Conversion of 400 Coaches (2006-2016)	Conversion of 9 Coaches was pending due to non-clearance of liability Rs 21.60 million of the contractor.

Source: PC-IV of the projects

Upon completion, projects were required to be assessed in terms of its deliverables, performance, efficiency and effectiveness for which PC-Vs were required to be drawn, evaluated and submitted to the Planning Commission on an annual basis, by the 31st of July of each year, for five consecutive years. However, 132 PC-Vs against 46 competed projects were neither drawn nor submitted to

Planning Commission by Railway management. This state of affairs indicated slackness and negligence on the part of management which resulted in non-drawl/non-submission of PC-IV & PC-V, non-evaluation of targets versus achievements, timelines and lesson learnt and non-assessment of impact of projects.

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 26th and 27th December, 2023. DAC directed the POs (DG/Planning & CPPO) to submit a comprehensive reply for implementation of Planning Commission guidelines for preparation of PC-IV & PC-V. DAC further directed that PC-IVs proper appraisal must be carried out by Railway administration. PC-V of at least 05-projects must be prepared as per Planning Commission guidelines and must be submitted in C.F.Y 2023-24. Reply in this context will be submitted within two weeks. Compliance of DAC directives was awaited.

Audit recommends that the matter may be probed to fix responsibility for delay in submission of PC-IVs and non-submission of PC-V. Quality of PC-IV be improved by complying the guidelines of Planning Commission. Monitoring and Evaluation wing be strengthened for effective Monitoring and Evaluation of PSDP portfolio.

Observation-17

Shifting of routine repair & maintenance of rolling stock towards PSDP -Rs 22,501.78 million

Para 2 (b) of Annexure-4 (sectoral classification of development expenditure) of Appendix-B of Manual for Development Projects-2021 provides that expenditure in respect of transport, communication, irrigation, power, banking, insurance, etc. all such expenditure will be included as is required for the replacement or expansion of existing capacity or for the creation of new physical capacity should be treated as developmental expenditure. Further, Planning Commission directed MOR in September, 2020 that since repair and maintenance is a permanent feature and run on sustainable basis, therefore such activities may be shifted on recurring side of the budget of the MoR.

During audit, it was observed that Railway management included 5 non-development projects of special repair of rolling stocks at the estimated cost of Rs 22,501.78 million in development portfolio. Out of 5 projects, 3 were related to repair of locomotives and 2 were related to repair of coaches and wagons.

PSDP projects related to special repair

(Rs in million)

SN	Name of Project	Date of Approval	Cost	Expenditure	Status
1	SR 150 D.E. Locomotives	16.08.2012	5,005.03	5,512.70	Completed 2015-16
2	SR 100 DE Locomotives	04.12.2014	4,966.75	5,402.26	Completed 2019-20
3	SR 100 DE Locomotives	09.12.2019	8,000.00	3,869.50	On-going June-2023
4	SR 800 Coaches and 2,000 Wagons	12.12.2014	1,810.00	2,660.73	Completed 2019-20
5	SR 600 Coaches and 1,200 Wagons	09.12.2019	2,720.00	2,439.06	On-going June-2023
Total			22,501.78	19,884.25	-

Source PC-Is, PC-IVs and progress reports

The objective of inclusion of these projects in PSDP portfolio was to carryout special repair of rolling stock which was long overdue. The incurring of expenditure on deferred routine maintenance of rolling stock through PSDP portfolio rather than replacement or expansion of existing capacity should not be treated as developmental expenditure. Audit is of the view that the expenditure on the ordinary maintenance and running of existing facilities cannot be treated as developmental expenditure and development budget should not be utilized for routine repair and maintenance of rolling stock.

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 26th and 27th December, 2023. DAC directed that the POs (DG/Planning & CPPO) to submit a comprehensive reply covering detailed sectoral analysis of project management in the context of Pakistan

Railways within two weeks. The response should also highlight course corrective measures. Compliance of DAC directives was awaited.

Audit recommends that the matter may be probed to fix responsibility for inclusion of routine repair and maintenance works in PSDP portfolio. Internal controls regarding utilization of PSDP funds be improved.

Observation-18

Poor quality of repair and maintenance works due to non-conducting of 3rd Party evaluation –Rs 22,510.78 million

During Review of PSDP 2019-20, in September, 2020, to ensure quality standard, Planning Commission directed to the MOR that 3rd party evaluation be ensured in “Special Repair of 100 DE Locomotives (new)” and “Special Repair of 600 Passenger Coaches and 1,200 Bogie Wagons projects”.

During audit, it was observed that Pakistan Railways executed 5 PSDP projects for special repair of rolling stock without 3rd party evaluation. Consequently, poor quality of repair and maintenance works were executed in 3 PSDP projects due to absence of 3rd party evaluation. The 1st instance was evident in PSDP project of SR 100 D.E locomotives (approved by ECNEC on 04.12.2014 at the cost of Rs 4,967 million) completed in June 2020, whereby, 90 locomotives were turned out after special repair in CDL shops Rawalpindi and Diesel shops KC from September 2016 to April 2019 but 33 out of 90 locomotives were sent back to the shops again and again for different nominated repairs before completing expected life span. The 2nd instance of poor quality of repair works was observed in two projects of special repair of coaches and wagons. 158 coaches and 200 wagons were again repaired under the project of “Special Repair of 600 Passenger Coaches and 1,200 Bogie Wagons” approved on 09.12.2019, which were already repaired under another project of “Special Repair of 800 Coaches and 2,000 wagons” completed on 30.06.2020 at cost of Rs 2,060.73 million. No justification of duplication of 158 coaches and 200 wagons was available in PC-I of the two projects. Further, 33 coaches turned out during the period from January 2021 to April 2023 were again detached for want of repairs as per report of failure of coaches & wagons dated 05.09.2023 (**Annexure-44**).

PSDP projects with poor quality of works

(Rs in million)

SN	Project	Cost	Status	Remarks
1	Special Repair of 150 Nos D. E. Locomotives	5,005.03	Completed	-
2	Special Repair of 600 Passenger Coaches and 1,200 Bogie Wagons	2,720.00	In progress	540 Coaches & 689 Wagons were turned out without 3 rd party evaluation up to 30.06.2023
3	Special Repair to 100 DE Locomotives	4,966.75	Completed	-
4	Special Repair to 800 Coaches and 2,000 Wagons	1,810.00	Completed	-
5	Special repair of 100 Nos D.E locomotives for improving the reliability/availability of running locomotives	8,000.00	In progress	30 locos were turned out without 3 rd Party evaluation up to 30.06.2023
Total		22,501.78	-	-

The above state of affairs indicated that repair standards for rolling stocks were not followed and rolling stock was turned out without 3rd Party evaluation in contravention to directives of planning commission which resulted in incurrence of extra expenditure on repeated repairs of same rolling stock along with loss of potential earnings.

The matter was taken up with the management in November 2023 and discussed in DAC meeting held on 26th and 27th December, 2023. DAC directed that the POs (CME/Loco and CME/C&W), should give a comprehensive reply specifically for each project with regard to duplications of investments in each rolling stock and quality of workmanship in terms of loco/wagon/coach-KM/Per failure, identify gaps if any and course corrective measures within two weeks. A compliance report should be submitted to audit within two weeks. Compliance of DAC directives was awaited.

Audit recommends that the matter may be probed to fix responsibility of poor quality of repair and non-conducting of 3rd party evaluation. Independent quality review procedure for SR of rolling Stock may be devised and implemented as recommended by Planning Commission of Pakistan under intimation to Audit.

3.9 Departmental Responses

The observations were discussed with the Director General Planning, Ministry of Railways, Islamabad in exit meeting on 6.10.2023. The Report was issued to the Secretary/Chairman, Railways on 13.11.2023. The report was discussed in DAC meetings dated 12th, 20th, 26th and 27th December, 2023. The analysis of report was discussed in detail and DAC directives and management responses had been incorporated in relevant observations.

3.10. Recommendations

Based on the critical review and significant audit observations, audit recommendations are as under:

1. Strategic Investment Plan be formulated and executed considering future demand of rolling stock, required infrastructure, passengers and freight traffic to make the Railway financially viable organization.
2. Project management be improved in the area of financial management and result based monitoring & evaluation be ensured for effective and efficient utilization of PSDP funds. Regular surrenders of allocated funds and lapses of released funds be avoided.
3. Overarching issues over the PSDP landscape be fixed by improved project management practices for effective utilization of PSDP portfolio.
4. Close monitoring of mega projects from the planning to completion stage to avoid change in scope, inordinate delays, cost overruns and contract management.

5. PC-I of the project should be prepared with due diligence in area of scope, procurement planning & bidding document preparation, closure of project with complete scope and transfer of technology.
6. Financial and physical phasing of project should be prepared keeping in view the funds utilization and projects execution capacity.
7. R&D wing may be developed for manufacturing, overhauling and maintenance of rolling stock and to discourage the monopoly of OEMs.
8. Project execution should be within defined timelines and estimated cost to harness the envisaged benefits of projects. Timely submission of PC-V & IV to ensure effective impact assessment of project in respect of deliverables.
9. Utilization of PSDP funds for revenue works be avoided.
10. Appointment, posting and transfer of PDs should be in accordance to Project Management Guidelines.

3.11. Conclusion

Pakistan Railways was required to formulate and implement clearly designed Strategic Investment Plan to balance the PSDP sectoral investments. Public sector development program in Pakistan Railways remained concentrated on two sectors of rolling stock and infrastructure with significant intra sector variations whereby investments were skewed towards import oriented subsectors, thereby, failing to achieve sustainable tangible outcomes. Rolling stock projects relied heavily on imported parts while not focusing on revival of existing PR mechanical production industry. Planning, although being the launch pad for success or failure, received least attention in PSDP allocation and expenditure. Absence of independent feasibility studies, vague scope definitions based on unrealistic cost estimates and planning predominantly divorced of investment plans resulted into frequent scope revisions, time and cost over runs and project closures with leftover scopes. While internal controls for barring inefficient practices remained strictly advisory and recommendatory. Economical projects were transformed into un-

economical projects due to ineffective and inefficient management practices. Responsibility for outcomes was diffused by frequent transfer/postings of project heads during execution period of projects. Infrastructure development portfolio had a piecemeal rather than gestalt approach towards improving track length and conditions. In nutshell, investment of Rs 206.70 billion resulted into availability of lesser number of locomotives, decreased speed limits and shortened track length. PR had increased losses and consequent bailouts rose by 40 per cent in lieu of Federal Government subsidies over last decade. Conclusively, PSDP had largely remained ineffective in mitigating risks surrounding PR as going concern in long term.

CHAPTER 4

IMPACT AUDIT

UP-GRADATION/ RENOVATION OF MAJOR RAILWAY STATIONS

TABLE OF CONTENTS

		Page No.
4	Impact Audit of Up-gradation/ Renovation of Railway Stations	
4.1	Introduction	215
	4.1.1 Background	215
	4.1.2 Role of the Project	216
4.2	Overview	216
4.3	Scope & Methodology	
	a Scope	219
	b Methodology	219
4.4	Findings	220
4.5	Conclusion	235

4. Impact Audit of PSDP Project for up-gradation/renovation of Major Railway Stations

4.1 Introduction

Pakistan Railways witnessed increase in passenger traffic during 2014-15 as a result of focused business promotion policy of the Government. A considerable increase in passenger volume and corresponding revenue earnings was recorded as 5.70 million and 40% respectively in 2014-15 as compared to previous financial year 2013-14. The increasing demand of public for Railway as preferred mode of transportation necessitated substantial improvement in the existing infrastructure of railway stations which lacked basic passenger amenities and were built to cater very thin number of passengers as compared to present strength.⁵⁷

4.1.1 Background

It was decided in a meeting on Railway affairs chaired by the Prime Minister of Pakistan on 3rd April, 2014 that four major Railway stations at each provincial capital city including Quetta, Karachi, Lahore and Peshawar should be up-graded/renovated as model stations. Later on followed by CDWP meeting held on March 31, 2015, it was discussed to upgrade/renovate five major railway stations as pilot project and take up other major stations after successful completion of the said project. Subsequently, in another meeting of the CDWP dated April 16, 2015, PR proposed up-gradation/renovation of 23 Railway stations, however, the proposal was not acceded to by the Planning Commission of Pakistan and finally, PC-I for up-gradation/renovation of 11 major Railway stations, was approved by the CDWP. As per original PC-I, the project was planned to be commenced in July 2015 and completed by September 2016. However, after revision of PC-I, it was actually commenced in June 2016 and completed in June 2021 with cost and scope of work quite different than what was envisioned in original PC-I. The project completion report (PC-IV) was drawn on 31.05.2021.

4.1.2 Role of the project

The basic role of this project was up-gradation/renovation of major railway stations infrastructure for improved passenger amenities and development of these stations as commercial hubs of the cities to generate revenue and shorten the span of payback period of the project. The Project had two components of infrastructure development; up-gradation and renovation, which differed in scope in a way that up-gradation involved complete demolition and re-building of structure while renovation involved provision of missing facilities in already existing station buildings and beautification. Project scope was defined on the basis of condition survey conducted by professional consultant firms and included details of missing facilities like lack of availability of clean drinking water, inadequate shelter for passengers, absence of waiting lounges, shorter than needed platform lengths, absence and poor condition of toilets, absence of

⁵⁷ PC-I, Up-gradation/renovation of major railway stations

ramps for disable and elderly passengers, improper lightening arrangements, mal-functional sewerage systems, non-existent/ dysfunctional public address system, absence of dedicated electric transformers and power back-up arrangements, poor security arrangements without CCTV cameras, non-installation of firefighting and alarm systems and shabby condition of circulating areas leading to railway stations. The project role was limited to provide these missing amenities and develop railway stations included therein as commercial hubs while preserving the heritage and architecture of the area.

4.2 Overview

The major objectives of the project were as under:

1. Substantial increase in station traffic and ridership
2. Revenue generation through commercial development of station buildings to achieve operational sustainability
3. Provision of improved and modern day facilities/amenities to passengers, general public and employees
4. Construction of resilient structures with a service period of over 50 years

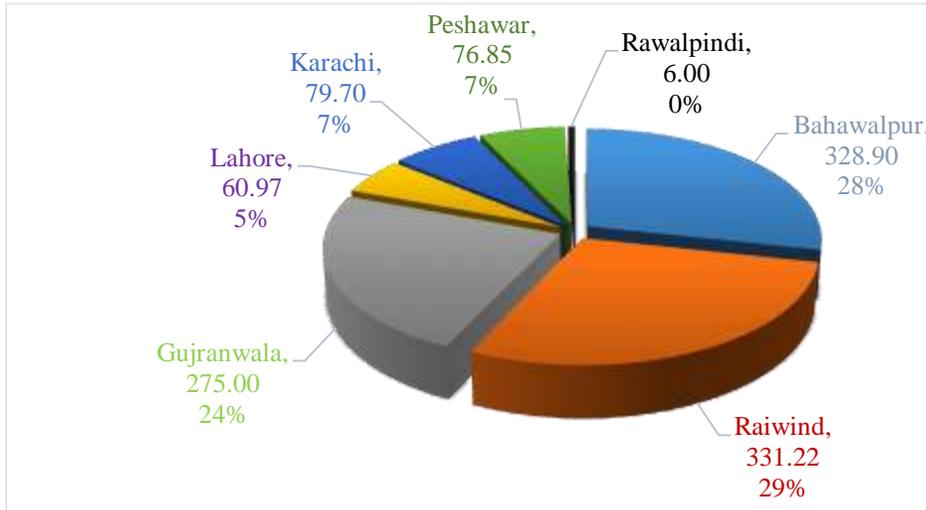
The project involved up-gradation/renovation of eleven railway stations with a total cost of Rs 1,158.74 million. It was intended to provide state of the art passenger amenities including fully furnished ladies & gents waiting lounges with attached toilets and washrooms, high level new passenger platforms with extended length, new platform shelters, lavatories and toilets for workers and employees, provision of clean drinking water for passengers & employees, construction of ramps for easy and unhindered access of the station and platform for the disabled and physically challenged people. The project also included structural developments like installation of new transformers for efficient electric supply and provision of back-up in case of power failure, provision for public address system and installation of CCTV cameras for security surveillance, provision of fire alarm and firefighting system to ensure safety of people and property, construction of new and additional passenger foot-over bridges, new equipment rooms, electric control rooms, generator rooms and Train Dispatch (TD) offices, laying of new water supply and sewerage system including storm water drainage and disposal pumping stations, where required. The intervention also included development and improvement of circulating area, road/pavements, car/vehicles/motorcycles taxi parking lots and proper lighting arrangements for station buildings, platforms, and immediate surrounding areas etc. Following stations were planned to be undertaken in the project:

1. Bahawalpur	2. Raiwind	3. Gujranwala City	4. Gujranwala Main
5. Karachi Cantt.	6. Peshawar	7. Hyderabad	8. Sukkur (Rohri)
9. Lahore	10. Rawalpindi	11. Quetta	

--	--	--

Budget allocations were made only for seven railway stations instead of eleven; following pie chart depicts allocation of budget to various railway stations as well as percentage share in project.

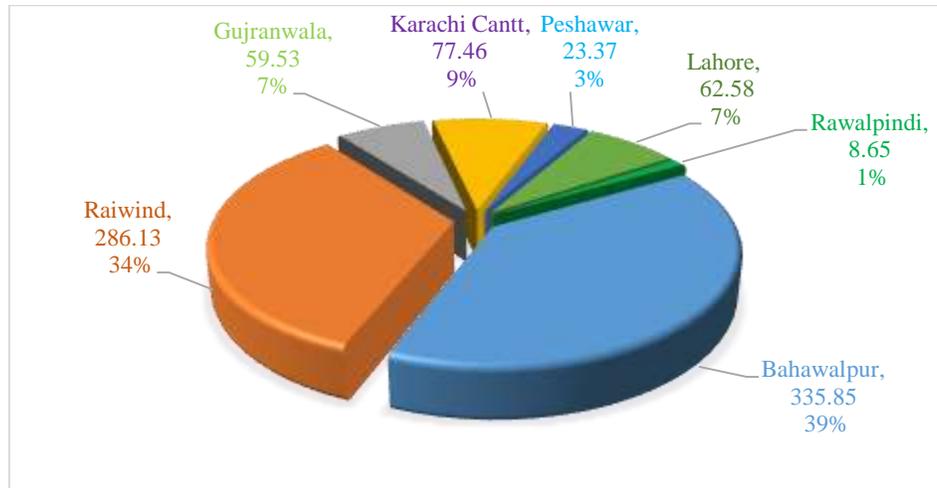
Budget allocation of seven stations (Rs 1,159 million)



Source: PC-I, Up-Gradation/Renovation of major railway stations

As per revised scope, the project envisaged development of three upgraded and modern station buildings at Bahawalpur, Raiwind and Gujranwala with an effective service period of over 50 years which took major share (80%) in budget allocation. The nature of amenities to be provided to the passengers remained unchanged in upgraded station as compared to renovated ones, however, huge difference of expenditure relates to reconstruction of entire station buildings and development of commercial centers containing Shops, Banks, Cinemas, restaurants, and Joy lands etc. Rationale behind manifold budget allocation was the expectation that these stations would generate parallel stream of revenue through commercial activities which will make these station buildings operationally self-sustaining and economically viable. While endeavoring for sustainability, it was also decided that railway land surrounding station building will also be commercially exploited to generate additional revenues and will be a beautifying addition to the city structures. The commercial activities thus initiated will be a source of employment generation for local inhabitants of the city and will add to general well-being of the populace. Thus, it was a multi-stranded model of passenger facilitation, revenue generation, employment creation, beautification, and economic sustainability.

Actual expenditure incurred on seven stations (Rs 853 million)



Source: PC-IV, Up-Gradation/Renovation of major railway stations

4.3 Scope & Methodology

a. Scope

After going through various changes, finally upgradation/ renovation of seven stations were allocated with budget. Of these seven, two stations; Bahawalpur and Raiwind were reconstructed with seventy-three per cent (73%) of the actual project cost, scope of Gujranwala main station was reduced to twenty-one (21%) of the original budget allocation, remaining four stations were allocated with meager budgets even though passenger volume at these four stations was far more than Bahawalpur and Raiwind stations. It is pertinent to mention here that both Bahawalpur and Raiwind were not included in original proposal presented to and approved by Prime Minister of Pakistan.

b. Methodology

The Impact Audit was conducted as per Audit Guidelines of Supreme Audit Institution (SAI) Pakistan. Materiality was given due consideration in audit planning and execution, as Bahawalpur and Raiwind stations consumed more than two thirds of the total budget, focus of audit assignment remained concentrated on these two stations while allocating due share of time and resources to remaining stations included in the project. Another aspect was the scope of intervention, the two stations had undergone complete treatment and while others received partial one, which made the two stations better subjects for excluding related variables affecting the causation. Audit used difference-in-differences approach for gauging the impact of intervention, treatment group (up-graded stations) were compared with control group (stations receiving no intervention) based on vital variables of geographical proximity and passenger volume. Time-series approach was used to draw intra-station comparisons based on passenger volumes in periods of time prior and post to treatment while providing for a reasonable grace period (two years) for intervention to have tangible effects. The impact of intervention was also gauged comprehensively by obtaining input from end users (passengers), surveys were conducted to collect

information about status of amenities at treatment group stations and comparisons were made with registered passenger complaints to assess credibility of survey results.

4.4 Findings

4.4.1 Impact on revenue earnings with up-gradation/renovation

Prominent increase in station traffic and ridership was an envisaged objective of the project associated with the construction of upgraded station buildings and provision of modern day amenities to passengers and general public. Railway stations Bahawalpur and Raiwind were upgraded with substantial cost of Rs 621.98 million which was 73% of the total project cost while other five stations were renovated to add passenger amenities to their existing structures. Audit has categorized stations into three categories; those with complete up-gradation, ones with renovation and last are those which have neither been up-graded nor renovated. The comparative analysis was made on the basis of increasing/decreasing passenger numbers as a measure of station performance. Following hypothesis was developed from available data.

Yo: passenger volumes at railway stations without any treatment

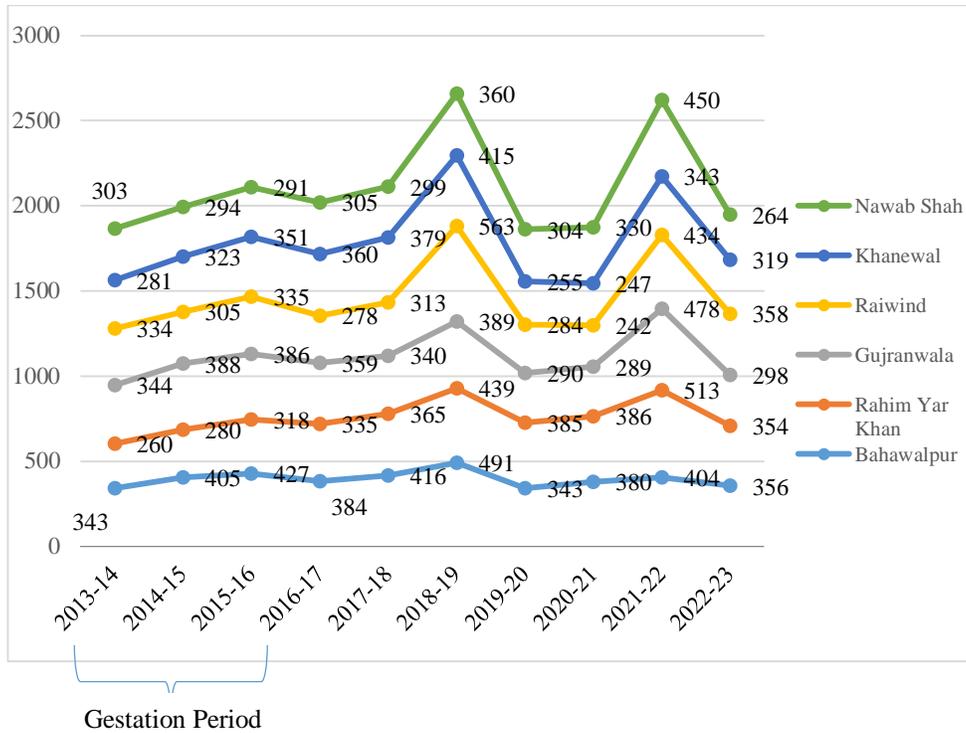
Y1: passenger volumes at railway stations under the project

Six stations were compared on the basis of following parameters:

- Geographical proximity i.e. mainline stations existing on similar geographical regions
- Passenger volume matching
- Number of trains passing through the stations

Bahawalpur and Raiwind having been upgraded, Gujranwala (main) was renovated (Treatment group) and, Rahim Yar Khan, Khanewal and Nawabshah were neither up-graded nor renovated (control group). Passenger data for last ten years was obtained to draw difference-in-differences analysis and develop time series of individual station passenger traffic (**Annexure-47**).

Trend of passengers' volume at stations (2013-14 to 2022-23)

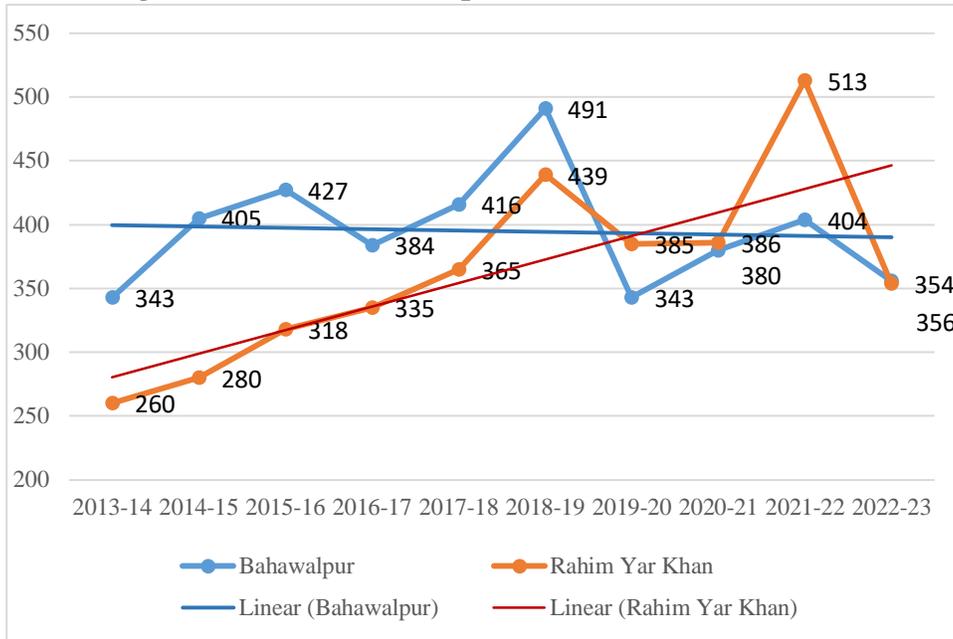


The comparative analysis clearly depicts that trend of rise and fall in passenger volumes has no distinctive anomalies when it comes to up-graded and renovated stations vis-a-viz stations receiving no treatment. The project commenced in June, 2016 and was completed in June, 2021, interestingly, gestation period (without existence of station buildings) depicts better passenger traffic than post completion period which is a clear indication that up-gradation and renovation has little or no impact on passenger revenues.

Comparison between treatment group and control group

The cumulative comparative analysis was further subdivided mutual analysis of stations paired on the basis of similar geographic conditions and passenger traffic which enabled audit to use more sophisticated statistical tools and add clarity to already shown prima facie similar trends.

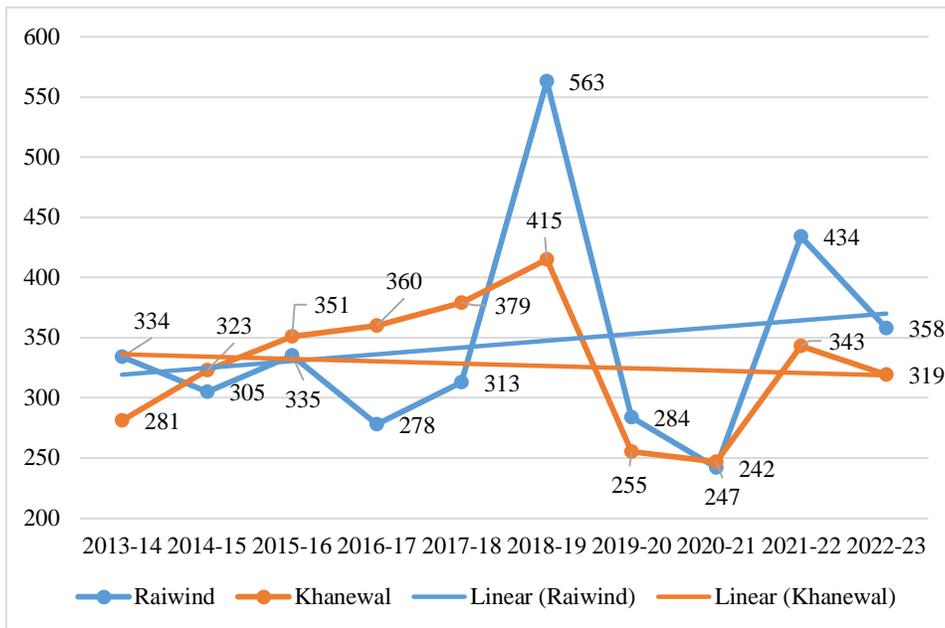
Passengers volume at Bahawalpur and Rahim Yar Khan stations



Source: Reports on station wise passenger traffic from PR (2013-14 to 2022-23)

The decline in slope of blue line (Bahawalpur) and incline of brown line (RY Khan) are measures of variance and standard deviation from mean passenger traffic over last ten years. The graph clearly establishes that R.Y.Khan although receiving no treatment, attracted more passengers both in pre and post periods of project gestation, while number of trains stopping at both stations remained approximately constant during the period. The comeback after Covid also seems to be way more robust in case of Rahim Yar Khan than Bahawalpur which lingered around averages throughout the period despite capital investment of Rs 335 million for up-gradation.

Passengers volume at Raiwind and Khanewal stations

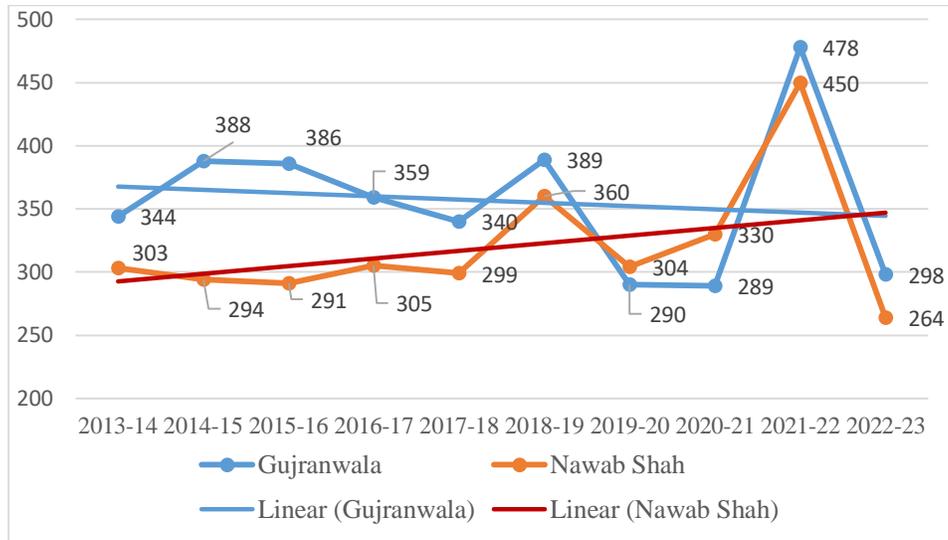


Source: Reports on station wise passenger traffic from PR (2013-14 to 2022-23)

Similarly, Khanewal and Raiwind were compared with each other and intra-station time series analysis was also conducted for Raiwind station as it received full scale treatment of up-gradation. Highest boom in passenger volumes at Raiwind station was observed from 2017-18 to 2018-19 which coincides with gestation period of the project as well. The subsequent decline in slope from 2019-20 to 2020-21 was illustration of COVID period. It is pertinent to mention here that old station building of Raiwind station was not demolished and remained operational during gestation period of the project.

The time series analysis leads one to question the utility of expenditure on construction of new station building. Interestingly, the old station building was still in use for all purpose while newly constructed one was not fully operational even after four years of completion. In comparison to Khanewal station, Raiwind fared better in post COVID period but the point of initiation for this change was year 2016-17 where an anomalous upward surge changed the averages for whole period. The utilization of old station building and upward surge during gestation period culminate into conclusion that up-gradation has little to do with increases in revenues/ number of passengers.

Passengers volume at Gujranwala and Nawab Shah stations



Source: Reports on station wise passenger traffic from PR (2013-14 to 2022-23)

Nawab Shah and Gujranwala (main) were compared for a period of ten years for passenger traffic because both had similar volume of passengers and one is located in central Punjab and other in central Sindh. The trend shows a continuous incline in Nawab Shah and decline in Gujranwala (main) with later performing better during pre-project phase and sliding down more during COVID period than former. There is an over-all decline in slope of Gujranwala station while a competing incline in Nawab Shah’s passenger volumes which clearly depicts that the intervention had no to negative impact on passenger volumes.

The stations were selected for renovation and up-gradation on the basis of condition survey conducted by M/s NESPAK. Audit is of the view that condition survey could not fairly provide justification for discrimination in selecting stations either for renovation or up-gradation. Resultantly, the railway stations having greater passenger volumes were ignored and those having comparatively low ridership were selected for rehabilitation/renovation. Therefore, the intervention had little or no impact in generating additional revenues and making stations operationally self-sustaining as per objectives defined in PC-1 of the project.

4.4.2 Impact on operational self-sustainability through commercial exploitation

Another important objective of the project was to develop railway stations as commercial hubs to generate a second stream of revenue enabling these stations to bear their own operation cost and become operationally self-sustaining. To realize this objective, shops, restaurants and other commercial centers were to constructed and opened at up-graded railway stations for passengers and general public of the area. Seventeen (17) shops and one (01) restaurant were constructed at Bahawalpur Railway station and put to auction after completion of the project but majority of shops could not be leased out unfortunately. The reason behind lack of response from potential lessees was a design failure as shop doors were opened towards platforms. People interested in renting these shops submitted application to the divisional management to allow them to open doors towards the city as no train stopped at Bahawalpur Railway station for more than two minutes and therefore possibility of doing business was very rare. Although, a

sum of Rs 54.00 million was paid to the consultant but designs presented to and accepted by the management had very low practical consideration for making railway stations as commercial centers, hence operationally self-sustaining. The applications of potential lessees are still pending for decision with the management. The management could only lease out five shops in 2023 on meager rental charges. The project not only failed to achieve its stated targets in making stations operationally self-sustaining but also incurred a sunk cost of Rs 72.00 million along with loss of potential earning of Rs 2.35 million in lieu of rents. Only one restaurant has been leased out so far with the condition that the lessee has privilege to place pedestrian vendors on the platform while the restaurant, located in station basement, is itself practically out of operation.

4.4.3 Impact of passenger amenities at Railway stations under the project

One of the prime objectives of the project was to provide missing amenities for passengers and employees at up-graded and renovated railway stations. The details of amenities to be provided have been mentioned in overview of this report. Audit observed that the project was closed with reduced scope of work and reduction involved losing on main objectives of the project.

i) Performance of amenities

a) Clean drinking water is the basic necessity and has been stated as first and foremost objective of the project but the same has not been provided at railway station Raiwind. The management incurred an expenditure of Rs 0.78 million against allocation of Rs 3.50 million for two filtration plants at Raiwind railway station. There was no arrangement for clean drinking water in waiting lounge of Gujranwala station and sitting arrangements comprise of very shabby cemented benches which are quite uncomfortable for passengers.

b) Second important component of passenger amenities as stated in PC-1 was provision of fully furnished waiting rooms with attached lavatories/washrooms. It is pertinent to mention here that Raiwind railway station has no waiting lounge at all. A room designated as waiting hall has been occupied by a restaurant with poor sitting arrangements and kept in untidy condition. Bahawalpur station has waiting lounge without any attached washrooms and furniture capacity for a few passengers only, while the objective in PC-1 was provision of fully furnished waiting lounges for ladies and gents.

ii) Missing amenities

a) The project aimed at provision of ramps for easy and unhindered access to elderly and disabled passengers, no such facility was provided between the two platforms at Bahawalpur railway station. The disabled and elderly cannot ascend the stairs and thus have to be carried to other platform. The pedestrian foot over bridge to cross railway lines to other platform was lying in pieces at Raiwind railway station and passengers had to jump over railway lines to reach the second platform which was not only a physical struggle but also a risk to life and limb of crossing passengers.

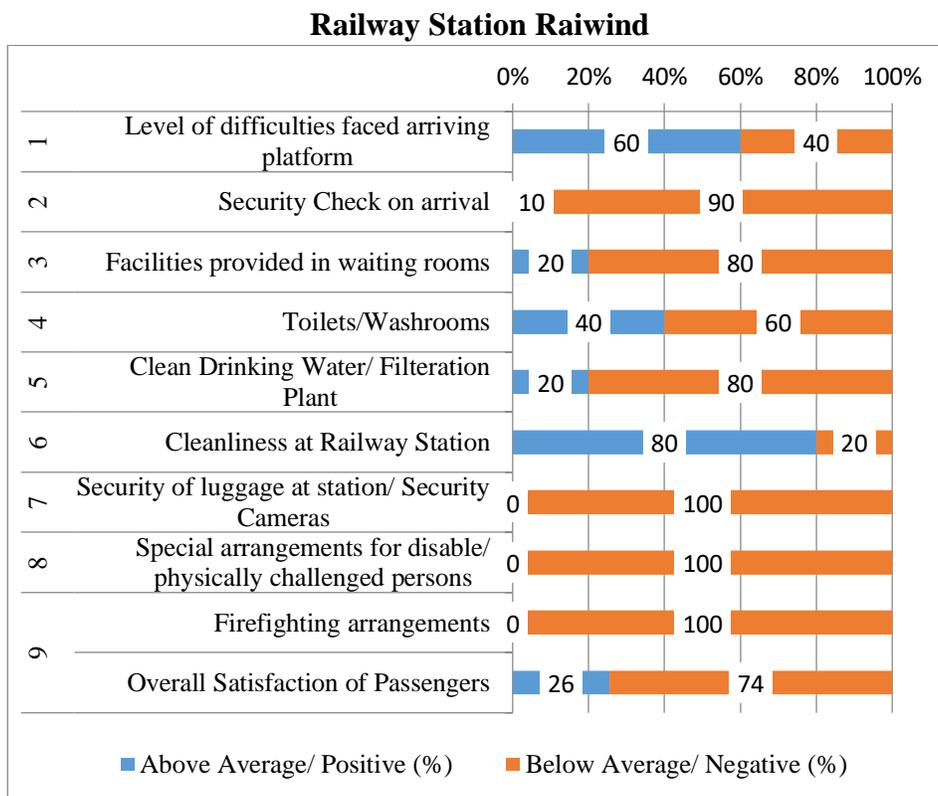
b) Another aspect of unfinished scope was non-provision of security cameras; a sum of Rs 5.50 million was allocated to provision of CCTV cameras for upgraded railway station but the same have not been installed so far which renders the station premises vulnerable to crimes against person and property.

c) A component of scope reduction was non-installation of firefighting equipment. The absence of fire alarms and firefighting equipment increases the vulnerability of passengers and properties in the event of breaking out of fire. Audit is of the opinion that security related arrangements have received least consideration in the project although they received much importance at planning stage.

d) Another component of scope reduction of the project was development and improvement of circulating areas which has been left untouched without incurring any expenditure.

4.4.3.1 Beneficiary survey

Pakistan Railways’ passengers, employees and general public were beneficiaries of this project. Audit conducted surveys to ascertain end user opinions on availability and accessibility of passenger amenities in renovated and upgraded railway stations. The survey results were then compared with complaints launched by passengers and general public on Pakistan citizen portal to rule out any leading conclusions emanating from possibly loaded questions. Audit framed a survey form containing nine questions mainly concerning with availability and accessibility of passenger amenities and security arrangements at three stations namely Bahawalpur, Raiwind and Gujranwala (main). A random sample of 100 passengers was selected and responses against quality of amenities ranged from unsatisfactory to fully satisfactory and in case of availability of amenities, a simple response of yes and ‘no’ was recorded. Pakistan railways employees were not included in this survey as Audit apprehended biased opinions by virtue of their official positions. Following charts and tabular data represent the results of beneficiary surveys at each of three railway stations (**Annexure-48**).



Source: Passengers response through questionnaires

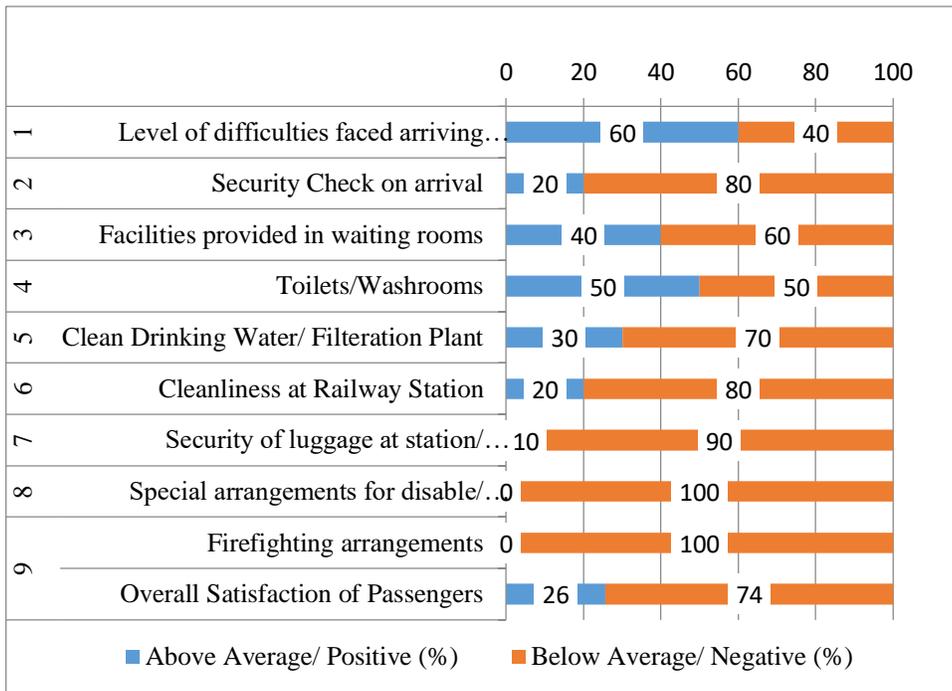
It is obvious from that the results of beneficiary survey that passengers were unsatisfied with security arrangements for property and person in the absence of firefighting arrangements and CCTV cameras. A hundred per cent negative response was also given on availability of special arrangements for elderly and disabled persons. All these facilities were part of the original scope of work which was later on left unfinished even at up-graded railway stations. Three other amenities which received sixty to ninety per cent below average rating were condition of toilets, facilities provided in waiting lounge and clean drinking water.

Railway Station Bahawalpur					
SN	Variables	Above Average/ Positive (%)	Below Average/ Negative (%)		
1	Level of difficulties faced arriving platform	80	20		
2	Security Check on arrival	20	80		
3	Facilities provided in waiting rooms	60	40		
4	Toilets/Washrooms	70	30		
5	Clean Drinking Water/ Filtration Plant	80	20		
6	Cleanliness at Railway Station	90	10		
7	Security of luggage at station/ Security Cameras	40	60		
8	Special arrangements for disable/ physically challenged persons	40	60		
9	Firefighting arrangements	10	90		
	Overall Satisfaction of Passengers	54	46		

Source: Passengers response through questionnaires

All three arrangements related to security of person and property received below average responses from 60% to 90% of the respondents as was the case with Raiwind Railway Station. Response against special arrangements for disabled, elderly and physically challenged passengers was also negative from 60% of the passengers. Comparatively, amenities like clean drinking water, washrooms, facilities provided in waiting rooms and cleanliness were responded to with positivity in case of Bahawalpur Railway station.

Gujranwala Railway Station

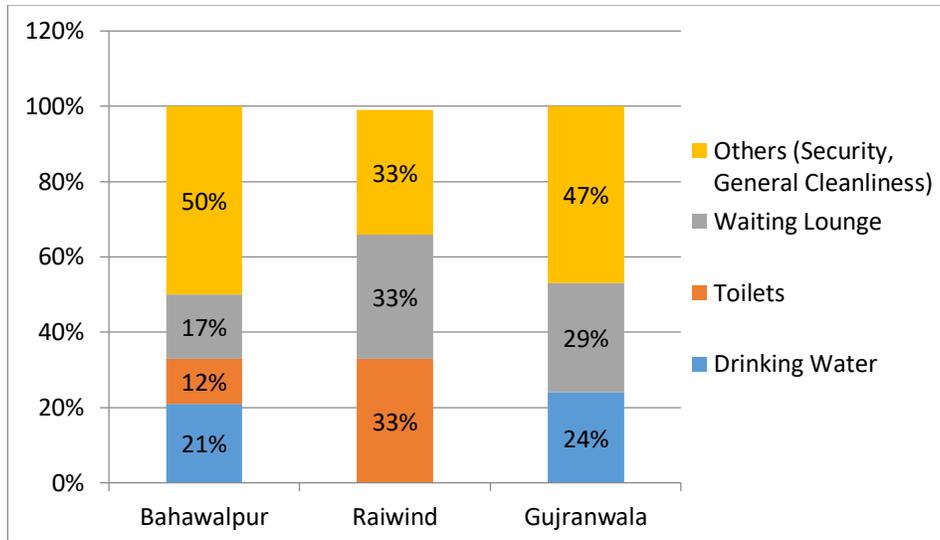


Source: Passengers response through questionnaires

In Gujranwala Railway Station amenities like toilets and washrooms and difficulties faced in arriving at the station received neutral responses from the passengers. All other arrangements regarding security, cleanliness and clean drinking water received negative responses ranging from 60% to 90% below average. Particularly, special arrangements for disabled/elderly/physically challenged passengers and firefighting arrangements received 100% negative responses from passengers for Gujranwala Railway Station.

Beneficiary survey results were further authenticated by categorizing passenger complaints into similar categories as was the scope of survey questions. The results of segregated complaints data have been depicted in the following chart.

Passenger complaints category wise (Treatment Group)



Source: Complaints on Pakistan Citizen's Portal

Complaints data contains same issues highlighted by passengers, through an entirely different portal, as have been ascertained by Audit through beneficiary surveys and portray a picture of unsatisfactory passenger amenities, provision of which was one of the main objectives of the project.

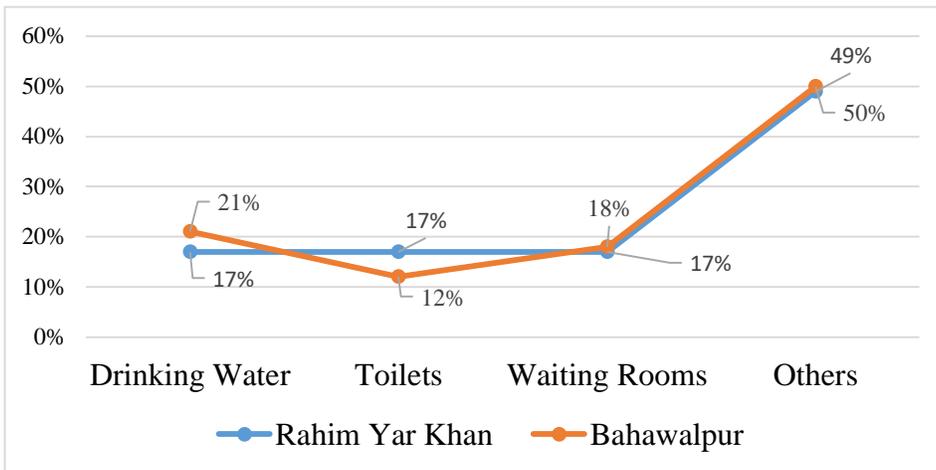
The complaints data relating to three stations of control group (without intervention) was also assessed from the citizens' portal which depicted following results:

Passenger complaints category wise (Control Group)

Station	Drinking Water	Toilets	Waiting Rooms	Others
Rahim Yar Khan	17%	17%	17%	49%
Khanewal	21%	21%	25%	33%
Nawab Shah	No registered complaint found on the portal			

Category wise percentage of complaints pertaining to Rahim Yar Khan and Khanewal (control group) lodged at citizens' portal clearly shows convergence of percentages in identical areas of treatment group. However, the control group had a limitation with regard to Nawab Shah Railway Station where no complaint was lodged on the portal. It doesn't mean that there was no complaint but it could be low literacy rate in that region which may have restricted the beneficiaries from using citizens' portal.

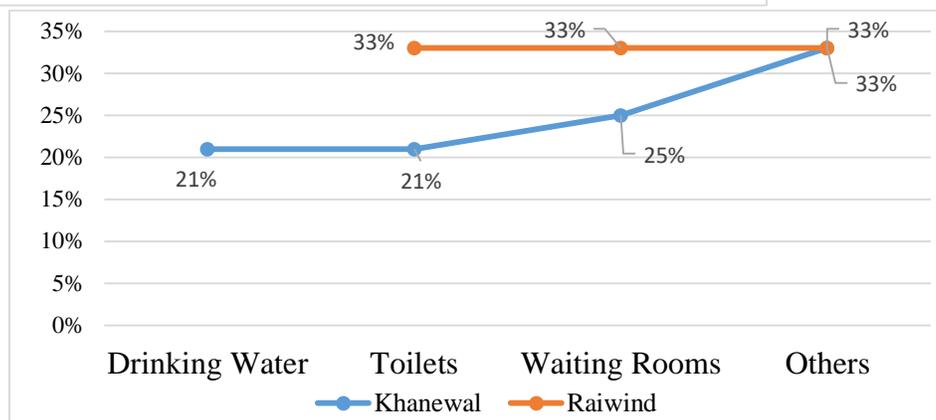
Passenger complaints convergence Rahim Yar Khan (without intervention) vs Bahawalpur (with intervention)



Source: Complaints on Pakistan Citizen's Portal

A comparison of complaints at Khanewal and Gujranwala is also made below:

Passenger complaints convergence Khanewal (without intervention) vs Raiwind (with intervention)



Source: Complaints on Pakistan Citizen's Portal

The convergence of percentages for identical areas of public complaints at Control Group and Treatment Group revealed minimum to no positive impact of the intervention with regard to provision of passenger amenities especially at Bahawalpur.

4.4.4 Structural sustainability of upgraded buildings:

The project was aimed at passenger facilitation, revenue generation, operational self-sustenance and structural longevity covering at least 50 years of active service period. Audit examined structural designs of upgraded stations to assess whether the achievement of project objectives had been supported by station architecture in providing ease of access for utilization of available amenities to all types of passengers including women, elderly and disabled ones. Audit inspected newly constructed buildings to observe any weaknesses in structures.

4.4.4.1 Railway Station, Bahawalpur

Railway Station Bahawalpur was up-graded in 2019 by dismantling of old station building with total cost of Rs 335.85 million. The architectural design of new station building (43,560 Sft) was in the

image of Noor Mahal Palace, Bahawalpur. Audit observed that the station design had following discrepancies with respect to ease of access to amenities by passengers and general public:

- a) All offices of responsible staff including Station Master, Assistant Station Master, and security staff were accommodated at 1st floor instead of ground floor as per conventional design of all other railway station; hence it was made difficult for passengers to access them.
- b) Waiting rooms were also built at 1st floor of station building with no attached toilets and air-conditioning facility, therefore, most of the passengers were not utilizing those waiting rooms.
- c) Restaurant was designed in the basement which was found out of operation due to lack direct access from the platform and waiting rooms.
- d) Lavatories and toilets for public and employees were built at basement and 1st floor. Employees and workers especially female booking staff had to face difficulty using toilets during rush hours.
- e) Parcel & Luggage office was not designed at Bahawalpur Station. It was observed that booking of parcels & luggage was being managed at ground floor in a room allocated for a shop having no direct access to the Platform.
- f) Only one Retiring Room was built in such an oversized Railway station building which was also found vacant and in untidy condition. There was no ventilation or air conditioning facility. Resultantly, retiring room was not in a condition to be offered to visiting passengers for staying inside station building.
- g) The doors of the shops were opened towards platforms instead of city area, although, no train stopped for more than two minutes at the station.

In view of the above-mentioned findings, Audit ascertained that Bahawalpur Station building was not designed in the best public interest. Accessibility and facilitation to passengers had not been largely considered at the design stage. Therefore, most of the rooms in the station building were found out of use indicating wastage of valuable resources and planning failure.

4.4.2 Railway Station, Raiwind

A new building of Railway Station, Raiwind measuring 29,869 Sft was constructed in 2019 under the project, at a cost of Rs 286.13 million on an empty piece of Railway land in front of old station building. However, the old station building was found operative till the date of audit i.e. September 2023. Audit observed that the new Railway Station building had given way to visible horizontal and vertical cracks in walls at both superior and inferior sides of many rooms. Pictorial evidence of cracks is shown in (**Annexure-49**). Audit ascertained that the new building of Railway station, Raiwind, was constructed with substandard civil works with inadequate soil compaction.

Resultantly, the building started sinking at many places. It hampered achievement of the project objective of 50 years structure sustainability and the buildings may be in need of special repairs sooner than avowedly claimed.

Management Response

The Impact Audit Report was discussed in detail in the DAC meeting held on 09.01.2024. The Chair expressed that this study/report on this important perspective of spending public finance could be useful for management. The analysis approach adopted by the new concept of Impact Audit is viable and doable.

5. Conclusion

Comparative analysis between control group stations and treatment group stations led audit team to conclude that the trend of rate of change in annual passenger traffic at treatment group stations was no different than control groups. Standard deviation from mean passenger traffic over ten years was, in fact, statistically tilted in favor of control group in 66 per cent of the tested sample. Raiwind, however, performed slightly better than Khanewal in comparative analysis of difference-in-differences but the upward slope (incline) in passenger traffic was set in same trend prior to the commencement of project and no significant steepness was witnessed in post project phase. While using time series approach, Audit witnessed an exceptional anomaly of considerably higher than average passenger traffic at all stations during gestation period of the project which implies that passengers and revenues earnings actually increased when there was no station building in operation at all. The steepest rising trend in ridership without presence of any operational station building and associated amenities clearly indicate that the project objectives have no significant relationship with increased revenues and ridership. Time series analysis was also conducted to draw intra stations comparisons between pre and post project periods of upgraded and renovated stations which revealed that there was a decreasing trend starting from 2013 and culminating to 2023 except for Raiwind station where old building is still in use. The beneficiary survey and physical inspection revealed that provision of important amenities, particularly with respect to security of person and property, were not made by reducing the scope of project or parking funds elsewhere. The quality of amenities provided was not up to the mark as envisioned in PC-1. Basic amenities like clean drinking water, attached washrooms and foot-over bridges were not provided at one or other stations under the project. Beneficiary survey also revealed that ease of access to passenger amenities was denied by virtue of architectural design which did not take into consideration the practical necessities of the station. To realize the objective of making up-graded stations operationally self-sustaining by developing stations as commercial hubs, shops and restaurant were constructed at Bahawalpur station but commercial activities could not be started because of design failure. The endeavor towards self-sustenance culminated into sunk costs and erosion of potential revenues. Audit therefore concludes that the project had little or no significant impact on increasing volume of ridership, making stations operationally self-sustaining and provision and access of passenger amenities, development of circulating area and generation of employment for general population. Up-graded stations are aesthetically comforting in view, the only objective which has been fully achieved by the project.

Audit recommends pragmatic planning in allocation of resources while keeping in view the concept of value for money as Pakistan railways is already suffering from losses. Need assessment may include input from end beneficiaries to make it more comprehensive and realistic. Audit observed that reduction in scope of project and faulty design obliterated intended benefits from available passenger facilities. This audit recommends strengthening of internal controls to bar scope changes after approval of PC-I and segregation of scope components which may be fundamentally connected to project's main

objectives and declaring such components beyond reduction. Quality of civil works may be ensured to achieve forecasted life spans of buildings. Responsibility may be fixed for delayed decision making in putting resources to profitable usage as is the case with Bahawalpur shops. Comparative analysis of various projects having realistic payback periods, Internal rates of return and financial predictions may be made under the governing principle of greatest good of greatest numbers rather than presenting individual project proposals without any competitors to the approving authorities.



**AUDIT REPORT
ON
THE ACCOUNTS OF
MINISTRY OF WATER RESOURCES
AND ITS ENTITIES
AUDIT YEAR 2023-24**

AUDITOR-GENERAL OF PAKISTAN

DIRECTORATE GENERAL AUDIT (WATER RESOURCES)

CHAPTER-1

1. Ministry of Water Resources

1.1 Introduction

MoWR is mandated for development of country's water and hydropower resources to meet current and future challenges of water shortage, provision of affordable, environmental friendly renewable energy and act as a catalyst in the implementation of the National Water Policy (NWP), 2018 by taking all the stakeholders on board, through creativity, initiative, innovation and technology. WAPDA, IRSA, FFC, PCIW and PCRWR are working under the umbrella of MoWR to manage and holistically address the water sector issues of Pakistan at federal level.

WAPDA was established through an Act of Parliament in 1958 as an autonomous and statutory body under the administrative control of the Federal Government. The charter of duties of WAPDA is to investigate, plan and execute projects for hydropower generation, irrigation, water supply and drainage, prevention of water logging, reclamation of waterlogged saline lands and flood management. To discharge its duties, WAPDA is administratively structured in three wings namely; Water Wing, Power Wing and Co-ordination Wing.

IRSA was established vide Act No. XXII of 1992 passed by the Parliament and approved by the President of Pakistan on December 6, 1992. IRSA was established for regulating and monitoring the distribution of water resources of Indus River System in accordance with the Water Apportionment Accord, 1991 amongst the Provinces and to provide matters related therewith and ancillary thereto.

FFC was established in January, 1977 for the purpose of integrated flood management at national level. FFC is mainly responsible for the preparation of National Flood Protection Plans and their implementation through concerned Provincial and Federal Departments in the country.

PCIW is part of the Permanent Indus Commission which is a bilateral commission consisting of officials from India and Pakistan, created to implement and manage the goals and objectives of the Indus Waters Treaty (IWT), 1960. The commission maintains and exchanges data and co-operates between the two countries under the provisions of the treaty.

PCRWR is an apex organization of the MoWR established through Act No.I of 2007. It is mandated to conduct, organize, coordinate and promote research on all aspects of water resources. It has a network of seven research and demonstration centers in different agro-climatic zones of the country.

Table-1 Audit Profile of MoWR

Description	Total	Audited	Expenditure Audited	Revenue/ Receipts Audited
	Nos.		FY 2022-23	

				FY 2022-23
Authorities/Autonomous Bodies etc. under the PAO:	08	04	242,798.636	82,055.513
a. Formations	116	42	242,798.636	82,055.513
b. Assignment Accounts	44	27	US\$ 115.070 & Rs.114,716.940	-
c. Foreign Aided Projects	26	26	34,020.141	-

1.2 Sectoral Analysis

Pakistan is highly vulnerable to the impacts of climate change, including water scarcity, extreme weather events and declining crop yields due to growing population and careless use of water. Pakistan is now one of the top ten nations impacted by global warming and may soon become one of the most water-stressed countries in the world as the shortages increase. Water scarcity has become a serious threat to the sustainable and economic growth of Pakistan. Pakistan's groundwater resources, the last resort of water supply, are severely overdrawn, mainly due to supply of water for irrigation. If the situation remains unchanged, the whole country may face severe water scarcity by the year 2025. Over the last few decades, Pakistan has drastically changed from being a water abundant country to a water-stressed country. In overall context, Pakistan's water crisis is mainly due to rapid population growth followed by climate change (floods and droughts), poor water management in agriculture sector, inefficient infrastructure leading towards wastage and water pollution. Pakistan has witnessed intermittent spells of floods and droughts in the previous years. Climate change may further decline aggregate water flows in the future. There is a need to fill the gaps between policies, reforms and their implementation by devising a detailed implementation plan. According to experts⁵⁸, we do not have a water crisis; we have a failure of governance regarding water issues. It is essentially important to get leverage from technology for efficient water utilization; however, it is also crucial to choose the right innovation, which can deliver the required solutions. The situation calls for rapid development and management of the country's water resources on a war footing. Only by devising and implementing appropriate adaptation measures, it will be possible to ensure water, food and energy security for the country as well as minimize the impact of natural disasters. There is a dire need to take timely cognizance of the emerging water crisis and issuance of guidelines for a comprehensive plan of action to address the same. Farmers can take advantage of precision watering through adoption of drip irrigation system rather than flooding their fields. Pakistan needs to put serious thought into how it will provide adequate water for agriculture, industry and human consumptions in the

⁵⁸ *Pakistan's water security issue (Institute of Strategic Studies, Islamabad)*

face of rapidly dwindling water reserves. Pakistan’s approach to water management relies on large scale reservoirs, link canals and inter-basin transfers to support the agriculture sector which consumes 94% of total available surface and ground water resources.

The Council of Common Interests (CCI) formally approved the NWP on April 24, 2018. The policy, inter alia, aimed at developing a National Planning Database to support an integrated information system in order to enable planning and development of water and other related resources on a sustainable basis besides revitalizing and restructuring WAPDA. In addition, NWP required submission of periodical reviews to CCI on the implementation of NWP and achievement of its objectives. NWP was framed to achieve its objectives within a given timeframe but it was found that no structural mechanism is in place in MoWR to monitor the implementation of NWP. The implementation framework has not yet been finalized despite lapse of five years. Moreover, no periodical reviews were submitted to CCI which showed that no documented mechanism is available to gauge the achievement of policy objectives. MoWR was responsible to propose and implement the restructuring plan to upgrade WAPDA within a year after approval of the policy but no steps have been initiated since approval of the policy.

Large scale water reservoirs are also important for availability, accessibility and affordability of electricity for the people across the country as well as for the economic progress and social uplift of the citizens. Of all the sources of electric power generation in a power system, hydel power is the cheapest source in a generation mix. As such, ensuring availability and development of hydel power generation carries immense importance from the perspective of the energy security, sustainability and affordability of electricity.

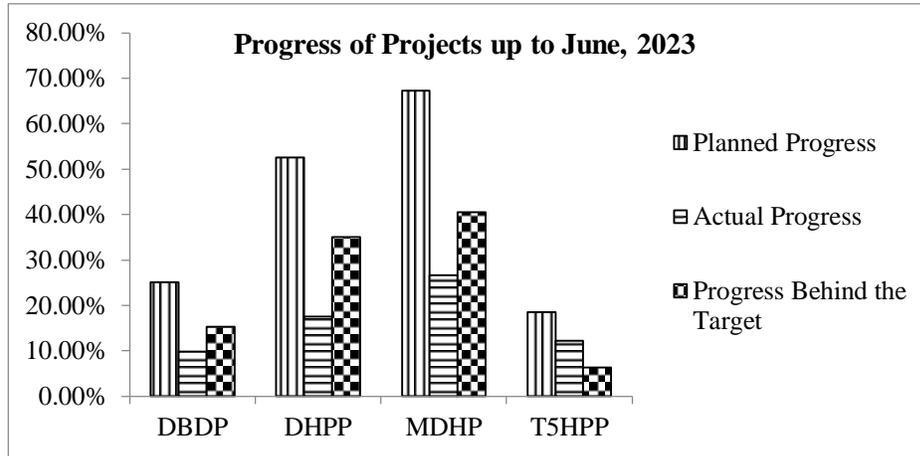
Presently, WAPDA is executing three large scale projects on Indus River and one on Swat River. Diamer Basha Dam Project (DBDP) having storage capacity of 8.1 Million Acre Feet (MAF) and power generation capacity of 4,800 MW is being constructed at 315 Kilometer (KM) upstream of Tarbela Dam. Dasu Hydropower Project (DHPP) with power generation capacity of 4,320 MW is being constructed at 74 KM downstream of DBDP and Tarbela 5th Extension Hydropower Project (T5HPP) having power generation capacity of 1,530 MW is being constructed at existing Tarbela Dam. Whereas, Mohmand Dam Hydropower Project (MDHP) having storage capacity of 0.676 MAF and power generation capacity of 800 MW is being constructed on Swat River at 5 KM upstream of Mohmand Tribal District.

Even though, keeping in view the importance of these water sector projects for the socio-economic uplift of the country, performance/progress of the projects remained very slow and far behind the targets set up to 30th June, 2023 as tabulated below:

Progress of Projects up to June, 2023

Sr. No.	Name of Project	Planned Progress	Actual Progress	Progress Behind the Target
1	DBDP	25.11%	09.80%	15.31%
2	DHPP	52.60%	17.60%	35.00%

3	MDHP	67.22%	26.68%	40.54%
4	T5HPP	18.52%	12.23%	06.29%



(Source: Monthly progress reports of the projects-June, 2023)

Similarly, in order to overcome the shortage of water in Karachi city, the Greater Karachi Bulk Water Supply Scheme (K-IV) was planned for supply water to Karachi city from Keenjhar Lake by

the Government of Sindh (GoS). Later on, the Federal Government under arrangement with GoS has taken up implementation of the project as part of Prime Minister's Package for Karachi and directed WAPDA to take over the responsibilities for execution of the project since January, 2021. The construction under Phase-I is aimed at supply of 260 Million Gallons water per day (MGD) which has been divided into eight packages. The contracts for these packages were awarded during May, 2022 to September, 2022 with completion dates of upto February, 2024. However, the management failed to achieve physical progress of this project of vital importance according to plan as detailed below:

Progress of K-IV Project up to June, 2023

Sr. No.	Contract Package No.	Planned Progress	Actual Progress	Progress Behind the Target
1	KIV-IW (for Intake Works)	80.09 %	20.20%	59.89%
2	KIV-AW (for Allied Works)	73.05%	23.46%	49.59%
3	KIV-PL1 (for Pipeline Works)	53.55%	37.20%	16.35%
4	KIV-PL2 (for Pipeline Works)	62.20%	09.06%	53.14%
5	KIV-FP1 (for Filtration Plant 1)	27.75%	05.31%	22.44%
6	KIV-FP2 (for Filtration Plant 2)	22.94%	05.17%	17.77%

7	KIV-FP3 (for Filtration Plant 3)	28.10%	05.36%	22.74%
8	KIV-PS (EPC Contract for Pumping Station)	56.52%	08.68%	47.84%

(Source: Monthly progress report of K-IV project-June, 2023)

Due to delay in completion of K-IV Project, dense population of Karachi will have to face acute shortage of water during 2024-25 as existing approved quota of water for entire city of Karachi is highly insufficient.

In WAPDA, significant issues were observed in project execution and contract management. Projects have been initiated without proper planning, detailed designing, financial close and proper feasibility studies. Most of the projects are stalled during the initial phase of land acquisition. The impact of defective designing becomes evident in the wake of excessive increase in Bill of Quantities (BOQ) and Variation Orders (VOs), surpassing even the original contract price on occasions. As such, a major portion of expenditure remains excluded from the competitive process. This also highlights questionable performance of the consultants right from the preparation of feasibility studies to designing and project monitoring.

Eventually, mismanagement of the projects results in giving rise to disputes, termination of contracts and litigations causing time and cost overruns. Significant risk areas related to procurement management, contract management, financial management, assets management and HR related issues, etc. which were planned to be looked into in the Audit Plan 2023-24. Accordingly, these areas have been examined during audit execution and reported to the PAO. In order to ensure that public funds are used efficiently, the PAO is required to take corrective measures, accordingly.

1.3 Classified Summary of Audit Observations

Audit observations amounting to Rs.356,505.326 million were raised in this report during the current audit of MoWR and its entities. This amount also includes recoveries of Rs.12,858.102 million pointed out by the Audit. Summary of the audit observations classified by nature is as under:

Table-2 Overview of Audit Observations

(Rs.in million)

Sr.	Classification of Audit Observations	Amount
A	Procurement Management	34,571.207
B	Contract Management	57,390.800
C	Financial Management	212,451.322
D	Assets Management	6,715.686
E	Management of Accounts with Commercial Banks	13,681.643
F	HR & Employees Related Issues	982.905
G	Value for Money and Service Delivery	1,091.830
H	Others	29,619.933

Note: The increase of total amount taken in audit observations over expenditure/receipt audited is due to the reason that in some cases, amount of progressive expenditure and receipts have been objected depending upon the nature of observations/issue.

1.4 Comments on the status of compliance with PAC directives

Sr. No.	Audit Year	No. of Directives	Compliance received	Compliance Outstanding	%age of compliance
1.	1985-86	4	0	4	0
2.	1986-87	1	0	1	0
3.	1987-88	7	0	7	0
4.	1988-89	6	0	6	0
5.	1989-90	7	0	7	0
6.	1990-91	5	0	5	0
7.	1991-92	6	0	6	0
8.	1992-93	2	0	2	0
9.	1993-94	4	0	4	0
10.	1994-95	3	0	3	0
11.	1995-96	3	0	3	0
12.	1996-97	1	0	1	0
13.	1997-98	1	0	1	0
14.	1998-99	2	0	2	0
15.	1999-2000	2	0	2	0
16.	2000-01	4	0	4	0

17.	2001-02	3	0	3	0
18.	2002-03	2	0	2	0
19.	2003-04	5	0	5	0
20.	2005-06	2	0	2	0
21.	2006-07	6	0	6	0
22.	2007-08	8	1	7	13
23.	2008-09	3	1	2	33
24.	2009-10	10	0	10	0
25.	2010-11	5	0	5	0
26.	2011-12	14	6	8	43
27.	2012-13	6	1	5	17
28.	2013-14	20	6	14	30
29.	2014-15	2	0	2	0
30.	2015-16	13	3	10	23
31.	2016-17	17	0	17	0
32.	2017-18	5	0	5	0
33.	2018-19	9	0	9	0
34.	2019-20	15	0	15	0

Note: Position of compliance with PAC directives is not satisfactory.

1.5 Audit Paras

A. Procurement Management

1.5.1 Unjustified increase in contract cost by changing scope of work through variation order in violation of PPRA rules and ignoring PC-I provisions - Rs.29,413.545 million

According to Rule-20 of PPRA Rules, 2004, “save as otherwise provided hereinafter, the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works”. As per Rule-4 of the same, “procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical”. As per Para-6.11 of the Manual for Development Projects, “the physical and financial scope of a project, as determined and defined in the project document (PC-I), is appraised and scrutinized by the agencies concerned before submitting it for approval of the Central Development Working Party or Executive Committee of the National Economic Council (ECNEC). Once approved, the executing agency is required to implement the project in accordance with the PC-I provisions. It has no authority to change and modify any approved parameter of the project on its own...”.

During audit of accounts of the Project Director (PD), DHPP for the period from July, 2022 to June, 2023, it was observed that PC-I of the project was approved by the ECNEC on March 28, 2014 at a cost of Rs.486,093 million. Later on, a contract for relocation of Karakoram Highway (KKH)-01 was awarded to M/s China Civil Engineering Construction Corporation on March 16, 2015 at a contract price of Rs.14,538.852 million against PC-I provision of Rs.13,496.900 million with completion period of 564 days i.e. up to February 20, 2017. However, the construction of KKH-01, which was to be used as a bypass for diverted traffic of original KKH to avoid interference in the construction activities of the main works, couldn't be completed till date. Meanwhile, the contract for civil works was awarded to M/s China Gezhouba Group Co. Ltd. (CGGC) at a contract price of Rs.115,003.461 million on March 08, 2017 with planned completion date of January 22, 2023. In order to avoid interference of open excavation work of KKH-01 with construction activities of the main work, avoid damages of main contractor's camp and divert public traffic of the old KKH, a VO was issued for re-alignment of the relocated KKH-01 by including seven tunnels and three bridges costing Rs.29,413.545 million (equal to 202% of contract price). It is pertinent to mention that no tunnel was included in the scope of original contract for construction of road, therefore, 77% work (tunnels) of the VO was not based on original BOQ, hence, their rates were non-competitive. Audit held that as the amount of VO was more than the original contract price and scope of work was also changed from open-cut to tunnels & bridges, therefore, issuance of VO of huge amount without obtaining competitive rates as required under PPRA rules and ignoring provisions of PC-I was not justified.

Non-adherence to the PPRA Rules and instructions of Planning Commission resulted in unjustified increase in contract cost by changing scope of work through VO amounting to Rs.29,413.545 million up to the FY 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in December, 2023. The management replied that the VO was issued as per site requirements with the approval of the Authority and after obtaining No Objection Letter (NOL) from World Bank.

The reply was not acceptable because the scope of work was changed through a VO in its entirety as compared to scope of original contract due to poor planning and the rates of VO remained outside the ambit of competitive process on which the original contract was awarded.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to inquire the matter at a higher level for fixing of responsibility for award of an entirely redesigned work through a VO and that too at uncompetitive rates.

(Draft Para No.422/2023-24)

1.5.2 Loss due to delay in finalization of bid proposal for award of contract - Rs.3,176 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to fraud, theft or negligence of Individuals, 1982 (amended to date), "all losses, whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of accounts of the PD, Mangla Refurbishment Project (MRP) for the period from July, 2022 to June, 2023, it was observed that a contract for manufacturing, supply, installation and commissioning of units No.9 & 10 was awarded to M/s GE Hydro France on January 10, 2023 at a contract price of Rs.11,922.908 million through direct contracting mode with the aim of timely utilization of USAID grant. Further probe into the matter revealed that initially, the contractor submitted the bid/financial proposal of US\$ 49.690 million (equivalent to Rs.8,746 million) on February 03, 2022 with validity of 90 days. The bid was forwarded to the consultants who submitted draft evaluation report to General Manager (GM) Hydel (Operation) on April 26, 2022. However, WAPDA could not finalize the proposal well in time and requested the contractor on April 28, 2022 to extend the bid validity. The contractor, through a letter dated April 29, 2022 extended the validity of offer till May 15, 2022 but on May 13, 2022 submitted a revised proposal with an increased cost of US\$ 57.160 million which was reduced to US\$ 51.890 million (equivalent to Rs.11,922 million) by the contractor with extended bid validity of up to October 01, 2022. Audit held that bid for award of contract through direct contracting was required to be finalized within initial bid validity period which was not done. Due to delay in bid evaluation process, the contract was awarded at a higher cost of Rs.3,176 million which was loss to the Authority for which responsibility needed to be fixed.

Non-adherence to aforementioned guidelines resulted in a loss of Rs.3,176 million due to delay in finalization of bid proposal for award of contract during the FY 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that a detailed analysis was required to ensure the financial reasonability as well as technical conformity related to the requisite specifications. Moreover, such evaluation required involvement of multiple stakeholders to carry out this job at various levels and the

contract was awarded at the head office level with the approval of WAPDA Authority.

The reply was not acceptable because the contract was awarded at enhanced price due to delay in finalization of bid, which caused loss to the Authority.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify need for direct contracting and delay in finalization of proposal/bid besides inquiring the matter for fixing responsibility upon the person(s) causing this loss.

(Draft Para No.368/2023-24)

1.5.3 Excess expenditure on restoration of Tailrace Tunnel due to increase in quoted rates of BOQ items after negotiations with the contractor - Rs.1,176.082 million

According to Rule-42 d (iii) of PPRA Rules, 2004, “a procuring agency may engage in negotiated tendering with one or more suppliers or contractors with or without prior publication of a procurement notification. This procedure shall only be used when, for reasons of extreme urgency brought about by events unforeseeable by the procuring agency, the time limits laid down for open and limited bidding methods cannot be met. The circumstances invoked to justify extreme urgency must not be attributable to the procuring agency. Provided that any procuring agency desirous of using negotiated tendering as a method of procurement shall record its reasons and justifications in writing for resorting to negotiated tendering and shall place the same on record”. As per Rule-4, “procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical”.

During audit of accounts of the Chief Executive Officer (CEO), Neelum Jhelum Hydropower Company (NJHPC) for the period from July, 2021 to June, 2023, it was observed that a portion of Tailrace Tunnel (TRT) of the project was collapsed in July, 2022. The work for restoration of TRT was awarded to M/s CGGC (previous contractor) through negotiations. Scrutiny of the record revealed that the contractor submitted 1st quotation for remedial works on July 27, 2022 and after negotiations, rates of 47 items as compared to 1st quotation were increased before finalization of the contract. Due to subsequent increase in the rates of BOQ items, the company had to bear extra expenditure of Rs.1,176.082 million up to Interim Payment Certificate (IPC) No.10.

Non-adherence to the PPRA Rules resulted in excess expenditure of Rs.1,176.082 million on restoration of TRT due to increase in quoted rates of different BOQ items up to the FY 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management stated that detailed reply would be submitted after consultation of record.

No further reply was furnished till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 &

19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify incurrence of excess expenditure due to increase in BOQ rates after negotiations besides fixing responsibility.

(Draft Para No.105/2023-24)

1.5.4 Undue favour to the contractor by amending the clauses of PEC's Standard Form of Bidding Documents - Rs.274.729 million

Clause-10.1 of Particular Conditions of Contract (PCC) of PEC's Standard Form of Bidding Documents (Civil Works) requires the contractor to provide performance security equal to 10% of the contract price stated in the Letter of Acceptance (LOA). Further, Clause-60.2 of Special Stipulations (Appendix-A to bid) states that the limit of retention money should be 5% of the contract price stated in LOA. The retention money shall be deducted @ 10% of amount of each IPC. Furthermore, this document states that "Mandatory provisions not to be amended/substituted except as instructed by PEC".

During audit of accounts of the CEO, NJHPC for the period from July, 2021 to June, 2023, it was observed that a contract for restoration works of TRT was awarded to M/s CGGC at a contract price of Rs.1,624.966 million and US\$ 4.172 million. As per PEC's Standard Form of Bidding Documents, the performance security @ 10% of contract price amounting to Rs.162.500 million & US\$ 0.417 million was required to be obtained from the contractor but performance security amounting to Rs.48.750 million and US\$ 0.125 million was obtained by reducing its rate from 10% to 3% in violation of PEC's instructions. Due to reduction of rate, performance security amounting to Rs.179.961 million (Rs.113.748 million + US\$ 0.292 million) was less obtained. Similarly, the limit of retention money was required to be 5% of the contract price excluding provisional sum i.e. Rs.120.156 million & US\$ 306,029. However, the management reduced the limit of retention money from 5% to 2.5% in violation of instructions of PEC. Further, the rate of deduction of retention money was also reduced from 10% to 2.5% of amount of each IPC. Due to amendment in standard clauses, an amount of Rs.94.768 million on account of retention money was less deducted. Audit held that the conditions contained in PEC's Standard Form of Bidding Documents were mandatory in nature and could not be amended. Due to reduction in rates of performance security and retention money by amending the standard clauses, an amount of Rs.275.050 million (Rs.180.282 million + 94.768 million) was less obtained/deducted which was not only an undue favour to the contractor but also increased the risk of the Employer.

Non-adherence to the PEC's instructions resulted in undue favour of Rs.274.729 million to the contractor by amending the clauses of PEC's Standard Form of Bidding Documents up to the FY 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management stated that detailed reply would be submitted after consultation of record.

No further reply was furnished till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and

January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify reduction in rates of performance security and retention money in violation of instructions of PEC besides fixing responsibility.

(Draft Para No.114 & 115/2023-24)

1.5.5 Irregular expenditure on purchase of vehicles as BOQ items through construction contractors - Rs.234.403 million

According to austerity measures circulated by the Finance Division (Expenditure Wing) vide office memorandums No.F.7(1)Exp.IV/2016-440 and even No.2016-340 dated July 15, 2021 and July 07, 2022 respectively, there shall be complete ban on purchase of all types of vehicles from current and development budget except utility vehicles such as ambulances, buses for educational institutions and solid waste vehicles etc.

During audit of accounts of two formations of WAPDA for the period from July, 2022 to June, 2023, it was observed that 24 vehicles of different makes worth Rs.234.403 million were purchased through different contractors as BOQ items. Audit held that provisions for purchase of vehicles through the construction contractors were made in the contracts just to avoid the austerity measures of the Government which was unjustified. The detail is as under:

(Rs. in million)				
Sr. No.	Name of Formation	DP No.	No. of Vehicles	Amount
1	PD, DHPP	333/2023-24	06	32.471
2	PD, DBDP	356/2023-24	18	201.932
TOTAL			24	234.403

Non-adherence to instructions of Finance Division resulted in irregular expenditure of Rs.234.403 million on purchase of vehicles during the FY 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management replied that transportation for the Employer and consultants was included in the contracts and procurement of vehicles was carried out by the contractors accordingly.

The reply was not acceptable because vehicles were purchased by the Employer through the contractors as BOQ items in violation of instructions of Finance Division regarding austerity measures.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify the procurement of vehicles through construction contractors in violation of instructions regarding austerity measures as it was not a specialized job besides fixing responsibility.

1.5.6 Compromise on the quality of dam due to procurement of refurbished Shear and Beam Testing Equipment for specialized tests – Rs.208.368 million

According to Clause-7.7 of the Manual for Development Projects, “the PD, who is supposed to have studied and grasped the provisions of PC-I and the contract agreements, keeps a vigilant eye on availability of standardized machinery, material and qualified staff as well as progress of work on the part of contractor. He may have to review and revise the Critical Path Method when necessary”. As per Clause-7.8, “it is vitally important to watch that the progress is not pushed at the cost of the quality and it is equally important that the works are not delayed/suspended or slowed down due to impediments in timely supply of materials, acquisition of site, and/or want of requisite funds at appropriate stages. All these strategic points must be sorted out in advance by the foresight of the PD in coordination with the concerned quarters so as to avoid time and cost over-run to the extent possible. Timely signals must go out to concerned quarters if the project is in trouble”. As per Clause-7.9, “a system has also to be evolved to ensure that quality material is made available in requisite quantity and utilized well in time on execution of the project. This will also include protection of materials, installation of field laboratories adequately equipped with standardized machinery and qualified staff for day to day testing of materials and samples. In case of major projects, this should also form a part of the duty of the supervisory consultants”. As per Clause-30.3.4 of the Special Provisions of Contract, “payment will be made for the specialized tests to be carried out in specialized laboratories as per requirement of the works”.

During audit of accounts of the PD, DBDP for the period from July, 2022 to June, 2023, it was observed that equipment for Reinforced Cement Concrete (RCC) Specialized Test was to be procured by the contractor. It was further observed that in December, 2022, the Engineer approved the cost estimate of US\$ 630,397 (equivalent to Rs.189 million) for procurement of said equipment for RCC Specialized Tests and expiry date of validity of the quotation was April 30, 2023. Meanwhile, the contractor claimed that due to non-payment of foreign exchange portion by the Employer, it would not be possible to place an order to the vendor of the machine. The consultants vide letter No.MWI-PFJV-003-1227 dated April 20, 2023 directed the contractor to place an order immediately before expiry of the validity of quotation as the Employer had released foreign exchange of US\$ 20 million to the contractor, however, the contractor failed to place the order within price validity and bid of the supplier expired. Due to failure of the contractor to place an order for the subject equipment, a revised quotation was obtained by the contractor from the supplier with increased price of US\$ 713,288 (Rs.213 million). The Engineer granted consent for the revised quotation and directed the contractor to expedite the procurement process without any further delay and any losses incurred in terms of time & cost due to contractor’s delay would be borne by the contractor. Due to delay in placing purchase order for the subject equipment, the supplier informed that estimated delivery of the machine would be made by October, 2024. As the RCC placement was planned in January, 2025, therefore, specialized testing equipment was required to reach at site six months before the RCC placement i.e. June, 2024 and delayed delivery of October, 2024 would cause delay of four months in placement of RCC. Later on, the supplier gave an alternate proposal to procure refurbished equipment costing Rs.208.368 million (US\$ 694,560) at 2.62% discount (with saving of US\$ 18,728) for specialized tests instead of new one with expected delivery up to March 31, 2024. In response, the consultants after accepting the proposal of the contractor wrote a letter No.MWI-DBDC-003-1330

dated July 06, 2023 to the CEO and GM DBDP for seeking their approval of proposal, but approval was accorded by the GM on July 07, 2023 without submitting the matter for decision of the CEO. The CEO, however, wrote a letter No.DBDC/W-136/3473-77 dated July 20, 2023 to the consultants regarding exploring the market to obtain offers from other vendors along with their rate of discount. In response, the consultants vide letter No.MW1-DBDC-003-1368 dated July 25, 2023 informed that approval regarding procurement of subject equipment had already been granted by the GM on July 07, 2023. Audit held that procurement of old refurbished equipment cannot be a substitute for new equipment as it was being procured for conducting specialized tests of sensitive nature. Further, quality of RCC work is critically dependent on tests performed as outcome of the results is of utmost importance for the integrity and quality of the project. Furthermore, employing a refurbished testing equipment may lead to inaccurate results, hence, procurement of refurbished equipment for specialized tests was not justified.

Non-adherence to the provisions of Manual for Development Projects may compromise on the *quality of dam due to procurement of refurbished Shear and Beam Testing Equipment required for specialized tests costing Rs.208.368 million.*

The matter was taken up with the management in September, 2023. The management stated that detailed reply would be submitted after scrutiny of record.

No further reply was furnished till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to inquire the matter regarding purchase of refurbished testing equipment with reference to the provisions of contract and its impact on quality of the project besides justifying grant of approval for purchase of refurbished equipment with a nominal discount by the GM at his own level.

(Draft Para No.437/2023-24)

1.5.7 Undue favor to the contractor due to unjustified provision of mobilization/demobilization cost despite payment of mobilization advance - Rs.88.080 million

According to Clause-60.12 (Financial Assistance to Contractor) of PEC's Standard Form of Bidding Documents, "Financial assistance shall be made available to the contractor by the Employer by adopting any one of the following three Alternatives:

- Alternative One: *An interest-free Mobilization Advance up to 15 % of the Contract Price*
- Alternative Two: Mobilization/ Demobilization Cost
- Alternative Three: Materials Supplied by Employer".

As per instructions to users of these documents, "the General Conditions of Contract (GCC) and PCC prepared by the PEC should be retained as such. Any further amendment in the PCC can be made by the users only as indicated by the PEC in Para-E hereinafter or within the PCC". As per Para-E (7), "the Employer should indicate as to which of the three alternatives is adopted, by deleting the other two

alternatives”.

During audit of accounts of the CEO, NJHPC for the period from July, 2021 to June, 2023, it was observed that a contract for restoration works of TRT of Neelum Jhelum Hydropower Project (NJHPP) was awarded to M/s CGGC at a contract price of Rs.2,499.994 million and an amount of Rs.600 million was paid to the contractor as mobilization advance. Further probe into the matter revealed that a provision of Rs.88.080 million on account of “mobilization and demobilization of equipment & demobilization of personnel” for project construction was also kept. Out of which, an amount of Rs.6.316 million had been paid to the contractor up to IPC No.10. Audit held that as per instructions contained in PEC’s Standard Form Bidding Documents, only one option could be provided to the contractor, therefore, undue favour was extended to the contractor by allowing both the mobilization advance and mobilization/demobilization cost, which was unjustified.

Non-adherence to the instructions of PEC resulted in undue favour to the contractor due to unjustified provision of mobilization/demobilization cost amounting to Rs.88.080 million despite payment of mobilization advance up to the FY 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management stated that detailed reply would be submitted after consultation of record.

No further reply was furnished till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify provision of mobilization/ demobilization cost despite payment of mobilization advance in violation of PEC’s Standard Form of Bidding Documents besides fixing responsibility.

(Draft Para No.109/2023-24)

B. Contract Management

1.5.8 Improper planning leading to increase in contract cost due to issuance of variation orders - Rs.23,799.602 million

According to Para-4.5 of Manual for Development Projects, “within six months of project approval, detailed design and costing should be finalized and submitted to the competent authority. Implementation of such project components, which require detailed designing should be started only when these have been finalized”. As per Rule-4 of PPRA Rules, “procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical”. As per Clause-3.1.1 of GCC of Consultancy Services Agreement (CSA), “the consultants shall perform the services and carry out their obligations hereunder with all due diligence, efficiency and economy, in accordance with generally accepted professional standards and practices, and shall observe sound management practices, and employ appropriate technology and safe and effective equipment, machinery, materials and methods”.

During audit of accounts of the PD, DHPP for the period from July, 2022 to June, 2023, it was observed that a contract No.MW-01 for construction of main hydraulic structure, spillway, low level outlets, river diversions and hydraulic steel structure was awarded to M/s CGGC at a contract price of Rs.115,003.461 million. The contract was awarded on March 08, 2017 and notice to commence the work was issued on June 20, 2017. It was further observed that soon after award of contract, the consultants revised design of tunnels and out of total executed work of Rs.27,839.833 million, an amount of Rs.23,799.602 million was paid against nine VOs mainly relating to diversion works and provision of power supply whereas remaining amount of Rs.4,040.231 million was paid under different items of original contract. It was further observed that VOs had to be issued mainly due to slow physical progress at KKH-01 and the consultants were well aware of the same before award of contract for MW-01. As per guidelines issued by the planning commission stated above, the detailed design and costing should have been finalized within six months after approval of project, which was not done and major changes in design after award of contract not only affected construction schedules but also resulted in huge cost increase. Audit held that execution of most of the works through VOs showed poor performance of the consultants in preparation of original design & bidding documents and was also against the spirit of PPRA Rules regarding economical procurements as major chunk of works remained out of healthy competition.

Non-adherence to aforementioned rules and guidelines resulted in improper planning leading to increase in contract cost amounting to Rs.23,799.602 million due to issuance of nine VOs up to the FY 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in December, 2023. The management replied that the scope of work of MW-01 was changed due to delay in completion of KKH-01 owing to different reasons. Further, the said VOs were approved by WAPDA Authority after seeking NOL from the World Bank.

The reply was not acceptable because the reasons stated in the management reply i.e. issue of land acquisition and disruption of work at KKH-01 was in the knowledge of both the consultants and the

Employer at the time of award of contract for MW-01.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to inquire the matter for fixing responsibility regarding award of contract on existing design of MW-01 without taking into account physical progress of KKH-01 which resulted in issuance of VOs contrary to the guidelines of the planning commission and PPRA Rules.

(Draft Para No.423/2023-24)

1.5.9 Unjustified reduction of amount of performance securities in violation of contract - Rs.10,953.945 million

According to Clause-10.1 of Conditions of Particular Application (Part-IIA) of the contract, the performance security shall be of an amount not less than 10% of contract price stated in LOA. As per Clause-10.2, “the performance security shall be valid until the contractor has executed and completed the works and remedied any defects therein in accordance with the contract”.

During audit of accounts of the CEO, NJHPC for the period from July, 2021 to June, 2023, Audit observed that a contract for construction of NJHPP was awarded to the consortium of M/s CGGC-China Machinery Engineering Corporation (CMEC). The contractors provided performance securities equal to 10% of the contract price in local & foreign currencies as per their respective amounts. Later on, Board of Directors of NJHPC, in its meeting held on December 19, 2022, accorded approval for amendment in standard clause of performance security by reducing its amount from 10% to 5% and accordingly both the contractors provided amended performance securities for Rs.10,953.945 million (Rs.2,220 million and US\$ 38.524 million). As per contract, the performance securities should not have been less than 10% of contract price and were required to be valid until the completion of works and remedial of all defects therein by the contractors. It is pertinent to mention here that Defects Liability Certificate (DLC) had not yet been issued to the contractors and performance securities were required to safeguard the Employer’s risk against contractors’ default in discharging pending contractual obligations. Audit held that reduction of amount of performance securities in violation of provisions of contract showed that undue favour was extended to the contractors, which was not justified.

Non-adherence to the provisions of contract resulted in undue benefit to the contractors by reducing the amount of performance securities of Rs.10,953.945 million up to the FY 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management stated that detailed reply would be submitted after reviewing the case.

No further reply was furnished till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify reduction in amount of performance securities in violation of provisions of contract besides fixing responsibility.

(Draft Para No.108/2023-24)

1.5.10 Undue benefit to the contractor on account of additional financial assistance in violation of contract - Rs.6,265.919 million

According to Clause-60.11 of the PCC of contract No.MW-01, “an interest free advance payment up to an amount equivalent to ten percent (10%) of the contract price stated in LOA excluding provisional sums, in proportions of foreign and local currencies of the contract price, shall be paid by the Employer to the contractor in two equal parts”. Further, there was no separate provision in the contract for any additional financial assistance to the contractor.

During audit of accounts of the PD, DBDP for the period from July, 2022 to June, 2023, Audit observed that an amount of Rs.6,265.919 million was paid to the contractor M/s Power China-Frontier Works Organization (FWO) Joint Venture (JV) on account of additional financial assistance. This amount was paid in addition to already paid mobilization advance of Rs.36,185.354 million. Audit held that as the additional financial assistance to the contractor was not covered under the contract, therefore, undue benefit was granted to the contractor which was not justified.

Non-adherence to the provisions of contract resulted in undue benefit of Rs.6,265.919 million to the contractor on account of additional financial assistance during the FY 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management stated that detailed reply would be submitted after consultation of record.

No further reply was furnished till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify grant of additional financial assistance to the contractor without any provision in contract besides fixing responsibility for such decision.

(Draft Para No.293/2023-24)

1.5.11 Irregular payment to the contractor for installation of new trash racks damaged during defects notification period - Rs.2,734.106 million

According to Clause-4.1 of the GCC, “the contractor shall design, execute and complete the works in accordance with the contract and with the Engineer's instructions, and shall remedy any defects in the works. If the contract specifies that the contractor shall design any part of the permanent works, then unless otherwise stated in the PCC, the contractor shall be responsible for this part and it shall, when the works are completed, be fit for such purposes for which the part is intended as arc specified in the contract”. As per Clause-11.1 of the GCC, “in order that the works and contractor's documents, and each section, shall be in the condition required by the contract by the expiry date of the relevant Defects Notification Period (DNP) or as soon as practicable thereafter, the contractor shall (a) complete any work

which is outstanding on the date stated in a Taking-Over Certificate (TOC), within such reasonable time as is instructed by the Engineer, and (b) execute all work required to remedy defects or damage, as may be notified by (or on behalf of) the Employer on or before the expiry date of the DNP for the works or section (as the case may be). If a defect appears or damage occurs, the contractor shall be notified accordingly, by or on behalf of the Employer”. As per Clause-3.4 of CSA, “except in case of gross negligence or willful misconduct on the part of the consultants or on the part of any person or firm acting on behalf of the consultants in carrying out the services, the consultants, with respect to damage caused by the consultants to the client’s property, shall not be liable to the client: (i) for any indirect or consequential loss or damage; and (ii) for any direct loss or damage that exceeds two times the total value of the contract”.

During audit of accounts of the PD, Tarbela 4th Extension Hydropower Project (T4HPP) for the period from July, 2022 to June, 2023, it was observed that a contract for modification of the Tunnel No.3&4 of intakes, design, supply, installation and testing of penstock and construction of power house was awarded to M/s Sinohydro Group Ltd, China on September 09, 2013 at a contract price of Rs.15,756 million plus US\$ 104.623 million. As per Technical Specifications, the contractor was required to install intake screen (trash racks) designed to stop debris entering into the new intakes. The contractor substantially completed the work on June 12, 2021 and an amount of Rs.799.801 million (approx.) was paid to him against this item. As per consultants’ assessment report, the trash racks were designed by the contractor to operate at flow rate of 1,700m³/sec instead of 2,100m³/sec and during a joint inspection carried out on February 24, 2022, some damages/cracks were observed at two bottom sets of trash racks on both raised intakes tunnels showing damage of 40 Nos. segments. Initially, the cracks were repaired by the contractor at the cost of the Employer but the repair was not sustainable and resultantly, a new VO No.51 amounting to Rs.2,734.106 million (Rs.287.363 million & US\$ 8.637 million) was issued to the contractor for procurement, manufacturing and installation of new trash racks. It is pertinent to mention here that entire amount of VO No.51 was paid by the management to the contractor in advance without any provision in contract. Audit held that as the previously installed trash racks costing Rs.799.801 million were damaged during DNP due to design failure, therefore, the contractor was responsible for their repair/replacement at its own cost. Further, the consultants were also responsible for approving the defective design but no responsibility was fixed upon the contractor/consultants. Hence, payment of Rs.2,734.106 million on re-installation/ replacement of trash racks was irregular and undue favour to the contractor.

Non-adherence to the provisions of contract resulted in irregular payment of Rs.2,734.106 million to the contractor for installation of new trash racks damaged under DNP during the FY 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that notice of Employer’s claim from the contractor had been issued and the same had also been notified by the consultants. As regards, fixing of responsibility upon the consultants, the matter is being investigated.

No further progress was intimated till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify installation of new trash racks, damaged during DNP, through a VO by making .100% advance payment besides ensuring recovery of its cost from the contractor and taking action against the consultants for approving the defective design of trash racks.

(Draft Para No.344/2023-24)

1.5.12 Unjustified expenditure on remedial works despite non-issuance of defects liability certificate - Rs.2,499.994 million

According to Clause-61.1 of the GCC, “only the DLC, referred to in Clause-62, shall be deemed to constitute approval of the works”. As per Clause-62.1 of the Conditions of Particular Application, “the contract shall not be considered as completed and contractor’s obligation to complete the works and remedy defects shall not be considered as discharged until a DLC shall have been signed by the Engineer and delivered to the Employer with a copy to the contractor, stating the date on which the contractor shall have completed his obligations to execute and complete the works and remedy any defects therein to the Engineer’s satisfaction”.

During audit of accounts of the CEO, NJHPC for the period from July, 2021 to June, 2023, it was observed that a contract for construction of civil engineering works along with design, supply and installation of hydraulic steel, mechanical and electrical works was awarded to M/s CGGC-CMEC on December 19, 2007. The powerhouse was commissioned on July 04, 2018 and was under operation when TRT experienced damages and blockage that forced shut down of the power house on July 6, 2022. It is worth mentioning here that DLC was not issued to the contractor till date. Despite the fact that the original contract was not closed, a new contract for restoration works of TRT was awarded to the same contractor on August 25, 2022 at a contract price of Rs.2,499.994 million. It was further observed that the Independent Panel of Experts (IPoEs) in their report pointed out that the collapse of the TRT and other damages were generated by a combination of root causes including ‘absence of concrete lining having high probability’ which caused the occurrence of collapse event. Furthermore, IPoEs in their report also noted some defaults of grouting of the dowels and rock bolts used for the support work. Audit held that as the DLC was not issued to the contractor till the occurrence of event, therefore, instead of awarding new contract for restoration of TRT, the remedial works should have been got executed through M/s CGGC as they were responsible to remedy defects until issuance of DLC. Hence, award of a new contract for restoration works of TRT was not justified.

Non-adherence to the provisions of contract resulted in unjustified expenditure of Rs.2,499.994 million on remedial works up to the FY 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management stated that detailed reply would be submitted after consultation of record.

No further reply was furnished till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 &

19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends that the management needs to inquire the matter to ascertain the causes of damages & fixing responsibility besides justifying award of new contract for restoration of TRT despite the fact that DLC was not issued to the contractor.

(Draft Para No.113/2023-24)

1.5.13 Non-indemnification of loss sustained due to collapse of portion of diversion tunnel during flood - Rs.1,767.439 million

According to MDHP Construction and Erection All Risks and Third Party Insurance Policy, “the cover provided by this policy will indemnify the insured against constructions and erection all risks of loss and/or damage to property of all kinds and description and third party liability within the territorial limits during the policy period”. As per Clause-28(e) of Special Provisions (Section-I), in case where the loss and/or damage is not repaired, the actual value of the lost and/or damaged item of property insured immediately before the occurrence of the loss and/or damage will be the basis of settlement.

During audit of accounts of the PD, MDHP for the period from July, 2022 to June, 2023, it was observed that a heavy flood in the Swat River hit the project site on August 25/26, 2022 and caused damages to different under-construction works. Due to flood and inflow of water into Diversion Tunnel (DT), inlet portal slope of DT-1 collapsed which blocked the tunnel. Later on, it was decided to construct a new tunnel (DT-3) having length of 368m (approx.) to be linked with the existing DT-1 bypassing the collapsed portion instead of repairing the collapsed portion of DT-1 by the contractor. It is pertinent to mention here that the entire work was insured and the contractor being loss payee, had also lodged an insurance claim with the insurance company for the said loss. As per information provided by the consultants, an amount of Rs.1,767.439 million (approx.) was incurred on construction of collapsed portion of DT-1 before flood. Audit held that as the collapsed portion of the tunnel was not got repaired from the contractor due to subsequent change in design and execution of work through VO, therefore, cost incurred on its construction had gone waste and was direct loss to the project, which was required to be recovered from the contractor but needful was not done.

Non-adherence to the provisions of insurance policy resulted in non-indemnification of loss amounting to Rs.1,767.439 million sustained due to collapse of portion of DT during the FY 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in November, 2023. The management replied that the claim for insurance cover had already been taken up by the contractor with the insurance company and progress achieved in the matter would be intimated to Audit accordingly.

No further progress was intimated till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to pursue the matter with the contractor for early

indemnification of loss and recover the proportionate amount pertaining to expenditure incurred on DT-1 without further loss of time.

(Draft Para No.136/2023-24)

1.5.14 Non-obtaining of insurance policies of works - Rs.1,626.684 million

According to Clause-24.1 of Special Conditions of Contract (SCC), “the supplier should insure the supplies as per BOQ for 110% expected contract amount up to the destination and during the period of installation, testing and commissioning”. As per Clause-25.5 of PCC, “the contractor shall be obliged to place all insurances to the contract with National Insurance Corporation of Pakistan or any insurance company having at least “A” rating from PACRA/JCR and also approved by the Employer”.

During audit of accounts of two formations of WAPDA for the period from July, 2022 to June, 2023, it was observed that a work for construction of Sheratalla Tunnel Canal (STC) at Kurram Tangi Dam Project (KTDP) was awarded to M/s FWO-DESCON JV through VO amounting to Rs.1,385.800 million which was being executed through a sub-contractor (M/s MHCE-SEWAG - JV). Audit held that as the cost of said work was in addition to the original contract price, therefore, insurance coverage of said work for Rs.1,593.691 million was required to mitigate the risk of loss. Similarly, a contract for supply, installation and Operation & Maintenance (O&M) of solar power system was awarded at Warsak 2nd Rehabilitation Project to M/s Akhunzada Associates on January 5, 2023 at a contract price of Rs.29.994 million. As per SCC, the contractor was required to obtain and provide insurance policy with coverage of 110% of contract price i.e. equal to Rs.32.993 million. However, despite lapse of considerable period of time, insurance policies with coverage of Rs.1,626.684 million had not been provided by the contractors, thus, putting the works at risk. The detail is as under:

(Rs. in million)			
Sr. No.	Name of Formation	DP No.	Amount
1	PD, Warsak 2 nd Rehabilitation Project	163/2023-24	32.993
2	PD, KTDP	180/2023-24	1,593.691
TOTAL			1,626.684

Non-adherence to the provisions of contracts resulted in non-obtaining of insurance policies of works with coverage of Rs.1,626.684 million up to the FY 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management replied that the matter had already been taken up with the contractors and progress would be intimated to Audit accordingly.

No further progress was intimated till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and

January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to ensure obtaining of insurance coverage of works from the concerned contractors without further loss of time.

1.5.15 Undue benefit to the contractor by less deduction of mobilization advance in violation of contract - Rs.1,483.489 million

According to Clause-60.11(b) of PCC of the contract No.MW-01, “the mobilization advance shall be recovered in equal installments; first installment at the expiry of third month after the date of payment of first part of advance and the last installment two months before the date of completion of the works”.

During audit of accounts of the PD, DBDP for the period from July, 2022 to June, 2023, it was observed that a contract No.MW-01 for construction of Dam Part (Civil Works) and Tangir Hydropower Works was awarded to M/s Power China-FWO JV on May 13, 2020. An amount of Rs.36,185.353 million was paid to the contractor as mobilization advance. As per contract, mobilization advance was required to be recovered in equal monthly installments which was determined as Rs.397.641 million (after relaxation by the management to start the recovery from 3rd IPC instead of from 3rd month after the date of payment of first advance). Later on, WAPDA Authority in its meeting held on February 16, 2023 further relaxed the criteria for recovery of mobilization advance by substituting equal installments with variable installment plan. Due to amendment in recovery schedule /mechanism, an amount of Rs.504.717 million instead of Rs.1,988.206 million was recovered from the contractor through IPC No.17 to 21, causing less recovery of Rs.1,483.489 million. Audit held that change in recovery schedule of mobilization advance was undue favour to the contractor and was not justified.

Non-adherence to the conditions of the contract resulted in undue benefit to the contractor by less deduction of mobilization advance amounting to Rs.1,483.489 million during the FY 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management stated that detailed reply would be submitted after consultation of record.

No further reply was furnished till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify change in recovery mechanism of mobilization advance in violation of contract besides ensuring recovery of less deducted amount of advance from IPCs of the contractor and fixing responsibility for such decision.

(Draft Para No.294/2023-24)

1.5.16 Unjustified obtaining of insurance coverage for works - Rs.1,335.990 million

According to Clause-18.1 of PCC, “the contractor is allowed to arrange all insurance policies relating to the contract from private sector insurance market of Pakistan as well as National Insurance

Company Limited till such time as the completed projects are handed over to WAPDA/Government. However, the selection of insurance companies will be based on credibility of minimum rating 'A' and financial health comparable with the size of the project backed by proper re-insurance of international insurance companies as applicable. The relevant insurance policies shall be provided within 42 days of commencement of work by the contractor”.

During audit of accounts of the PD, MDHP for the period from July, 2022 to June, 2023, it was observed that the contractor provided construction & erection all risks and third party liability insurance policy from M/s International General Insurance for a period of 68 months at a premium of Rs.1,335.990 million (Rs.698.350 million and US\$ 3.960 million). As per provisions of contract, the contractor was allowed to arrange insurance policies from private sector insurance market of Pakistan, however, the contractor first selected re-insurer companies M/s PINGAN & PICC JV from international market on their own and then obtained quotations from local insurance market only to comply with contractual requirement. It is pertinent to mention here that the contractor was required to submit the requisite insurance policy till November 01, 2019 but the same was submitted in March, 2021, thus, putting the project at risk during intermediary period. Further, only an amount of Rs.500 million was provided in the contract as 'Provisional Sum' for arrangement of insurance policies for contractor's personnel, works, equipment, against injury to persons and damage to property. It was further observed that an amount of Rs.1,147.125 million had been paid to the contractor so far as insurance premium (in three installments) against overall provision of Rs.500 million kept for different types of insurance policies. Audit held that the procedure adopted by the contractor for obtaining of insurance policy was not in line with the provisions of contract and cost of insurance policy was also more than provisional sum of Rs.500 million, therefore, obtaining of insurance policy was not justified.

Non-adherence to the provisions of contract resulted in unjustified obtaining of insurance policy for Rs.1,335.990 million up to the FY 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in November, 2023. The management replied that the payment had been made as per actual, however, detailed reply would be submitted after consultation of record.

No further reply was furnished till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify reason for keeping insurance component under provisional sum, delay in obtaining of insurance policy, non-compliance of contractual procedure for arranging insurance policy and accepting higher cost than amount provided in the contract.

(Draft Para No.166/2023-24)

1.5.17 Excess payment to the contractor due to non-deduction of discount on varied works despite decision of Dispute Board - Rs.1,063.754 million

According to letter of discount dated July 10, 2016, the contractor offered a 17% discount on

tender price which shall not be applicable to the day-work and specific provisional sum items in the priced BOQ. As per decision of Dispute Board, the 17% discount applies evenly on all BOQ rates (excluding day-work and specified provisional sums item). Unless otherwise agreed by the parties, the 17% discount applies on any item of work to be executed pursuant to a variation to the extent that a rate of price for such item of work is specified in the original BOQ or a new rate is derived from an existing rate in the BOQ with reasonable adjustments.

During audit of accounts of the PD, DHPP for the period from July, 2022 to June, 2023, it was observed that two VOs No.3A & 4A for changes in original scope of river DTs and partial work of flushing tunnel for construction of traffic diversion were issued to the contractor on November 23, 2021 and January 16, 2022 at a contract price of Rs.19,804.974 million and Rs.1,010.201 million respectively. The rates of items of the VOs were either directly derived from BOQ of the original contract or from prices of the similar BOQ items. As per provisions of contract, 17% discount was to be deducted on all BOQ items except day work and provisional sum. Moreover, as per decision of Dispute Board, 17% discount was also applicable on varied works, thus, an amount of Rs.676.947 million was required to be deducted as discount which was not done. Further, an amount of Rs.386.807 million was also paid as escalation on this excess paid amount. Due to non-deduction of discount as per provisions of contract and decision of Dispute Board, an amount of Rs.1,063.754 million was excess paid to the contractor.

Non-adherence to conditions of the contract and decision of the Dispute Board resulted in excess payment of Rs.1,063.754 million to the contractor due to non-deduction of discount on varied works up to the FY 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in December, 2023. The management replied that the Engineer was thoroughly acquainted with the decision of Dispute Board and confirmed that the decision had been applied and would continue to be applied in its entirety.

The reply was not acceptable because no documentary evidence to determine the rates of VOs and deduction of discount thereon were provided.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify determination of rates of VOs, implementation of decision of Dispute Board regarding deduction of discount on varied works and effect recovery from the contractor.

(Draft Para No.393/2023-24)

1.5.18 Non-recovery of secured advance given to the contractor against material - Rs.844.974 million

According to Clause-14.5 of the GCC of contracts No.MW-01 & MW-02, "if this sub-clause applies, IPC shall include, under sub-paragraph (e) of sub clause-14.3, (i) an amount for plant and materials which have been sent to the site for incorporation in the permanent works and (ii) a reduction

when the contract value of such plant and materials is included as part of the permanent works under sub para-(a) of sub clause 14.3”.

During audit of accounts of the PD, DHPP for the period from July, 2022 to June, 2023, it was observed that an amount of Rs.1,876.983 million was paid to the contractor M/s CGGC as advance payment against supply of material (reinforcing steel and cement) for contract No.MW-01 & MW-02 up to IPC No.38. Out of total advance payment, an amount of Rs.1,032.010 million was adjusted against material used in different permanent works leaving outstanding balance of Rs.844.974 million. However, due to difference in physical stock balance of material and book balance of advance, further advance payment was suspended until establishment of appropriate recovery mechanism. Audit held that the balance amount of advance payment was required to be recovered to bring the book balance at par with the physical balance of material which was not done.

Non-adherence to the contract clauses resulted in non-recovery of Rs.844.974 million on account of secured advance paid to the contractor against material up to the FY 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in December, 2023. The management replied that the material was lying at site on various locations. However, the contractor had not been able to provide record of stock delivery, its usage and subsequent material reconciliation. The Engineer had issued a final notice to the contractor in October, 2023 and in case of failure of the contractor to establish and maintain a reasonable stock reconciliation system, the Engineer would proceed to recover the amount from upcoming IPCs.

No further progress towards recovery of advance payment was intimated till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to ensure recovery of advance paid to the contractor against material without further loss of time.

(Draft Para No.396/2023-24)

1.5.19 Recoverable amount of cost incurred on inspection and repair of trash racks during defects notification period from the contractor - Rs.692.451 million

According to Clause-4.1 of the GCC, “the contractor shall design, execute and complete the works in accordance with the contract and with the Engineer’s instructions, and shall remedy any defects in the works”. As per Clause-11.1, “in order that the works and contractor’s documents, and each section, shall be in the condition required by the contract by the expiry date of the relevant DNP or as soon as practicable thereafter, the contractor shall (a) complete any work which is outstanding on the date stated in a TOC, within such reasonable time as is instructed by the Engineer, and (b) execute all work required to remedy defects or damage, as may be notified by (or on behalf of) the Employer on or before the expiry date of the DNP for the works or section (as the case may be). If a defect appears or damage occurs, the contractor shall be notified accordingly, by (or on behalf of) the Employer”. *As per Point No.24 of the*

LOA of the contract for T4HPP dated August 17, 2013, "M/s Sinohydro considered that the bid rates were sufficient to provide high quality diving inspection as required".

During audit of accounts of the PD, T4HPP for the period from July, 2022 to June, 2023, it was observed that operation of Tunnel No.3&4 raised intakes for power generation was started on June 10, 2021 and June 12, 2021 respectively with rock barrier at Elevation Level (EL).432m. The remaining rock barrier was removed from EL.432m to EL.426m against required EL.415m during dry season of 2021-22. During a joint inspection of Tunnel No.3&4 raised intakes along with trash racks carried out on February 24, 2022, some damages/cracks were observed at bottom two sets of trash racks on both raised intakes showing damage of 40 Nos. segments. Since, the trash racks were under DNP up to June 12, 2022, therefore, the contractor was asked to repair the damages and the same were repaired by the contractor. Later, in order to check the effectiveness of repair work, the DNP was extended up to June 12, 2023 and operation of Tunnel No.3&4 raised intakes for power generation was started on July 03, 2022. Upon advice of the Employer, the contractor performed under water inspection of trash racks to check their condition after repair and an amount of Rs.95.364 million was paid to the contractor through VO No.49 despite the fact that the work was carried out under DNP and a separate item for diving inspection was also available in the original contract. During underwater inspection in December, 2022, new cracks were also observed in trash racks. Therefore, the contractor was asked to repair these trash racks but the contractor insisted to issue a VO prior to start of repair work. Furthermore, the contractor pleaded that damage to the trash racks occurred due to change in operating conditions and not due to his design fault. A meeting chaired by Chairman WAPDA was held on February 10, 2023 at Islamabad wherein the Engineer was advised to issue a VO which would be subject to resolution of any dispute by Dispute Board. Thus, VO No.50 was issued for lifting & lowering of all 100 trash racks for repair works and an amount of Rs.597.087 million was paid to the contractor accordingly. Audit held that as the damages to trash racks occurred during DNP, therefore, it was the responsibility of the contractor to inspect and rectify these damages at his own cost, hence, payment of Rs.692.451 million to the contractor was not justified.

Non-adherence to provisions of contract resulted in recoverable amount of Rs.692.451 million from the contractor on account of cost incurred on inspection and repair of trash racks within DNP during the FY 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that notice of Employer's claim from the contractor had been issued and the same had also been notified by the consultants.

No further progress was intimated till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to inquire the matter regarding damages to trash racks during DNP besides ensuring recovery of inspection and repair charges from the contractor.

(Draft Para No.268 & 426/2023-24)

1.5.20 Overpayment to contractor due to excess certification of amount by the consultants than actual work done - Rs.679.465 million

According to Clause-12.2 of GCC, “measurement shall be made of the net actual quantity of each item of the permanent works and the method of measurement shall be in accordance with the BOQ or other applicable schedules”.

During audit of accounts of the PD, DHPP for the period from July, 2022 to June, 2023, it was observed that executed quantities of various items of VO No.03 and their respective rates did not reconcile with the amount certified/paid to the contractor up to IPC No.38. As such, an amount of Rs.433.304 million was excess paid to the contractor against actual work done. Further scrutiny of record revealed that an amount of Rs.246.160 million (approx.) was also paid to the contractor on account of escalation on overpaid amount of Rs.433.304 million. It was evident that total amount of Rs.679.465 million (Rs.433.304 million + Rs.246.160 million) was overpaid to the contractor. The overpaid amount was required to be recovered from the contractor but needful was not done.

Non-adherence to the provisions of contract resulted in over payment of Rs.679.465 million to the contractor due to excess certification of amount by the consultants than actual amount of work done during the FY 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in December, 2023. The management replied that the Engineer had reviewed the para and identified an arithmetic error due to which excess payment was made. However, the amount would be recovered/adjusted from the upcoming IPCs.

No further progress towards recovery of excess paid amount was intimated till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to ensure recovery of excess paid amount from the contractor without further delay besides fixing responsibility for over payment.

(Draft Para No.421/2023-24)

1.5.21 Undue favour to the contractors due to non-obtaining of additional performance securities on variation orders - Rs.312.292 million

According to Clause-10.1 of PCC of KTDP, the contractor shall provide performance security to the Employer with a copy to the Engineer in the prescribed form. The performance security shall be of an amount equal to 10% of the contract price stated in the LOA. As per minutes of meeting held on June 08, 2023 regarding issues of E & M works contract of T5HPP, the consultants responded the contractor to provide additional performance guarantee for Change Order (CO) No.2.

During audit of accounts of two formations of WAPDA for the period from July, 2022 to June, 2023, it was observed that a VO for construction of civil works of STC at KTDP for Rs.1,385.800 million

was issued to the contractor but 10% performance security amounting to Rs.138.580 million, as directed by the consultants vide letter dated May 05, 2023, was not obtained from the contractor. Similarly, at T5HPP, CO No.02 for interconnection of switchyard at a cost of Rs.1,737.120 million was signed on June 27, 2023 but additional performance security equivalent to Rs.173.712 million (Rs.13.04 million + US\$ 0.535 million), as clarified by the consultants to the contractor on June 08, 2023, was also not obtained so far. The detail is as under:

(Rs. in million)			
Sr. No.	Name of Formation	DP No.	Amount
1	PD, KTDP	173/2023-24	138.580
2	PD, T5HPP	234/2023-24	173.712
TOTAL			312.292

Non-adherence to the provisions of contracts/clarifications resulted in non-obtaining of additional performance securities amounting to Rs.312.292 million on VOs from the contractors during the FY 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management of KTDP replied that the matter had already been taken up with the contractor and progress achieved would be intimated to Audit accordingly. The management of T5HPP stated that the reply would be submitted in due course of time.

No further progress was intimated till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to ensure obtaining of additional performance securities on VOs from the contractors without further loss of time besides provision of justification for this undue benefit to the contractors.

1.5.22 Undue favour to the contractors on account of insurance premium due to non-renewal of insurance policies - Rs.277.279 million

According to Clause-25.3 (Remedy on Contractor's Failure to Insure) of the GCC of contract No.MW-01 of DBDP, "if the contractor fails to effect and keep in force any of the insurances required under the contract, or fails to provide the policies to the Employer within the period required by sub-clause-25.1, then and in any such case, the Employer may effect and keep in force any such insurances and pay any premium as may be necessary for that purpose and from time to time deduct the amount so

paid from any monies due or to become due to the contractor, or recover the same as a debt due from the contractor”. As per Clause-18.2 of the contract for T4HPP, the insuring party shall maintain this insurance to provide cover until the date of issue of the Performance Certificate, for loss or damage for which the contractor is liable arising from a cause occurring prior to the issue of the TOC.

During audit of accounts of two formations of WAPDA for the period from July, 2022 to June, 2023, it was observed that a contract No.MW-01 of DBDP was awarded to M/s Power China-FWO JV on May 13, 2020. The contractor obtained Contractor’s All Risks insurance policy and paid the first installment of the premium amounting to Rs.48.562 million on June 28, 2021. However, the contractor had not paid due amount of Rs.259.002 million relating to 2nd, 3rd and 4th installments of insurance premium up to June 30, 2023. Further, insurance coverage for Tangir powerhouse at DBDP and T4HPP were expired on March 06, 2023 and June 30, 2021 respectively but the contractors had not extended the insurance policies by paying premium of Rs.18.277 million. It showed that undue favour was extended to the contractors by putting the works at risk. The detail is as under:

(Rs. in million)

Sr. No.	Name of Formation	DP No.	Amount
1	PD, T4HPP	288/2023-24	15.544
2	PD, DBDP	296 & 297/2023-24	261.735
TOTAL			277.279

Non-adherence to the conditions of contracts resulted in undue favour to the contractors on account of insurance premium amounting to Rs.277.279 million up to the FY 2022-23.

The matter was taken up with the management in September & October, 2023 and reported to the Ministry in November, 2023. The management stated that detailed reply would be submitted after consultation of record.

No further reply was furnished till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify non-payment of insurance premium and non-renewal of insurance policies besides taking action as per provisions of the contracts and recover the due amount of premium from the concerned contractors.

1.5.23 Undue favour to the contractor by payment of incentive for early completion of punch list item - Rs.230 million

According to Clause-11.1 of the GCC, “in order that the works and contractor’s documents, and each section, shall be in the condition required by the contract (fair wear and tear excepted) by the expiry

date of the relevant DNP or as soon as practicable thereafter, the contractor shall complete any work which is outstanding on the date stated in a TOC within such reasonable time as is instructed by the Engineer”.

During audit of accounts of the PD, T4HPP for the period from July, 2022 to June, 2023, it was observed that TOC No.05 was issued on July 09, 2021 whereby the Engineer certified completion of overall works of Tunnel No.3&4 intakes including permanent concrete plugging of Tunnel No.3&4 lower intakes and rock excavation up to EL.426m. Further, punch list No.T4HP-PCCCL-PL-06-01 was issued to the contractor to complete outstanding works as soon as practicable but before expiry of DNP of 365 days. As per issued punch list, an item for excavation of remaining rock barrier down to the EL.426m was to be completed before June 30, 2022 which was actually completed on April 17, 2022 but the management accorded approval for payment of incentive amounting to Rs.230 million to the contractor for early completion of this punch list item. Audit held that as per contract, the contractor was required to complete all the punch list items without any additional cost to the Employer, therefore, payment of incentive for early completion of punch list item was not justified and an undue favour to the contractor.

Non-adherence to provisions of contract resulted in undue favour to the contractor by payment of incentive amounting to Rs.230 million for early completion of punch list item during the FY 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management stated that detailed reply would be submitted after consulting the record.

No further reply was furnished till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify payment of incentive to the contractor for early completion of punch list items in violation of provisions of contract.

(Draft Para No.269/2023-24)

1.5.24 Non-encashment of performance guarantees of the defaulted contractors - Rs.147.850 million

According to Clause-7.10 of WAPDA Procurement and Contract Manual, “remedies are the means by which a contractual right is enforced or by which breach of contractual right is prevented or compensated when the contract is not being performed properly, or contractor’s performance is otherwise unacceptable. The Employer after certification/recommendation by the Engineer may apply such remedies as delay damages, encashment of performance security and termination of contract etc.” As per Clause-49.4 of the GCC, “in case of default on the part of the contractor in carrying out such instruction within a reasonable time, the Employer shall be entitled to employ and pay other persons to carry out the same and if such work is work which, in the opinion of the Engineer, the contractor was liable to do at his own cost under the contract, then all costs consequent thereon or incidental thereto shall, after due consultation with the Employer and the contractor, be determined by the Engineer and

shall be recoverable from the contractor by the Employer, and may be deducted by the Employer from any monies due or to become due to the contractor and the Engineer shall notify the contractor accordingly, with a copy to the Employer”.

During audit of accounts of the PD, DBDP for the period from July, 2022 to June, 2023, it was observed that a contract No.CMV-II-02 for construction of water supply and sewerage system in Composite Model Village, Harpan Das was awarded to M/s Shoukat Khan & Co. on December 31, 2014. The work was substantially completed in March, 2017 but its TOC was not issued to the contractor so far. It was further observed that *at the time of testing on August 26, 2020, the structure of water tank could not withstand the water load. The contractor was repeatedly asked to repair the tank to sustain the intact water storage as per design capacity, but no efforts were made by the contractor to rectify the defects.* Similarly, another contract No.CMV-II-01 for construction of roads and road structures in Composite Model Village-II, Harpan Das was awarded to M/s Haroon & Sons on October 04, 2011. The work was substantially completed on March 15, 2017 but its TOC was also not issued to the contractor so far because the quality of work of construction of roads & road structures was not satisfactory. The matter was probed through an inquiry committee in October, 2021 which concluded that if the project office was not satisfied regarding the quality of works, then action should have been taken as per provisions of contract. Despite lapse of a considerable period of time, the contractors failed to complete their contractual obligations but the management had not taken any action against the contractors. Audit held that performance guarantees of the defaulted contractors amounting to Rs.147.850 million should have been forfeited due to their unsatisfactory performance but needful was not done.

Non-adherence to *mentioned clauses* resulted in non-encashment of performance guarantees of the defaulted contractors amounting to Rs.147.850 million up to the FY 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management replied that the matter would be pursued as per provisions of contracts.

No further progress was intimated till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to forfeit the performance guarantees and complete the remaining works at the risk & cost of the defaulted contractors without any further delay besides providing justification for not taking any action so far.

(Draft Para No.309 & 352/2023-24)

1.5.25 Unjustified release of retention money to the contractor - Rs.143.331 million

According to Clause-14.9 of the contract, when the TOC has been issued for the works and the first half of the retention money has been certified for payment by the Engineer, the contractor shall be entitled to substitute a guarantee, in the form annexed to the PCC or in another form approved by the Employer and issued by a reputable bank or financial institution selected by the contractor, for the second half of the retention money. The contractor shall ensure that the guarantee is in the amounts and currencies

of the second half of the retention money and is valid and enforceable until the contractor has executed and completed the works and remedied any defects, as specified for the performance security in sub-clause-4.2. The Employer shall return the guarantee to the contractor within 21 days after receiving a copy of the performance certificate.

During audit of accounts of the PD, T4HPP for the period from July, 2022 to June, 2023, it was observed that both the first and second halves of the retention money amounting to Rs.143.331 million (Rs.77.277 million and US\$ 0.230 million) were released to the contractor for the work of Low Level Outlets (LLO) against TOC-06. Further probe into the matter revealed that test of LLO was not completed as no TOC was issued to the contractor and a notice of the Employer's claim on account of damages to transmission line during partial wet testing was also issued to the contractor by the management on July 12, 2023. Audit held that release of the retention money to the contractor before completion of requisite test of LLO and issuance of TOC was contradictory to the terms of the contract.

Non-adherence to provisions of contract resulted in unjustified release of retention money amounting to Rs.143.331 million to the contractor during the FY 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in December, 2023. The management replied that retention money was released due to closure of loan on June 30, 2023 with the approval of WAPDA Authority after wet testing of LLO on June 25, 2023.

The reply was not acceptable because retention money was released without completion of requisite tests and issuance of TOC.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to inquire the matter for fixing responsibility regarding release of retention money to the contractor before successful completion of test of LLO and without issuance of TOC in violation of contract provisions.

(Draft Para No.400/2023-24)

1.5.26 Non-recovery from the contractor due to non-handing over of equipment and material to the Employer - Rs.138.298 million

According to Clause-7.7 of GCC, "except as otherwise provided in the contract, each item of plant and materials shall, to the extent consistent with the laws of the country, become the property of the Employer at whichever is the earlier of the following times, free from liens and other encumbrances: (a) when it is incorporated in the works: (b) when the contractor is paid the corresponding value of the plant and materials". As per Clause-13(e) of VO No.43, "equipment, tools and unconsumed/non-perishable/nonexpendable materials particularly procured/purchased, under this VO, being property of the Employer, shall be handed over by the contractor to the Employer after completion of the works at the status as it is under this VO and shifted to the Employer's designated areas. However, major equipment including diving, gantry cranes, electric hoist crane system & mobile lifting/carriage system shall be handed over by the contractor to the employer in good working condition".

During audit of accounts of the PD, T4HPP for the period from July, 2022 to June, 2023, it was observed that as per contract, remaining equipment & material was the property of the Employer but the contractor did not handover the remaining items pertaining to VO-43 and VO-11 to the Employer. The consultants evaluated an amount of Rs.138.298 million (Rs.129.699 million & Rs.8.599 million) to be recovered from the contractor on account of non-handing over of these items to the Employer. This amount was required to be recovered from the contractor but needful was not done.

Non-adherence to provisions of contract resulted in non-recovery of Rs.138.298 million from the contractor due to non-handing over of equipment and material to the Employer during the FY 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management replied that amount of equipment and material related to VO No.43 would be recovered from the contractor, whereas, the contractor has offered WAPDA to take over equipment and material related to VO No.11.

No further progress was intimated till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to ensure receipt of equipment and material or recover the amount thereof from the contractor without further loss of time.

(Draft Para No.286/2023-24)

1.5.27 Non-recovery of cost of unsupplied spare parts from the contractors - Rs.77.856 million

According to Clause-49.4 of the contract No.CMV-II-06, “in case of default on the part of the contractor in carrying out such instruction within a reasonable time, the Employer shall be entitled to employ and pay other persons to carry out the same and if such work is work which, in the opinion of the Engineer, the contractor was liable to do at his own cost under the contract, then all costs consequent thereon or incidental thereto shall, after due consultation with the Employer and the contractor, be determined by the Engineer and shall be recoverable from the contractor by the Employer, and may be deducted by the Employer from any monies due or to become due to the contractor and the Engineer shall notify the contractor accordingly, with a copy to the Employer”. As per Clause-11 of Special Provision of E&M Contract Agreement, the contractor shall provide the special spare parts as specified by the Employer in the Schedule of Prices. In addition to the special spare parts, the specified general spare parts shall also be supplied by the contractor.

During audit of accounts of two formations of WAPDA for the period from July, 2018 to June, 2023, it was observed that a contract No.CMV-II-06 for construction of 03 MW hydropower project on Thak Nullah was completed in November, 2021 but the contractor had not yet supplied the remaining spare parts worth Rs.66.490 million (US\$ 234,192). Similarly, E&M contractor of Golen Gol Hydel Power Station (GGHPS) had also not provided remaining spare parts worth Rs.11.366 million despite commissioning of the project in January, 2018. Audit held that due to failure in supply of requisite spare parts by the contractors, amount of unsupplied spare parts was required to be recovered from them, which

was not done. The detail is as under:

			(Rs. in million)
Sr. No.	Name of Formation	DP No.	Amount
1	PD, DBDP	308/2023-24	66.490
2	Resident Engineer (RE), GGHPS	362/2023-24	11.366
TOTAL			77.856

Non-adherence to the provisions of contracts resulted in non-recovery of cost of unsupplied spare parts amounting to Rs.77.856 million from the contractors up to the FY 2022-23.

The matter was taken up with the management in September & October, 2023 and reported to the Ministry in November, 2023. The management of DBDP replied that the amount would be kept withheld till provision of missing spare parts. The management of GGHPS stated that detailed reply would be submitted after checking the record.

No further progress was intimated till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to pursue the matter with the contractors and ensure either receipt of remaining spare parts or recovery of cost of the same from concerned contractors at the earliest.

1.5.28 Unjustified payment on account of barge to the contractor for installation of screens (trash racks) at upper intakes of T4HPP - Rs.67.751 million

According to Clause-14.2.2 of Technical Specifications (Part-B), the stoplogs and screens will be moved using a mobile crane and installed/removed using a barge equipped with a hoist, and a team of divers, all of which shall be provided by the contractor. However, a mobile crane shall also be provided for moving the stop logs and screens on land. As per BOQ Item Nos. H14.6 & 14.7, there was a provision of barge for installation of screens and stoplogs and mobile crane for moving intake screens and stoplogs.

During audit of accounts of the PD, T4HPP for the period from July, 2022 to June, 2023, it was observed that a contract for modification of the Tunnel No.3&4 of intakes, design, supply, installation and testing of penstock and construction of power house was awarded to M/s Sinohydro Group Ltd, China on September 09, 2013 at a contract price of Rs.15,756 million and US\$ 104.623 million. Later on, a VO No.49 for underwater inspection of trash racks of raised intakes at Tunnel No.3&4 amounting to Rs.77.075 million and US\$ 140,391 was issued to the contractor which included cost of removal of anchors from site of T5HPP & shifting of barge to site of T4HPP, fixing the anchors & positioning the barge at T4HPP and removal of anchors from site of T4HPP and shifting of barge to site of T5HPP. It was further observed

that an amount of Rs.67.751 million was also paid under BOQ item Nos.H14.6 & 14.7 despite the fact that payment for similar work was also made under VO No.49 in the IPC of same period. Audit held that simultaneous payment for same nature of work under VO No.49 and BOQ items of original contract was not justified.

Non-adherence to the provisions of contract resulted in unjustified payment of Rs.67.751 million to the contractor on account of shifting / de-shifting of barge for installation of screens (trash racks) at upper intakes of T4HPP during the FY 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management stated that detailed reply would be submitted after consulting the record.

No further reply was furnished till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to provide justification for payment on account of shifting/de-shifting of barge for installation of trash racks under BOQ items despite its payment under VO No.49 and ensure its recovery from the contractor.

(Draft Para No.287/2023-24)

1.5.29 Unjustified expenditure on renovation of Engineer's houses through variation order - Rs.48.912 million

According to Clause-3.7 of Appendix-A to the Consultant's Services Contract (CSC), "unfurnished bachelor accommodation will be provided as per required standards in Tarbela Dam Colonies for local and foreign consultants at standard rates applicable to WAPDA staff". Moreover, there was no provision in CSC for providing family accommodations to the staff of the consultants.

During audit of accounts of the PD, T5HPP for the period from July, 2022 to June, 2023, it was noted that an amount of Rs.48.912 million was spent on renovating family residential accommodations for the consultants through VO No.1 without preparation/approval of an estimate and without any provision in CSC. Out of total amount, an amount of Rs.46.288 million was incurred on renovation of two houses occupied by the Project Manager (House # S-24) and Chief Resident Engineer-Civil (House # S-33). It is pertinent to mention here that as per VO No.1, 13 air-conditioners were provided at house No.S-24 and 08 air-conditioners were provided at house No.S-33. It was further observed that an amount of Rs.1.724 million (excluding profit & overhead) pertaining to expenditure incurred on House No.S-02, S-54 and F-418 was claimed by three employees of the consultants themselves from the main contractor in their personal bank accounts which was subsequently certified against contractors' claim of Rs.2.299 million under the VO. It revealed that the renovation works of these houses were not performed by the contractor. Audit held that renovation of houses for consultants' family accommodations without any provision in the CSC and incurring & claiming of expenditure by the employees of consultants from the main contractor was unjustified.

Non-adherence to the provisions of CSC resulted in unjustified expenditure of Rs.48.912 million on renovation of Engineer's houses through VO No.1 up to the FY 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management stated that reply would be submitted in due course of time.

No further reply was furnished till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify incurring of expenditure on renovation of family accommodations of consultants without any provision in the CSC. Further, the matter regarding incurring & claiming of expenditure by the consultants' staff in their personal bank accounts from the contractor needs to be .inquired for fixing responsibility.

(Draft Para No.232/2023-24)

1.5.30 Excess payment to the contractor due to less deduction of retention money - Rs.38.854 million

According to Special Stipulations (Appendix-A to Bid) of contract agreement, percentage of retention is 10% of the amount of IPC. As per Clause-5.2 of PCC regarding priority of contract documents, Special Stipulations (Appendix A to Bid) are at Sr. No.4 and GCC (Part-1) are at Sr. No.6.

During audit of accounts of the PD, Nai Gaj Dam Project (NGDP) for the period from July, 2022 to June, 2023, it was observed that an amount of Rs.1,348.132 million was paid to the contractor on account of work done under various IPCs. As per special stipulation, retention money amounting to Rs.134.813 million @ 10% of amount of IPCs was required to be deducted but only an amount of Rs.95.959 million was deducted after excluding amount of escalation in violation of provisions of contract. Due to exclusion of amount of escalation from total amount of IPCs, retention money amounting to Rs.38.854 million was less deducted which resulted in excess payment to the contractor.

Non-adherence to provisions of contract resulted in excess payment of Rs.38.854 million to the contractor due to less deduction of retention money during the FY 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management replied that retention money was being deducted as per provisions of contract, however, comprehensive reply would be furnished after consulting the record.

No further reply was furnished till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify less deduction of retention money in violation of provisions of contract besides ensuring its recovery from the contractor.

Note: The issue was also reported earlier in the Audit Report for the Audit Year 2022-23 vide Para No.1.5.12 having financial impact of Rs.326.196 million. Recurrence of same irregularity is a matter of serious concern.

(Draft Para No.201/2023-24)

1.5.31 Unjustified excess use of granular material in canal bed under remedial works - Rs.33.793 million

According to Clause-3.1.1 of the CSA, “the consultants shall perform the services and carry out their obligations with all due diligence, efficiency and economy in accordance with generally accepted professional techniques and practices, and shall observe sound management practices, and employ appropriate advanced technology and safe methods. The consultants shall always act, in respect of any matter relating to this contract or to the services, as faithful advisers to the client and shall at all times support and safeguard the client's legitimate interests in any dealings with sub-consultants or third parties”.

During audit of accounts of the PD, Kachhi Canal Project (KCP) for the period from July, 2022 to June, 2023, it was observed that a contract No. KC-04(R) for execution of outstanding and remedial works of main canal & distribution system (from RD 1193+000 to RD 1252+000) was awarded to M/s Ramzan & Sons on April 13, 2021 at a contract price of Rs.2,534.440 million. As per estimate and BOQ of remedial works, there was a provision of 3,531 (%cft) quantity for providing and laying 1.5ft thick free drainage granular material in canal bed for restoration of damaged works (canal and structures) of already constructed canal lining. However, 6,758.58 (%cft) quantity amounting to Rs.33.793 million was paid in excess of BOQ quantity in IPC No.8 & 9. Further probe into the matter revealed that 2ft granular material was already placed and paid at almost all the RDs under a previous contract. Audit held that as the present work was being executed as remedial work on already constructed canal and estimate was prepared by the sitting consultants who were directly involved in designing and supervision of the previous contract, therefore, payment of excess quantity of granular material was not justified.

Non-adherence to the provisions of contract resulted in unjustified excess use of granular material amounting to Rs.33.793 million in canal bed under remedial works up to the FY 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management replied that a new contract No.KC-04 (R) had been executed at the risk & cost of the previous contractor. During execution, it was revealed that a lot of remedial works in canal bed were required which had been executed by the newly employed contractor at different locations and all the cost incurred in this regard would be charged to the previous contractor.

No further progress was intimated till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to inquire the matter regarding abnormal increase in

quantities of granular material on remedial works besides ensuring its recovery from the previous contractor.

Note: The issue was also reported earlier in the Audit Report for the Audit Year 2022-23 vide Para No.1.5.21 having financial impact of Rs.57.540 million. Recurrence of same irregularity is a matter of serious concern.

(Draft Para No.253/2023-24)

1.5.32 Non-installation of new material against stolen material by the contractor at Composite Model Village, Harpan Das - Rs.24.165 million

According to Clause-20.1 of GCC, “the contractor shall take full responsibility for the care of the works and materials and plant for incorporation therein from the commencement date until the date of issue of the TOC for whole of the works, when the responsibility for the said care shall pass to the Employer”. In accordance with GCC-20.2, “if any loss or damage happens to the works, or any part thereof, or materials or plant for incorporation therein, during the period for which the contractor is responsible for the care thereof, from any cause whatsoever, other than the risks defined in sub-clause-20.4, the contractor shall, at his own cost, rectify such loss or damage so that the permanent works conform in every respect with the provisions of the contract to the satisfaction of the Engineer”.

During audit of accounts of the PD, DBDP for the period from July, 2022 to June, 2023, it was observed that a contract No.CMV-II-02 for construction of water supply and sewerage system in Composite Model Village-II, Harpan Das was awarded to M/s Shoukat Khan & Co. on December 31, 2014. The work was substantially completed in March, 2017 but TOC of the same was not issued so far and services of watchman were also terminated by the contractor. *It was further observed from the correspondence that an incident of theft was reported wherein 90% gate valves (small and large), steel and RCC manhole covers worth Rs.24.165 million (approx.) were stolen, however, complete detail of loss due to theft and damages was not worked out by the department. Neither FIR was lodged with the concerned Police Station nor departmental inquiry was conducted to probe the causes of theft and making good the loss. Audit held that as TOC of the subject work had not yet been issued, therefore, the matter was also required to be taken up with the contractor to make good the loss as per provisions of contract but needful was not done.*

Non-adherence to provisions of contract resulted in non-installation of new material against stolen material worth Rs.24.165 million by the contractor at Composite Model Village, Harpan Das up to the FY 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management stated that detailed reply would be submitted after consultation of record.

No further reply was furnished till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends that the management needs to inquire the matter at appropriate level besides ensuring execution of remedial works through the concerned contractor as the TOC of said work was not issued so far.

(Draft Para No.307/2023-24)

1.5.33 Non-recovery of cost incurred on re-construction of damaged work and removal of dumped material from the concerned contractors - Rs.18.843 million

According to Clause-1.6.3 (Technical Specifications) of contract for construction of Right Bank Periphery Road-01, if the excavated material is unsuitable, it shall be disposed-off at the designated location in the manner as directed by the Engineer. As per Clause-22.1 of GCC, the contractor shall indemnify the Employer against all losses and claims in respect of loss of damage to any property which may arise out of or in consequence of the works and remedying of any defects therein, and against all claims, proceeding, damages, costs, charges and expenses whatsoever in respect thereof or in relation thereto. As per Clause-31.3 of PEC's Standard Form of Bidding Documents (Civil Works), 2007, "during execution of the works, the contractor shall co-operate fully with other contractors working for the Employer at and in the vicinity of the site and also shall provide adequate precautionary facilities not to make himself a nuisance to local residents and other contractors".

During audit of accounts of the PD, DBDP for the period from July, 2022 to June, 2023, it was observed that 94 slope monitoring survey monuments adjacent to the main dam structure were installed during Tender Design Stage for monitoring of potential slope movements. It was further observed that due to dumping of excavated material of KKH on the slope adjacent to the road, these monuments were damaged and reconstructed through VO No.02 amounting to Rs.10.333 million issued to M/s Power China-FWO JV (contractor of MW-01) instead at the cost of concerned contractor of KKH. Similarly, M/s Sadaat Enterprises and M/s Hakas working on other contracts dumped their excavated material at Right Bank Permanent Road and site approved for construction of Concrete Batching Plant of contract No.MW-01 respectively. The illegally dumped material was required to be removed by the concerned contractors but on the contrary the same was removed by M/s Power China-FWO JV and an amount of Rs.8.510 million was paid to them. Audit held that the cost incurred on reconstruction of monuments and removal of dumped material was required to be recovered from the concerned contractors but needful was not done.

Non-adherence to the provisions of the contracts resulted in non-recovery of cost of Rs.18.843 million incurred on re-construction of damaged work and removal of dumped material from the concerned contractors during the FY 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management stated that detailed reply would be submitted after consultation of record.

No further reply was furnished till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and

January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to take up the matter with the concerned contractors for recovery of cost incurred on re-construction of slope monitoring survey monuments and removal of dumped material due to their faults.

(Draft Para No.301, 302 & 303/2023-24)

1.5.34 Unjustified payment of remuneration to the consultants' site staff - Rs.18.809 million

According to Clause-6.2 (b) of GCC of CSA, remuneration for the personnel shall be determined on the basis of time actually spent by such personnel in the performance of the services. As per Clause-4.4 of SCC, "the consultants' staff at site will follow the same working days in a week as observed by the client/contractor unless otherwise authorized by the client".

During audit of accounts of the PD, NGDP for the period from July, 2022 to June, 2023, it was observed that an amount of Rs.18.809 million was paid to the consultants on account of remunerations of site staff for the months of August to December, 2022. Further probe into matter revealed that the work at site was stopped by the contractor due to flood during said period. As per CSA, remuneration was to be determined on the basis of time actually spent at site and the consultants' site staff was required to follow the same working days in a week as observed by the contractor but needful was not done. Audit held that as there was no physical work at the site and no services were performed by consultant's site staff, therefore, remuneration paid to the site staff was not justified.

Non-adherence to the provisions of CSA resulted in unjustified payment of Rs.18.809 million on account of remuneration to the consultants' site staff during the FY 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management replied that the work was temporarily suspended due to heavy flood in Gaj River and submerging of link road to site. However, the staff of consultants remained deployed at site for monitoring flood flows and supervising temporary arrangements/works carried out by the contractor for safeguarding the permanent structures.

The reply was not acceptable because the work remained suspended and no activities were performed by the consultants at sites during that period, therefore, payment of remuneration of site staff was not justified.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify payment of remunerations to the site staff of consultants without performing any services at site in violation of CSA besides ensuring its recovery from the consultants.

(Draft Para No.205/2023-24)

1.5.35 Unjustified payment to the contractor on account of separate item for dewatering of remedial work - Rs.18.802 million

According to Clause-2.2 (d), the work to be done under care and handling of water including

dewatering includes removal and care of surface water and dewatering the sub-soil water for foundations such as to maintain all foundations, excavations and surfaces dry and free of water as required for proper construction of the works. As per Clause-2.6, prior to begin any work pertaining to care and handling of water including dewatering covered under BOQ, the contractor shall submit a payment schedule in such form as to allocate the total lump sum amount tendered in BOQ to the major divisions of work to be performed under that item. For each major division of work to be performed, the payment schedule shall show the proportionate part of the total lump sum amount allocated thereto. No quantity measurement will be made of the work for care and handing of water including dewatering, and the payment, therefore, will be based on the payment schedule.

During audit of accounts of the PD, KCP for the period from July, 2022 to June, 2023, it was observed that a contract No.KC-04(R) for execution of outstanding and remedial works of main canal and distribution system (from RD 1193+000 to RD 1252+000) was awarded to M/s Ramzan & Sons on April 13, 2021 at a contract price of Rs.2,534.440 million. An amount of Rs.109.63 million was paid to the contractor against lump sum provision of Rs.150 million for care and handling of water including dewatering in respect of outstanding works. Further probe into the matter revealed that an amount of Rs.18.802 million was also paid to the contractor against lump sum provision of Rs.20 million kept for pumping arrangements/dewatering and safe disposal of water during the construction of lining and installation under drainage pipe lines for remedial works. Audit held that as a lump sum provision of Rs.150 million was already provided in the contract for care and handling of water including dewatering, therefore, separate payment of Rs.18.802 million for pumping arrangements/ dewatering and safe disposal of water was not justified.

Non-adherence to provisions of contract resulted in unjustified payment of Rs.18.802 million to the contractor on account of separate item for dewatering up to the FY 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management replied that the contract was being executed at the risk & cost of previous contractor and outstanding work of underground water crossings as well as temporary/vertical post water crossings were required to be extended and buried in the canal bed. Further, a number of defective/damaged underground pipe crossings were also required to be repaired. For these specific underground water course works, a separate item of pumping/dewatering was provided to work in canal bed at different locations.

The reply was not acceptable because a lump sum provision was already provided in the contract for care and handling of water including dewatering, therefore, separate payment for pumping arrangements/dewatering and safe disposal of water was not justified.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify the payment for pumping arrangements/dewatering as separate item besides ensuring its recovery from the contractor.

(Draft Para No.254/2023-24)

1.5.36 Excess payment to the contractor due to non-deduction of rebate from gross amount of contractor's bills - Rs.17.345 million

According to Note (abstract of costs for Package-I) of contract No. LOT-4, "during the currency of the contract and release of payments to M/s NETRACON-NEIE/Holley Consortium, 2.5% discount reflected in the abstract of cost shall also apply to individual payments except provisional sum".

During audit of accounts of the PD, Golen Gol Hydropower Project (GGHP) for the period from July, 2022 to June, 2023, it was observed that a contract for construction of 132KV transmission line was awarded to M/s NETRACON-NEIE/Holley Consortium on February 11, 2017. The bidder offered 2.5% discount on his overall bid cost except provisional sum. As per provisions of contract, discount was required to be deducted on gross amount of contractor's claims but the management deducted discount on net amount after excluding the amount of retention money, recovery of mobilization advance & taxes. Due to non-deduction of discount on gross amount of contractor's bill, an amount of Rs.17.345 million was less deducted which resulted in excess payment to the contractor.

Non-adherence to provisions of the contract resulted in excess payment of Rs.17.345 million to the contractor due to non-deduction of rebate from gross amount of contractor's bills up to the FY 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management replied that pending IPCs of the contractor would be processed after issuance of DLC and recovery would be effected at the time of making payment to the contractor.

No further progress towards recovery was intimated till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to ensure recovery of less deducted amount of rebate from the contractor without further loss of time besides fixation of responsibility for the same.

(Draft Para No.322/2023-24)

1.5.37 Excess payment to the contractor due to non-deduction of rebate on BOQ items for varied works - Rs.15.499 million

According to Clause-52.1 of GCC, "all variations referred to in Clause-51 and any additions to the contract price which are required to be determined in accordance with Clause-52 (for purposes of this clauses referred to as 'varied work'), shall be valued at the rates and prices set out in the contract if, in the opinion of the Engineer, the same shall be applicable. If the contract does not contain any rates or prices applicable to the varied work, the rates and prices in the contract shall be used as the basis for valuation so far as may be reasonable, failing which, after due consultation by the Engineer with the Employer and the contractor, suitable rates or prices shall be agreed upon between the Engineer and the contractor".

During audit of accounts of the PD, NGDP for the period from July, 2022 to June, 2023, it was observed that a VO for construction of auxiliary spillway for Rs.3,232.174 million was approved by the Authority in its meeting held on January 05, 2018. All the BOQ items of VO were taken from the BOQ of main spillway for calculation of amount of VO but at the time of preparation of VO, rebate @ 20.4635% on BOQ items was not applied. Thus, an amount of Rs.11.032 million was not deducted from IPC No.72 & 73. Moreover, an amount of Rs.4.467 million was also paid to the contractor on account of escalation on this amount due to increase in rates of specified material. Audit held that as the rates of all BOQ items of VO were taken from the BOQ of the original contract, therefore, same rate of rebate should have been applied for preparation of VO but needful was not done, which led to excess payment of Rs.15.499 million to the contractor.

Non-adherence to provisions of contract resulted in excess payment of Rs.15.499 million to the contractor due to non-deduction of rebate on BOQ items for varied works during the FY 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in November, 2023. The management replied that in compliance of earlier DAC directives on the issue, the matter had been taken up with the PEC through MoWR and response of PEC is still awaited.

No further progress was intimated till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify non-deduction of rebate on BOQ items of varied works in violation of provisions of contract besides ensuring its recovery from the contractor.

Note: The issue was also reported earlier in the Audit Report for the Audit Year 2022-23 vide Para No.1.5.13 having financial impact of Rs.248.767 million. Recurrence of same irregularity is a matter of serious concern.

(Draft Para No.200/2023-24)

1.5.38 Wasteful expenditure on construction and subsequent dismantling of work - Rs.13.309 million

According to Clause-9 (d) of Appendix-A to the CSA, the consultants shall review/update the detail/tender design (if required) and prepare and issue construction drawings to the contractor. As per Clause-3.1.1, “the consultants shall perform the services and carry out their obligations with all due diligence, efficiency, and economy in accordance with generally accepted professional techniques and practices, and shall observe sound management practices, and employ appropriate advanced technology and safe methods”. As per Clause-3.4, “the consultants are liable for the consequence of errors and omissions on their part or on the part of their employees insofar as the design of the project is concerned to the extent and with the limitations. If the client suffers any losses or damages as a result of proven faults, errors or omissions in the design of a project, the consultants shall make good such losses or damages”.

During audit of accounts of the PD, MDHP for the period from July, 2022 to June, 2023, it was observed that an amount of Rs.11.663 million was paid to the contractor M/s CGGC-DESCON for placement of blinding concrete at spillway right training wall. It was further observed that initially the said work was executed by the contractor at EL.507:00 and EL.508:000 under supervision of the consultants' site staff in accordance with the approved construction drawings issued by the consultants. After execution of work, the consultants issued afresh site instruction to dismantle the said executed work on day work basis and an amount of Rs.1.646 million was also paid to the contractor for dismantling the said work. As per CSA, the consultants were required to carry out their duties with due diligence and were also responsible for consequences of errors and omissions on their part. Audit held that as the original work was executed by the contractor after approval of construction drawings by the consultants, therefore, the consultants were responsible for wasteful expenditure of Rs.13.309 million incurred on construction and subsequent dismantling of said work due to revision of drawings.

Non-adherence to the CSA resulted in wasteful expenditure of Rs.13.309 million on construction and subsequent dismantling of work during the FY 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in November, 2023. The management stated that the matter would be taken up with the consultants and detailed reply would be submitted accordingly.

No further reply was furnished till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to ensure recovery of cost incurred on execution and subsequent dismantling of work from the consultants.

(Draft Para No.140/2023-24)

C. Financial Management

1.5.39 Non-recovery of invoiced amount of sale of energy from Central Power Purchasing Agency - Rs.106,133.366 million

According to Power Purchase Agreement (PPA), “the invoice shall state the due date for payment of invoice by the National Transmission & Despatch Company (NTDC) to be on or before 25th following the delivery of invoice. In case, the 25th day is not business day, the following business day shall be deemed to be the due date”.

During audit of accounts of the GM (Finance) Power for the period from July, 2022 to June, 2023, it was observed that an amount of Rs.106,133.366 million was recoverable from Central Power Purchasing Agency-Guarantee (CPPA-G) against verified invoices of the sale of energy. As per PPA, the amount of invoices was required to be recovered on or before 25th day following the delivery of invoices but no amount pertaining to these invoices was received by WAPDA during the year.

Non-adherence to PPA resulted in non-recovery of Rs.106,133.366 million from CPPA-G against sale of energy during the FY 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that the matter of recovery had already been taken-up with CPPA-G and progress achieved in this regard would be intimated to Audit.

No further progress towards recovery was intimated till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends that the management needs to pursue the recovery of outstanding dues amounting to Rs.106,133.366 million from CPPA-G at appropriate level.

(Draft Para No.73/2023-24)

1.5.40 Loss due to placement of funds of Green Euro Bonds in Pak Rupees account instead of foreign currency account - Rs.64,800 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to fraud, theft or negligence of Individuals, 1982 (amended to date), “all losses, whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

During audit of accounts of the GM (Finance) Power for the period from July, 2022 to June, 2023, it was observed that Green Euro Bonds amounting to US\$ 500 million were issued to arrange funds for making payments of foreign currency components of DBDP and MDHP. However, the funds raised through issuance of the said bonds were deposited in local currency account (PKR) instead of US\$ account @ Rs.158.30/US\$ as on June 30, 2021. Later on, due to currency exchange rates fluctuations, the exchange rate of US\$ to PKR had been increased to Rs.287.90/US\$ from Rs.158.30/US\$ as on June 30, 2023. Audit held that as these funds were raised specifically for making payments of foreign currency

component, therefore, the amounts should have been kept in foreign currency account but needful was not done which caused foreign exchange loss of Rs.64,800 million.

Poor financial management resulted in loss of Rs.64,800 million due to placement of funds of Green Euro Bonds in Pak Rupees account instead of foreign currency account up to the FY 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that utmost efforts were made for opening and maintaining of foreign currency account. However, State Bank of Pakistan (SBP) was reluctant and had not allowed WAPDA to retain funds in foreign currency account.

The reply was not acceptable because funds raised from Credit Suisse loan for DHPP were kept in foreign currency account, whereas, funds raised through issuance of Green Euro Bonds were kept in PKR account which caused huge foreign exchange loss.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify placement of funds in local currency account instead of foreign currency account besides fixing responsibility.

(Draft Para No.65/2023-24)

1.5.41 Non-charging/non-recovery of interest on delayed payments from Central Power Purchasing Agency - Rs.15,526.026 million

According to PPA, “any payment other than fixed charge payment and variable charge payment due to WAPDA from NTDC shall be treated as supplementary payment which shall be invoiced by WAPDA on a monthly basis. Late payments shall bear interest at a rate per annum equal to the Base Rate plus two percent (2%) per annum compounded semi-annually and shall be computed for the actual number of days on the basis of a three hundred sixty-five (365) day year”. As per Interim Tripartite PPA between CPPA-G, NJHPC and WAPDA, “Delayed payment rate is Karachi Interbank Offered Rate (KIBOR) plus two percent (2%) per annum on any amounts payable in rupees and calculated for the actual number of days which the relevant amount remains unpaid on the basis of a three hundred sixty-five (365) day year”.

During audit of accounts of two formations of WAPDA for the period from July, 2021 to June, 2023, it was observed that General Sales Tax and Hydel Levies invoices amounting to Rs.33,622.990 million were billed by WAPDA to CPPA-G for the FY 2022-23. The amount was required to be recovered from CPPA-G but no amount was recovered during the year, therefore, interest amounting to Rs.4,911.554 million was required to be charged to CPPA-G which was not done. Similarly, an amount of Rs.10,614.472 million on account of interest on delayed payments pertaining to the invoices of NJHPC from July, 2019 to April, 2021 was recoverable from CPPA-G but no recovery was made so far. The detail is as under:

(Rs. in million)

Sr. No.	Name of Formation	DP No.	Amount
1	GM (Finance) Power	64/2023-24	4,911.554
2	CEO NJHPC	111/2023-24	10,614.472
TOTAL			15,526.026

Non-adherence to the PPA resulted in non-charging/non-recovery of interest on delayed payments amounting to Rs.15,526.026 million from CPPA-G up to the FY 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that late payment invoices in respect of WAPDA were under process of issuance whereas recovery of amount of NJHPC was pending due to pendency of original invoices.

No further progress was intimated till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to pursue the matter at appropriate level and ensure charging and recovery of interest on delayed payments from CPPA-G without further loss of time.

1.5.42 Non-finalization of disallowed invoices on account of sale of energy - Rs.10,312.230 million

According to Clause-15.1 of PPA, “in the event of any dispute arising out of the terms of this agreement, the parties shall make every effort through coordination committee, if required, to reach an amicable settlement within 45 days. If the dispute cannot be settled within such 45 days period, it shall be referred for determination to an expert agreed by both the parties”.

During audit of accounts of two formations of WAPDA for the period from July, 2022 to June, 2023, it was observed that an amount of Rs.10,312.230 million, out of invoices raised for sale of energy, was disallowed by CPPA-G. As per PPA, the disallowed invoices were required to be finalized through coordination committee within 45 days but neither the fate of disallowed amount was decided nor the matter was referred to an expert for determination. The detail is as under:

Sr. No.	Name of Formation	DP No.	(Rs. in million) Amount
1	GM (Finance) Power	72/2023-24	9,488.350

2	GM (Hydel) Operation	271/2023-24	823.880
TOTAL			10,312.230

Non-adherence to the PPA resulted in non-finalization of disallowed invoices of Rs.10,312.230 million during the FY 2022-23.

The matter was taken up with the management in August & October, 2023 and reported to the Ministry in October & November, 2023. The management replied that major portion of disallowed invoices pertained to hydel levies which were not approved due to pending decision of CCI on the matter. Further, the matter had already been taken up with the CPPA-G and progress achieved would be intimated to Audit accordingly.

No further progress was intimated till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to pursue the matter with CPPA-G for early finalization and recovery of amount of disallowed invoices.

1.5.43 Non-opening of dedicated bank accounts for depositing of retention money - Rs.6,690.404 million

According to Assan Assignment Account Procedure (Local Currency), 2020, “security deposit/retention money may be deposited in a designated bank account in case of perpetual organizations like the National Highway Authority but in case of projects/programmes or operational units or corporations, in a dedicated bank account opened with the approval of Finance Division or in Public Account. The account shall be used for deposit of retention money only and no utilization shall be made out of the account, except payment of retention money/security deposit. Such account shall immediately be closed on expiry of the contract or completion of project under intimation to Finance Division. In case retention money is forfeited or not claimed within a stipulated period, the same may be deposited along with interest, if any, in the Federal/provincial government Account as the case may be”.

During audit of accounts of six formations of WAPDA for the period from July, 2022 to June, 2023, it was observed that an amount of Rs.6,690.404 million on account of retention money was deducted from various IPCs of the contractors. As per aforementioned instructions, the said amount of retention money should have been withdrawn and kept in separate dedicated bank accounts to be opened with the approval of the Finance Division but needful was not done. The detail is as under:

Sr. No.	Name of Formation	DP No.	(Rs. in million)
			Amount

1	PD, K-IV Project	86/2023-24	2,191.155
2	PD, MDHP	134/2023-24	1,741.108
3	PD, KTDP	168/2023-24	807.966
4	PD, NGDP	203/2023-24	95.959
5	PD, KCP	252/2023-24	111.043
6	PD, DBDP	295/2023-24	1,743.173
TOTAL			6,690.404

Non-adherence to the Procedure for Operation of Assignment Account resulted in non-opening of dedicated bank accounts for depositing of retention money amounting to Rs.6,690.404 million up to the FY 2022-23.

The matter was taken up with the management in August & September, 2023 and reported to the Ministry in October & November, 2023. The management replied that the case for opening of designated bank accounts for depositing of retention money was under process for approval. The concerned project offices were pursuing the matter vigorously and progress would be intimated to Audit accordingly.

No further progress towards opening of dedicated bank accounts for keeping retention money was intimated till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify non-opening of dedicated bank accounts for depositing retention money besides ensuring compliance of the instructions of Finance Division without further delay.

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2020-21, 2021-22 & 2022-23 vide Paras No.1.5.51, 1.5.56 & 1.5.45 having financial impact of Rs.4,219.355 million. Recurrence of same irregularity is a matter of serious concern.

1.5.44 Unjustified expenditure on account of security cost in violation of PC-I provisions - Rs.4,849.682 million

According to Para-7.4.10 of the PC-I of MDHP, “in previous submission of PC-I, security cost was taken as 1% of the cost of preparatory and main works and estimated as Rs.1,768.840 million,

presently security cost is removed on advice of Planning Commission from final cost of PC-I". As per directions of PAC conveyed by the Cabinet Division vide memorandum dated March 26, 2011, "there should be no deviation from the approved PC-I of the projects in any respect being implemented by the Federal Ministries/Divisions and its attached departments/autonomous bodies".

During audit of accounts of the PD, MDHP for the period from July, 2022 to June, 2023, it was observed that an amount of Rs.4,849.682 million was spent on account of security cost. As per approved PC-I, amount of security cost was not included on the direction of the Planning Commission of Pakistan. Moreover, as per instructions of PAC, there should be no deviation from the approved PC-I of the project. Audit held that incurring of expenditure without any provision in PC-I in violation of instructions of Planning Commission and directions of PAC was irregular.

Non-adherence to the provisions of PC-I and directions of PAC resulted in unjustified expenditure of Rs.4,849.682 million on account of security component up to the FY 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that security cost was incurred with the approval of Authority for providing security to expatriate staff and this amount was used out of provision kept for 'Physical Contingencies' in PC-I. Moreover, the revised PC-I is under preparation and this expenditure would be regularized upon its approval.

No further progress was intimated till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify incurring of expenditure on security in violation of provisions of PC-I as this component was categorically disallowed by the Planning Commission.

(Draft Para No.132/2023-24)

1.5.45 Non-realization of WEPS contribution premium from different formations & power sector companies - Rs.1,262.790 million

According to Para-8(3) of Procedure of WAPDA Equipment Protection Scheme (WEPS), the funds will be receivable from the projects/formations through Manager Finance in the month of July every year.

During audit of accounts of the Deputy GM (Insurance) WAPDA for the period from July, 2018 to June, 2022, it was observed that a huge amount of Rs.1,262.790 million on account of WEPS contribution premium was receivable from different WAPDA formations and power sector companies. The aging of the receivable showed that the amount was outstanding for the period from 2006-07 to 2021-22. Audit held that the WEPS contribution premium should have been regularly collected in July each year but the same was not done, which caused accumulation of a substantial outstanding amount.

Non-adherence to the provisions of WEPS resulted in non-realization of premium of Rs.1,262.790 million from different formations and power sector companies up to the FY 2021-22.

The matter was taken up with the management in March, 2023 and reported to the Ministry in October, 2023. The management replied that out of total amount of Rs.1,262.790 million, an amount of Rs.187.387 million had been recovered whereas strenuous efforts were being made to recover the remaining amount and progress achieved in the matter would be intimated to Audit accordingly.

No further progress was intimated till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to pursue the recovery of remaining amount of premium from the concerned formations/companies and the MoWR to devise a mechanism for monitoring and compliance of such matters.

(Draft Para No.51/2023-24)

1.5.46 Undue favour to the contractor due to non-deduction of income tax - Rs.1,096.898 million

According to Clause-13.8 (x) of the Accounting and Financial Reporting Manual of WAPDA, “withholding tax shall be deducted from the gross amount of the contractor’s bills at the prevailing tax rates, unless contractor provides tax exemption certificate issued by the relevant tax authority for the related period”. As per Section-153(1) of the Income Tax Ordinance 2001, “every prescribed person making a payment in full or part including a payment by way of advance to a resident person or permanent establishment in Pakistan of a non-resident person on the execution of a contract shall, at the time of making the payment, deduct tax from the gross amount payable at the specified rates”. As per Clause-14.1b (iii) of PCC, the contractor is required to be fiscally registered and resident of project site area, and meet other conditions to remain eligible for tax concessions.

During audit of accounts of the PD, MDHP for the period from July, 2022 to June, 2023, it was observed that an amount of Rs.15,669.971 million was paid to the contractor through IPC No.24 to 31. As per Income Tax Ordinance, income tax was required to be deducted and deposited into government treasury because no tax exemption was granted by the tax authorities to the contractor. However, at the time of making payments to the contractor, income tax amounting to Rs.1,096.898 million was not deducted by the management. Audit held that undue favour was extended to the contractor by non-deducting income tax which caused loss to the national exchequer.

Non-adherence to the aforementioned rules & contract clause resulted in undue favour to the contractor due to non-deduction of income tax amounting to Rs.1,096.898 million during the FY 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management replied that the subject matter was sub-judice in the court of law, however, detailed reply would be furnished after consultation of record.

No further progress was intimated till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify non-deduction of income tax from payments made to the contractor besides pursuing the court case vigorously.

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2021-22 & 2022-23 vide Paras No.1.5.39 & 1.5.44 having financial impact of Rs.2,356.158 million. Recurrence of same irregularity is a matter of serious concern.

(Draft Para No.135/2023-24)

1.5.47 Less recovery of capacity charges due to non-conducting of capacity rating tests required under the Power Purchase Agreement - Rs.830.031 million

According to Clause-10.1 of PPA, “NTDC (now CPPA-G) shall have the right to demand capacity tests of any WAPDA Power Station not more than once in every five years one by one of any of its individual units during such time when the required head, discharge and system conditions are available in order to determine their rated capacities. However, any shortfall in installed capacities of individual units shall not entail any reduction in fixed charge payment by NTDC as long as the total installed capacity of WAPDA Power Stations does not fall below 6,444 MW on the agreement date or the revised installed capacity in case new WAPDA Power Stations are commissioned subsequent to the agreement date. Such tests shall be carried out to determine the rated capacity of the units and a notice of 15 days shall be given by NTDC to WAPDA to make managements for such tests”.

During audit of accounts of the RE, GGHPs for the period from July, 2018 to June, 2023, it was observed that CPPA-G had allowed capacity charges for 36 MW instead of installed capacity of 108 MW w.e.f August, 2022 because capacity rating tests of the plant were not carried out. These tests could not be conducted due to non-installation of water measurement meters/telemetry system at the intake & discharge level and delay in clearance of debris & boulders from the intake area. Audit held that the management was required to take necessary measures for conducting these tests in order to receive full amount of capacity charges but needful was not done which resulted in less recovery of capacity charges amounting to Rs.830.031 million.

Non-adherence to the conditions of the PPA resulted in less recovery of Rs.830.031 million on account of capacity charges due to non-conducting of capacity rating tests up to the FY 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management stated that detailed reply would be submitted after consulting the record.

No further reply was furnished till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify delay in conducting capacity rated tests besides conducting these tests to ensure full recovery of capacity payment charges from the CPPA-G.

(Draft Para No.347/2023-24)

1.5.48 Undue favour to the contractor due to non-deduction of provincial sales tax on construction services - Rs.313.399 million

According to Clause-13.8 (x) of the Accounting and Financial Reporting Manual of WAPDA, “withholding tax shall be deducted from the gross amount of the contractor’s bills at the prevailing tax rates, unless contractor provides Tax Exemption Certificate issued by the relevant tax authority for the related period”. As per Clause-14.1 b(iii) of PCC, the contractor is required to be fiscally registered and resident of project site area, and meet other conditions to remain eligible for tax concessions. According to Provincial Finance Act-2021, Khyber Pakhtunkhwa Sales Tax (KPST) on construction of hydropower project was applicable @ 2% w.e.f. July, 2021.

During audit of accounts of the PD, MDHP for the period from July, 2022 to June, 2023, it was observed that an amount of Rs.15,669.971 million was paid to the contractor M/s CGGC-DESCON JV through IPC No.24 to 31. At the time of making payments to the contractor, KPST amounting to Rs.313.399 million was not deducted by the management. As per rules, KPST was required to be deducted and deposited into government treasury as no tax exemption was granted by the Khyber Pakhtunkhwa Revenue Authority to the contractor but needful was not done. Audit held that undue favour was extended to the contractor by non-deducting KPST which caused loss to the Provincial exchequer.

Non-adherence to the aforementioned rules & contract clause resulted in undue favour to the contractor due to non-deduction of KPST on construction services amounting to Rs.313.399 million up to the FY 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in November, 2023. The management stated that para would be replied after consultation of record. The subject matter of taxation is also sub-judice in the court of law.

No further progress was intimated till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to recover entire amount of KPST from the contractor as there is no direction from the court against such action

Note: The issue was also reported earlier in the Audit Report for the Audit Year 2021-22 vide Para No.1.5.43 having financial impact of Rs.206.090 million. Recurrence of same irregularity is a matter of serious concern.

(Draft Para No.138/2023-24)

1.5.49 Non-transfer of profit earned on PSDP funds to the Federal Government - Rs.308.519 million

According to Para-2(V) of Ministry of Water & Power’s (MoW&P) letter No.DW-1(13)/2013 dated September 26, 2016, “profit earned by WAPDA so far by parking the Public Sector Development Programme (PSDP) funds in scheduled banks may be deposited into Government Treasury”.

During audit of accounts of two formations of WAPDA for the period from July, 2022 to June, 2023, it was observed that an amount of Rs.308.519 million was earned as profit by the Land Acquisition Collectors/ Deputy Commissioners (Mohmand & Kohistan) on amount transferred by WAPDA for payment of land and other compensations. Audit held that as the said amount was transferred out of Federal PSDP funds, therefore, amount of profit earned thereon should have been transferred to the Federal Government which was not done. The detail is as under:

(Rs. in million)			
Sr. No.	Name of Formation	DP No.	Amount
1	PD, MDHP	137/2023-24	98.238
2	PD, DHPP	336/2023-24	210.281
TOTAL			308.519

Non-adherence to the aforementioned instructions resulted in non-transfer of profit of Rs.308.519 million earned on PSDP funds to the Federal Government up to the FY 2022-23.

The matter was taken up with the management in August & September, 2023 and reported to the Ministry in November, 2023. The management replied that the matter regarding reimbursement of profit had already been taken with the concerned Deputy Commissioners and progress achieved would be intimated to Audit accordingly.

No further progress was intimated till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to take up the matter with the concerned Deputy Commissioners for transfer of profit earned on PSDP funds to the Federal Government at the earliest.

1.5.50 Unjustified charging of expenditures of other formations to the projects - Rs.187.511 million

According to approved PC-Is of K-IV and NGDP, there were no provisions for charging of expenditure of other formations of WAPDA to the projects. As per Para-11.4 (b) (Chapter XI) of the Hand Book for Drawing & Disbursing Officer (DDO), "funds allotted to a Ministry/Division, it's attached or subordinate offices are spent for the purpose for which they are allocated".

During audit of accounts of two formations of WAPDA for the period from July, 2022 to June, 2023, it was observed that an amount of Rs.187.511 million on account of expenditure of other formations of WAPDA was charged to the projects. This amount was charged/paid in addition to payment of Authority Overhead charges. Audit held that as there was no provision in PC-Is for charging of expenditure of other formations of WAPDA, therefore, charging of Rs.187.511 million to the projects

was not justified. The detail is as under:

(Rs. in million)			
Sr. No.	Name of Formation	DP No.	Amount
1	PD, K-IV Project	103/2023-24	34.891
2	PD, NGDP	204, 208 & 210/2023-24	152.620
TOTAL			187.511

Non-adherence to the provisions of PC-I and DDO Hand Book resulted in unjustified charging of expenditures of other formations amounting to Rs.187.511 million to the projects up to the FY 2022-23.

The matter was taken up with the management in August & September, 2023 and reported to the Ministry in October & November, 2023. The management replied that these payments were made on the directions of head office.

The reply was not acceptable because these expenses were charged in violation of provisions of PC-Is.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify charging of expenditure of other formations to the projects and ensure recovery/adjustment of said amount from the concerned quarter without further loss of time.

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2021-22 & 2022-23 vide Paras No.1.5.48 & 1.5.56 having financial impact of Rs.149.594 million. Recurrence of same irregularity is a matter of serious concern.

1.5.51 Unjustified payment to the consultants on account of construction supervision charges under Phase-II without any physical activities on site - Rs.87.233 million

According to Clause-1.3 of the CSA, “the employment of the consultant has the objective to prepare the detailed (tender) design for the Keyal Khwar Hydropower Project (KKHP), to prepare the tender documents and to assist WAPDA during the tender procedure, the evaluation of bids, contract negotiations and assignment of the contracts in a first phase, this will include as well as the preparation of Pre-qualification (PQ) documents for the various lots and the assistance to WAPDA during the PQ procedure and the respective PQ evaluation (Phase-I). Further, to assist WAPDA in the management of the project during the subsequent construction and implementation process, and as an option, to prepare the construction drawings for the civil works of project (Phase-II)”.

During audit of accounts of the PD, KKHP for the period from July, 2022 to June, 2023, it was observed that a CSA was signed with Keyal Hydropower Consultants JV on May 12, 2010. The CSA consisted of two parts i.e. Phase-I & Phase-II and cost provision for Phase-I was Euro 1.575 million & Rs.110.812 million whereas for Phase-II, Euro 5.036 million & Rs.414.395 million. The contract for main civil works was awarded in September 2014 and upon award of contract, supervisory activities of the consultants started under Phase-II. However, the said contract was terminated on December 08, 2017 with only 1.5% progress and an amount of Euro 1.138 million & Rs.88.729 million on account of supervision charges was paid to the consultants. Upon termination of the civil works contract, supervisory activities of the consultants were supposed to be stopped automatically. It was further observed from consultants' invoices that a payment of Euro 0.334 million (Equivalent to Rs.61.482 million) and Rs.25.751 was also made after termination of the contract (from December, 2017 to June, 2023). Audit held that payment of Rs.87.233 million on account of supervisory charges under Phase-II after termination of the main contract was not justified.

Non-adherence to the provisions of CSA resulted in unjustified payment of Rs.87.233 million to consultants on account of construction supervision charges under Phase-II without any physical activities on site up to the FY 2022-23.

The matter was taken-up with the management in September, 2023 and reported to the Ministry in November, 2023. The management replied that some amount for the period from December, 2017 to June, 2018 was paid to the consultants during formal closure of the contract after termination, whereas, justification for payment of remaining amount would be given after consultation with the consultants.

No further progress was intimated till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify payment of consultancy charges related to construction supervision after termination of main contract.

(Draft Para No.383/2023-24)

1.5.52 Non-recovery of amount of pending Group Life Insurance claims from Postal Life Insurance - Rs.29.827 million

According to Clause-4(iv) of the contract between WAPDA and Postal Life Insurance (PLI), "payments of the claims submitted to Postal Life complete in all respect should be made within fifteen (15) working days".

During audit of accounts of the Deputy GM (Insurance) WAPDA for the period from July, 2018 to June, 2022, it was observed that an amount of Rs.29.827 million on account of 54 Group Life Insurance (GLI) claims was recoverable from PLI. As per record, the agreement between WAPDA and PLI had also been expired on June 30, 2021. These claims were pertained to the FY 2011-12 to 2020-21 and as per contract, these claims should have been finalized within 15 working days but no strenuous efforts

were made to recover the said amount.

Non-adherence to aforementioned agreement resulted in non-recovery of pending GLI claims amounting to Rs.29.827 million from PLI up to the FY 2021-22.

The matter was taken up with the management in March, 2023 and reported to the Ministry in October, 2023. The management replied that the matter would be taken up at higher level of PLI and outcome would be communicated to Audit accordingly.

No further progress was intimated till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to ensure recovery of pending GLI claims from the PLI without further loss of time.

(Draft Para No.55/2023-24)

1.5.53 Irregular payment of pensionary charges out of PSDP funds - Rs.23.406 million

According to Para-xii of MoW&P (now MoWR) letter No.DW-1(13)/ 2013 dated September 26, 2016, “centralized share/expenses (training, medical, pensionary) should not be charged by WAPDA to different PSDP funded projects”. As per approved PC-II, there was no provision for payment of pensionary charges to WAPDA except 2.25% for Authority Overheads.

During audit of accounts of the DG, International Waterlogging and Salinity Research Institute (IWASRI) for the period from July, 2020 to June, 2022, it was observed that an amount of Rs.23.406 million on account of pensionary charges was paid to the Pension Directorate WAPDA out of PSDP funds allocated for the project. As per instructions of Ministry, payment of pensionary charges out of PSDP funds was not allowed, therefore, its payment was irregular.

Non-adherence to the aforementioned instructions resulted in irregular payment of pensionary charges amounting to Rs.23.406 million out of PSDP funds up to the FY 2021-22.

The matter was taken up with the management in March, 2023 and reported to the Ministry in October, 2023. The management replied that there was only a single source of funds i.e. PSDP and pensionary charges were part and parcel of pay & allowances to be paid to the employees upon superannuation.

The reply was not acceptable because the pensionary charges were paid in violation of instructions of the Ministry.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify payment of pensionary charges out of PSDP funds in violation of instructions of Ministry besides recovery of amount in question from the concerned quarter.

D. Assets Management

1.5.54 Non-mutation of acquired land in the name of WAPDA - Rs.4,849.063 million

According to Section-42 of West Pakistan Land Revenue Act, 1967, “a person acquiring by inheritance, purchase, mortgage, gift, or otherwise, any right in an estate as a land-owner, or a tenant for a fixed term exceeding one year, shall, within three months from the date of such acquisition, report his acquisition of right to the Patwari of the estate for recording such report in the record”. As per Section-36 of the Khyber Pakhtunkhwa Land Acquisition Rules, 2020, “the District Collector shall ensure attestation of mutation or registered deed, as the case may be, in favour of Acquiring Department within one month after issuance of award. The acquired land shall be mutated in the name of provincial government or Federal Government, as the case may be, and the name of the Acquiring Department or company, as the case may be, shall be entered in the column of cultivation”.

During audit of accounts of six formations of WAPDA for the period from July, 2020 to June, 2023, it was observed that land measuring 27,179.68 acres was acquired for different projects during 1987 to 2021. As per rules, the acquired land was required to be got mutated in the name of WAPDA but needful was not done despite lapse of a considerable period of time. Moreover, Additional DG (Property Management Cell) WAPDA vide letter No.ADG (PMC)/F-203/3066-69 dated May 29, 2019 also directed that all land, which had not been mutated so far, be identified and got mutated in the name of WAPDA in the revenue record. The detail is as under:

(Rs. in million)			
Sr. No.	Name of Formation	DP No.	Amount
1	DG, IWASRI	30/2023-24	26.893
2	PD, MDHP	133/2023-24	3,186.402
3	PD, KTDP	170/2023-24	84.000
4	SE, Small Hydel Power Stations (SHPS)	187/2023-24	271.033
5	RE, Chashma Hydel Power Station (CHPS)	213/2023-24	1.345
6	PD, KCP	345/2023-24	1,279.390
TOTAL			4,849.063

Non-adherence to the aforementioned rules resulted in non-mutation of land worth Rs.4,849.063 million in the name of WAPDA up to the FY 2022-23.

The matter was taken up with the management during March to September, 2023 and reported to
3458

the Ministry during August to November, 2023. The management of IWASRI replied that the matter was in court of law and after finalization of court case, the land would be mutated in name of WAPDA. The management of MDHP, KTDP, SHPS and CHPS replied that the matter for mutation of land was under process with the concerned Revenue Authorities. The management of KCP replied that the land was acquired by WAPDA and out of total land of 17,934 acres, mutation of 8,819 acres land was done in the name of Govt. of Balochistan. However, detailed reply would be submitted accordingly.

No further progress was intimated till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to pursue the matter with concerned Revenue Authorities for early mutation of land in the name of WAPDA without further loss of time. MoWR may also devise a mechanism to ensure mutation of land as per law.

1.5.55 Non-allotment of alternate land to WAPDA (IWASRI) by Lahore Development Authority - Rs.675.846 million

According to Prime Minister's Secretariat letter No.11(24)E&F.2II/93 dated May 20, 1993, alternate site for Lower Indus Water Management and Reclamation Research Project and IWASRI may be provided immediately as earlier directed by the Prime Minister.

During audit of accounts of the DG, IWASRI for the period from July, 2020 to June, 2022, it was observed that a piece of land measuring 22 Kanals and 10 Marlas was purchased from Irrigation Department (Government of Punjab) in 1987 for construction of IWASRI Headquarter. Later on, Lahore Development Authority (LDA) occupied the subject land on the orders of the then Prime Minister in 1993 and an alternate piece of land was agreed to be provided to WAPDA by LDA. However, despite lapse of a period of more than 30 years, the matter was not taken up by the management at appropriate level for acquisition of alternate land worth Rs.675.846 million from LDA.

Non-compliance to the instructions of Prime Minister's Secretariat led to the non-allotment of alternate land worth Rs.675.846 million to WAPDA by LDA up to the FY 2021-22.

The matter was taken up with the management in March, 2023 and reported to the Ministry in July, 2023. The management replied that despite a lot of meetings and correspondence by the project authorities, the issue had not been resolved yet.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to take up the matter at appropriate level for ensuring allotment of alternate land from LDA.

(Draft Para No.20/2023-24)

1.5.56 Non-disposal of off-road vehicles, unserviceable material and scrap - Rs.508.404 million

According to Para-1, Chapter-XI of revised WAPDA Transport Rules, “early disposal of unserviceable vehicles in accordance with the procedure laid down in WAPDA Disposal Procedure is essential to avoid depreciation due to deterioration, devaluation, due to loss/pilferage of spare parts, extra expenses on storage accommodation and pay of Chowkidars/guards etc.” As per Clause-1.4.2(a) of WAPDA Disposal Procedure, “Once declared unserviceable, beyond economical repairs or dead by the competent authority, the material should be disposed-off with minimum delay”.

During audit of accounts of various formations of WAPDA for the period from July, 2018 to June, 2023, it was observed that off-road vehicles, unserviceable material, wooden scrap etc. worth Rs.508.404 million (approx.) were not auctioned up to June, 2023. The aforementioned items were kept in the open space and exposed to the adverse environmental effect causing further deterioration and decrease in their value. The detail is as under:

(Rs. in million)			
Sr. No.	Name of Formation	DP No.	Amount
1	RE, Warsak HPS	01/2023-24	15.779
2	PD, Surface Water Hydrology Project	09/2023-24	1.012
3	GM, (Hydro) Planning	14/2023-24	5.062
4	PD, Chashma Barrage & Chashma Jhelum Link Canal	78/2023-24	1.216
5	RE, Tarbela HPS	96/2023-24	290.680
6	CE (O&M), Hydel, Besham	121/2023-24	1.317
7	RE, Mangla HPS	156/2023-24	146.661
8	SE, SHPS	190/2023-24	5.577
9	CE (Civil), Ghazi Barotha Hydropower Project	198/2023-24	2.718
10	RE, CHPS	215/2023-24	14.702

11	CE, Ghazi Barotha Power Complex	227/2023-24	1.178
12	RE (Civil), Mangla	250/2023-24	0.678
13	PD, KCP	259/2023-24	3.803
14	GM, (Hydel) Operation & Development	275/2023-24	0.585
15	GM (Civil), Tarbela Dam Project	282/2023-24	15.136
16	PD, DHPP	341/2023-24	1.700
17	PD, Building Circle WAPDA	432/2023-24	0.600
TOTAL			508.404

Non-adherence to WAPDA Disposal Procedure resulted in non-disposal of off-road vehicles, unserviceable material and scrap amounting to Rs.508.404 million up to the FY 2022-23.

The matter was taken up with the management during February to October, 2023 and reported to the Ministry during May to December, 2023. The management replied that some material had been auctioned, whereas, cases for disposal of remaining off-road vehicles & scrap material were under process and progress achieved in the matter would be intimated to Audit accordingly.

No further progress was intimated till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to expedite the disposal process of off-road vehicles, unserviceable material and scrap without further delay.

1.5.57 Non-recovery of rent - Rs.463.715 million

According to clarification issued by the Director Finance (Regulations), WAPDA on January 10, 2007, where the accommodation is allotted by one organization to the employees of other organization, the standard rent is to be charged by the formation concerned from the formation whose employees have been allotted accommodation. *As per Section-23 of WAPDA Book of Financial Power, "any sum due to the Authority shall be recoverable as arrears of land revenues"*. As per Clause-9.1.3 of WAPDA Accounting and Financial Reporting Manual, the reconciliation of individual account balances to the control balance shall be performed periodically. A diligent effort shall be made to collect all outstanding

accounts in general, invoices shall be collected as expeditiously as possible, but the cost of collection shall not be allowed to exceed the expected revenue. Regular recovery notices shall be sent to all account receivables.

During audit of accounts of seven formations of WAPDA for the period from July, 2018 to June, 2023, it was observed that an amount of Rs.463.715 million on account of rent was recoverable from different formations, organizations and consultants for the period from 1980-81 to 2022-23. The outstanding rent was required to be recovered by taking up the matter at appropriate level but needful was not done. The detail is as under:

(Rs. in million)

Sr. No.	Name of Formation	DP No.	Nature of Recovery	Amount
1	RE, Warsak HPS	03/2023-24	Rent of land from Pak Army	338.170
2	PD, Building Circle	10 & 430/2023-24	Standard/Market rent from employees living illegally	21.041
3	RE, Tarbela HPS	100/2023-24	Standard/Market rent from serving/retired WAPDA & PESCO employees	16.584
4	SE, SHPS	184 & 263/2023-24	Lease amount & Rent from Nandipur Power Project	65.056
5	PD T5HPP	237/2023-24	Standard rent from consultants	6.900
6	RE (Civil), Mangla	248/2023-24	Rent from shopkeepers & banks	1.872

7	GM (Civil), Tarbela Dam Project	279 & 283/2023-24	Standard rent from employees and private occupant	14.092
TOTAL				463.715

Non-adherence to the aforementioned rules & instructions resulted in non-recovery of rent amounting to Rs.463.715 million from different formations and individuals up to the FY 2022-23.

The matter was taken up with the management during February to October, 2023 and reported to the Ministry during June to December, 2023. The management replied that the matter had already been taken up with the concerned formations/occupants and progress achieved in the matter would be intimated to Audit accordingly.

No further progress was intimated till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to ensure recovery of rent of WAPDA's land and accommodations from the concerned formations and individuals.

1.5.58 Misuse of 58 vehicles due to attachment with unauthorized officers and irregular charging of O&M expenditure to the projects - Rs.153.233 million

According to Para-4 of Finance Division's Office Memorandum regarding System of Financial Control and Budgeting, the Principal Accounting Officer is responsible not only for the efficient and economical conduct of the Ministries/Divisions/Departments but also continues to be personally answerable before the PAC. The two main principles to be observed are economy (getting full value for money) and regularity (spending money for the purposes and in the manner prescribed by law & rules). As per Para-3 of Section-I (Chapter-III) of WAPDA Transport Rules, "the responsibility for the proper utilization, management and maintenance of road transport is that of PDs and Heads of Division/Organizations in respect of vehicles allotted to them". As per PC-Is of the projects, there were no provisions for use of vehicles other than projects' purposes.

During audit of accounts of various formations of WAPDA for the period from July, 2021 to June, 2023, it was observed that 58 vehicles of different makes and models purchased for different projects/formations were attached with WAPDA officers, consultants and MoWR. Some of these vehicles were procured through contractors and their fixed monthly O&M cost was also paid to the contractors. Audit held that as these vehicles were purchased for the projects' purposes, therefore, these should have been used for the projects at the sites. Hence, attachment of vehicles with unauthorized officers/offices was irregular and expenditure of Rs.153.233 million incurred on purchase and O&M of these vehicles was not justified. The detail is as under:

(Rs. in million)

Sr. No.	Name of Formation	DP No.	No. of Vehicles	Cost of Vehicles	O&M Expenditure	Total Amount
1	PD, Dargai Rehabilitation Project	57/2023-24	1	6.817	0	6.817
2	PD, K-IV Project	91/2023-24	5	24.000	0	24.000
3	CE (O&M), Hydel Besham	123/2023-24	3	4.470	0	4.470
4	PD, MDHP	139 & 153/2023-24	13	0	26.851	26.851
5	Chairman, PCRWR	148/2023-24	1	0	1.000	1.000
6	PD, KTDP	175/2023-24	1	0	1.713	1.713
7	PD, NGDP	206/2023-24	3	0	3.595	3.595
8	CE, Ghazi Barotha Power Complex	226/2023-24	1	4.424	0	4.424
9	PD, T5HPP	238/2023-24	1	0	6.876	6.876
10	PD, KCP	255/2023-24	9	22.447	0	22.447
11	GM (Hydel) Operation & Development	272/2023-24	2	6.203	0	6.203
12	PD, MRP	292/2023-24	1	3.409	0	3.409
13	PD, DHPP	330/2023-24	8	24.290	0	24.290
14	PD, DBDP	358/2023-24	9	0	17.138	17.138
TOTAL			58	96.06	57.173	153.233

Non-adherence to the aforementioned rules resulted in misuse of 58 vehicles due to attachment with unauthorized officers with financial implication of Rs.153.233 million up to the FY 2022-23.

The matter was taken up with the management during August to October, 2023 and reported to the Ministry during October & November, 2023. The management replied that these vehicles were attached with the approval of WAPDA Authority. The management of MDHP also replied that the vehicle was not dedicated to the CEO of consultants rather it was being used by other staff of the consultant from time to time. However, detailed reply would be furnished in due course time.

No further reply was furnished till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify attachment of project vehicles with other officers/offices/consultants and ensuring their return to respective projects and recovery of O&M cost from the concerned users without further delay besides fixing of responsibility on persons allowing this misuse.

1.5.59 Loss on account of missing distribution transformers from the Composite Model Village, Harpan Das - Rs.65.425 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to fraud, theft or negligence of Individuals, 1982 (amended to date), "all losses, whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of accounts of the PD, DBDP for the period from July, 2022 to June, 2023, it was observed that a contract for external electrification of Composite Model Village-II, Harpan Das was awarded to M/s Ali & Co. on November 10, 2016 at a contract price of Rs.408.244 million. As per contract, an amount of Rs.65.425 million was paid to the contractor for installation of 62 distribution transformers of different capacities. However, during physical site visit, it was found that all the transformers of the model village were missing but neither FIR was lodged by the management nor departmental inquiry was conducted to probe into the matter and to fix responsibility for loss.

Non-adherence to the aforementioned guidelines resulted in loss of Rs.65.425 million on account of missing distribution transformers up to the FY 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management stated that detailed reply would be submitted after consultation of record.

No further reply was furnished till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends that the management needs to inquire the matter at appropriate level for fixing of responsibility and making good the loss.

(Draft Para No.306/2023-24)

E. Management of Accounts with Commercial Banks

1.5.60 Undue favour to the bank due to investment of funds without fulfilling the evaluation criteria - Rs.10,000 million

According to special term of Request for Proposal (RFP) for placement of funds dated December 02, 2022, the banks were requested to quote the best possible profit rate with special term of ‘premature encashment after six months without penalty’. As per evaluation criteria for bid, WAPDA will place funds for one-year tenure with the condition of pre-mature encashment after six months without penalty with bank who has quoted highest profit rate in its bid proposal.

During audit of accounts of the GM (Finance) Power for the period from July, 2022 to June, 2023, it was observed that an amount of Rs.10,000 million was invested with Bank Alfalah at a profit rate of 17.11% per annum on December 19, 2022. Further scrutiny of record revealed that the said bank quoted profit rate without allowing premature encashment after six months without penalty. As per RFP & evaluation criteria of bid, the banks were required to quote profit rate with a special term of ‘pre-mature encashment after six months without penalty’ but bid of the said bank was accepted without this condition. Audit held that investment of funds with Bank Alfalah without fulfilling the evaluation criteria was irregular and undue favour to the bank.

Non-adherence to the special term of RFP & evaluation criteria resulted in undue favour to the bank due to investment of funds amounting to Rs.10,000 million without fulfilling the criteria during the FY 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in December, 2023. The management replied that rates were quoted by the banks as per their policy and Investment Board of WAPDA, after due deliberation, decided to accept the offer of the highest bidder.

The reply was not tenable because accepting of bid without fulfilling all the conditions was irregular.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify investment of funds with the bank without meeting the conditions of RFP and evaluation criteria besides fixing responsibility for such decision.

(Draft Para No.417/2023-24)

1.5.61 Unjustified payment of mark-up/rental payments - Rs.3,631.088 million

According to Para-5 (vi) of Essentials and Model Agreements for Islamic Modes of Financing (Musharakah) issued by SBP, “It is not allowed to fix a lump sum amount for any of the partners, or any rate of profit tied up with his capital”.

During audit of accounts of the GM (Finance) Power for the period from July, 2022 to June, 2023, it was observed that a financing agreement of Rs.144 billion was signed between WAPDA and a syndicate of different banks for DHPP. It was further observed that a part of this financing facility was through

issuance of Sukuk bonds for Rs.52,800 million and an amount of Rs.3,631.088 million was paid on account of mark-up/rental payments on Sukuk bonds @ KIBOR plus 1.45%. As per guidelines issued by the SBP, tying up any rate of profit with the capital contributed by any of the partners was not allowed in a Musharakah agreement. Moreover, mechanism adopted for raising funds and their further distribution into Islamic as well as conventional modes was not available in the record. Audit held that payment of profit/mark-up at fixed rate was against the guidelines issued by the SBP and not justified.

Non-adherence to the guidelines issued by the SBP resulted in unjustified payment of mark-up/rental payments amounting to Rs.3,631.088 million during the FY 2022-23.

The matter was taken up with the management in August, 2023. The management replied that the purpose of Musharakah was to jointly own the Musharakah Assets for co-ownership under the diminishing Musharakah agreement dated March 29, 2017 (Clauses-1.1.1 & 1.1.2). However, earning model was based on rental income as per rental model issued by the SBP and rent had to be fixed which was connected with floating KIBOR rate. So, the rental payment was fixed as per payment agreement at the benchmark rate of KIBOR plus margin.

The reply was not acceptable as tying up any rate of interest (KIBOR in this case) was in violation of guidelines issued by SBP and basic essence of Islamic modes of financing. Moreover, use of rental income model was also unjustified as rental income model was used in Ijarah agreement, whereas, basic principle of a Musharakah agreement was sharing of profit or loss.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify mechanism adopted for raising funds and their further distribution into Islamic as well as conventional modes besides fixing responsibility for payment of profit/rental @ KIBOR plus 1.45%.

(Draft Para No.438/2023-24)

1.5.62 Loss of profit due to delay in transfer of funds and commencement of bidding process for opening of a new bank account - Rs.30.895 million

According to GM (Finance) Power's office letter No.GMF(P)/M(HQ)P/ BnK/2070 dated May 6, 2021 regarding RFP for opening of Special Saving Accounts, there was no condition regarding withdrawal of offered rate by the banks with three months prior notice. As per Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to fraud, theft or negligence of Individuals, 1982 (amended to date), "all losses, whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of accounts of the GM (Finance) Power for the period from July, 2022 to June, 2023, it was observed that a RFP for opening of Special Savings Account for depositing of Rs.70 billion (approx.) was issued to different banks on May 06, 2021. In response to RFP, United Bank Limited (UBL) offered profit rate of one month KIBOR – 0.15% on May 21, 2021. The management, after bid evaluation,

conveyed approval for opening of bank account to UBL on May 27, 2021. On September 29, 2021, the bank offered a revised interest rate of one month KIBOR-0.85% w.e.f. October 01, 2021 and informed that if the new rate was not acceptable to WAPDA, then the same be considered notice for withdrawal on agreed terms starting from September 29, 2021 to December 27, 2021. The management initiated the process for opening of a new bank account and RFP was issued to different banks on November 05, 2021. The bids were opened on November 19, 2021 and the bid evaluation committee recommended opening of a new bank account with National Bank of Pakistan (NBP) at offered rate of one month KIBOR+0.01%. The approval for opening of bank account was conveyed to NBP on November 22, 2021 i.e. 17 days after issuance of RFP. It was observed that initially the conditional offer of UBL was accepted by the management and subsequently process for opening of a new bank account was initiated in November, 2021 instead of October, 2021. Moreover, funds amounting to Rs.67 billion were transferred from UBL to NBP on December 23, 2021 with a delay of 31 days. Further, amount of profit of Rs.2.148 million for the month of March, 2022 was also kept in same bank up to March 15, 2023. Audit held that if the process for opening of a new bank account had been initiated on October 01, 2021, then new bank account would have been opened on October 18, 2021 (17 days after issuance of requests for proposal) and profit of Rs.11.395 million could have been earned due to differential interest rates of UBL & NBP. Moreover, due to delay in transfer of funds and profit thereon from UBL to NBP, profit of Rs.19.500 million was also less earned. No responsibility for the loss of Rs.30.895 million due to delay in opening of a new bank account and transfer of funds was fixed.

Non-adherence to the Authority's instructions resulted in loss of Rs.30.895 million due to less earning of profit owing to delay in opening of a new bank account and transfer of funds up to FY 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in November, 2023. The management replied that it was not a case of opportunity profit because offered rate of NBP was not available on November 01, 2021. Further, upon opening of bank account with NBP, major chunk of the Green Euro Bond was immediately transferred from UBL. However, due to pending foreign currency payments (tagged with UBL) for want of SBP's approval, the equivalent amount in PKR was kept with UBL for smooth execution of FEC payments.

The reply was not acceptable because there was a delay of more than one month in initiating new bidding process and even after opening of a new bank account, there was also a substantial delay in transfer of funds.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to inquire the matter for fixing responsibility of loss due to delay in opening of a new bank account and transfer of funds upon the person (s) at fault.

(Draft Para No.161 & 434/2023-24)

1.5.63 Potential loss on account of interest income due to non-availing of special term for premature encashment after six months - Rs.19.660 million

According to RFP for placement of funds for one-year, there was a special term of 'premature encashment after six months without penalty'. As per Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to fraud, theft or negligence of Individuals, 1982 (amended to date), "all losses, whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of accounts of the GM (Finance) Power for the period from July, 2022 to June, 2023, it was observed that an amount of Rs.10,000 million was invested with Bank Alfalah at a rate of 16.41% per annum on June 29, 2022 with one-year maturity period and with condition of no penalty on premature encashment after six months. Further probe into the matter revealed that SBP revised its policy rate on January 24, 2023 from 16 % to 17 % per annum. The management did not avail the special term regarding premature encashment after six months without penalty and reinvesting the same on higher prevailing interest rate. Audit held that after revision of interest rate by the SBP, these funds should have been en-cashed and reinvested at a higher rate but needful was not done which resulted in a loss of Rs.19.660 million (approx.) for which no responsibility was fixed.

Non-adherence to the Authority's instructions resulted in potential loss of Rs.19.660 million on account of interest income due to non-availing of special term for premature encashment after six months during the FY 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in December, 2023. The management replied that due to increase in policy rate by SBP, the rate was increased by bank from 16.41% to 21.40% on April 14, 2023 till maturity and handsome amount of profit was earned.

The reply was not acceptable because the management failed to take prudent investment decision timely.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify non-encashment of funds despite availability of special term of 'no penalty for premature encashment after six months' and reinvestment of funds at higher rates of profit.

(Draft Para No.418/2023-24)

F. HR/Employee related Issues

1.5.64 Unjustified expenditure due to irregular replacement of Project Manager and Deputy Project Manager of consultants - Rs.307.488 million

According to Clause-30.1 of CSC, “except as the client may otherwise agree in writing, no changes shall be made in the Key Expert”. As per Clause-30.2, “notwithstanding the above, the substitution of Key Experts during contract execution may be considered based on the consultants’ written request and due to circumstances outside the reasonable control of the consultants, including but not limited to death or medical incapacity. In such case, the consultants shall forthwith provide as a replacement, a person of equivalent or better qualifications and experience, and at the same rate of remuneration”. As per Clause-3(c)(iii) of the RFP, “a consultant (including its Experts and Sub-consultants) that has a close business or family relationship with a professional staff of the borrower (or of the client, or of implementing agency, or of a recipient of a part of the bank’s financing) who are directly or indirectly involved in any part of (i) the preparation of the terms of reference for the assignment, (ii) the selection process for the contract, or (iii) the supervision of the contract, may not be awarded a contract, unless the conflict stemming from this relationship has been resolved in a manner acceptable to the Bank throughout the selection process and the execution of the contract”.

During audit of accounts of the PD, T5HPP for the period from July, 2022 to June, 2023, it was observed that a CSC was awarded to M/s Mott MacDonald Limited on April 13, 2019. As per CSC, the consultants proposed Mr. Fidencio Mendez (existing Project Manager of T4HPP) as Project Manager. After award of contract, the consultants failed to place the nominated Project Manager and on April 19, 2021, the consultants requested replacement of Mr. Fidencio Mendez with Mr. Mark Gill on temporary basis for a period of 6-12 months. As per evaluation of curriculum vitae (CV) of Mr. Mark Gill, he did not meet the criteria required for the said post. However, contrary to the CSC, the management granted approval to appoint Mr. Mark Gill on temporary basis for a period of six months w.e.f. May 21, 2021 which was extended time to time on six months basis up to May 29, 2023 and the last extension was given without any time frame till the appointment of a permanent Project Manager. Similarly, Mr. Anser Warraich (Ex- GM-Tarbela Dam Project) was appointed as Deputy Project Manager of the consultants with the approval of project authorities. The said officer was granted relaxation of rules regarding joining of consultancy firm before completion of two years’ after retirement by the Member (Water) WAPDA. As per his CV, he neither possessed overall 15 years’ construction management experience nor at least five years’ experience as Project Manager/ Construction Manager on mega hydropower projects. Moreover, the said officer was also a Member of Evaluation Committee involved in hiring of the same consultants M/s Mott MacDonald for the project, therefore, conflict of interest could not be ruled out. Moreover, appointment of less experienced Project Manager and Deputy Project Manager may have serious implications for the project. Audit held that replacement/appointment of Project Manager and Deputy Project Manager in violation of provisions of CSC was irregular, hence, expenditure of Rs.307.488 million incurred on their remuneration was not justified.

Non-adherence to the provisions of CSC resulted in unjustified expenditure of Rs.307.488 million due to irregular replacement of Project Manager and Deputy Project Manager of the consultants up to the

FY 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management replied that approval for replacement of Project Manager and Deputy Project Manager was granted on the basis of proposals of the consultants in the best interest of project.

The reply was not acceptable because proposals for replacement of these key personnel were accepted by the management contrary to the provisions of CSC.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify appointment of Project Manager and Deputy Project Manager in violation of provisions of CSC besides fixing responsibility.

(Draft Paras No.379 & 381/2023-24)

1.5.65 Irregular expenditure on engagement of staff on daily wages basis - Rs.288.667 million

According to Para-(a) of Officer Order regarding instructions on Recruitment/Appointment/Posting dated May 06, 2023, cases to initiate all modes of recruitment/appointment (including regular/contract/temporary/daily wages/ contingent/adhoc/locum etc.) for all posts in BPS-1 to 20 be concurred by concerned Member before submitting for final approval of Chairman WAPDA through HR Division. After Chairman's approval, concerned formations shall complete the recruitment process by preparing the draft advertisement containing job specification/quota position and vacancy statement as per relevant service rules of the posts against direct induction and refer to Recruitment Cell for further processing. As per Revised Daily Wages/Contingent Based Appointment Policy of WAPDA circulated on December 15, 2017, the daily wages staff will not be engaged when the channel for regular recruitment is open. Moreover, concerned CEs/GMs will recommend cases for engagement of staff on daily wages basis with the detailed need analysis vis-à-vis available work force keeping in view the objectivity and fairness. Government of Pakistan (GoP) Guidelines for observing of regional/provincial quota will be generally applied for engagement of staff against regular sanctioned posts.

During audit of accounts of various formations of WAPDA for the period from July, 2020 to June, 2023, it was observed that officials of different categories were hired on daily wages/contingent basis against sanctioned and non-sanctioned posts for a period of 89 days which was continuously extended. These appointments were made on pick and choose basis without adopting any selection criteria/procedure despite the fact that there was no permanent ban on regular recruitments. Hence, an expenditure of Rs.288.667 million incurred on account of pay of daily wages staff was held irregular. The detail is as under:

(Rs. in million)			
Sr. No.	Name of Formation	DP No.	Amount

1	PD, Surface Water Hydrology Project	32/2023-24	144.951
2	RE, Gomal Zam HPS	35/2023-24	6.197
3	Deputy GM, Insurance WAPDA	54/2023-24	9.660
4	GM, (Finance) Power	68/2023-24	0.580
5	GM, (Hydro) Planning	82/2023-24	27.089
6	CE, (O&M) Hydel, Besham	124/2023-24	11.839
7	PD, Harpo Hydropower Project	129/2023-24	6.586
8	SE, SHPS	185/2023-24	38.670
9	PD, Ghazi Barotha Hydropower Project	196/2023-24	16.641
10	CE, Ghazi Barotha Power Complex	228/2023-24	15.855
11	GM, (Hydel) Operation & Development	276/2023-24	2.517
12	PD, Building Circle	431/2023-24	8.082
TOTAL			288.667

Non-adherence to the aforementioned recruitment policies of WAPDA resulted in an irregular expenditure amounting to Rs.288.667 million incurred on pay of daily wages staff up to the FY 2022-23.

The matter was taken up with the management during February to October, 2023 and reported to the Ministry during October to December, 2023. The management replied that daily wages/contingent based employees against sanctioned and non-sanctioned posts were appointed after obtaining approval from concerned Member on need basis.

The reply was not acceptable because daily wages staff was hired on pick & choose basis without following any recruitment method/mechanism to ensure fairness and opportunity for all.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and

January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify engagement of daily wages staff without advertisement and continuous extensions in their services in violation of recruitment policies besides formulation of a merit based transparent recruitment/appointment policies and rules thereon to ensure that equal employment opportunity is offered to all.

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2017-18, 2018-19 & 2020-21 vide Paras No.1.3.19 & 2.4.51/2017-18, 2.4.61/2018-19 and 1.5.53 & 1.5.57/2020-21 having financial impact of Rs.201.140 million. Recurrence of same irregularity is a matter of serious concern.

1.5.66 Unjustified employment of WAPDA security personnel for DHPP having huge financial implications - Rs.232.680 million

According to Clause-17.1 (3) of WAPDA Budget Manual, “budget estimates are prepared on the basis of nominal roll, sanctioned strength and last three years’ actual expenditure. The expenditure budget includes pay & allowances of officer & staff, travelling allowance, honoraria/reward, employer charges (pension fund & GLI), medical charges (hospitalization, consultant’s fee, medicine drugs & dressing etc.)”.

During audit of accounts of the PD, DHPP for the period from July, 2022 to June, 2023, it was observed that sanctioned strength of WAPDA security staff was 160, including security inspector, security sergeants and security guards. In January, 2023, 106 newly recruited sergeant and security guards were posted against vacant sanctioned posts. It was further observed that 462 security personnel, newly recruited on lump sum basis, were also placed at the disposal of DHPP in the months of May, June and August, 2023. It is worth mentioning here that WAPDA security officials were deputed on gates of office buildings, hostels, etc. for which 135 personnel were already available. Moreover, for the purpose of security of project sites, security of contractors and consultants’ staff during travel, 946 personnel of Dir Scouts, Frontier Constabulary (FC) and Police had also been engaged. Audit held that hiring of additional 462 WAPDA security personnel, without any requisition/demand by the project and beyond sanctioned strength, having significant financial implication of Rs.232.680 million was not justified.

Non-adherence to the provisions of WAPDA Budget Manual resulted in unjustified employment of security personnel with annual financial impact of Rs.232.680 million during the FY 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in December, 2023. The management replied that Director Security WAPDA vide letter dated November 23, 2022 intimated that Chairman WAPDA had given principle approval for raising a Battalion size force of 655 persons to replace FC Platoons. The project office only initiated the case as per instructions received from Director Security and was not involved in recruitment and posting of security personnel.

The reply was not acceptable because security staff was hired and posted in excess of sanctioned strength.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify employment of additional security staff at the project without sanctioned posts and need analysis.

(Draft Para No.397/2023-24)

1.5.67 Unjustified grant of different allowances to the employees contrary to the directions of Finance Division - Rs.89.260 million

According to Finance Division’s (Regulations Wing) office memorandum No.F.1(1)Imp/94 dated June 26, 1999 regarding revision of salaries, allowances and perquisites of the supervisory and executive staff of public sector corporations, autonomous/semi-autonomous bodies, “it has been decided that such revisions may be carried out by the respective Boards of Directors/ Governors of these organizations. Such revision should invariably be tagged with the financial position of the respective organizations. Clearance from Finance Division would, however, be necessary to ensure a rational basis and a degree of uniformity in such revisions”. As per Finance Division’s (Regulation Wing) office memo No.F.4(3)R-4/2011-Revision dated August 04, 2017, “it is binding upon all the administrative Ministries/Divisions of semi-autonomous, autonomous bodies/corporations to ensure that any changes in pay, allowances and privileges of executive/supervisory staff of the semi-autonomous, autonomous bodies/corporations working under their administrative control are processed in accordance with the Finance Division’s O.M No.F.1(1)Imp/94 dated June 26, 1999”.

During audit of accounts of various formations of WAPDA for the period from July, 2020 to June, 2023, it was observed that an amount of Rs.89.260 million was paid to the officers/officials on account of different allowances approved by WAPDA Authority. Audit held that grant of these allowances was not justified as the same were allowed by WAPDA Authority contrary to the directions of the Finance Division. The detail is as under:

(Rs. in million)			
Sr. No.	Name of Formation	DP No.	Amount
1	GM, (Hydro) Planning	15/2023-24	20.269
2	GM, (Finance) Coordination	27/2023-24	1.754
3	Director (Services & Estate)	44/2023-24	4.721
4	GM, (Finance) Power	63/2023-24	0.530
5	PD, K-IV Project	102/2023-24	2.980
6	CE, (O&M), Hydel Besham	125/2023-24	7.217

7	CE (Civil), Ghazi Barotha Hydropower Project	199/2023-24	2.050
8	PD, NGDP	209/2023-24	22.927
9	CE, Ghazi Barotha Power Complex	230/2023-24	26.229
10	RE (Civil), Mangla	249/2023-24	0.583
TOTAL			89.260

Non-adherence to the instructions of Finance Division resulted in unjustified expenditure of Rs.89.260 million on grant of different allowances to the employees up to the FY 2022-23.

The matter was taken up with the management during March to September, 2023 and reported to the Ministry during July to November, 2023. The management replied that these allowances were granted to the employees after approval of WAPDA Authority.

The reply was not acceptable because as per instructions of Finance Division dated June 26, 1999, clearance from Finance Division (GoP) was necessary. Moreover, DAC in its earlier meetings held on December 08, 17-19 & 28-29, 2020, December 08, 09, 20 & 21, 2022, January 16-17 and February 9-10, 2023 directed the management to refer all such paras pertaining to pay & allowances to Finance Division through MoWR for obtaining clarification which was not done.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify grant of these allowances without clearance besides seeking approval/clarification from the Finance Division as decided in earlier DAC meetings.

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2020-21 & 2022-23 vide Paras No.1.5.52 & 1.5.73 having financial impact of Rs.627.300 million. Recurrence of same irregularity is a matter of serious concern.

1.5.68 Irregular/excess payment of overtime claims to the employees at double rate - Rs.37.357 million

According to Superintending Engineer (SE) office order No.4609-13/SE/SH/ G-8(N) dated November 18, 2014, the admissibility of the overtime may be recommended/sanctioned in condition that maintenance section crew should have worked more than 48 hours in a week. Certificate for performing duty more than 48 hours in a week by the concerned officer may also be given on every claim. As per Clause-47 of Pakistan Factories Act, 1934, where a worker in a non-seasonal factory works for more than

nine hours in a day or for more than 48 hours in a week, he shall be entitled in respect of overtime worked to pay at the rate of twice his ordinary rate of pay.

During audit of accounts of the SE, SHPS, Mangla along with attached power stations for the period from July, 2018 to June, 2023, it was observed that an amount of Rs.37.357 million was paid to the employees of different power stations as overtime at double rate . As per Pakistan Factories Act, 1934, overtime at double rate would be admissible where a worker in a non-seasonal factory works for more than nine hours in a day or for more than 48 hours in a week whereas the duty of WAPDA employees was eight hours per day and 40 hours per week. Moreover, certificate for performing duty for more than 48 hours in a week by the concerned officer was also not attached with the claims. Hence, payment of overtime claims to the employees at double rate without fulfilling the conditions and in violation of rules was irregular.

Non-adherence to the aforementioned instructions resulted in irregular/ excess payment of Rs.37.357 million on account of overtime claims at double rate up to the FY 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management replied that the matter would be resolved after taking up with the concerned authority.

No further progress was intimated till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify the payment of overime claims at double rate in violation of rules besides ensuring its recovery from the concerend employees.

(Draft Para No.244/2023-24)

1.5.69 Non-recovery of penalty imposed upon WAPDA's ex-employee on account of breach of service contract - Rs.16.784 million

According to letter No.GM(C&M)/W/DAW/Inqr-235-B/2022/E-1/ 12493-98 dated October 27, 2022, Member (Water) WAPDA has decided to enhance the major penalty i.e. 'Removal from Service' to 'Dismissal from Service' under Pakistan WAPDA Employees Efficiency and Disciplinary (E&D) Rules, 1978 upon Mr. Wassay Gulraiz, the then Deputy Director, w.e.f. January 01, 2018 along with recovery of Rs.16.784 million as liquidated damages.

During audit of accounts of the GM (Finance) Coordination for the period from July, 2021 to June, 2022, it was observed that a major penalty of dismissal from service along with recovery of Rs.16.784 million for breach of service contract was imposed upon Mr. Wassay Gulraiz with the approval of Member (Water) WAPDA. The amount was required to be recovered either from the employee or from his sureties, which was not done.

Non-adherence to the Authority's instructions resulted in non-recovery of Rs.16.784 million on account of penalty imposed upon WAPDA's ex-employee due to breach of service contract during the FY 2021-22.

The matter was taken up with the management in March, 2023 and reported to the Ministry in August, 2023. The management replied that the deduction would be made from forthcoming invoice of the consultants

No further progress was communicated till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to obtain comments from concerned department and ensure recovery of amount of penalty from the ex-officer without further loss of time.

(Draft Para No.29/2023-24)

1.5.70 Non-recovery from the consultants due to unjustified replacement of Project Manager/Team Leader - Rs.10.669 million

According to Clause-4.5 (a) of CSA, “except as the client may otherwise agree, no changes shall be made in the key personnel. If for any reason beyond the reasonable control of the consultants, it becomes necessary to replace any of the key personnel, the consultants shall provide as a replacement a person of equivalent or better qualifications”.

During audit of accounts of the PD, Harpo Hydropower Project, Skardu for the period from July, 2022 to June, 2023, it was observed that a contract for procurement of consulting services for detailed engineering design, preparation of tender documents and support of the owner for the construction supervision was awarded to M/s Harpo Consultants JV at a contract price of Rs.936.47 million. Further scrutiny of record revealed that one key personnel (Mr. Rainer Gotz) was replaced with Mr. Predrag Djajic as Project Manager/Team Leader. Due to less experience of new Project Manager, the consultants had also agreed for reduction in his monthly remuneration rate. However, an amount of Rs.10.669 million (Euro 31,548) on account of difference in remuneration rates was not recovered from the consultants. Moreover, appointment of less experienced Project Manager may have serious implications for the project.

Non-adherence to the provision of CSA resulted in non-recovery of Rs.10.669 million from the consultants due to unjustified replacement of Project Manager/Team Leader during the FY 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management stated that detailed reply would be submitted after scrutiny of record.

No further reply was furnished till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to ensure recovery of amount in question from the consultants without further loss of time.

(Draft Para No.127/2023-24)

G. Value for Money and Services Delivery Issues

1.5.71 Wasteful expenditure on permanent plugging of the lower intake of the powerhouse - Rs.1,091.830 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to fraud, theft or negligence of Individuals, 1982 (amended to date), “all losses, whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”. Moreover, the International Panels of Experts (IPoEs) during their meeting dated January, 2014 proposed that simultaneous use of two intakes was fraught with danger and should be re-evaluated.

During audit of accounts of the PD, T4HPP for the period from July, 2022 to June, 2023, it was observed that an amount of Rs.1,091.830 million was paid to the contractor for permanent concrete plugging of Tunnel No.3&4 of lower intake through VO No.43. As per original design of the project, there was no provision for operation of lower intake but project authorities proceeded for operation of lower intake contrary to the recommendations of IPoEs which were also reaffirmed by Review Mission of World Bank (May 03, 2017 to May 26, 2017). Later on, the decision was changed and an amount of Rs.1,091.830 million was incurred on permanent plugging of the lower intake. Audit held that as there was no provision for operation of lower intake in the original contract, therefore, expenditure incurred on plugging of the same was wasteful for which no responsibility was fixed.

Contract mismanagement resulted in wasteful expenditure of Rs.1,091.830 million on permanent plugging of lower intake of the powerhouse up to the FY 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management stated that detailed reply would be submitted after consulting the record.

No further reply was furnished till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends that the management needs to hold a high level inquiry in the matter to determine responsibility for this wasteful expenditure.

(Draft Para No.267/2023-24)

H. Others

1.5.72 Generation loss due to delay in completion of restoration works of Tailrace Tunnel - Rs.26,843 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to fraud, theft or negligence of Individuals, 1982 (amended to date), “all losses, whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved”.

During audit of accounts of the CEO, NJHPC for the period from July, 2021 to June, 2023, it was observed that TRT of the project experienced damages and blockage that forced complete shutdown of the powerhouse on July 6, 2022. The contract for restoration works was awarded to M/s CGGC on August 25, 2022 with commencement date of August 27, 2022. As per contract, the stipulated completion period was 180 days (up to February 23, 2023) but the restoration work was much delayed. The delay in restoration of work was evident from all the linked correspondence, where both the management and consultants repeatedly expressed concerns about slow progress of work by the contractor. However, due to negligence/slow progress by the contractor, the restoration work could not be completed up till July 31, 2023 and the company sustained a generation loss of 2,944 million units (approx.) amounting to Rs.26,843 million for which no responsibility was fixed.

Non-adherence to the aforementioned guidelines resulted in a generation loss of Rs.26,843 million due to delay in completion of restoration works of TRT during the FY 2022-23

The matter was taken up with the management in August, 2023 and reported to the Ministry in October, 2023. The management stated that detailed response would be submitted after consultation of record.

No further reply was furnished till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to inquire the matter at a higher level for fixing responsibility for delay in completion of work and generation loss.

(Draft Para No.106/2023-24)

1.5.73 Generation loss due to non-removal of operational constraints of Golen Gol Hydel Power Station on permanent basis - Rs.1,447.690 million

According to Clause-1.1 (b) of the PPA, “WAPDA Power Stations can withstand a full load rejection and remain in a safe operating condition and WAPDA Power Stations’ auxiliaries will be kept in operating conditions continuously. Further, WAPDA Power Stations can be re-synchronized within thirty (30) minutes provided that the reason for the load rejection has been removed and no differential protection or any other protections warranting thorough checking/investigation of the equipment have operated”.

During audit of accounts of the RE, GGHPs for the period from July, 2018 to June, 2023, it was

observed that as per installed capacity of 108 MW, the power station was supposed to generate 3,624.515 million energy units but the actual generation during last five years was only 569.234 million units. Out of total 112,224 available hours during last five years, the generating units remained under operation only for 44,993 hours and were kept in standby position for 58,080 hours. As such 3,055.281 million energy units were less generated which resulted in a revenue loss of Rs.1,447.690 million. The main reasons for less generation were running of the power plant on partial load/isolation mode due to repeated faults in the 132KV transmission lines and accumulation of debris and boulders in weir & intake area of the power house. Further, after completion of work, 132KV transmission line was required to be handed over to Peshawar Electric Supply Company (PESCO) for further O&M but needful was not done.

Non-adherence to the conditions of the PPA resulted in generation loss of Rs.1,447.690 million due to non-removal of operational constraints on permanent basis during the FY 2022-23.

The matter was taken up with the management in October, 2023 and reported to the Ministry in November, 2023. The management stated that detailed reply would be submitted after consulting the record.

No further reply was furnished till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify non-removal of operational constraints of powerhouse on permanent basis besides fixing responsibility for generation loss.

(Draft Para No.346/2023-24)

1.5.74 Loss due to late award of contract for rectification works - Rs.639.075 million

According to PD, Gomal Zam Dam Project (GZDP) office letter No.DK/CE&PD/GZDP/811-13 dated March 04, 2016, the formal TOC of works was issued effective from June 15, 2013 with punch list. As per Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to fraud, theft or negligence of Individuals, 1982 (amended to date), "all losses, whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of accounts of the PD, GZDP for the period from July, 2021 to June, 2023, it was observed that TOC of the project was issued to the contractor M/s FWO on March 04, 2016 effective from June 15, 2013. As per punch list, critical items of works/tests were required to be executed and performed within one month except station/local transformers which were to be replaced within six months after issuance of TOC, within extended DNP up to June 15, 2016 or till every item of the punch list was executed and performed by the contractor. Later, major faults occurred in the generating units of powerhouse in October, 2016 and the matter was brought to the notice of sub-contractor M/s Sinohydro Corporation who instead of giving attention to the removal of faults requested for a high level meeting for contract closure. Due to non-responsive behavior of the sub-contractor, main contractor M/s FWO

notified on November 08, 2016 to execute/rectify the works on the risk & cost of sub-contractor with the condition that prior to execution, cost of work would be shared with them. WAPDA Authority accorded approval for repair of Unit No.1 (TG-1) on October 20, 2020 at estimated cost of Rs.481 million. The bid for repair of TG-1 was opened on April 16, 2021 and the work was awarded to M/s AFI-ZOEC JV on March 29, 2022 but rectification work could not be started until June 30, 2023. It was further observed that after handing over of the irrigation component of the project to the provincial government during 2020, the project office could not be closed due to delay in rectification works of TG-1 and an expenditure of Rs.639.075 million was incurred on account of project management expenses during last three years. Audit held that the said expenditure could have been avoided in case faults occurred in 2016 had been rectified till 2020.

Poor contract management resulted in a loss of Rs.639.075 million on account of expense of project office due to late award of contract for rectification works of generating unit up to the FY 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in November, 2023. The management replied that after award of contract, delay occurred due to restrictions on Letter of Credit (LC) in foreign currency.

The reply was not acceptable because the contract was awarded after delay of six years whereas restrictions on opening of LC were imposed in the year 2022. It was evident that no strenuous efforts were made for timely rectification of defective unit of powerhouse.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to inquire the matter for fixing responsibility of delay in rectification of faults of powerhouse resulting in such a huge loss.

(Draft Para No.316/2023-24)

1.5.75 Generation loss due to inordinate delay in rectification of faults of Unit No-2 of CHPS - Rs.308.868 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to fraud, theft or negligence of Individuals, 1982 (amended to date), "all losses, whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved".

During audit of accounts of the RE, CHPS for the period from July, 2022 to June, 2023, it was observed that some faults were observed in Unit No.2 of power house in November, 2016. The contract for repair work was awarded to M/s Voith Hydro, Germany on February 19, 2020 with a delay of more than three years. The contractor mobilized at site in March, 2021 but the generating unit could not be rectified so far. It was evident that work order for procurement of equipment and rectification of faults was not awarded timely due to inefficient role on the part of management which caused generation loss

of 201.480 million energy units amounting to Rs.308.868 million (approx.), for which no responsibility was fixed.

Operational mismanagement resulted in generation loss of Rs.308.868 million due to inordinate delay in rectification of fault of Unit No.2 of powerhouse up to the FY 2022-23.

The matter was taken up with the management in August, 2023 and reported to the Ministry in November, 2023. The management replied that the importance of the issue was informed to the head office. Further, the matter would be taken up with WAPDA Authority.

No further progress was furnished till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to inquire the matter regarding delay in award of contract for rectification of generating unit besides fixing the responsibility for the generation loss.

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2021-22 & 2022-23 vide Paras No.1.5.65 & 1.5.79 having financial impact of Rs.1,811.304 million. Recurrence of same irregularity is a matter of serious concern.

(Draft Para No.280/2023-24)

1.5.76 Generation loss due to delay in repair/rectification of generating unit of GZHPS - Rs.265.267 million

According to Section-III (1) of WAPDA Guidelines for Enforcing Responsibility for Losses due to fraud, theft or negligence of Individuals, 1982 (amended to date), "all losses, whether of public money or of stores, shall be subjected to preliminary investigation by the officer in whose charge they were, to fix the cause of the loss and the amount involved. Besides initiating disciplinary action against the employees held responsible for the loss, they should also be allowed to make good the loss".

During audit of accounts of the RE and PD, GZDP for the period from July, 2021 to June, 2023, it was observed that generating Unit-1 of power house remained under forced shutdown due to major faults since October, 2016. The faults occurred during defects liability period and the contractor vide letter dated November 08, 2016 offered WAPDA to carry out its repair/rectification work at his risk & cost. The rectification work of generating unit could not be completed by WAPDA till June 30, 2023. Due to delay in repair/rectification of generation unit, a revenue of Rs.265.267 million (approx.) on account of power generation could not be earned during last two years, which was loss to the Authority, however, no responsibility was fixed for the loss.

Non-adherence to aforementioned guidelines resulted in generation loss of Rs.265.267 million due to delay in repair/rectification of generating unit up to the FY 2022-23.

The matter was taken up with the management in March & August, 2023 and reported to the Ministry in July & December, 2023. The management replied that contract for rectification work had been awarded at the risk & cost of

M/s FWO and process for inland LC is under way. After opening of LC, the work would be started on war footing basis and would be completed within stipulated time.

No further progress was intimated till finalization of Audit Report.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify delay in rectification of faults of power house besides fixing responsibility of generation loss.

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2020-21 & 2021-22 vide Paras No.1.5.9 & 1.5.70 having financial impact of Rs.1,320.570 million. Recurrence of same irregularity is a matter of serious concern.

(Draft Para No.16 & 419/2023-24)

1.5.77 Unjustified payment of incentive to the employees of provincial government - Rs.94.323 million

According to PC-Is of MDHP and DHPP, there are no provision for payment of monthly incentive package to the employees of District Government (KPK Government). As per directions of PAC conveyed by the Cabinet Division (GoP) vide office memorandum No.1/1/2011-A/Cs-III dated March 26, 2011, “there should be no deviation from the approved PC-I of the projects in any respect being implemented by the Federal Ministries/Divisions and its attached departments/autonomous bodies”.

During audit of accounts of two formations of WAPDA for the period from July, 2022 to June, 2023, it was observed that an amount of Rs.94.323 million was paid to different officers/officials of offices of the Commissioner Hazara Division, District Administration, District Police Office, Executive Engineer (Communication & Works), Agricultural Department, Forest Division, Law Department and District Accounts Office etc. on account of incentive package equal to one basic pay per month (12 basic pay per annum). As per approved PC-Is of MDHP and DHPP, there were neither any provisions nor any rule for making such payment of incentive package to the employees of provincial government by WAPDA. Audit held that payment of monthly incentive package to the employees of provincial government without provisions in PC-Is and contrary to the instructions of PAC was not justified. The detail is as under:

(Rs. in million)			
Sr. No.	Name of Formation	DP No.	Amount
1	PD, MDHP	143/2023-24	4.878
2	PD, DHPP	338/2023-24	89.445
TOTAL			94.323

Non-adherence to the provisions of PC-Is and directions of PAC resulted in an unjustified payment of Rs.94.323 million on account of incentive to the employees of provincial government during the FY 2022-23.

The matter was taken up with the management in August & September, 2023 and reported to the Ministry in November, 2023. The management replied that incentive was paid to the concerned employees of provincial government in acknowledgement of their efforts in acquisition of land with the approval of WAPDA Authority and its provision would be included in revised PC-Is.

The reply was not acceptable because monthly incentive was paid to the employees of provincial government in violation of PC-Is and the directives of the PAC.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to justify payment of incentive package to the employees of provincial government in the absence of any provisions in PC-Is and in violation of the directives of PAC besides ensuring its recovery from the concerned quarters.

Note: The issue was also reported earlier in the Audit Report for the Audit Year 2022-23 vide Para No.1.5.84 and MFDAC Report for the Audit Year 2021-22 vide Paras No.1.32 & 1.150 having financial impact of Rs.284.428 million. Recurrence of same irregularity is a matter of serious concern.

1.5.78 Wasteful expenditure due to unlawful purchase of Camouflage Combat Dress for WAPDA security staff - Rs.21.710 million

According to Rule-6(1)(a) of the Official Secrets Act, 1923, if any person for the purpose of gaining admission or of assisting any other to gain admission to a prohibited place or for other purpose prejudicial to the safety of the state uses or wears, without lawful authority, any naval, military, air force, police or other official uniform, or any uniform so nearly resembling the same as to be calculated to deceive, or falsely represents himself to be a person who is or has been entitled to use or wear any such uniform, he shall be guilty of an offence under this section. As per Rule-6(3), a person guilty of an offence under this section shall be punishable with imprisonment for a term which may extend to two years, or with fine, or with both.

During audit of accounts of the PD, DHPP for the period from July, 2022 to June, 2023, it was observed that a purchase order for procurement of Camouflage Combat Dress (CCD) for WAPDA Security Force was issued by the GM (Security) WAPDA on June 01, 2023 at a contract price of Rs.21.710 million. It was further observed that an amount of Rs.20 million out of funds of DHPP was paid to the GM (Finance) Coordination WAPDA for the said procurement. However, while placing the purchase order, aforementioned provisions of the Official Secrets Act, 1923 were not kept in view and No Objection Certificate was also not obtained from Ministry of Interior (GoP). Later on, all the formations were directed by the Security Directorate WAPDA vide office letter dated August 23, 2023 to discontinue wearing of CCD uniforms forthwith. Audit held that purchase of CCD uniforms, in violation of Official Secrets Act was unlawful and restriction on subsequent wearing of this uniform

caused wastage of resources for which no responsibility was fixed.

Non-adherence to provisions of the Official Secrets Act, 1923 resulted in wasteful expenditure of Rs.21.710 million due to unlawful purchase of CCD uniforms for WAPDA security staff during the FY 2022-23.

The matter was taken up with the management in September, 2023 and reported to the Ministry in November, 2023. The management replied that WAPDA Authority accorded approval for purchase of CCD uniforms and an amount of Rs.20 million was transferred on the request of GM (Finance) Coordination. Moreover, GM Security WAPDA had been approached regarding the audit observation.

The reply was not acceptable because CCD uniforms were purchased in violation of Official Secrets Act which was unlawful. Moreover, its payment from DHPP was unjustified and wasteful.

The PAO was requested to schedule a DAC meeting vide this office letters dated December 15 & 19, 2023. Subsequently, as per procedure, two reminders were also issued on December 27, 2023 and January 09, 2024, however, DAC meeting could not be scheduled.

Audit recommends the management to inquire the matter at the level of MoWR for fixing of responsibility for recovery of wasteful expenditure incurred on unlawful purchase of uniforms from the funds of DHPP.

(Draft Para No.328/2023-24)

CHAPTER-2

Impact Audit of Neelum Jhelum Hydropower Project, Muzaffarabad

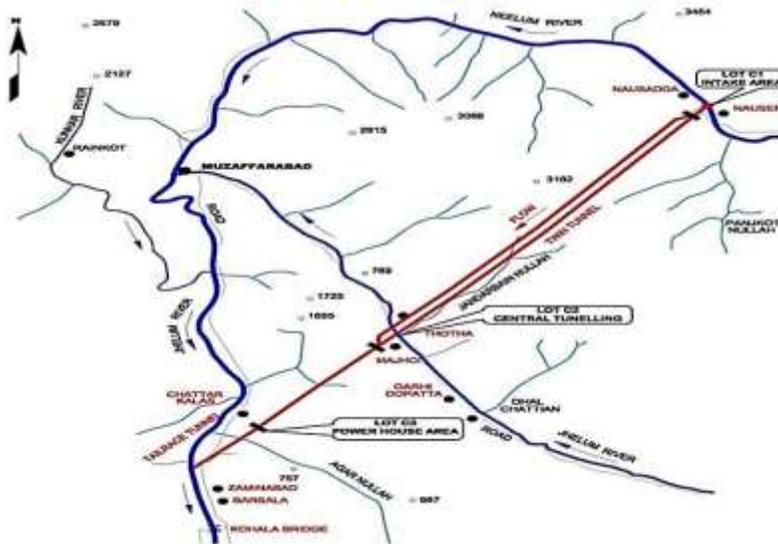
2. Impact Audit of Neelum Jhelum Hydropower Project, Muzaffarabad

2.1 Introduction

Impact audit is evidence based unique auditing approach employed to evaluate attributed outcomes of an initiative. Accordingly, impact audit of NJHPP was selected to determine impact of the project on power system of the country with respect to its share in total installed capacity, share in total electricity generation, change in electricity generation mix of the country and its impact on environment.

2.1.1 Background of the Project

NJHPP is located in District Muzaffarabad, the State of Azad Jammu and Kashmir (AJK). NJHPP is a run of river power project having an installed generation capacity of 969 MW. The project envisaged diversion of Neelum River's water through tunnels at Nauseri about 41 KM upstream of Muzaffarabad and out-falling in Jhelum River at Chatter Kalas in Muzaffarabad.



2.2 Role of the Project

The installed electricity generation capacity of the country was becoming insufficient to

support the overall national growth of the country with the increase in demand of electricity. More reliance on short term measures i.e. thermal power projects resulted in expensive electricity as compared to cheaper and cleaner hydel energy. Expensive thermal power generation also adversely contributed in the environmental issues due to release of excessive Carbon Dioxide (CO₂) in the atmosphere. Therefore, an initiative was taken by the GoP to install a hydropower project with an annual average generation of 5,150 Gigawatt hours (GWh) of cheaper and cleaner environmental friendly energy. Another major reason of this initiative was to establish Pakistan's rights on the Neelum River under the IWT-1960. More importantly, being an environment friendly project, it was aimed to reap additional revenue

amounting to US\$ 12.533 million annually through sale of carbon credits under Clean Development Mechanism (CDM).

2.2 Overview

The original PC-I of the project was approved by ECNEC on December 31, 1989 at a total cost of Rs.15,253 million. Later on, subsequent to three intermediary revisions of PC-I, fourth revised PC-I of NJHPP was approved by ECNEC on May 22, 2018 at a total cost of Rs.506,808 million.

The project was executed by WAPDA under the supervisory control of MoWR. In order to run the affairs of the project, a separate Company i.e. NJHPC headed by an independent CEO/Managing Director was established on November 18, 2004. The construction activities of the project started in January, 2008 with planned completion period of eight years. However, the project could only be substantially completed in 2018 and started its commercial operation w.e.f July 04, 2018 in July, 2018.

2.3 Scope and Methodology

a. Scope

The NJHPP was commissioned in 2018, therefore, data was analyzed for a period of five years i.e. from FY 2017-18 to FY 2021-22 for ascertaining the level of performance achieved with respect to ‘condition with’ and ‘condition without’ the initiative.

The main objectives of the NJHPP were to:

- Achieve power generation capacity of 969 MW.
- Generate annual average energy of 5,150 GWh units.
- Establish water rights on Neelum River for Pakistan.
- Reap benefits of CDM.

b. Methodology

Information was collected and analyzed to determine the impact of the NJHPP through comparison of targets and achievements, percentage calculations, trend analysis and scrutiny of monitoring reports.

- i. Annual installed capacity data was obtained to compare it with the installed capacity of WAPDA and the country, before and after commissioning of the project to calculate its impact in terms of percentage share of the project in enhancing the installed capacity of WAPDA and country respectively.
- ii. Impact audit focused on calculating the impact of the project on overall energy generation of WAPDA and country before and after commissioning of the project up to the FY 2021-22.
- iii. The impact of energy generation of the project on revenues of WAPDA was also

analyzed.

- iv. Data relating to generation mix of installed capacity with regards to hydel and thermal power was also obtained to ascertain impact of the project on generation mix of the country.
- v. Impact of project on the environment was analyzed by calculating the reduction in release of CO₂ as compared to generation of same amount of energy through thermal power. Further, impact of the project on environment of local area was also analyzed.
- vi. Impact on water rights with regards to Kishenganga case on the annual generation of the project was also determined.

2.4 Findings

2.4.1 Impact of NJHPP on installed capacity of WAPDA

During impact audit of NJHPP, it was observed that installed capacity of WAPDA increased by 969 MW after commissioning of powerhouse of NJHPP on July 04, 2018 as tabulated below:

Description	As on June 30, 2018 (without NJHPP)	As on July 04, 2018 (with NJHPP)	Increase in installed capacity of WAPDA after commissioning of NJHPP	
	(MW)	(MW)	(MW)	%age
Installed Capacity of Hydel Power Plants of WAPDA	7,372	8,341	969	13.14%

Impact: The impact of NJHPP on installed capacity of WAPDA was 13.14%.

2.4.2 Impact of NJHPP on installed capacity of the country

During impact audit of NJHPP, it was observed that powerhouse having installed capacity of 969 MW was commissioned on July 04, 2018. The installed capacity of country before its commissioning i.e. up to June, 2018 was 35,007 MW. After commissioning of powerhouse of NJHPP, total installed capacity of the county during 2018-19 increased up to 38,440 MW which included installed capacity of NJHPP i.e. 969 MW. The impact of the NJHPP on National installed capacity was 2.52 % during the FY 2018-19.

Financial Year	Total installed capacity of the country	Share of NJHPP in total installed capacity of the country	
		MW	% age
2017-18	35,007	-	-
2018-19	38,440	969	2.52%
2019-20	38,703	969	2.50%
2020-21	37,466	969	2.59%
2021-22	40,783	969	2.38%
Average (2018-19 to 2021-22)		969	2.50%

Impact: Average impact of NJHPP on the total installed capacity of the country was 2.50%.

2.4.3 Impact of NJHPP on energy generation of WAPDA

During impact audit of NJHPP, it was observed that 27,431 GWh energy units were generated by WAPDA during the FY 2017-18. After commissioning of powerhouse of NJHPP, the project generated 3,960 GWh units during FY 2018-19, resultantly, total energy generation of WAPDA increased to 31,146 GWh units wherein share of NJHPP was 12.71%. The data showing the impact of NJHPP on total energy generation of WAPDA for five financial years is tabulated below:

Financial Year	Total energy generation of WAPDA including NJHPP	Share of NJHPP in total energy generation of WAPDA	
		GWh	% age
2017-18	27,431	269	1.00%
2018-19	31,146	3,960	12.71%
2019-20	37,431	4,842	12.94%
2020-21	37,144	4,789	12.89%
2021-22	33,449	4,307	12.88%
Average (2018-19 to 2021-22)			12.85%

Impact: An overall impact of the project on total energy generation of WAPDA was 12.85%.

2.4.4 Impact of NJHPP on total energy generation of the country

During impact audit of NJHPP, it was observed that total energy generation of the country during the FY 2017-18 was 133,833 GWh units. After commissioning of powerhouse of NJHPP, total energy generation of the country increased to 136,059 GWh units during FY 2018-19 including generation of 3,960 GWh units by NJHPP. The relevant data is tabulated below:

Financial Year	Total energy generation of the country	Share of NJHPP in total energy generation of the country	
		GWh	%age
2017-18	133,833	*269	0.20%
2018-19	136,059	3,960	2.91%
2019-20	134,753	4,842	3.59%
2020-21	144,099	4,789	3.32%
2021-22	153,822	4,307	2.80%
Average (2018-19 to 2021-22)			3.16%

* Test run generation

Impact: The overall impact of the project on total energy generation of the country was 3.16% with an average annual energy generation of 4,500 GWh units.

2.4.5 Increase in revenue of WAPDA

During impact audit of NJHPP, it was observed that annual revenue of WAPDA for the FY 2017-18 was Rs.59,317 million. After commissioning of the project, revenue of WAPDA was increased to Rs.93,941 million in the FY 2018-19 including revenue of Rs.27,797 million earned from NJHPP. The data showing impact of NJHPP on total revenue of WAPDA for five financial years is tabulated below:

Entity	(Rs. in million)									
	2017-18		2018-19		2019-20		2020-21		2021-22	
	Amount	%age	Amount	%age	Amount	%age	Amount	%age	Amount	%age
WAPDA Excluding NJHPP	59,317	100	66,144	70	62,764	58	66,770	60	98,711	69
NJHPP	-	0	27,797	30	45,262	42	44,826	40	43,619	31
TOTAL	59,317	100	93,941	100	108,026	100	111,595	100	142,330	100

Impact: An overall impact of NJHPP on the revenue of WAPDA during 2018-19 to 2021-22 was 35.75%.

2.4.6 Impact of NJHPP on the energy generation mix

During impact audit of NJHPP, it was observed that before commissioning of the Project, Hydel to Thermal energy generation mix ratio of the country was 24.43:75.56 (Hydel:Thermal) during the FY 2017-18. Upon commissioning of the project in July, 2018, Hydel to Thermal generation mix ratio improved to 27.50:72.50 (Hydel:Thermal). During the FY 2018-19, energy generation mix ratio improved by 3.07% wherein impact due to commissioning of NJHPP was 1.45%.

Rival Factors:

During the FY 2018-19, two units of T4HPP with installed generation capacity of 940 MW with a share of 1.40% and GGHPS with installed generation Capacity of 108 MW with a share of 0.16% were also commissioned. Similarly, other Hydel Independent Power Producers (IPPs) of 40 MW were commissioned during the same year having a share of 0.06%.

Name of powerhouse	Increase in installed capacity of the country during 2018-19		Proportionate increase in energy mix of the country
	MW	%age	%age
NJHPP	969	47.15%	1.45%
T4HPP	940	45.74%	1.40%
GGHPS	106	5.16%	0.16%
Hydel IPPs	40	1.95%	0.06%
Total Increase	2,055	100.00%	3.07%

2.4.7 Generation of clean energy by the project avoiding release of 9.61 million tons of Carbon Dioxide in the atmosphere

During impact audit of NJHPP, it was observed from 4th revised PC-I of the project that after completion, the project was supposed to avoid annual release of 2.5 million tons of CO₂ in the atmosphere on energy generation of 5,150 GWh units. Since commissioning, the project could not achieve its intended annual energy generation of 5,150 GWh units. However, it contributed to a sizable positive impact on the environment by avoiding release of 9.61 million tons of CO₂ in the environment due to generation of clean energy during 2018-22.

Calendar Year	Actual Generation	Targeted Generation as per PC-I	Avoided Emission of CO ₂	Loss of Revenue @ US\$ 5/Ton
Jan.-Dec.	GWh	GWh	million Tons	US\$ in million
2018	1,531	2,405	1.60	8.00
2019	4,526	5,150	2.20	11.00
2020	4,941	5,150	2.40	12.00
2021	4,521	5,150	2.20	11.00
2022	2,476	5,150	1.21	6.05
TOTAL	17,995	23,005	9.61	48.05

Carbon credits @ US\$ 5 per ton of CO₂ emissions were to be claimed by the management from United Nations Framework Convention on Climate Change. As per PC-I, the project would earn CDM revenues of US\$ 12.53 million per annum but no efforts were made by the management to avail CDM benefits and the project could not earn the envisaged revenue of US\$ 48.05 million against generation of this clean energy under CDM income during 2018-22.

As an impact of non-claiming of the carbon credits, Pakistan’s rating on Environment Performance Index (EPI) could not improve internationally and Pakistan stood at 176/180 position in EPI, 2022.

2.4.8 Reduction in annual generation and serious environmental issues due to improper environmental studies at planning stage

During impact audit of NJHPP, it was observed that due to diversion of water of Neelum River through NJHPP, the river flow fell below the intake area up to Muzaffarabad city. This situation created adverse effects on environment in terms of deterioration of river water quality because of less flow and reduction in water supply for Muzaffarabad city. The situation unleashed serious environmental and social issues downstream. It’s worth mentioning here that Environmental Impact Assessment report prepared by WAPDA and later on conditionally approved by the Environmental Protection Agency of AJK on January 22, 2011 was deficient as it had not taken into account the social & environmental impact regarding aquatic ecology and dilution of routine urban contaminations, etc. Due to such deficiencies, the minimum environmental flow (water flow) of 9 cumec was found to be deficient when executed on trial basis by NJHPP. Thus, environmental studies at planning stage caused serious environmental issues in Muzaffarabad.

Later on, to address the environmental challenges, minimum flow was increased from 9 cumecs to 20 cumecs which resulted in reduction of water supply to NJHPP causing annual reduction in generation of 335 million kWh units (approximately). This situation had arisen due to lack of due diligence at the time of project planning stage leading to serious environmental issues for Muzaffarabad.

2.4.9 Impact on generation of NJHPP on account of water rights of Neelum River

During impact audit of NJHPP, it came to notice that Pakistan’s Cabinet Committee on Wuller Barrage and Storage Project took a decision on February 08, 1988 in the light of provisions of IWT-1960 that Pakistan should seriously consider construction of all feasible projects on tributaries of River Jhelum for agricultural use and/or hydro electrical use in order to take lead in the region. Accordingly, PC-I of NJHPP was approved in 1989, however, owing to several reasons, work on the project could not start till 2002. Due to this inordinate delay in execution of the project, Pakistan’s water rights on Neelum River were reduced to E-flow of 09 cumecs (Kishenganga case). Detail of its impact on generation is tabulated below:

Particulars	Energy in GWh
Annual generation as per PC-I of NJHPP	5,150
Annual generation after Kishenganga case	4,663

Impact of Kishenganga case	487
----------------------------	-----

Impact: The financial impact of water rights after Kishenganga case was Rs.4,440.660 million @ Rs.9.1184 per KWh

2.5 Conclusion

The project achieved installed capacity of 969 MW on its commissioning which led to an increase of 13.14% in installed capacity of WAPDA i.e. from 7,372 MW to 8,341 MW, whereas, average impact of this initiative on installed capacity of the country was 2.50%. Further, overall impact of NJHPP on generation of WAPDA was 12.85%. However, the project could not achieve total annual estimated generation of 5,150 GWh units due to deficient environmental studies carried out at planning stage and revised water rights after Kishenganga case. The impact of project on energy generation of Pakistan was an increase of 3.16% with an annual average generation of 4,500 GWh units, whereas, revenue of WAPDA increased by 35%. At the same time, the impact of project in improving the generation mix was 1.45%. The project avoided release of 9.61 million tons of CO₂ in the environment on generation of clean energy since its commissioning in 2018. Unfortunately, the project could not earn the envisaged revenue of US\$ 48.05 million against generation of this clean energy under CDM and due to non-claiming of the carbon credits, EPI rating of Pakistan could not improve till 2022.



AUDIT REPORT
ON
THE ACCOUNTS OF
FEDERAL BOARD OF REVENUE
(INLAND REVENUE & CUSTOMS)

AUDIT YEAR 2023-24

AUDITOR-GENERAL OF PAKISTAN

DIRECTORATE OF AUDIT (INLAND REVENUE & CUSTOMS)

CHAPTER-1

PUBLIC SECTOR FINANCIAL MANAGEMENT ISSUES

This chapter highlights significant issues related to financial management, accounting, and reporting by the Federal Board of Revenue.

The accounting of receipt vouchers is performed primarily by FBR itself through departmental treasuries. FBR provided the collection record of its receipts (source documents – reconciliations between FBR & AGPR). The audit analysed Civil Accounts received from AGPR Islamabad and figures of tax receipts from the main office of the State Bank of Pakistan, Karachi and the Head office of the National Bank of Pakistan, Karachi. The observations of Directorates General Audit Inland Revenue and Customs, Lahore & Karachi are clubbed into the following paras;

1.1 Variation in figures of tax receipts (Net) between FBR and SBP - Rs 1,188 million

According to Para 3.4.2.12 of the Manual of Accounting Principles each entity is required to reconcile its books of accounts with the bank record at the close of each month. This reconciliation is to be performed in accordance with policies and procedures set out in para 5.5.9 and 6.5.2 of the Accounting Policies and Procedures Manual.

Scrutiny of figures of tax receipts of SBP and the figures reported by FBR showed that there was a variation of Rs 1,188 million for the FY 2022-23 in respect of net tax receipts as summarized below: -

(Rs in million)

S #	Head of Account	Collection figures of FBR **	Collection figures of SBP (NET) *	Variation
1	Income Tax	3,220,474.34	3,187,145.85	33,328.49
2	Customs	917,875.00	950,187.03	(32,312.03)
3	Sales Tax	2,591,432.70	2,582,657.06	8,775.64
4	Federal Excise Duty	361,212.60	369,816.95	(8,604.35)
	Total Taxes	7,090,994.64	7,089,806.89	1,187.75

* Source: As per record of SBP provided to Audit for FY 2022-2023

** Source: Reconciliation Statement submitted by FBR in AGPR up to June (Final) 2023.

This may impair true and fair presentation of financial statements because the receipts figure of FBR was on the higher side as compared to the actual cash collected and reported by the State Bank of Pakistan.

The management replied that the collection on account of “Book Adjustment” pertaining to Income Tax & Sales Tax had not been incorporated in the figures of SBP. Further, the automated “Refunds/Duty Drawbacks and Customs Refunds/Rebates adjustment” needed to be incorporated in the figures of SBP. After the inclusion/exclusion of the above amounts, the overall “NET” variation was only Rs 16.30 million. The amount of Refunds/Duty drawbacks of Rs 34,162.10 million paid through the automated system had been communicated by the SBP, however, the proof of payment/mechanism was not provided. The collection on account of Export Development Surcharge (EDS) amounting to Rs 13,852 million which was included in the figures of Customs Duty pertained to the Ministry of Commerce and was also not a part of the revenue collection reported by the FBR. However, there was still a variation of Rs 3,541 million (WWF/WPPF Rs 3,525 million and Rs 16.30 million) after accepting the stance of the department.

The Audit holds that the Directorate of Research and Statistics (DR&S) was entrusted with the responsibility of reconciliation with external sources i.e. AGPR and SBP. DR&S informed that the matter regarding the reconciliation of June final 2022-23 had been taken up with the Finance Division. The department was requested to pursue the matter of developing an integrated interface for real-time monitoring of receipts with SBP and AGPR.

The DAC, in its meeting held in November 2023, directed the DR&S to pursue the matter with the Finance Division, Islamabad for clarification to proceed further in the matter and continue the reconciliation process from March 2023 and report progress to Audit & FBR. No further progress was reported till the finalisation of this report.

The Audit recommends monthly reconciliation of receipts between FBR and SBP to accurately report on Federal Government accounts.

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2020-21, 2021-22, and 2022-23 vide para numbers 1.1 (of each Audit Report) having a financial impact of Rs 62,159 million. The recurrence of the same irregularity is a matter of serious concern.

1.2 Variation in figures of refund of tax receipts between FBR & SBP - Rs 28,799 million

According to Para 3.4.2.12 of the Manual of Accounting Principles, each entity is required to reconcile its books of accounts with the bank records at the close of each month. This reconciliation is to be performed in accordance with policies and procedures set out in para 5.5.9 and 6.5.2 of the Accounting Policies and Procedures Manual.

Scrutiny of refund record (figures up to June Final 2023), revealed variations in figures of refunds on account of Income Tax, Customs, Sales Tax and Federal Excise Duty amounting to Rs 28,799.15 million. The SBP's total was lower than FBR's as tabulated below: -

(Rs in million)

Refund	Figures of refund/rebate of FBR*	Figures of refund of tax receipts of SBP **	Variation
Income Tax	17,298.19	17,956.01	(657.82)
Customs	38,150.73	6,678.00	31,472.73
Sales Tax	280,100.20	282,104.50	(2,004.30)
Federal Excise Duty	0	11.46	(11.46)
Total	335,549.12	306,749.97	28,799.15

* Source: Figures provided by FBR

** Source: Figures provided by SBP

This may impair the true and fair presentation of financial statements because the refund figures from external source i.e. SBP were on the lower side.

The management replied that there was no proper mechanism for reconciliation of "Revenue Receipts & Payments" between FBR and SBP at the macro level. The FBR undertook reconciliation with the office of AGPR, Islamabad at the national level on a net basis and generally, there were no substantial variations in the figures of refunds between FBR and AGPR. The huge variation pointed out by the Audit had been examined and it was due to the exclusion of book adjustment which caused variations. Refund adjustments pertaining to income tax had not been incorporated in the figures of SBP. Duty drawbacks pertaining to Customs paid through an automated system had not been incorporated in the figures of SBP. Refunds recalled pertaining to Sales Tax had to be included in the head of FED Refunds Adjustment reported by SBP. After passing all these Adjusting/Transfer entries a variation of Rs 110.3 million was left between FBR /AGPR/SBP.

Audit holds that after passing all the Adjusting/Transfer entries, there is still a variation of Rs 110.3 million between the FBR /AGPR/SBP figures.

The DAC, in its meeting held in November 2023, recommended re-examining the issue to the extent of Rs 110.3 million and reporting to Audit/FBR within four weeks. No further progress was reported till the finalization of this report.

Audit recommends monthly reconciliation of refund/rebate figures between FBR and SBP to accurately report on the Federal Government accounts.

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2020-21, 2021-22, and 2022-23 vide para numbers 1.2 (of each Audit Report) having a financial impact of Rs 78,755 million. The recurrence of the same irregularity is a matter of serious concern.

1.3 Variation in figures of Tax Receipts (Net) between FBR and AGPR - Rs 58 million

According to Para 3.4.2.12 of the Manual of Accounting Principles, each entity is required to reconcile its books of accounts with the bank records at the close of each month. This reconciliation is to be performed in accordance with policies and procedures set out in para 5.5.9 and 6.5.2 of the Accounting Policies and Procedures Manual.

Scrutiny of the data provided by AGPR and data statements provided by FBR up to the month of June (Final) 2023, showed that there was a variation of Rs 58 million in respect of net tax receipts as summarized below: -

(Rs in million)

S #	Head of Account	Collection figures of FBR **	Collection figures of AGPR *	Variation
1	Income Tax	3,220,474.34	3,220,499.46	(25.12)
2	Customs	917,875.00	917,893.77	(18.77)
3	Sales Tax	2,591,432.70	2,591,447.72	(15.02)
4	FED	361,212.60	361,211.70	0.90
	Total Taxes	7,090,994.64	7,091,052.65	(58.01)

* Source: Scrutiny of data for the year 2022-23 prepared by AGPR, Islamabad

** Source: Statement prepared by FBR up to June (Final) 2023

This may impair the true and fair presentation of financial statements of the Federal Government.

The department submitted that the variation of Rs 58 million between the figures of FBR and AGPR as pointed out by the Audit was likely to be settled/ removed after national level final reconciliation for the FY 2022-23 between FBR and AGPR. The reconciliation of revenue receipts between FBR and AGPR at the national level was pending due to non-reconciliation of the collection of Exports Development Surcharge (EDS) by the latter and the matter was being actively pursued

by FBR with the Finance Division. The figures of June 2023 (Supplementary) were also required to be finalized and hopefully, there would be no variation between the collection figures of FBR and AGPR (NET) for the FY 2022-23 as and when national level reconciliation between FBR and AGPR would be undertaken/ finalized with the AGPR.

The DAC, in its meeting held in November 2023, discussed the issue in detail and directed the DR&S to take up the matter with the Finance Division regarding reconciliation and report progress to Audit/FBR within six weeks. No further progress was reported until the finalisation of this report.

Audit recommends monthly reconciliation of receipts between FBR and AGPR to accurately report on the Federal Government accounts.

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2018-19 and 2019-20 vide para numbers 1.3 and 1.4 having a financial impact of Rs 20,173 million. The recurrence of the same irregularity is a matter of serious concern.

1.4 Non-reconciliation of revenue collection between FBR and AGPR

According to Para 5(d) of the System of Financial Control and Budgeting, each Principal Accounting Officer is required to make sure that the accounts of receipts (shares therefrom assigned to provinces) are maintained properly and reconciled every month. Further, according to GFR-26, "it is the duty of the departmental controlling officers to see that all sums due to the government are regularly and promptly assessed, realized and duly credited in the Public Account". Moreover, according to para 5.5.9.3 of Accounting Policies and Procedures Manual, the Accountant General and the Tax Collecting Agencies will be jointly responsible for reconciliation of tax revenues, in the manner prescribed by the Auditor-General.

During the audit of receipts collected by the FBR, it was observed that FBR was required to reconcile accounts of receipts with AGPR every month, but the accounts had not been reconciled after February 2023. Moreover, the reconciliation of revenue receipts between FBR and AGPR at the national level was pending for the whole FY 2022-23.

The DAC, in its meeting held in November 2023, discussed the issue in detail and DAC directed the department to expedite the matter of reconciliation and report progress to Audit/FBR within six weeks. No further progress was reported until the finalisation of this report.

Audit recommends monthly reconciliation and compilation of revenue receipts between FBR and AGPR to accurately report on the Federal Government accounts.

CHAPTER-2 FEDERAL BOARD OF REVENUE

2.1 Introduction

A. The Federal Board of Revenue Act 2007 governs the Federal Board of Revenue (FBR). The Board comprises of at least seven members, headed by a Chairman appointed by the Federal Government. The powers of FBR to collect taxes are currently embodied in the Income Tax Ordinance 2001, Sales Tax Act 1990, Federal Excise Duty Act 2005, Customs Act 1969 and Islamabad Capital Territory (Tax on Services) Ordinance 2001. These statutory laws are amended through the Finance Act/Ordinance to implement budget proposals of the Federal Government. FBR operates as an attached department of the Revenue Division as per Rules of Business 1973.

The FBR is responsible for collecting income tax, sales tax, federal excise duty, customs duty and tax on services rendered under the territorial jurisdiction of Islamabad Capital Territory (ICT). Moreover, FBR is also responsible for collecting the Workers' Welfare Fund under the Workers' Welfare Fund Ordinance 1971 and the Workers' Profit Participation Fund, established under the Workers' Participation Fund Ordinance 1968.

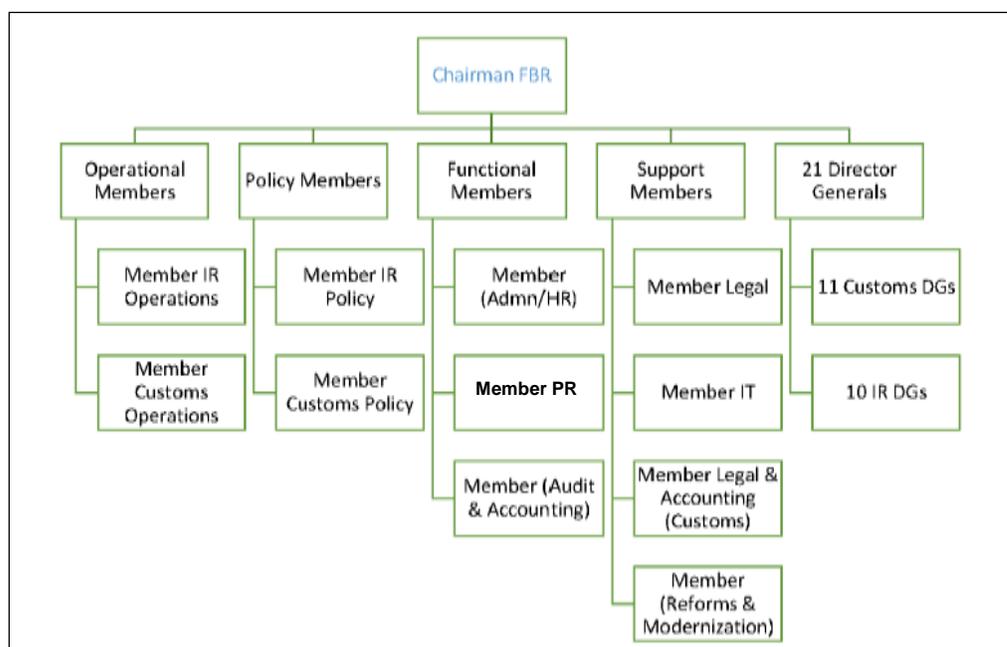
Significant powers and functions of FBR are as follows:

- i. Implementing the provisions of all fiscal laws for the time being in force and taking any action, making policy, issuing rules or guidelines for the purpose;
- ii. Honouring international obligations under a treaty, resolution or any global commitment;
- iii. Promoting a culture of voluntary tax compliance, making the Board a service-oriented organisation, and transforming the Board into a modern and efficient organisation;
- iv. Enabling electronic communication optimally effective in respect of all taxation matters such as e-filing, e-payments, e-notice, e-notification, digital imaging, protocols or agreements as may be prescribed from time to time;
- v. Setting up mechanisms and processes that facilitate the removal of grievances and complaints from the taxpayers;
- vi. Directing or advising investigations and inquiries into suspected duty tax evasion, tax and commercial fraud, money laundering, and financial crimes and coordinating with the relevant law enforcement agencies;

- vii. Taking appropriate measures, including devising internal controls to combat corruption within the organisations under the Board and providing checks to ensure the integrity of employees that are verified periodically through an applicable procedure and which should be made one of the criteria for promotions and incentives;
- viii. Granting additional allowances or any other incentives and rewards to the employees and members of the Board; and
- ix. Preparing an annual report of its activities and present it to the Prime Minister, the National Assembly and the Senate.

Currently, the Board has 15 members and 21 Directors General (11 for Customs and 10 for Inland Revenue), as detailed in Figure 1 below.

Figure 1: Organogram of Federal Board of Revenue



B. Comments on Budget and Accounts (Variance Analysis)

The original budget grant for the FY 2022-23 was Rs 34,398 million, later on, an amount of Rs 11,041 million was re-appropriated. The budget was again re-appropriated out of which an amount of Rs 347 million was surrendered. Further, an amount of Rs 93 million was not spent till the close of the FY.

The Audit observed that employee-related expenses were reduced by Rs 3,882 million (from Rs 23,713 million to Rs 19,831 million), whereas operating expenses were enhanced by Rs 4,007 million (from Rs 6,495 million to Rs 10,502 million) out of which an amount of Rs 180.78 million was surrendered and Rs 59.86 million remained unspent.

This depicts weak controls in the planning, allocation, and execution of the budget. Therefore, the Audit recommends that the budget planning should be rationalized to avoid misappropriation and ensure effective utilization of public funds.

C. Sectoral Analysis of the Federal Board of Revenue (FBR)

FBR was assigned certain revenue targets through the Finance Act 2022. The purpose of this analysis was to review FBR's overall collection of taxes during the FY 2022-23 against these targets and to highlight certain areas of concern.

(i) FBR's Performance for FY 2022-23

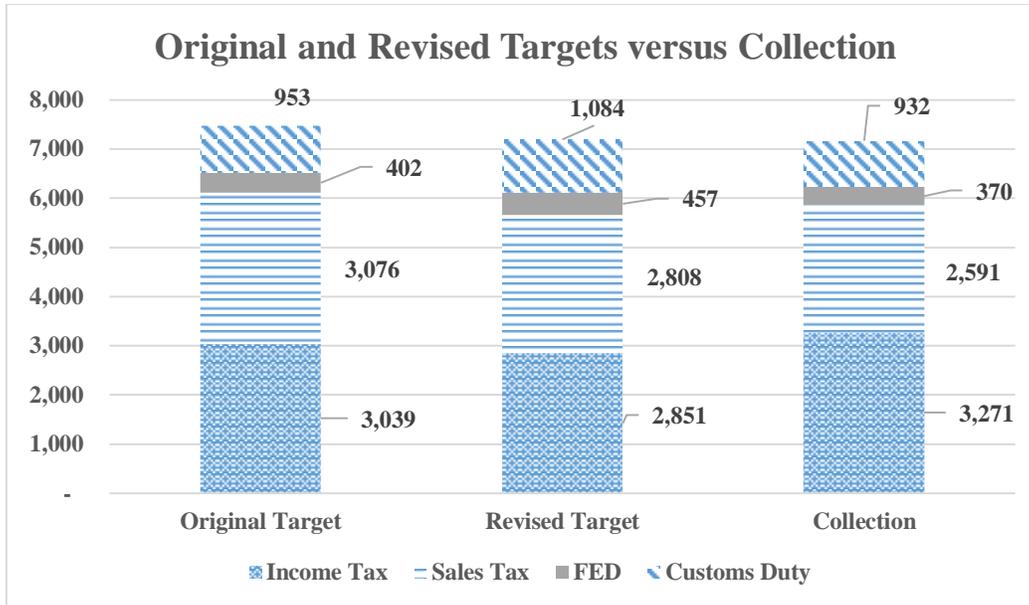
The original target of FBR collection under all heads was Rs 7,470 Billion, revised downwards to Rs 7,200 Billion for the FY 2022-23. However, FBR succeeded in collecting revenue of Rs 7,164 Billion as summarized below:

(Rs in Billion)

Head of account	Target		Collection	Achievement (Revised Target)	
	Original	Revised		Absolute	Percentage
Direct Tax	3,039	2,851	3,271	420	114.7
Indirect Taxes					
Sales Tax	3,076	2,808	2,591	-217	92.3
FED	402	457	370	-87	81.0
Customs Duty	953	1,084	932	-152	86.0
Total (IDT)	4,431	4,349	3,893	-456	89.5
All Taxes	7,470	7,200	7,164	-36	99.5

Source: FBR Year Book 2022-23

(Rs in Billion)



The Audit observed that FBR was not able to meet the budgeted as well as the reduced revenue targets. The collection of direct taxes amounting to Rs 3,271 Billion was more than the original target of Rs 3,039 Billion as well as the revised target of Rs 2,851 Billion. However, the collection of sales tax, federal excise duty and customs duty could not meet the original or the revised target. Resultantly, FBR marginally missed its overall revised target despite increased collection from direct taxes.

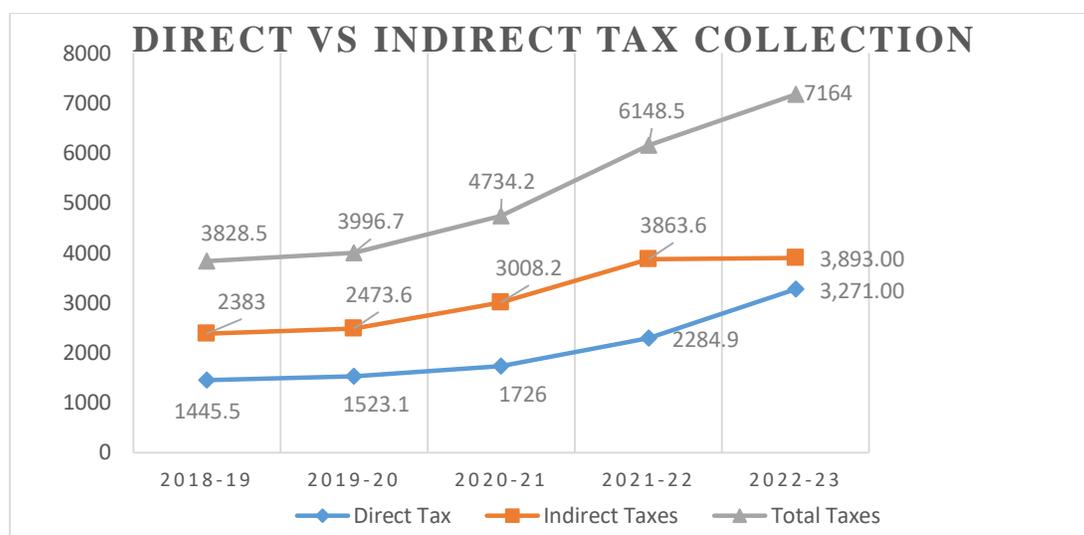
(ii) Direct and Indirect Taxes

Historically indirect taxes have contributed more towards the total collection, however, in the FY 2022-23 direct taxes contributed 45.6% of the total collection as compared to 37% in the previous FY. This increase can be attributed to the collection of advance tax, high interest rates on bank deposits, rise in salaries, increased dollar rate and withholding of tax, which constituted 57% of the total collection in the FY 2022-23. A comparison for the last five years in respect of direct and indirect tax collection is tabulated below:

(Rs in Billion)

	2018-19	2019-20	2020-21	2021-22	2022-23
Direct Tax	1,445	1,523	1,726	2,285	3,271
Indirect Taxes	2,383	2,473	3,008	3,863	3,893
Total Collection	3,828	3,996	4,734	6,148	7,164

Sources: FBR's Year Books



The increase in direct tax collection was 43% which surpassed the increase of 16.5% in total tax collection.

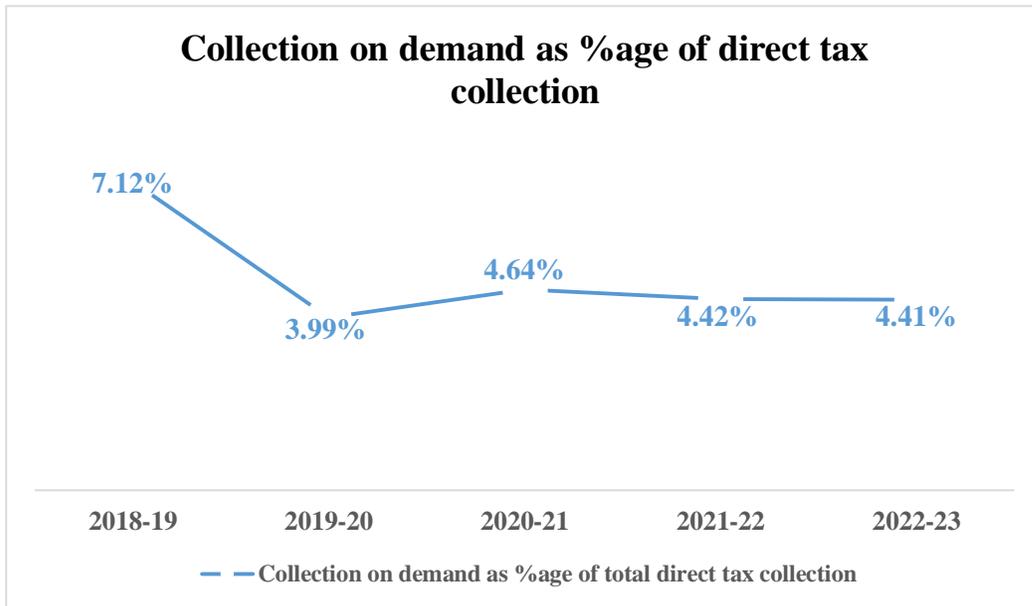
(iii) Tax on Demand - Performance indicator of FBR (Direct Tax)

Tax collection in respect of direct taxes consists of advance payment of income tax, which includes tax deducted and collected under Income Tax Ordinance 2001. Under the self-assessment system introduced in tax year 2003, every return filed by a taxpayer is deemed an assessment order. The department is also responsible for preventing tax avoidance and evasion by amending these deemed assessments and creating tax demand. The indicator of collection on demand depicts the department's actual performance which justifies its budgetary allocation and expenditure. An analysis of collection on demand is as follows:

(Rs in Billion)

	2018-19	2019-20	2020-21	2021-22	2022-23
Total Direct Tax	1,445.50	1,523.10	1,726.00	2,284.90	3,271.00
Collection on demand	102.93	60.81	80.14	101.09	144.30
Collection on Demand as %age of direct tax collection	7.12%	3.99%	4.64%	4.42%	4.41%

Sources: FBR's Year Books



The Audit observed that total direct taxes including withholding taxes collected by FBR amounted to Rs 3,271 Billion for the FY 2022-23. However, collection on demand was Rs 144.30 Billion for FY 2022-23, which constituted only 4.41% of the direct tax collection. Furthermore, the contribution of collection through tax demand in total direct tax collection was stagnant since FY 2018-19.

(iv) Withholding Taxes (Income Tax)

Tax collection under the withholding tax regime relies on the person making the payment by treating him as a withholding agent. Tax collection under this head is easier due to at-source deduction, therefore, withholding taxes form a major part of the total tax collection.

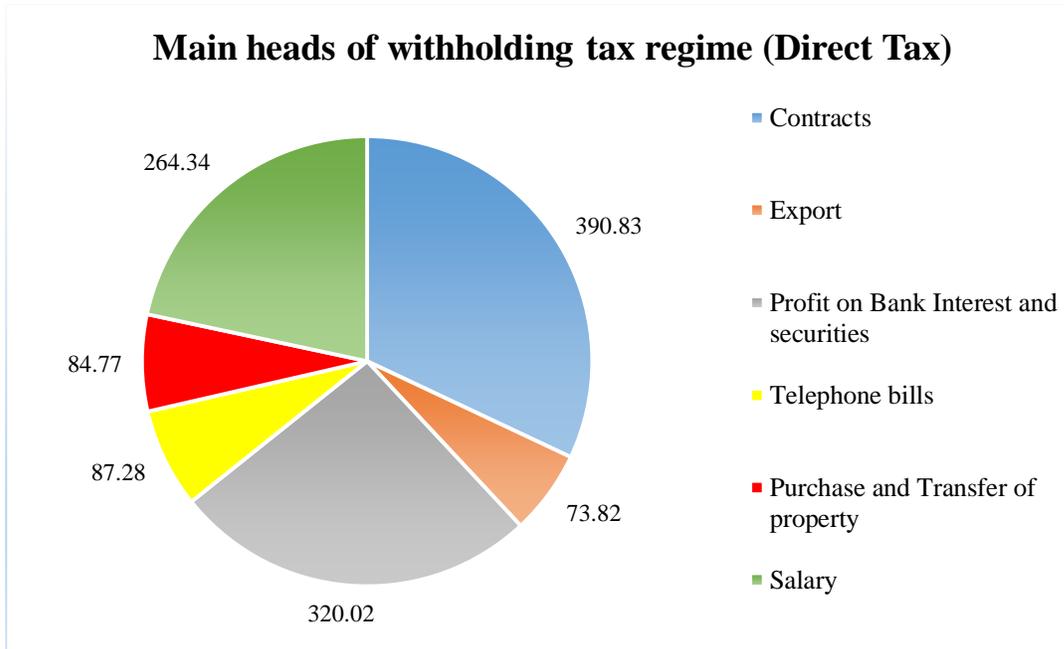
Tax collection on account of withholding taxes was Rs 1,874 Billion against the total direct tax collection of Rs 3,271 Billion for the FY 2022-23. In terms of proportion withholding taxes constituted 57% of the total direct taxes.

Among the ten major components of withholding, withholding taxes on contractual receipts, exports, bank interest and various other items fall under minimum tax or final tax regime. The Audit observed that collections under these heads were indirect in nature, but the same were being collected/reported as direct taxes by FBR. Moreover, the collections under the heads of telephone bills and purchases of properties were adjustable, however, these adjustments were not claimed by non-filers. FBR collected Rs 1,221.06 Billion withholding tax in these heads for the FY 2022-23, which was Rs 366.07 Billion more than the preceding FY. The increase in withholding tax regimes mainly attributed to increase salary rates. The detail is tabulated under:

(Rs in Billion)

Heads	FY 2022-23	FY 2021-22	Difference
Contracts	390.83	316.37	74.46
Export	73.82	62.90	10.92
Profit on Bank Interest and securities	320.02	154.80	165.22
Telephone bills	87.28	68.19	19.09
Purchase and Transfer of property	84.77	63.99	20.78
Salary	264.34	188.74	75.60
Total	1,221.06	854.99	366.07

(Rs in Billion)



2.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 737,868 million are raised in this report as a result of the current audit of the Federal Board of Revenue. Summary of the audit observations classified by their nature is as under:

Overview of Audit Observations

(Rs in million)

S. No.	Classification	Amount
1	Non-production of record	-
2	Receipt-related Irregularities	-
	i. Direct Taxes (Income Tax)	616,181
	ii. Indirect Taxes (Sales Tax and FED)	90,334
	iii. Customs Duty	28,186
	iv. Expenditure	3,167

3	Thematic Audits	-
4	Impact Audit	-
5	Stuck up in tribunals/courts	*124,122
Total		737,868

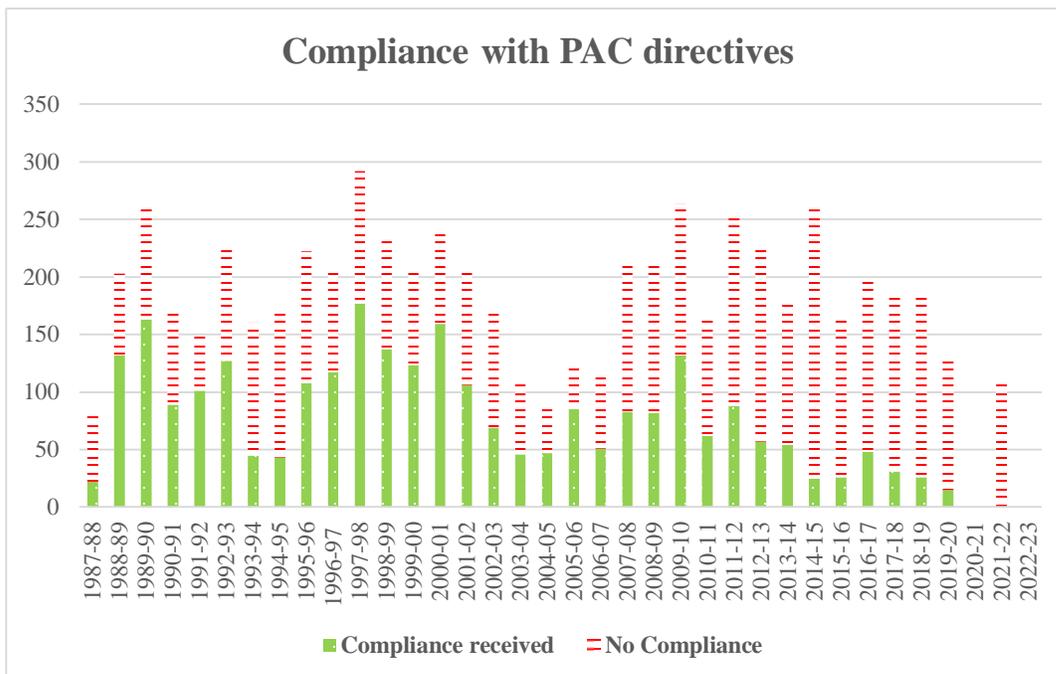
* This amount is not included in the total given above

2.3 Comments on the status of compliance with the PAC directives

The Public Accounts Committee is the primary accountability structure in the governance framework of Pakistan. Audit reports are laid before the esteemed forum for discussion every year for directions. A summary of the total paras discussed in PAC and their compliance is presented in the table and graph below:

Year	Total Paras discussed	Compliance received	No Compliance	%age Compliance
1987-88	83	22	61	27%
1988-89	203	132	71	65%
1989-90	259	163	96	63%
1990-91	171	89	82	52%
1991-92	148	101	47	68%
1992-93	229	127	102	55%
1993-94	160	45	115	28%
1994-95	168	43	125	26%
1995-96	222	108	114	49%
1996-97	207	117	90	57%
1997-98	292	177	115	61%
1998-99	232	137	95	59%
1999-00	204	123	81	60%
2000-01	239	159	80	67%
2001-02	206	106	100	51%
2002-03	169	69	100	41%
2003-04	107	46	61	43%
2004-05	88	47	41	53%
2005-06	121	85	36	70%
2006-07	114	51	63	45%
2007-08	210	83	127	40%

2008-09	210	82	128	39%
2009-10	263	132	131	50%
2010-11	163	62	101	38%
2011-12	253	88	165	35%
2012-13	224	57	167	25%
2013-14	176	54	122	31%
2014-15	259	25	234	10%
2015-16	166	26	140	16%
2016-17	199	48	151	24%
2017-18	187	31	156	17%
2018-19	183	26	157	14%
2019-20	131	15	116	11%
2020-21	42	Not discussed in PAC yet		
2021-22	108	0	107	0%
2022-23	93	Not discussed in PAC yet		



The aggregate mean from the table above shows that only 43% compliance with the PAC directives was made by FBR. Compliance with PAC directives as a percentage of total directives was 30% for direct taxes, 53% for indirect taxes and 44% for customs duties. Moreover, compliance with PAC directives was only 4.7% in the last five years (2015-16 to 2019-20). This reflects a lack of seriousness on the part of the FBR towards PAC directives. Resultantly, audit observations involving substantial revenue have been piling up year after year. This is alarming as chances of recovery of revenue diminish over time.

Compliance with PAC directives is a key performance indicator of FBR, but reporting on this Key Performance Indicator (KPI-10) is limited to timely communication of PAC directives by the Board to field formations and lacks active follow-up. The Audit recommends implementation of this KPI in letter and spirit through active follow-up of PAC directives and linking it with performance-based incentives.

CHAPTER-3 NON-PRODUCTION OF RECORD

3.1 Non-Production of record of Common Pool Fund (CPF)

Article 78 of the Constitution of Pakistan 1973, provides that all revenues received by the federal government or other monies received by or on behalf of Federal Government are either part of Federal Consolidated Fund or Public Account. Further, as per Article 169 *ibid*, Auditor-General is required to perform such functions as may be determined by the Parliament or the President in relation to accounts of the federation and provinces or any authority or body established by the federation or province. Moreover, section 14(3) of the AGP's Ordinance provides that any person or authority hindering the functions of the Auditor-General regarding inspections of accounts shall be subject to disciplinary action under relevant Efficiency and Discipline rules.

The Audit requisitioned record from seven (07) field offices of FBR (Customs) in respect of Common Pool Fund (CPF) constituted under Unified CPF Rules, 2014 for the FY 2022-23. However, record production was refused to Audit despite reminders as well as meetings with the concerned officers. Since the amount held in the common pool fund constituted of fees and charges levied under the federal law like GD processing fee, sealing and de-sealing fee and reward money sanctioned by the Federal Government etc., therefore, was auditable under the AGP's Ordinance. It is worth mentioning that amounts realized in the fund were kept in private bank accounts. Sanctity of utilization of Public Money according to relevant financial and reward rules could not be verified due to non-provision of auditable record. Moreover, non-production of record of CPF is tantamount to hindering

the performance of the constitutional duty of the Auditor-General of Pakistan.

The matter was taken up with the Chairman FBR by the Director General Audit Inland Revenue & Customs, Lahore as well as by the office of Auditor-General of Pakistan as per standard operating procedures. However, the matter of non-production could not be resolved. The matter was also taken up with the Finance Division by the AGP office. Finance Division directed the FBR to provide details of the subject account along with NOC/Approval of the Finance Division.

The DAC in its meeting held in December 2023 directed the department to submit a comprehensive reply. No further progress was reported by the department till finalization of this report.

The Audit recommends that the production of CPF records be ensured and disciplinary proceedings be initiated against the concerned.

[Annexure-2]

CHAPTER-4 INCOME TAX

4.1 Non-recovery of tax demands – Rs 85,349 million

Section 138 of the Income Tax Ordinance 2001, provides the procedure for the recovery of the due tax from taxpayers through attachment and sale of any movable or immovable property, arrest and detention of the taxpayer.

It was observed during the audit of the FYs 2021-22 and 2022-23, that in fourteen (14) field offices of FBR, three thousand and forty-three (3,043) cases, tax was charged against the taxpayers, but recoveries thereof were not made despite a lapse of considerable time. This resulted in non-recovery of tax amounting to Rs 85,629.74 million due to negligence of the tax authorities.

These irregularities were pointed out from February to November 2023. The department replied that Rs 280.30 million had been recovered, Rs 5,025.96 million were subjudice and an amount of Rs 80,323.48 had been charged but recovery was awaited.

The DAC, in its meetings held in July, August, December, 2023 and January 2024, directed the department to recover the amounts by 12th February 2024 and report compliance to Audit/FBR. No further progress was reported till the finalization of this report.

The Audit recommends proactive follow up and monitoring of recovery of due tax and strengthening monitoring controls by a dedicated supervisory team independent from the assessment function.

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2021-22 and 2022-23 vide para numbers 4.4.12, 4.4.6, 4.17 and 5.1 respectively having a financial impact of Rs 123,763 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-3]

4.2 Short-realization of income tax due to inadmissible expenses – Rs 104,667 million

Section 21 of the Income Tax Ordinance 2001, provides that certain expenses such as lease financial charges, provisional expenses and expenses which were not subjected to withholding tax shall not be allowed in computing taxable income under the head “Income from Business”.

It was observed during the audit of the FYs 2021-22 and 2022-23, that in seventeen (17) field offices of FBR, one thousand one hundred and seventy-three (1173) taxpayers claimed inadmissible expenses such as lease finance charges, provisional expenses and expenses where withholding tax was not deducted while computing taxable income. The department did not take corrective action to disallow such expenses which resulted in a short realization of tax amounting to Rs 104,667 million.

These irregularities were pointed out from February to November 2023. The management replied that proceedings for an amount of Rs 44,108.72 million had been initiated but not finalized, Rs 174.86 million had been charged but recovery was awaited and no reply for Rs 60,383.76 million was furnished.

The DAC, in its meetings held in July, August, December, 2023 and January 2024, directed the department to recover the amounts, finalize legal proceedings, furnish replies by 12th February 2024 and report compliance to Audit/FBR. No further progress was reported till the finalization of this report.

The Audit recommends to expedite recovery of admitted amounts and submit comprehensive replies besides strengthening internal controls through risk based desk audit.

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2021-22 and 2022-23 vide para numbers 4.4.6, 4.4.13, 4.11 and 5.2 having a financial impact of Rs 104,063 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-4]

4.3 Short-realization of tax due to non-treatment of withholding tax as a minimum tax liability – Rs 10,072 million

Sections 148 and 153(3) of the Income Tax Ordinance 2001, provide that tax deducted at source while making payments and tax collected at import stage shall be treated as a minimum tax liability of the taxpayer for the tax year.

It was observed during the audit of the FYs 2021-22 and 2022-23, that in ten (10) field offices of FBR, sixty (60) taxpayers adjusted tax deducted or collected against normal tax liability contrary to the said provisions of law. The department did not take remedial action under the law to recover the due tax from the taxpayers. This resulted in a short realization of tax amounting to Rs 10,087.33 million.

These lapses were pointed out from February to November 2023. The department replied that Rs 15.31 million had been recovered, Rs 5.58 million had been charged but recovery was awaited, and proceedings for Rs 7,296.83 million were initiated under the law but not finalized. No reply for Rs 2,754.28 million was furnished.

The DAC, in its meetings held in July, August, December, 2023 and January 2024, directed the department to recover the amounts, finalize legal proceedings and furnish replies by 12th February 2024 and report compliance to Audit/FBR. No further progress was reported till the finalization of this report.

The Audit recommends to expedite recovery of admitted amounts, submit comprehensive replies besides strengthening risk based desk audit.

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23 vide para numbers 4.4.22, 4.4.21, 4.1(vi), 4.5 and 5.3 having

financial impact of Rs 21,597 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-5]

4.4 Inadmissible claims of tax credit – Rs 515 million

Section 65 of the Income Tax Ordinance 2001, provides for tax credits to corporate industrial undertakings at prescribed rates for investment in existing plant and machinery through equity.

It was observed during the audit of the FYs 2021-22 and 2022-23, that in five (05) field offices of FBR, eleven (11) taxpayers claimed tax credits despite the fact that the taxpayers were not industrial undertakings. These inadmissible tax credits were required to be disallowed to recover the due tax from the taxpayers. However, the department did not initiate the proceedings which resulted in claim of inadmissible tax credit amounting to Rs 514.50 million.

These instances were reported to the department from February to November 2023. The department replied that proceedings for Rs 514.50 million were initiated under the law but not finalized.

The DAC, in its meetings held in July, August, December, 2023 and January 2024, directed the department to finalize legal proceedings by 12th February 2024 and report compliance to Audit/FBR. No further progress was reported till the finalization of this report.

The Audit recommends expediting the legal proceedings and implementing monitoring controls besides strengthening desk audits. Periodic review of Risk Management System (RMS) should be undertaken in the light of repeated audit observations.

Note: The issue was also reported earlier in the Audit Reports for the Audit Year 2019-20, 2020-21, 2021-22 and 2022-23 vide para numbers 4.4.9, 4.1(ii), 4.2 and 5.4 having financial impact of Rs 39,200 million. Recurrence of same irregularity is a matter of serious concern.

[Annexure-6]

4.5 Non-recovery of withholding tax – Rs 41,802 million

Section 153, read with Section 161 of the Income Tax Ordinance 2001, provides that where a withholding agent fails to deduct tax or does not deposit the deducted tax, he is personally liable to pay the amount of tax through legal proceedings initiated by the Commissioner.

It was observed during the audit of the FYs 2021-22 and 2022-23, that in eighteen (18) field offices of FBR, five hundred and nineteen (519) withholding agents did not deduct tax while making payments to suppliers, service providers and contractors. It was a statutory obligation of the department to recover the tax from the withholding agents. However, no action was initiated by the department which resulted in non-recovery of tax amounting to Rs 41,819.52 million.

These irregularities were pointed out from February to November 2023. The department replied that Rs 17.34 million had been recovered, Rs 21.99 million had been charged but recovery was awaited, proceedings for Rs 9,802.19 million were initiated under the law but not finalized, no reply was furnished for Rs 31,934.60 and Rs 43.42 million was subjudice.

The DAC, in its meetings held in July, August, December, 2023 and January 2024, directed the department to recover the amounts, finalize legal proceedings and furnish replies by 12th February 2024 and report compliance to Audit/FBR. No further progress was reported till the finalization of this report.

The Audit recommends to expedite recovery of admitted amounts, pursue subjudice cases at appropriate fora, and submit comprehensive replies for under scrutiny cases. Compliance of withholding regime needs to be ensured through Commissioner, IR (Withholding). Moreover, Synchronized Withholding Administration and Payment System (SWAPS) be implemented on priority basis and periodically updated in the light of audit observations.

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23 vide para numbers 4.7.10, 4.7.2, 4.2, 4.20 and 5.5 having financial impact of Rs 59,220 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-7]

4.6 Non/short-realization of minimum tax – Rs 18,978 million

Section 113 of the Income Tax Ordinance 2001, provides for the realization of minimum tax based on the turnover of a taxpayer. The tax is to be paid if, otherwise, no tax is payable on taxable income due to any reason, or tax payable under the normal tax regime is less than the minimum tax liability in respect of specified categories of taxpayers.

It was observed during the audit of the FYs 2021-22 and 2022-23, that in twenty (20) field offices of FBR, nine hundred and eighteen (918) taxpayers, evaded the minimum tax because either no tax was payable under the normal tax regime or their normal tax liability was less than their minimum tax liability. However, the department did not initiate legal proceedings to recover the tax which resulted in non/short-realization of tax amounting to Rs 20,843.56 million.

These irregularities were pointed out from February to November 2023. The department replied that Rs 1,865.54 million had been recovered, Rs 2,366.74 million had been charged, however, recovery was awaited, proceedings for Rs 10,943.26 million were initiated under the law but not finalized, no reply was furnished for Rs 5,658.32 and amount of Rs 9.70 million was subjudice.

The DAC, in its meetings held in July, August, December, 2023 and January 2024, directed the department to recover the amounts, finalize legal proceedings, furnish replies by 12th February

2024 and report compliance to Audit/FBR. No further progress was reported till the finalization of this report.

The Audit recommends to expedite recovery of admitted amounts, pursue subjudice cases at appropriate fora and finalize legal proceedings. Further, the Audit recommends strengthening of desk audit and simplification of the tax code regarding withholding tax.

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23 vide para numbers 4.4.1, 4.4.7, 4.1(vii), 4.6 and 5.7 having financial impact of Rs 28,928 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-8]

4.7 Excess adjustments of withholding tax deductions – Rs 11,791 million

Section 168 of the Income Tax Ordinance 2001, provides that where an amount of tax has been collected or deducted from a payment made to a person by a withholding agent, the person shall be allowed the effect of tax deduction in computing his tax liability under normal tax regime.

It was observed during the audit of the FYs 2021-22 and 2022-23, that in fifteen (15) field offices of FBR, two hundred and sixty-nine (269) taxpayers, claimed tax deductions or tax collection in excess of admissible amount of tax collected or deducted. However, the department neither verified these tax deductions nor recovered due tax from the taxpayers. This resulted in short-realization of tax amounting to Rs 11,790.81 million due to excess adjustments of withheld tax.

These irregularities were pointed out from February to November 2023. The management replied that Rs 15.12 million had been charged but recovery was awaited, proceedings for Rs 3,899.36 million were initiated under the law but not finalized, no reply for Rs 6,687.05 was furnished and an amount of Rs 1,189.28 million was subjudice.

The DAC, in its meetings held in July, August, December, 2023 and January 2024, directed the department to recover the amounts, finalize legal proceedings, furnish replies by 12th February 2024 and report compliance to Audit/FBR. No further progress was reported till the finalization of this report.

The Audit recommends to expedite recovery of admitted amounts, pursue subjudice cases at appropriate fora and finalize legal proceedings. Moreover, strengthening the monitoring of withholding tax regime along-with introduction of validation checks in IT system for verification of such tax credit.

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23 vide para numbers 4.4.13, 4.4.5, 4.1(iv), 4.3 and 5.8 having financial impact of Rs 28,993 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-9]

4.8 Non/short-realization of super tax from other than Banking Companies – Rs 92,984 million

Section 4C of the Income Tax Ordinance 2001 provides that super tax shall be imposed for tax year 2022 and onwards at the prescribed rates specified on the income of high earning persons except banking company. Super tax is applicable on the persons whose income is above Rs 150 million.

It was observed during the audit of the FYs 2021-22 and 2022-23, that in sixteen (16) field offices of FBR, super tax was not paid by one thousand and forty-five (1045) taxpayers, belonging to other than banking sector, within the stipulated time. The tax authorities did not initiate legal proceedings to recover the same. This resulted in the non/short-realization of super tax amounting to Rs 105,491.93 million.

This irregularity was pointed out from February to November 2023. The management replied that Rs 12,507.77 million had been recovered, Rs 1,823.03 million had been charged but recovery was awaited, proceedings for Rs 13,974.53 million were initiated under the law but not finalized, no reply was furnished for Rs 38,161.99 and Rs 39,024.61 million was subjudice.

The DAC, in its meetings held in July, August, December, 2023 and January 2024, directed the department to recover the amounts, finalize legal proceedings, furnish replies by 12th February 2024 and report compliance to Audit/FBR. No further progress was reported till the finalization of this report.

The Audit recommends to expedite recovery of admitted amounts, pursue subjudice cases at appropriate fora, and submit comprehensive replies besides strengthening desk audit for enforcement of super tax.

[Annexure-10]

4.9 Non-taxation of income earned from head of other sources – Rs 26,227 million

According to Section 39 of the Income Tax Ordinance 2001, income of any kind earned by a person in a tax year shall be chargeable to tax in that year under the head “Income from Other Sources”, if the income is not included in any other head of income under the law.

It was observed during the audit of the FYs 2021-22 and 2022-23, that in twelve (12) field offices of FBR, three hundred and eighty-five (385) taxpayers derived taxable income under the head “Income from Other Sources” but did not pay tax on that income. The assessing authorities did not initiate legal action to recover the tax. This resulted in short realization of tax amounting to Rs 26,227.45 million.

The lapse was pointed out from February to November 2023. The management replied that proceedings were initiated under the law but not finalized.

The DAC, in its meetings held in July, August, December, 2023 and January 2024, directed the department to finalize legal proceedings by 12th February 2024 and report compliance to Audit/FBR. No further progress was reported till the finalization of this report.

The Audit recommends expediting the legal proceedings besides strengthening the desk audit function. Moreover, the performance of the assessing officers should be gauged on the metric of new tax demand created and recoveries thereof.

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2021-22 and 2022-23 vide para numbers 4.4.7, 4.4.15, 4.14 and 5.10 having a financial impact of Rs 5,229 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-11]

4.10 Inadmissible adjustment/claim of refund – Rs 3,437 million

Section 170 of the Income Tax Ordinance 2001, read with Circular No. 05 of 2003 of FBR, provides that a taxpayer who has paid tax in excess of tax liability is eligible for a refund subject to fulfilment of the prescribed conditions.

It was observed during the audit of the FYs 2021-22 and 2022-23, that in twelve (12) field offices of FBR, forty-nine (49) taxpayers claimed excess refunds against tax liability for the tax years. The tax refund adjustments included credits of tax payments without verification of tax payment challans, adjustments of prior year's refunds in the absence of refund orders, or non-accountal of outstanding liabilities. The department did not take corrective action to recover the government dues. This resulted inadmissible issuance and adjustments of refunds amounting to Rs 3,437.09 million.

These irregularities were pointed out from February to November 2023. The management replied that Rs 1.00 million had been recovered, Rs 1,032.80 million had been charged but recovery was awaited, proceedings for Rs 1,135.83 million were initiated under the law but not finalized, no reply was furnished for Rs 201.11 million and amount of Rs 1,066.71 million was subjudice.

The DAC, in its meetings held in July, August, December, 2023 and January 2024, directed the department to recover the amounts, finalize legal proceedings, furnish replies by 12th February 2024 and report compliance to Audit/FBR. No further progress was reported till the finalization of this report.

The Audit recommends to expedite recovery of admitted amounts and finalize legal proceedings besides strengthening post refund audits.

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23 vide para numbers 4.5.1, 4.5.1, 4.4.1, 4.29 and 5.11 having a financial impact of Rs 13,654 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-12]

4.11 Non-realization of default surcharge on late payment of tax – Rs 11,108 million

According to Section 205 of the Income Tax Ordinance 2001, where a person fails to pay any tax on or before the due date of payment, the person shall be liable to pay default surcharge at the prescribed rate on the unpaid amount of tax.

It was observed during the audit of the FYs 2021-22 and 2022-23, that in fourteen (14) field offices of FBR, two thousand six hundred and four (2604) taxpayers did not pay due tax within the prescribed time under the law. However, tax authorities did not levy and recover default surcharges from the taxpayers. This resulted in the non-realization of default surcharge amounting to Rs 11,114.62 million.

These irregularities were pointed out from February to November 2023. The management replied that Rs 6.74 million had been recovered, Rs 0.85 million had been charged but recovery was awaited, proceedings for Rs 4,465.96 million were initiated under the law but not finalized and no reply for Rs 6,641.07 million was furnished.

The DAC, in its meetings held in July, August, December, 2023 and January 2024, directed the department to recover the amounts, finalize legal proceedings, furnish replies by 12th February 2024 and report compliance to Audit/FBR. No further progress was reported till the finalization of this report.

The Audit recommends to expedite recovery of admitted amounts and finalize legal proceedings besides fixing of responsibility against the concerned for not enforcing default surcharge. Moreover, consistent enforcement of default surcharge needs to be ensured to prevent misuse of self-assessment regime.

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2021-22 and 2022-23 vide para numbers 4.4.5, 4.4.10, 4.15 and 5.12 having a financial impact of Rs 7,177 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-13]

4.12 Non-recovery of income tax on sales to retailers, wholesalers and distributors - Rs 8,980 million

Sections 236 G & H of the Income Tax Ordinance 2001, provides for the collection of advance tax by manufacturers or commercial importers, distributors, dealers, wholesalers and

retailers at prescribed rates while making sales to specified persons. Further, Section 161 of the law *ibid* provides that in case of non-compliance the person responsible for collection will pay the tax.

It was observed during the audit of the FYs 2021-22 and 2022-23, that in fifteen (15) field offices of FBR, one thousand two hundred and fifty-five (1,255) taxpayers did not collect advance tax from retailers, wholesalers and distributors at the time of sale. The department did not initiate legal proceedings which resulted in the non-recovery of tax amounting to Rs 8,991.57 million.

These irregularities were pointed out from February to November 2023. The management replied that Rs 11.50 million had been recovered, proceedings for Rs 1,164.44 million were initiated under the law but not finalized and no reply for Rs 7,815.52 million was furnished.

The DAC, in its meetings held in July, August, December, 2023 and January 2024, directed the department to recover the amounts, finalize legal proceedings and furnish replies by 12th February 2024 and report compliance to Audit/FBR. No further progress was reported till the finalization of this report.

The Audit recommends to expedite recovery of admitted amounts and finalize legal proceedings. Enforcement of tax on retailers, distributors and wholesalers should be ensured through risk based desk audit.

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2021-22 and 2022-23 vide para numbers 4.4.7, 4.4.11, 4.23 and 5.14 having a financial impact of Rs 6,195 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-14]

4.13 Non-deduction of tax on income from property – Rs 814 million

Section 155, read with Section 161 of the Income Tax Ordinance 2001, provides that every prescribed person, while making a payment to any person in respect of rent of immovable property is required to deduct tax at the specified rates. In case of non-deduction, the Commissioner enforces the payment of tax by invoking provisions of Section 161 *ibid*.

It was observed during the audit of the FYs 2021-22 and 2022-23, that in eleven (11) field offices of FBR, three hundred and twelve (312) taxpayers did not deduct the tax while making payments of rent to property owners. This resulted in non-recovery of withholding tax amounting to Rs 814.45 million.

The irregularity was pointed out from February to November 2023. The management replied that Rs 2.21 million had been charged but recovery was awaited, proceedings for Rs 812.24 million were initiated under the law but not finalized.

The DAC, in its meetings held in July, August, December, 2023 and January 2024, directed the department to recover the amounts, finalize legal proceedings by 12th February 2024 and report compliance to Audit/FBR. No further progress was reported till the finalization of this report.

The Audit recommends to expedite recovery of admitted amounts besides monitoring of withholding agents for accurate deduction and timely deposit of tax in government's exchequer. Compliance of withholding regime needs to be ensured through Commissioner, IR (Withholding).

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2021-22 and 2022-23 vide para numbers 4.7.6, 4.7.10, 4.24 and 5.15 having a financial impact of Rs 1,881 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-15]

4.14 Non-deduction of tax on dividend – Rs 5,728 million

Section 150, read with Section 161 of the Income Tax Ordinance 2001, provides that every person paying a dividend shall deduct tax from the gross amount of the dividend at specified rates. In case of non-compliance, the person responsible for the tax deduction is required to pay the tax.

It was observed during the audit of the FYs 2021-22 and 2022-23, that in five (05) field offices of FBR, twenty-nine (29) taxpayers did not deduct tax while making payments of dividend. However, the department did not recover the tax under the law. This resulted in the non-recovery of tax amounting to Rs 5,728.18 million.

These irregularities were pointed out from February to November 2023. The management replied that proceedings were initiated under the law but not finalized.

The DAC, in its meetings held in July, August, December, 2023 and January 2024, directed the department to finalize legal proceedings by 12th February 2024 and report compliance to Audit/FBR. No further progress was reported till the finalization of this report.

The Audit recommends expediting the legal proceedings and enforcement of monitoring controls over withholding agents. Compliance of withholding regime needs to be ensured through Commissioner, IR (Withholding).

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2021-22 and 2022-23 vide para numbers 4.7.4, 4.7.4, 4.22 and 5.16 having a financial impact of Rs 3,455 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-16]

4.15 Short-realization of income tax due to inadmissible claims of tax depreciation allowance – Rs 2,044 million

Sections 22 and 23 of the Income Tax Ordinance 2001, provide that a taxpayer is allowed normal and initial depreciation allowance at specified rate in a tax year on the written down value or purchase value of plant and machinery used for the first time in the business.

It was observed during the audit of the FYs 2021-22 and 2022-23, that in six (06) field offices of FBR, thirty-two (32) taxpayers claimed normal and initial depreciation allowance on non-eligible assets (other than Property, Plant and Equipment). The department did not take corrective

action of disallowing the depreciation allowance and recover the due tax from the taxpayers. This resulted in a short-realization of income tax amounting to Rs 2,043.97 million.

These lapses were pointed out from February to November 2023. The management replied that Rs 9.63 million had been charged but recovery was awaited, proceedings for Rs 2,034.34 million were initiated under the law but not finalized.

The DAC, in its meetings held in July, August, December, 2023 and January 2024, directed the department to recover the amounts, finalize legal proceedings by 12th February 2024 and report compliance to Audit/FBR. No further progress was reported till the finalization of this report.

The Audit recommends to expedite recovery of admitted amounts besides strengthening risk-based desk audit.

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2020-21 and 2022-23 vide para numbers 4.4.9, 4.4.17, 4.1(x) and 5.18 having a financial impact of Rs 2,102 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-17]

4.16 Short-realization of tax due to non-apportionment of expenses - Rs 920 million

Section 67 of the Income Tax Ordinance 2001, read with Circular No. 12 of 1991, provides for apportionment of expenses between income chargeable to tax under normal and final tax regimes in proportion to sales in the respective regime.

It was observed during the audit of the FYs 2021-22 and 2022-23, that in four (04) field offices of FBR, eighteen (18) taxpayers earned income under normal and final tax regimes. However, the apportionment of expenses in proportion to sales was done incorrectly and higher expenses were allowed under the normal income tax regime. This resulted in less assessments of taxable income under the normal tax regime. The department did not amend assessment orders which resulted in short-realization of tax amounting to Rs 920 million.

The irregularity was pointed out from February to November 2023. The management replied that legal proceedings were initiated but not finalized.

The DAC, in its meetings held in July, August, December, 2023 and January 2024, directed the department to finalize legal proceedings by 12th February 2024 and report compliance to Audit/FBR. No further progress was reported till the finalization of this report.

The Audit recommends expediting legal proceedings and strengthening validation checks in return filing system for apportionment of expenses between final and normal tax regimes. Moreover, risk based desk audit needs to be strengthened besides periodic review and update of the RMS.

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23 vide para numbers 4.4.4, 4.4.16, 4.1(xi), 4.10 and 5.20 having financial impact of Rs 1,684 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-18]

4.17 Non-recovery of tax on brokerage and commission – Rs 396 million

Section 233 read with Section 161 of the Income Tax Ordinance 2001, provides for tax to be deducted at prescribed rates while making payment to brokerage or commission. Section 161 provides that in case of non-compliance, the person responsible for the tax deduction will pay the tax.

It was observed during the audit of the FYs 2021-22 and 2022-23, that in nine (09) field offices of FBR, one hundred and fourteen (114) taxpayers did not deduct the due amount of tax while making payments of brokerage and commission. However, the department did not take corrective action to recover the due amount of tax. This resulted in non-recovery of tax amounting to Rs 396.24 million.

These lapses were pointed out from February to November 2023. The management replied that Rs 0.99 million had been charged but recovery was awaited, proceedings for Rs 395.25 million were initiated under the law but not finalized.

The DAC, in its meetings held in July, August, December, 2023 and January 2024, directed the department to recover the amounts, finalize legal proceedings by 12th February 2024 and report compliance to Audit/FBR. No further progress was reported till the finalization of this report.

The Audit recommends to expedite recovery of admitted amounts and finalize the legal proceedings besides strengthening monitoring controls over withholding agents through risk based desk audit and effective utilization of IT based systems

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2021-22 and 2022-23 vide para numbers 4.7.5, 4.7.9, 4.25 and 5.21 having a financial impact of Rs 516 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-19]

4.18 Non-realization of income tax due to concealment of income – Rs 46,753 million

Section 111 of the Income Tax Ordinance 2001, provides a detailed procedure for taxation of concealed income. According to the provision where a person is the owner of any money or valuable article or has made any investment or credited any amount in his books of accounts, the amount is chargeable to tax if not adequately explained by the taxpayer.

It was observed during the audit of the FYs 2021-22 and 2022-23, that in twelve (12) field offices of FBR, seven hundred and forty-one (741) taxpayers had either shown excess sales and purchases of different items in sales tax returns compared to income tax returns/financial statements or did not explain accretion in assets pertaining to the tax years 2017 to 2022. This implies that the taxpayers concealed their sales, purchases or assets to evade the due tax. The irregularity resulted in the non-realization of income tax of Rs 46,755.19 million.

These irregularities were pointed out from February to November 2023. The management replied that Rs 2 million had been recovered, Rs 16.93 million had been charged but recovery was awaited, proceedings for Rs 6,721.75 million were initiated under the law but not finalized, no reply for Rs 39,980.25 million was furnished and amount of Rs 33.56 million was subjudice.

The DAC, in its meetings held in July, August, December, 2023 and January 2024, directed the department to recover the amounts, finalize legal proceedings, furnish replies by 12th February 2024 and report compliance to Audit/FBR. No further progress was reported till the finalization of this report.

The Audit recommends to expedite recovery of admitted amounts and finalize legal proceedings besides strengthening the integration of Federal and Provincial databases of land records, provincial revenue authorities, excise and taxation etc. Furthermore, cases of mis-statement uncovered due to discrepancies found in Federal and Provincial interfaces may be reported separately in the annual performance report.

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2020-21 and 2021-22 vide para numbers 4.4.2, 4.4.1, 4.1(iii) and 4.18 having a financial impact of Rs 55,460 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-20]

4.19 Short-realization of income tax on capital gains – Rs 26 million

According to Section 37(1) read with Section 111 of the Income Tax Ordinance 2001, a gain arising from the disposal of a capital asset by a person in a tax year, other than a gain that is exempt from tax under this Ordinance, shall be chargeable to tax in that year under the head "Capital Gains".

It was observed during the audit of the FYs 2021-22 and 2022-23, that in three (03) field offices of FBR, nine (09) taxpayers derived capital gains from the sale of immovable property during the tax year 2021 and 2022, but failed to pay the tax at prescribed rates. The department did not take any action to retrieve. This resulted in short realization of tax amounting to Rs 25.82 million.

The irregularity was pointed out from February to November 2023. The management replied that proceedings were initiated under the law but not finalized.

The DAC, in its meetings held in July, August, December, 2023 and January 2024, directed the department to finalize legal proceedings by 12th February 2024 and report compliance to Audit/FBR. No further progress was reported till the finalization of this report.

The Audit recommends expediting the legal proceedings and strengthening desk audit besides strengthening integration with SBP/NBP/SECP.

[Annexure-21]

4.20 Incorrect assessment under respective heads of income – Rs 77,404 million

Section 11 read with the First Schedule to the Income Tax Ordinance, 2001 provides respective head of income for taxation. These heads include income from Salary/Property/Business/Capital Gain and Other Sources. The First Schedule specifies rates for determination of tax liability of taxpayers.

It was observed during the audit of the FYs 2021-22 and 2022-23, that in sixteen (16) field offices of FBR, for two hundred and two (202) cases tax liability was not computed under respective heads of income. The department did not take corrective action to ensure proper assessment of income and levy of tax under each head of income resulting in short levy of tax amounting to Rs 77,403.83 million.

The lapse was pointed out from February to November 2023. The management replied that proceedings for Rs 18,273.14 million were initiated under the law but not finalized, no reply for Rs 5,956.59 million was furnished and amount of Rs 53,174.10 million was subjudice.

The DAC, in its meetings held in July, August, December, 2023 and January 2024, directed the department to finalize legal proceedings, pursue subjudice cases, furnish replies by 12th February 2024 and report compliance to Audit/FBR. No further progress was reported till the finalization of this report.

The Audit recommends to pursue subjudice cases at appropriate fora, submit comprehensive replies besides strengthening risk-based desk audits.

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2020-21 and 2021-22 vide para numbers 4.4.8, 4.4.4, 4.1(i) and 4.1 having a financial impact of Rs 53,745 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-22]

4.21 Incorrect adjustment of brought forward losses – Rs 41,424 million

Section 57 of the Income Tax Ordinance, 2001 provides that if a taxpayer sustains a loss under the head income from the business for a tax year, the loss would be carried forward to the following six tax years and would be adjusted only against profit and gains of such business in the following tax years.

It was observed during the audit of the FYs 2021-22 and 2022-23, that in six (06) field offices of FBR, income of fifteen (15) taxpayers was incorrectly assessed at losses. These losses were either assessed incorrectly or carried forward and set off against business income beyond the prescribed limit of six years. This resulted in short realization of Rs 41,424.19 million for Tax Years 2021 and 2022.

These irregularities were pointed out from February to November 2023. The management replied that proceedings for Rs 18,273.14 million were initiated under the law but not finalized and no reply for Rs 23,158.05 million was furnished.

The DAC, in its meetings held in July, August, December, 2023 and January 2024, directed the department to finalize legal proceedings, furnish replies by 12th February 2024 and report compliance to Audit/FBR. No further progress was reported till the finalization of this report.

The Audit recommends expediting the legal proceedings and introducing systematic checks in return filing systems to flag cases of abnormal brought forward losses besides strengthening risk-based desk audits.

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23 vide para numbers 4.4.23, 4.4.2, 4.1(viii), 4.7 and 5.23 having a financial impact of Rs 34,455 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-22]

4.22 Irregular claim of tax credit – Rs 5,556 million

According to Section 100C of the Income Tax Ordinance, 2001 income of non-profit organizations, trusts or welfare institutions are allowed a tax credit equal to one hundred per cent of the tax payable on fulfilling certain conditions, which include that the administrative and management expenditure should not exceed fifteen percent of the total receipts.

It was observed during the audit of the FYs 2021-22 and 2022-23, that in ten (10) field offices of FBR, four hundred and twenty-three (423) taxpayers were not entitled for the tax credits because the taxpayers claimed administrative and management expenditure in excess of the prescribed limit of fifteen percent (15%) of revenue. Therefore, their income was required to be assessed under the law without allowing the tax credit. This resulted in

non-levy of tax amounting to Rs 5,556.10 million.

These irregularities were pointed out from February to November 2023. The management replied that proceedings for Rs 856.82 million were initiated under the law but not finalized and no reply for Rs 4,699.28 million was furnished.

The DAC, in its meetings held in July, August, December, 2023 and January 2024, directed the department to finalize legal proceedings, furnish replies by 12th February 2024 and report compliance to Audit/FBR. No further progress was reported till the finalization of this report.

The Audit recommends expediting the legal proceedings and strengthening of risk-based monitoring of tax credits besides periodically reviewing and updating Risk Management System (RMS) in the light of repeated audit observations.

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2021-22 vide para numbers 4.4.14, 4.4.14, 4.12 having a financial impact of Rs 1,937 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-24]

4.23 Irregular amendment of assessment orders – Rs 5,408 million

According to section 122(5) read with 177 of the Income Tax Ordinance, 2001 an assessment order in respect of tax year is only amended on the basis of definite information. The detail scrutiny of assessment orders may include; income chargeable to tax has escaped assessment and total income has been under-assessed or assessed at too low a rate.

It was observed during the audit of the FYs 2021-22 and 2022-23, that in four (04) field offices of FBR, for seventy-seven (77) cases the taxation officers charged tax on the lower side than chargeable under normal tax regime in the amended assessment orders. The taxation officers allowed inadmissible expenses while finalizing the assessment orders. Further, the tax authorities while making the assessments adopted lower turnover declared by the taxpayer. This resulted in short levy of tax amounting to Rs 5,407.52 million. Some examples of major taxpayers are given as under:

1. M/s SM Traders (NTN# 5245511), registered with RTO-I, Karachi declared sales of Rs 399 million in sales tax return, while the sales declared in income tax return was Rs 9.9 million in Tax Year 2022. Thus, sales amounting to Rs 389

million were suppressed involving income tax of Rs 135 million. (DP No.2916-IT/K).

2. M/s Fortune Enterprises (NTN# 8289952), registered with RTO-I, Karachi declared sales of Rs 348 million in sales tax return, while the sales declared in income tax return was Rs 3 million in Tax Year 2022. Thus, sales amounting to Rs 345.136 million were suppressed involving income tax amounting to Rs 112 million (DP No.2916-IT/K).
3. M/s Regal Automobile Limited (NTN# 7256902), registered with MTO, Karachi declared sales of Rs 12,610 million in sales tax return, while the sales declared in the income tax return was Rs 12,294 million in Tax Year 2022. Thus, sales amounting to Rs 315 million were suppressed involving income tax of Rs 91 million (DP No.2859-IT/K).

These irregularities were pointed out from August to November 2023. The management replied that proceedings were initiated under the law but not finalized.

The DAC, in its meetings held in July, August, December, 2023 and January 2024, directed the department to finalize legal proceedings by 12th February 2024 and report compliance to Audit/FBR. No further progress was reported till the finalization of this report.

The Audit recommends expediting the legal proceedings besides fixing of responsibility against the concerned.

[Annexure-25]

4.24 Short-realization of tax due to excessive claim of tax credit on donations – Rs 479 million

According to Section 61 of the Income Tax Ordinance, 2001 a person shall be entitled to a tax credit in respect of any sum paid, or any property given by the person in the tax year as a donation, voluntary contribution or subscription. Further, the donation is restricted upto 30% of taxable income in respect of individuals or association of persons and 20% for corporate sector.

It was observed during the audit of the FYs 2021-22 and 2022-23, that in five (05) field offices of FBR, fifty-nine (59) taxpayers while filing their income tax returns claimed tax credits on donations in excess of the prescribed limit. The assessing officers were required to disallow the excess claims of donations and charge the due tax, but the department did not charge the due amount of tax. This resulted in the short realization of tax amounting to Rs 479.17 million.

These irregularities were pointed out from February to November 2023. The management replied that proceedings for Rs 430.67 million were initiated under the law but not finalized and no reply for Rs 48.50 million was furnished.

The DAC, in its meetings held in July, August, December, 2023 and January 2024, directed the department to finalize legal proceedings, furnish replies by 12th February 2024 and report compliance to Audit/FBR. No further progress was reported till the finalization of this report.

The Audit recommends expediting the legal proceedings besides strengthening internal controls in return filing system for ensuring allowance of tax credit on donations within prescribed limit.

[Annexure-26]

4.25 Non-deduction of tax on salary income – Rs 238 million

According to Section 149 read with Section 161 of the Income Tax Ordinance, 2001 every employer paying salary to an employee is required to deduct tax from the amount of salary at the time of payment. The deduction is to be made at the average rate of tax computed at the rates specified in Division-I Part-I to the First Schedule.

It was observed during the audit of the FYs 2021-22 and 2022-23, that in eight (08) field offices of FBR, tax on salary income of one hundred and six (106) taxpayers was not correctly deducted at the time of making payments. The department did not monitor and prevent non-deduction of tax on salary which resulted in the non-realization of tax amounting to Rs 238.46 million.

These irregularities were pointed out from February to November 2023. The management replied that proceedings for Rs 36.46 million were initiated under the law but not finalized and no reply for Rs 202 million was furnished.

The DAC, in its meetings held in July, August, December, 2023 and January 2024, directed the department to finalize legal proceedings, furnish replies by 12th February 2024 and report compliance to Audit/FBR. No further progress was reported till the finalization of this report.

The Audit recommends expediting the legal proceedings besides strengthening monitoring controls over withholding agents for accurate deduction and timely deposit of tax in government's exchequer.

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2021-22 and 2022-23 vide para numbers 4.7.3, 4.7.8, 4.21 and 5.17 having a financial impact of Rs 1,823 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-27]

4.26 Short-realization of super tax – Rs 12,147 million

According to the provisions of Section 4B of the Income Tax Ordinance 2001, super tax shall be imposed for rehabilitation of temporarily displaced persons on the income of specified taxpayers. The tax shall be imposed at the rate of four percent (4%) in case of banking company.

It was observed during the audit of the FYs 2021-22 and 2022-23, that in two (02) field offices of FBR, twenty-six (26) taxpayers did not pay super tax which resulted in short realization of super tax. The department did not initiate any legal proceedings to levy the super tax due to weak monitoring. This resulted in short-realization of super tax amounting to Rs 17,933.72 million.

These irregularities were reported to the department from February to November 2023. The department replied that Rs 5,786.92 million had been recovered, Rs 1,795.88 million had been charged but recovery was awaited and proceedings for Rs 4,018.60 million had been initiated but not finalized, no reply for Rs 6,022.14 million was furnished and Rs 310.18 million was subjudice.

The DAC, in its meetings held in July, August, December, 2023 and January 2024, directed the department to recover the amounts, finalize legal proceedings, furnish replies by 12th February 2024 and report compliance to Audit/FBR. No further progress was reported till the finalization of this report.

The Audit recommends expediting recovery, finalizing legal proceedings, and strengthening of risk based desk audit and periodic review/update of RMS based on audit observations.

Note: The issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23 vide para numbers 4.4.3, 4.4.3, 4.1(v), 4.4 and 5.9 having financial impact of Rs 37,336 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-28]

4.27 Non-realization of Capital Value Tax – Rs 490 million

Section 8 of the Finance Act 2022 provides that Capital Value Tax shall be levied, charged, collected and paid on the value of assets at the rates specified in the First Schedule. The tax shall be charged on the assets like motor vehicles and electric vehicles which are held in Pakistan. Foreign assets of a resident individual where the value of such assets in aggregate exceeds Rupees one hundred million (Rs 100,000,000) shall also be charged CVT at the rate of one percent (1%) of the value of asset.

It was observed during the audit of the FYs 2021-22 and 2022-23, that in three (03) field offices of FBR, fifty-eight (58) taxpayers neither paid Capital Value Tax (CVT) nor did the taxation officers initiate any legal proceedings to recover the due tax. This resulted in non-realization of Capital Value Tax amounting to Rs 490 million.

These irregularities were reported to the department from February to November 2023. The department replied that Rs 36.64 million had been recovered, Rs 190.94 million had been charged but recovery was awaited and proceedings for Rs 299.76 million had been initiated but not finalized.

The DAC in its meeting held on July and December, 2023 directed the field formations to finalize the legal proceedings as per law and report compliance to Audit/FBR within one month. No further progress was reported till finalization of this report.

The Audit recommends expediting recovery and finalizing legal proceedings besides ensuring the compliance of CVT through the office of Commissioner (Automatic Exchange of Information, AEOD).

[Annexure-29]

4.28 Non-realization of tax on deemed income – Rs 16 million

Section 7-E of the Income Tax Ordinance 2001 provides that a resident person shall be treated to have derived income chargeable to tax under this section as “deemed income”. This tax is to be charged at an amount equal to five percent (5%) of the fair market value of capital assets situated in Pakistan as per rates specified in the First Schedule. This tax is a final tax and is not to be reduced by any tax credits.

It was observed during the audit of FY 2022-23, that in four (04) field offices of FBR, that eleven (11) taxpayers neither paid tax on deemed income nor did the taxation officers initiate any legal proceedings to recover the due tax. This resulted in non-realization of tax on deemed income amounting to Rs 16 million.

These irregularities were reported to the department from February to November 2023. The department replied that cases were under examination/ scrutiny.

The DAC in its meeting held in July and December 2023, directed the field formations to finalize under process cases as per law and report compliance to Audit/FBR within one month. No further progress was reported till finalization of this report.

The Audit recommends finalize under process cases besides strengthening risk-based desk audits and monitoring of deemed income.

[Annexure-30]

4.29 Non-verification of agricultural income – Rs 428 million

According to Section 111 read with 41 of the Income Tax Ordinance 2001, provides that the taxpayer is eligible for exemption of agricultural income to the extent of such income which calculated on the basis of work back of agriculture income tax paid under the relevant provincial laws.

It was observed during the audit of the FYs 2021-22 and 2022-23, in two (02) field offices of FBR, one hundred and forty-five (145) taxpayers claimed exemption of agricultural income, but the evidence of work back of agricultural income tax and land tax as per provincial law was not ascertained/verified by the department. This resulted in non-verification of exempt agriculture income amounting to Rs 427.64 million.

These irregularities were reported to the department from February to November 2023. The department replied that cases were under examination/ scrutiny.

The DAC in its meetings held in July and December 2023, directed the field formations to finalize under process cases and report compliance to Audit/FBR within one month. No further progress was reported till finalization of the report.

The Audit recommends finalization of under process cases besides enforcement and monitoring of agricultural income through measures including interlinkage with database of Board of Revenue of the respective province. The omission may be justified and evidence for the payment of provincial taxes may be furnished to the Audit.

[Annexure-31]

CHAPTER-5 SALES TAX

5.1 Non-realization of sales tax due to concealment of sales – Rs 26,831 million

According to Section 3(1) read with Section 26 of the Sales Tax Act, 1990 there shall be charged, levied and paid sales tax at the prescribed rates on the value of taxable supplies made by a registered person. Further, every registered person shall furnish a true, complete and correct return in the prescribed form.

It was observed during the audit of the FYs 2021-22 and 2022-23 that in fifteen (15) field offices of FBR, six hundred and ten (610) registered persons declared less sales in sales tax returns as compared with income tax returns. Further, the registered persons either declared less production (compared to electricity bills) or less value addition. The department did not initiate legal proceedings to recover the due tax. This resulted in non-realization of sales tax amounting to Rs 26,831.26 million.

These irregularities were reported to the department from February to November 2023. The management replied that cases amounting to Rs 1,062.17 million were under recovery, legal proceedings for Rs 11,174.93 million had been initiated, Rs 14,562.80 million were under adjudication, and in cases amounting to Rs 31.36 million no response was furnished by the department.

The DAC, in its meetings held in July, August, December 2023 and January 2024, directed the department to expedite the recovery, complete the legal/adjudication proceedings and submit comprehensive replies. No further progress was reported till the finalization of this report.

The Audit recommends to ensure expeditious recovery of government revenue and ensure comprehensive integration of sales tax and income tax return filing systems besides strengthening risk-based desk audit.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20 and 2022-23 vide para numbers [4.1.3, 4.1.13, 4.1.18], [4.1.2, 4.1.13] and [5.12, 6.2.3.11] respectively having a financial impact of Rs 26,540.14 million. The recurrence of the same irregularity is a matter of serious concern.

5.2 Inadmissible adjustment of input tax credit on invoices of suspended/blacklisted taxpayers – Rs 17,723 million

According to Section 21 of the Sales Tax Act 1990, during the period of suspension of registration, the invoices issued by such person shall not be entertained for the purposes of sales tax refund or input tax credit, and once such person is blacklisted, the refund or input tax credit claimed against the invoices issued by him, whether prior or after such blacklisting, shall be rejected through a self-speaking appealable order and after affording an opportunity of being heard to such person.

It was observed during the audit of the FYs 2021-22 and 2022-23 that in seven (07) field offices of FBR, one hundred and thirty-two (132) registered persons adjusted input tax credit against invoices issued by blacklisted/suspended registered persons. The tax authorities did not monitor or initiate legal proceedings to recover the due tax. This resulted in inadmissible adjustment of input tax amounting to Rs 17,722.54 million.

These irregularities were reported to the department from February to November 2023. The management replied that cases amounting to Rs 318.58 million were under recovery, legal proceedings for Rs 1,5051.16 million had been initiated, Rs 1,991.71 million were under adjudication, Rs 132.72 million were pending in courts and in cases amounting to Rs 228.37 million, no response was furnished by the department.

The DAC, in its meetings held in July, August, December 2023 and January, 2024 directed the department to expedite the recovery, complete the legal/adjudication proceedings, pursue the subjudice cases and submit comprehensive reply. No further progress was reported till the finalization of this report.

The Audit recommends expediting the legal proceedings. Furthermore, IT-system based controls should be introduced to disallow/defer input adjustments claimed on invoices issued by black-listed/suspected registered persons.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2021-22 and 2022-23 vide paras number 5.5.4, 4.1.7, 5.2 & 6.2.3.10 respectively having a financial impact of Rs 11,023.19 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-33]

5.3 Evasion of sales tax due to issuance of fake/flying invoices - Rs 9,978 million

According to Section 8A and 8(1)(d) of the Act *ibid*, where a registered person receiving a taxable supply of the goods suspects that the goods were supplied without payment of due tax, such person as well as the person making the taxable supply shall be jointly and severally liable for payment of such unpaid amount of tax. Moreover, a registered person shall not be entitled to reclaim or deduct input tax paid on fake invoices.

It was observed during the audit of the FY 2022-23 that in two (02) field offices of FBR, three (03) registered persons declared huge purchases of taxable goods and adjusted input tax against output tax in their sales tax returns. Further probe of these abnormal transactions revealed that the suppliers of the taxpayers in supply chain were not paying any sales tax due to the reason that they

had adjusted fake credit notes against output tax. Resultantly, their liability of sales tax was in the negative. The lapse resulted in evasion of sales tax amounting to Rs 9,977.52 million.

These irregularities were reported to the department from August to November, 2023. RTO Peshawar replied that investigation and audit proceedings had already been initiated. Accordingly, taxpayers were blacklisted and show-cause notices were also issued. Further, FIRs were also lodged before Customs Judge, Peshawar. In case of RTO Lahore, it was informed that as per taxpayer's profile, the declared address of the registered person was Skardu. Therefore, a letter had been issued to the Second Secretary (Jurisdiction), FBR for the transfer of the case to the concerned office i.e. RTO Abbottabad on the point of jurisdiction.

The DAC, in its meeting held in January, 2024 directed the department to share the outcomes of proceedings and submit progress to Audit and FBR. No further progress was reported till the finalization of this report.

The Audit recommends expeditious recovery of the revenue besides strengthening controls to verify the registered person's input data and vetting of actual particulars like business address etc. at the time of registration by concerned tax office.

[DP Nos.22409-ST & 22410-ST]

5.4 Short-realization of sales tax due to non-apportionment of input tax – Rs 7,735 million

According to Section 8(2) of the Sales Tax Act 1990, a registered person can reclaim only such proportion of input tax which is attributable to taxable supplies. Adjustment of input tax on raw-materials relating to exempt supplies is not admissible. Further, Section 8(1)(m) read with Section 73(4) of the Act provides that a registered person shall not be entitled to deduct input tax which is attributable to taxable supplies to unregistered persons in excess of the prescribed limit given in the law.

It was observed during the audit of the FYs 2021-22 and 2022-23 that in fourteen (14) field offices of FBR, one hundred and fifty-three (153) registered persons either adjusted input tax on exempt supplies or made sales to unregistered persons in excess of the prescribed threshold. The registered persons were required to apportion the input tax between taxable and exempt supplies and against sales made to unregistered persons to arrive at their liability. However, entire amounts of input tax were adjusted without subject apportionment. The tax authorities did not initiate proceedings to recover the due tax. This resulted in short-realization of sales tax due to non-apportionments of input tax amounting to Rs 7,735.10 million.

These irregularities were reported to the department from February to November 2023. The management replied that cases amounting to Rs 524.45 million were under recovery, legal

proceedings for Rs 1,748.58 million had been initiated, Rs 4,970.83 million were under adjudication, and in cases amounting to Rs 491.24 million, no response was furnished by the department.

The DAC, in its meetings held in July, August, December 2023 and January, 2024 directed the department to expedite the recovery, complete the legal/adjudication proceedings, and submit comprehensive reply where no response was furnished. No further progress was reported till the finalization of this report.

The Audit recommends expediting recovery and legal proceedings and strengthen risk-based desk audits besides introducing systematic checks in the sales tax return filing system to link and cross-verify the claimed input for apportionment between taxable and exempt supplies.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23 vide paras number 4.1.7, 4.1.8, 5.2(i), 5.1 & 6.6 respectively having a financial impact of Rs 13,164.78 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-34]

5.5 Non-recovery of adjudged dues – Rs 5,474 million

According to Section 48 of the Sales Tax Act 1990 read with Sales Tax Rules 2006, sales tax due from any person shall be recovered by sales tax officers in accordance with the prescribed procedure.

It was observed during the audit of the FYs 2021-22 and 2022-23 that ten (10) field offices of FBR, in two hundred and twenty-seven (227) cases, did not take prescribed measures for recovery of adjudged dues, like freezing of bank accounts, attachment and sale of moveable/immovable property even after the lapse of considerable time period. This resulted in non-recovery of Rs 5,473.53 million.

These lapses were reported to the department from February to November 2023. The management replied that cases amounting to Rs 2,097.94 million were under recovery, Rs 2,883.00 million were under re-adjudication, and cases amounting to Rs 492.59 million, were pending in courts.

The DAC, in its meetings held in July, August, December 2023 and January, 2024, directed the department to expedite the recovery and pursue the subjudice cases. No further progress was reported till the finalization of this report.

The Audit recommends expediting recovery and legal proceedings, regular follow up by higher authorities in cases of adjudged dues, and devising performance indicators for average timelines during assessment proceedings.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2021-22 and 2022-23 vide paras number 4.1.5, 4.1.3, 5.13 & 6.1 respectively having a financial

impact of Rs 68,727.68 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-35]

5.6 Inadmissible adjustments of input tax credits against sales tax deducted by withholding agents – Rs 3,754 million

According to Section 8A of the Sales Tax Act, 1990, where a registered person receiving a taxable supply of the goods suspects that the goods were supplied without payment of due tax, such person as well as the person making the taxable supply shall be jointly and severally liable for payment of such unpaid amount of tax.

It was observed during the audit of the FY 2021-22 that in three (03) field offices of FBR, six hundred and eighty-seven (687) registered persons reduced their sales tax liability by the amount of withholding tax credit deducted by their buyers. The buyers either filed nil or did not file sales tax returns at all. This resulted inadmissible adjustments of input tax credits amounting to Rs 3,754.14 million.

These irregularities were reported to the department from February to November 2023. The department replied that cases of Rs 2.72 million were under recovery, Rs 7.91 million were under adjudication, and legal proceedings for Rs 3,743.51 million had been initiated.

The DAC, in its meetings held in July, August, December 2023 and January, 2024 directed the department to expedite the recovery and adjudication/ legal proceedings. No further progress was reported till the finalization of this report.

The Audit recommends expediting legal/adjudication proceedings besides enforcement of monitoring controls provided in the law. Compliance of withholding regime needs to be ensured through Commissioner, IR (Withholding).

[Annexure-36]

5.7 In-admissible exemption of sales tax – Rs 3,458 million

According to Section 3(1)(a) of the Sales Tax Act 1990, sales tax is chargeable at prescribed rates of the value of taxable supplies. Further, as per Section-13 ibid, goods specified in Sixth Schedule of the Act ibid, shall be exempt from sales tax.

It was observed during the audit of the FYs 2021-22 and 2022-23 that in fifteen (15) field offices of FBR, three hundred and seven (307) registered persons made supplies of taxable goods (i.e. waste, scrap, fixed assets, free electricity, rice husk and oil by cotton ginner etc.), however, the sales tax was not levied or paid against such supplies. The registered persons claimed inadmissible exemption on supply of taxable goods which resulted in non-realization of sales tax amounting to Rs 3,458.16 million.

These irregularities were reported to the department from February to November 2023. The management replied that cases amounting to Rs 232.42 million were under recovery, legal proceedings of Rs 1,795.33 million had been initiated, Rs 668.81 million were under adjudication, and in cases amounting to Rs 761.60 million, no response was furnished by the department.

The DAC, in its meetings held in July, August, December 2023 and January, 2024 directed the department to expedite the recovery, complete the legal/adjudication proceedings, and submit comprehensive reply where no response was furnished. No further progress was reported till the finalization of this report.

The Audit recommends prompt action in cases not finalized and fixing of responsibility for inordinate delay/lapse against the person(s) at fault besides ensuring 100% desk audit of claimed exemptions.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23 vide para numbers [4.1.11, 4.1.14, 4.1.15, 4.1.29], [4.1.5, 4.1.15, 4.1.16, 4.1.21], 5.1(i), 5.5, and [6.7, 6.11] respectively having a financial impact of Rs 14,162.97 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-37]

5.8 Short-realization of sales tax due to inadmissible adjustments of input tax credits – Rs 3,149 million

According to Section 8(1) of the Sales Tax Act 1990, input tax adjustment is not admissible on goods or services where sales tax has not been deposited in the government treasury by the respective supplier and where goods have not been used in taxable supplies.

It was observed during the audit of the FYs 2021-22 and 2022-23 that in fourteen (14) field offices of FBR, two hundred and thirty-two (232) registered persons adjusted input tax against purchase invoices of goods where either input tax was not deposited by the suppliers or the goods were not used in manufacturing/taxable supplies. The department failed to monitor and initiate legal proceedings to recover the due tax in these cases. These inadmissible input tax adjustments resulted in short-realization of sales tax amounting to Rs 3,148.85 million.

These irregularities were reported to the department from February to November 2023. The management replied that cases amounting to Rs 19.86 million were under recovery, legal proceedings for Rs 2,783.02 million had been initiated, Rs 298.98 million were under adjudication, and in cases amounting to Rs 46.99 million, no response was furnished by the department.

The DAC, in its meetings held in July, August, December 2023 and January, 2024 directed the department to expedite the recovery, complete the legal/adjudication proceedings, and submit comprehensive reply where no response was furnished. No further progress was reported till the finalization of this report.

The Audit recommends expediting recovery and finalization of legal proceedings besides fixing of responsibility against the person(s) at fault. Further, systematic checks in the sales tax return filing system be introduced to link and cross-verify claimed credit.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23 vide paras number 4.1.2, 4.1.4, 5.2(ii), 5.3 and 6.2 respectively having a financial impact of Rs 32,431.27 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-38]

5.9 Unlawful retention of public money in private bank account - Rs 1,155 million

Article 78 of the Constitution of Islamic Republic of Pakistan 1973, provides that all moneys received by the federal government or other moneys received by or on behalf of Federal Government are either part of Federal Consolidated Fund or Public Account. Further, according to Cash Management & Treasury Single Account Policy 2019-2029, all amounts of Public money shall be reverted to the TSA, within the frame work of different authorized accounts of Government in the State Bank of Pakistan. Moreover, if any account is opened in a scheduled bank without a specific authorization by the Federal Government, disciplinary proceedings shall be initiated against the head of the organization and Principal Accounting Officer concerned under the relevant laws/rules.

It was observed during the audit of the FY 2022-23 of FBR (HQ), Islamabad, that service charges at the rate of Rs 1 per invoice had been collected and deposited by retailers integrated with the Board's Point of Sales (POS) system. The proceeds were deposited in a private bank account of Allied Bank Limited, Blue Area, Islamabad. The Commissioner retained the money in a private bank account without the authorization of Finance Division and in violation of provisions of Public Finance Management Act 2019 and Treasury Single Account Policy. This resulted in unlawful retention of public money in private bank amounting to Rs 1,155.13 million.

The lapse was pointed out to the department during September, 2023 with the request that the reason for non-deposit of public money into federal treasury may be explained and transfer the money into government exchequer under intimation to Audit. FBR (HQ) replied that money collected is a non-tax revenue and deposited in the Common Pool Fund Account maintained after the approval of the competent authority.

The Audit holds that Point of Sale (POS) fee has been levied through SRO No.1279(I)/2021 dated 30.09.2021 issued under Sales Tax Act 1990, therefore, is part of Consolidated Fund. Thus, the amount was required to be deposited in Treasury Single Account (TSA) instead of a private bank account.

The DAC, in its meeting held in January, 2024 directed the department to deposit the money into national exchequer. No further progress was reported till the finalization of this report.

The Audit recommends to deposit the money along with interest in the public exchequer.

5.10 Non-imposition of penalties and default surcharge – Rs 870 million

According to Section 33, read with Section 34 of the Sales Tax Act 1990, if a person fails to furnish a return within the due date, such person shall pay a penalty of ten thousand rupees (Rs 10,000). Further, if any person who knowingly or fraudulently makes a false statement, such person shall pay a penalty of twenty-five thousand rupees (Rs 25,000) or one hundred per cent (100%) of the amount of tax involved, whichever is higher. Moreover, a registered person who does not pay the due tax or any part thereof in time is liable to pay a default surcharge in addition to the due tax.

It was observed during the audit of the FYs 2021-22 and 2022-23 that eighteen (18) field offices of FBR, in cases of two thousand one hundred and sixty-three (2163) taxpayers, did not impose penalty and default surcharge. The registered persons either did not submit sales tax returns or submitted the returns late or deposited the sales tax after due dates. The department did not initiate legal proceedings against these registered persons. This resulted in non-imposition of penalties and default surcharge amounting to Rs 869.95 million.

These irregularities were reported to the department from February to November 2023. The management replied that cases amounting to Rs 19.24 million were under recovery, legal proceedings for Rs 645.26 million had been initiated, Rs 43.46 million were under adjudication, and in cases amounting to Rs 161.99 million, no response was furnished by the department.

The DAC, in its meetings held in July, August, December 2023 and January, 2024 directed the department to expedite the recovery, complete the legal/adjudication proceedings, and submit comprehensive reply where no response was furnished. No further progress was reported till the finalization of this report.

The Audit recommends expediting recovery/adjudication/legal proceedings and submitting updated replies besides enforcement of leviable penalties and default surcharge.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2021-22 and 2022-23 vide paras number 4.1.46, 4.1.18, 5.14 & 6.10 respectively having a financial impact of Rs 2,274.47 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-39]

5.11 Short payment of sales tax due to mis-declaration in tax return/record - Rs 708 million

According to Section 11A of the Sales Tax Act 1990, where a registered person pays the amount of tax less than the tax due as indicated in his return, the less paid amount of tax along with default surcharge shall be recovered from such person by stopping/removal of any goods from his business premises and through attachment of his business bank accounts, without giving him a show cause notice.

It was observed during the audit of the FYs 2021-22 and 2022-23 that in four (04) field offices of FBR, twenty-six (26) registered persons paid less sales tax than the liability depicted in their annual financial statements. The tax authorities did not take action to recover the amount from the taxpayers despite the fact that both set of data i.e. sales tax returns and financial statements were available with the department. The lapse resulted in short payment of sales tax amounting to Rs 708.10 million.

These irregularities were reported to the department during February to November 2023. The management replied that legal proceedings for Rs 673.31 million had been initiated and cases amounting to Rs 34.79 million were under adjudication.

The DAC, in its meetings held in July, August, December 2023 and January 2024, directed the department to expedite legal/adjudication proceedings.

The Audit recommends to finalize adjudication proceedings, besides implementing risk-based desk audit and monitoring of financial statements.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2021-22 and 2022-23 vide paras number 5.10 and 6.14 respectively having a financial impact of Rs 280.26 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-40]

5.12 Inadmissible payment of sales tax refunds – Rs 513 million

Section 10 of the Sales Tax Act 1990 read with Rule-33 of the Sales Tax Refund Rules 2006, provides that refund shall be paid to the extent of the input tax paid on purchases/imports that are actually consumed in the production. Moreover, according to Section 73 of the Act *ibid*, transactions exceeding the value of fifty thousand rupees shall be made through banking channels. Furthermore, as per Rule 39B of Chapter V-A of the Rules *ibid*, FASTER Module for sales tax refund apply to refund claims for the tax period July, 2019, and onwards, as filed by the exporters of five export-oriented sectors namely textile, carpets, leather, sports goods and surgical instruments on account of export of goods.

It was observed during the audit of the FYs 2021-22 and 2022-23 that six (06) field offices of FBR, in sixty-nine (69) cases, sanctioned and paid refunds in excess of the input tax consumed in zero-rated/exported goods or without verifying the proof of payments through banking channels or variation of stocks. Moreover, in sixty-two (62) cases sales tax refund was sanctioned to the claimants who did not fall in the category of five export oriented sectors. This resulted in inadmissible payment of sales tax refunds of Rs 513.13 million.

These irregularities were reported to the department from February to November 2023. The management replied that cases amounting to Rs 9.64 million were under recovery, legal proceedings for Rs 499.29 million had been initiated and Rs 4.20 million were under adjudication.

The DAC, in its meetings held in July, August, December 2023 and January, 2024 directed the department to expedite the recovery and complete the legal/adjudication proceedings. No further progress was reported till the finalization of this report.

The Audit recommends expeditious recovery and to finalize the legal proceedings besides initiating disciplinary proceedings against the person(s) at fault.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2019-20, 2020-21, 2021-22 and 2022-23 vide paras number [4.2.1, 4.2.2], [4.2.1, 4.2.2], 5.6, [5.19, 5.20] and 6.4 respectively having a financial impact of Rs 7,119.22 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-41]

5.13 Non-withholding of sales tax – Rs 501 million

According to Section 3(7) read with S.No.4 & 5 of the Eleventh Schedule of the Sales Tax Act 1990, a tax is to be withheld at prescribed rates by any person or class of persons being (purchaser of goods or services) as withholding agent for depositing the same. Corporate sector is responsible for withholding sales tax @5% on purchases from persons other than active taxpayers. In case of advertisement services, the registered persons shall withhold the whole of the applicable sales tax.

It was observed during the audit of the FYs 2021-22 and 2022-23 that in ten (10) field offices of FBR, one hundred and four (104) registered persons did not withhold sales tax on payment of goods purchased from unregistered persons or on account of advertisement services. The tax authorities did not initiate legal proceedings to recover the due tax. This resulted in non-withholding of sales tax amounting to Rs 500.97 million.

These irregularities were reported to the department from February to November 2023. The management replied that cases amounting to Rs 56.46 million were under recovery, legal proceedings for Rs 267.87 million had been initiated, Rs 149.63 million were under adjudication, and in cases amounting to Rs 27.01 million no response was furnished by the department.

The DAC, in its meetings held in July, August, December 2023 and January, 2024 directed the department to expedite the recovery, complete the legal/adjudication proceedings, and submit comprehensive reply where no response was furnished. No further progress was reported till the finalization of this report.

The Audit recommends expediting recovery and to finalize adjudication and initiating legal proceedings where action is awaited besides fixing of responsibility against the person(s) at fault. Moreover, effective monitoring of withholding taxes through automated system be ensured.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2021-22 and 2022-23 vide paras number 4.7.1, 4.7.1, 5.17 and 6.3 respectively having a financial impact of Rs 13,270.31 million. The recurrence of the same irregularity is a matter of serious concern.

5.14 Excess adjustments of input tax – Rs 229 million

According to Section 8B of the Sales Tax Act 1990, a registered person shall not be allowed to adjust input tax in excess of ninety per cent (90%) of the output tax for the tax period for which the return was filed.

It was observed during the audit of the FYs 2021-22 and 2022-23 that in three (03) field offices of FBR, thirty-one (31) registered persons adjusted the whole amount of input tax against output tax instead of the permissible limit of ninety percent (90%) of output tax. The department did not initiate legal action to recover the revenue. This resulted in excess adjustment of input tax amounting to Rs 228.74 million.

These irregularities were reported to the department from February to November 2023. The department replied that cases amounting to Rs 15.42 million were under adjudication and legal proceedings for Rs 213.32 million had been initiated.

The DAC, in its meetings held in July, August, December 2023 and January, 2024 directed the department to complete the legal/adjudication proceedings. No further progress was reported till the finalization of this report.

The Audit recommends to finalize adjudication/legal proceedings besides instituting risk based desk audits and implementing validation checks in the return filing system to automatically disallow adjustments beyond the prescribed limit.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2021-22 and 2022-23 vide paras number 4.1.33, 4.1.14, 5.6 & 6.12 respectively having a financial impact of Rs 1,671.97 million. The recurrence of the same irregularity is a matter of serious concern.

5.15 Non-realization of sales tax due to in-admissible claim of zero rating of tax – Rs 208 million

According to Section 4 read with the Fifth Schedule of the Sales Tax Act 1990, goods specified therein shall be charged to tax at the rate of zero per cent. Further, as per Section 3(1)(a) of the Act *ibid*, sales tax is chargeable at prescribed rate of the value of taxable supplies.

It was observed during the audit of the FY 2022-23 that in three (03) field offices of FBR, seven (07) registered persons, claiming zero rated supplies, made supplies of taxable goods (i.e. molasses, cotton and pharmaceutical goods etc.). Resultantly, the sales tax was not paid against such supplies. The registered persons claimed inadmissible zero rating on supply of taxable goods and the department did not monitor these cases which resulted in non-realization of sales tax amounting to Rs 208.01 million.

These irregularities were reported to the department from September to November 2023. The management replied that cases amounting to Rs 51.12 million were under adjudication and no reply was furnished for Rs 156.89 million.

The DAC, in its meeting held in January, 2024 directed the department to complete the adjudication proceedings and submit comprehensive replies. No further progress was reported till the finalization of this report.

The Audit recommends prompt action in finalization of the cases and fixing of responsibility against the person(s) at fault besides strengthening risk based desk audits and periodic review/update of RMS based on audit observations.

[Annexure-44]

5.16 Non-realization of further tax – Rs 163 million

According to Section 3(1A) of the Sales Tax Act 1990, in case of a supply of taxable goods to unregistered persons, further tax at the rate of three per cent (3%) shall be charged on the value in addition to the rate specified in Section 3 and 4 of the Act.

It was observed during the audit of the FYs 2021-22 and 2022-23 that in ten (10) field offices of FBR, forty-two (42) registered persons made taxable supplies to unregistered persons, however, the applicable further tax was not realized under the law. The tax authorities did not initiate legal proceedings to recover the due tax. This resulted in the non-realization of further tax amounting to Rs 163.29 million.

These irregularities were reported to the department from February to November 2023. The management replied that cases amounting to Rs 1.78 million were under recovery, legal proceedings for Rs 103.53 million had been initiated, Rs 42.86 million were under adjudication, and in cases amounting to Rs 15.12 million, no response was furnished by the department.

The DAC, in its meetings held in July, August, December 2023 and January, 2024 directed the department to expedite the recovery, complete the legal/adjudication proceedings, and submit comprehensive reply where no response was furnished. No further progress was reported till the finalization of this report.

The Audit recommends expediting recovery and to finalize adjudication/ legal proceedings besides strengthening IT based controls to apply further tax in cases where sales are made to unregistered buyers.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23 vide para numbers 4.1.17, 4.1.11, 5.3, 5.7 & 6.8 respectively having a financial impact of Rs 3,974.47 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-45]

5.17 Short-realization of sales tax due to application of incorrect tax rates – Rs 100 million

According to section 3 of the Sales Tax Act, 1990, there shall be charged levied and paid sales tax at the rate of eighteen percent (18%) of the value of taxable supplies made by a registered person in the course or furtherance of any taxable activity carried on by him. Furthermore, according to SRO 297(I)/2023 dated 8th March, 2023, the rate of sales tax has been prescribed at twenty-five per cent (25%) on supply of certain goods.

It was observed during the audit of the FY 2022-23 that in three (03) field offices of FBR, twenty (20) registered persons made supplies of taxable goods and charged sales tax at lower than the applicable rate against such supplies. The department did not initiate legal proceedings to recover the government dues. This resulted in short-realization of sales tax amounting to Rs 99.91 million.

These irregularities were reported to the department from September to November, 2023. The management replied that cases amounting to Rs 1.41 million were under recovery and Rs 98.50 million were under adjudication.

The DAC, in its meetings held in January, 2024 directed the department to expedite the recovery and complete the adjudication proceedings. No further progress was reported till the finalization of this report.

The Audit recommends expeditious recovery/legal proceedings and prompt re-assessment of correct sales tax liability besides strengthening risk based desk audits.

[Annexure-46]

5.18 Non-realization of minimum sales tax liability – Rs 31 million

According to Rule 157 of Sales Tax Rules 2006, if a registered person fails to file a return by the due date, his minimum liability would be determined in the prescribed manner. Moreover, Rule 158 (1) of the law ibid provides that the minimum tax liability of the registered person for a tax period shall not be less than the highest amount of tax paid by the registered person in any of the tax periods during the previous twelve months.

It was observed during the audit of the FYs 2021-22 and 2022-23 that in three (03) field offices of FBR, fifteen (15) registered persons did not file sales tax returns for certain tax periods. The tax authorities were required to recover minimum tax liability, however, no efforts were made to recover the government revenue. This resulted in non-realization of minimum tax liabilities of Rs 31.13 million.

These irregularities were reported to the department in February to November 2023. The department replied that cases of Rs 2.56 million were under recovery, legal proceedings for Rs 8.40 million had been initiated, Rs 4.70 million were under adjudication, and in cases of Rs 15.47 million, no response was furnished by the department.

The DAC, in its meetings held in August, 2023 and January, 2024 directed the department to expedite the recovery, complete the legal/adjudication proceedings, and submit comprehensive reply where no response was furnished. No further progress was reported till the finalization of this report.

The Audit recommends to expedite the legal/adjudication proceedings, incentivize early submission of sales tax returns and consistent enforcement of minimum tax and penalties where returns are not submitted timely.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2020-21, 2021-22 and 2022-23 vide paras number 4.1.28, 5.1(ii), 5.11 and 6.15 respectively having a financial impact of Rs 575.76 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-47]

5.19 Non-registration of potential taxpayers liable for registration - Rs 4,632 million

According to Section 2(5AB), 2(25) & 14 of the Sales Tax Act, 1990, every person engaged in making taxable supplies in Pakistan, including zero-rated supplies, any manufacturer having turnover of taxable supplies of more than eight million rupees (Rs 8,000,000) or having an industrial gas or electricity connection, if not already registered, is required to be registered under this Act. Further, Section 3, read with Section 26 of the Act, provides that any person making taxable supplies shall pay sales tax at the prescribed rate and furnish true and correct information while filing his sales tax return.

It was observed during the audit of the FYs 2021-22 and 2022-23 that eight (08) field offices of FBR did not register two thousand thirty-eight (2038) persons even though they are manufacturer, retailer, distributor, wholesaler, dealer, and having large volume of business as evident from income tax record and met the prescribed conditions for compulsory sales tax registration. Non-registration of taxpayers resulted in potential tax effect amounting to Rs 4,632.24 million.

These irregularities were reported to the department from February to November 2023. The department replied that legal proceedings for Rs 4,073.61 million had been initiated, Rs 219.02 million were under adjudication, and in cases amounting to Rs 339.61 million, no reply was furnished by the department.

The DAC, in its meetings held in July, August, December 2023 and January 2024, directed the department to expedite the recovery, complete the legal/adjudication proceedings, and submit comprehensive reply where no response was furnished. No further progress was reported till the finalization of this report.

The Audit recommends to finalize adjudication/legal proceedings besides introduction of systematic checks in the return filing systems to flag such cases. In addition to above, monitoring mechanisms for high value transactions may be evolved and reviewed periodically.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23 vide para numbers 4.1.16, 4.1.23, 5.5, 6.2.3.3 & 6.2.3.12 respectively having a financial impact of Rs 2,814.26 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-48]

5.20 Non-conduct of post-refund audit

According to Rule 36(1) of the Sales Tax Refund Rules 2006, after disposing of the refund claims, the officer-in-charge shall forward the relevant file to the Post Refund Audit Division for post-refund audit, which shall include verification of input tax payment by respective suppliers along with compliance of Section 73 of the Sales Tax Act 1990.

It was observed during the audit of the FYs 2021-22 and 2022-23 that eleven (11) field offices of FBR, in two thousand four hundred and ninety-nine (2499) cases, paid sales tax refund amounting to Rs 61,217.06 million. However, post refund audit (PRA) was not conducted to verify input tax consumption in zero-rated/exported goods. The authenticity of refund could not be established without conducting post refund audit.

These irregularities were reported to the department from February to November 2023. The management replied that cases amounting to Rs 22.79 million were under recovery, legal proceedings for Rs 20,752.43 million had been initiated, Rs 172.38 million were under adjudication, and in cases amounting to Rs 40,269.46 million, no response was furnished by the department. The Audit requires the department to disclose number of post refund audits conducted and share the findings with the Audit.

The DAC, in its meetings held in July, August, December 2023 and January, 2024 directed the department to expedite the recovery, complete the legal/adjudication proceedings and submit updated reply in non-responded cases. No further progress was reported till the finalization of this report.

The Audit recommends expediting the recovery and finalization of post-refund audit and legal proceedings in the cases pointed out by the audit, improving the post-refund audit system, and sharing the post refund audit reports with the external Audit for effective feedback.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2020-21, 2021-22 and 2022-23 vide paras number 5.5.1, 5.17, 5.21 & 6.17 respectively having a financial impact of Rs 27,614.78 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-49]

CHAPTER-6 FEDERAL EXCISE DUTY

6.1 Non/short-realization of Federal Excise Duty – Rs 2,773 million

According to section 3 of the Federal Excise Act, 2005, there shall be levied and collected federal excise duty on excisable goods at prescribed rates.

It was observed during the audit of the FYs 2020-21 and 2021-22 that two (02) field offices of FBR, in eight (08) cases did not levy and collect federal excise duty amounting to Rs 2,772.78 million on dutiable goods (franchise fee, cement, natural gas & motor vehicles). This resulted in non/short realization of federal excise duty amounting to Rs 2,772.78 million.

These irregularities were reported to the department from February to November 2023. The management replied that cases amounting to Rs 37.72 million were under adjudication, Rs 2,712.19 million were under process and in cases amounting to Rs 22.87 million, no response was furnished by the department.

The DAC in its meetings held in July, August, December 2023 and January, 2024 directed the department to finalize the under process cases, adjudication proceedings and showed its serious concern in non-responded cases. No further progress was reported till the finalization of this report.

The Audit recommends to finalize the under process cases/adjudication proceedings and reinforcing integration of return filing systems besides strengthening risk based desk audits.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2019-20, 2021-22 and 2022-23 vide para number 4.3.1, 6.3 & 6.4 and 7.1 respectively having a financial impact of Rs 3,076.06 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-50]

6.2 Non-realization of default surcharge – Rs 194 million

According to Section 8 of the Federal Excise Act, 2005, if a person does not pay the duty due or any part thereof within the prescribed time or receives a refund of duty or drawback or makes an adjustment which is not admissible to him, he shall, in addition to the duty due, pay default surcharge at the rate of twelve per cent (12%) per annum of the duty due, refund of duty or drawback.

It was observed during the audit of the FY 2021-22 that in Large Taxpayer Office Karachi, five (05) registered persons deposited amount of federal excise duty after the due dates which attracted levy of default surcharge. The same was not imposed by the department which resulted in non-realization of default surcharge amounting to Rs 193.62 million.

These irregularities were reported to the department from March to June 2023. The management replied that Rs 193.62 million were under process.

The DAC in its meetings held in July and December 2023 directed the department to finalize the under process cases. No further progress was reported till the finalization of this report.

The Audit recommends to expedite under process cases, incentivize early submission of returns, and consistent enforcement of penalties.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2019-20, 2021-22 and 2022-23 vide para number 4.3.2, 6.6 and 7.2 respectively having a financial impact of Rs 1,441.10 million. The recurrence of the same irregularity is a matter of serious concern.

[DP No.7126-FED]

6.3 Non/short deposit of federal excise duty on air tickets – Rs 155 million

According to Rule 41A (14) of the Federal Excise Rules, 2005, the airlines shall deposit in the treasury of Government of Pakistan, the entire amount of excise duty collected on international air travel without making any input tax adjustments.

It was observed during the audit of the FY 2020-21 that in Medium Taxpayers Office (MTO), Karachi, M/s Air Arabia (NTN 7190459) did not deposit due amount of federal excise duty during the tax period February and March 2021. Moreover, the department did not initiate any proceedings/action to recover the duty. The omission resulted in non/short payment of FED amounting to Rs 154.80 million.

The irregularity was reported to the department in March 2023. The management replied that Rs 154.80 million were under process.

The DAC in its meeting held in July and December 2023 directed the department to finalize the under process cases. No further progress was reported till the finalization of this report.

The Audit recommends to finalize under process cases besides strengthening risk-based desk audits.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2018-19 and 2021-22 vide para number 4.3.1 and 6.1 respectively having a financial impact of Rs 7,114.51 million. The recurrence of the same irregularity is a matter of serious concern.

[DP No. 7129-FED]

CHAPTER-7 CUSTOMS DUTY

(2) 7.1 *Blockage of revenue due to non-disposal of confiscated goods/vehicles - Rs 13,556 million*

According to section 182 of the Customs Act 1969, read with sections 82, 89, 169 and 201 *ibid*, Customs General Order 12 dated 15.06.2002, and Rule 58(1) of the Customs Rules 2001, confiscated goods are required to be disposed of after observing codal formalities within the shortest possible time.

It was observed during the audit of the FYs 2021-22 and 2022-23 that twenty-four (24) field offices of FBR, in four thousand seven hundred and eleven (4,711) cases did not dispose-of confiscated goods, including vehicles and valuables, i.e. gold, silver and foreign currency, as per law. Goods/vehicles were lying in warehouses since 2017 which may result in declining value/quality/fitness for human consumption. This resulted in a blockage of revenue of Rs 13,556.30 million.

These instances were pointed out from February to November 2023. The management replied that cases amounting to Rs 128.32 million were under recovery, Rs 13,095.69 million under process, Rs 151.02 million were pending in adjudication, and Rs 123.48 million were pending in court. The management contested an amount of Rs 57.79 million on the plea that the goods were auctioned under auction rules by accepting highest bids. Audit holds that fetching of bids below reserved price is due to delayed auction of goods.

The DAC, in its meetings held in September, December 2023 and January 2024, directed the department to expedite recovery, pursue the cases under adjudication or pending in courts and submit comprehensive replies in cases under scrutiny, and to get their stated position verified by Audit. No further progress was reported till the finalization of this report.

The Audit recommends to expedite recovery of admitted amounts, pursuance of cases under adjudication, and submission of comprehensive replies besides fixing of responsibility on the person(s) at fault.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23 vide para numbers 4.8.5, 4.8.1, 7.3, 7.16 and 8.2 respectively having financial impact of Rs 24,498.51 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-51]

7.2 **Loss of revenue due to inadmissible exemptions/concessions in duties and taxes – Rs 6,454 million**

According to section 19 of the Customs Act 1969, various imported goods have been granted exemptions/concessions in duties and taxes subject to the fulfilment of conditions specified in the law.

It was observed during the audit of the FYs 2021-22 and 2022-23 that eleven (11) field offices of FBR, in three thousand one hundred and twenty-seven (3127) cases granted inadmissible exemptions and concessions in duties and taxes on goods (like television parts, plant and machinery, auto parts, vehicles, chemicals etc.) to importers/exporters who did not qualify for such exemptions. This resulted in loss of revenue amounting to Rs 6,454.11 million due to inadmissible exemptions.

These lapses were pointed out from February to November 2023. The management replied that cases amounting to Rs 96.67 million were under recovery, Rs 52.22 million were under scrutiny, Rs 0.63 million were pending in adjudication, and Rs 6,126.49 million were pending in court of law. The management contested an amount of Rs 178.10 million on the plea that benefit of concerned Schedule/SROs was granted as per law. However, the Audit holds that exemption amounting to Rs 66.31 million under Part-V(A) of the Fifth Schedule to the Customs Act 1969 was not admissible to old and used electric vehicles imported under the baggage scheme. Further, concessionary rates of customs duty were availed amounting to Rs 33.37 million under benefit of SRO 655(I)/2006 in absence of consumption certificates issued by Engineering Development Board (EDB). Moreover, the benefit is available to modems, whereas the goods were not modems and thus incorrectly granted benefit of customs duty amounting to Rs 26.31 million.

The DAC, in its meetings held in September, December 2023 and January 2024, directed the department to expedite recovery, pursue the cases under adjudication or pending in courts, submit comprehensive replies in cases under scrutiny and to get their stated position verified by Audit. No further progress was reported till the finalization of this report.

The Audit recommends to expedite recovery of admitted amounts, pursue cases under adjudication/court of law, submit comprehensive replies in under scrutiny cases, and fixing of responsibility against the concerned besides streamlining/simplifying tariffs.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23 vide para numbers 4.8.3,14,16, 4.8.3,11,12, 7.1(ii), 7.3 and 8.4 respectively having a financial impact of Rs 20,906.50 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure- 52]

7.3 Non-reconciliation of import and export of precious metals, jewellery & gemstones

According to SRO 760(I)/2013 dated 02.09.2013, the quantity of gold shall be capped at 25 Kg on revolving basis under entrustment scheme. Further, Precious metals imported under entrustment/self-consignment scheme shall neither be sold in the domestic market nor used for any other purpose except to make and export jewellery within 120 days from the date of import. Failure to export jewellery within stipulated time period shall be penalized under the relevant laws.

It was observed during the audit of the FY 2021-22 that the Collectorate of Customs, JIAP, Karachi cleared precious metals, jewellery & gem stones worth Rs 3,421 million, however, the Audit observed the following irregularities:

- (a) In some cases, excess quantity of gold was imported by the importers than the capped quantity of 25 kg.
- (b) 1% cash margin/bank guarantees were released without making any reconciliation process.
- (c) Records pertaining to import and export of gold were maintained manually and no automation has been adopted by the Collectorate for its reconciliation.
- (d) The Collectorate allowed the importers to file Goods Declarations (GDs) through One-Customs instead of WeBOC system.

These irregularities were pointed out in May 2023. The management replied that the gold was cleared by the customs authorities on production of Jewellery Passbook issued to them by the Trade Development Authority Pakistan (TDAP), which is the concerned regulatory authority. The role of customs authorities was limited only to the extent of facilitation to the importers/exporters of gold/gold jewellery and to verify the description and quantity etc. of the gold on the basis of advance information submitted by the importers and to make relevant entries in the Passbook issued by the TDAP. Furthermore, Change Request Form for development of module in WeBOC system had already been sent to the Directorate of Reforms and Automation, Custom House, Karachi. The Audit holds that due to non-reconciliation re-export of the imported goods and realization of the due amount of foreign exchange is not verifiable. Furthermore, the Collectorate could not provide evidence of observing prescribed ceiling of 25 kg in all the cases. Moreover, no justification was provided by the department on non-utilization of WeBOC in the instant cases.

The DAC, in its meetings held in September 2023 and January 2024, directed the department to take up the matter with the concerned regulatory authorities for reconciliation of quantity of imported and exported gold. The DAC further directed to develop module in the WeBOC system and in present audit para Collectorate may submit reconciliation and take action in cases of excess imported quantity of gold.

The Audit recommends proper justification of non-reconciliation of import export of gold, non-automation of the scheme, besides fixing of responsibility on the person(s) at fault.

[PDPs No. 2669 & 2670-CD/K]

7.4 Illegal removal of imported goods from bonded warehouse evading duties / taxes – Rs 1,387 million

According to section 86 and 117(2) of the Customs Act, 1969, every private warehouse shall be under lock and key of both the licensee and appropriate officer of customs. The owner of the goods to which it relates shall furnish an indemnity bond and post-dated cheque equivalent to the duty assessed under Section 80 or section 81 or assessed under section 109 on such goods.

It was observed during the audit of the FY 2022-23, that in the Collectorate of Customs, Hyderabad, a licensee M/s HSJ Metal (Pvt) Limited, illegally removed imported goods i.e. iron and steel scrap and silico-manganese without payment of duty/taxes amounting to Rs 1,387.10 million.

The department did not implement above provisions of law regarding annual audit and stock-taking etc.

These irregularities were reported to the department in November 2023. The management reported that the Collectorate had time and again directed the importer to ex-bond overstayed goods and get stocks verified. The Collectorate had also requested Collectors Appraisement (East), (West) and Port Qasim to encash securities submitted at the time of import besides auctioning imported goods lying at the ports. The Collectorate informed that post-dated cheques had expired and the Collectorates of Appraisement i.e. (East), (West), (PMBQ), Karachi did not revalidate post-dated cheques submitted at the time of import and were expired/time-barred. The Collectorate further informed that the FIR was also lodged against the bonder and matter is also pending in Sindh High Court.

The DAC, in its meeting held in January 2024 expressed serious concerns on unsatisfactory performance and directed that action may also be taken against the clearing Collectorates since they did not initiate timely action for either encashing the securities which ultimately expired. The DAC further directed to pursue the cases at appropriate legal fora besides fixing of responsibility on the person(s) at fault. No further progress was reported till the finalization of this report.

The Audit recommends implementation of DAC directives besides effective monitoring of bonded warehouses and recovery of duty/taxes involved and fixing of responsibility on the person(s) at fault.

[DP No. 3140-CD/K]

7.5 Incorrect assessment of duties and taxes – Rs 1,002 million

According to Section 18 of the Customs Act 1969, duty and taxes are assessed as per the Pakistan Customs Tariff and duties levied vide various SROs issued by the Board from time to time.

It was observed during the audit of the FYs 2021-22 and 2022-23 that ten (10) field offices of FBR, in three hundred seventy-six (376) cases had cleared imported goods (namely motor spirit, bags, wallets, boxes, semi-automatic pistols, etc.) upon payment of duty and taxes at less than leviable rates thereon due to incorrect assessments by the customs authorities. This indicated weak monitoring of assessments by the customs authorities. This resulted in short realization of duties and taxes amounting to Rs 1,002.12 million.

These irregularities were pointed out from February to November 2023. The management replied that cases amounting to Rs 18.00 million were under recovery, Rs 306.78 million were under scrutiny, Rs 7.85 million were pending in adjudication, and Rs 669.49 million were pending in court of law.

The DAC, in its meetings held in September and December 2023, directed the department to expedite recovery, pursue the cases under adjudication or pending in courts and submit comprehensive replies in cases under scrutiny, and to get their stated position verified by Audit. No further progress was reported till the finalization of this report.

The Audit recommends to expedite recovery of admitted amounts, pursue cases under adjudication/court of law, and submit comprehensive replies in under scrutiny cases. Moreover, the department should strengthen faceless assessments besides instituting risk-based desk audits.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2020-21 and 2021-22 vide para numbers 4.8.6,22, 4.8.4, 7.1 (v) and 7.9 respectively having a financial impact of Rs 2,772.15 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-53]

7.6 Short-realization of duties and taxes due to under-valuation of imported goods – Rs 870 million

Section 25 of the Customs Act 1969, provides a detailed procedure for determining the value of imported goods. Furthermore, Section 25-A of the Act ibid empowers the Directorate General of Customs Valuation Karachi to fix the value of imported goods or any class of goods.

It was observed during the audit of the FYs 2021-22 and 2022-23 that seventeen (17) field offices of FBR, in two thousand seven hundred and fifty (2750) cases, either assessed the imported goods (namely porcelain tiles, semi-automatic pistols, CCTV cameras, stainless steel flexible hosepipe, mobile phones, used auto parts, and chandeliers etc.) at lower values as compared to identical/similar goods or did not comply with the valuation rulings issued by the Directorate General of Valuation, Karachi. This resulted in short realization of duties and taxes amounting to Rs 869.84 million.

These instances were pointed out from February to November 2023. The management replied that cases amounting to Rs 108.46 million were under recovery, Rs 237.57 million were under scrutiny, Rs 29.00 million were pending in adjudication and Rs 2.35 million were pending in courts. The management contested an amount of Rs 492.46 million on the plea that goods had been assessed keeping in view the available data and valuation rulings where applicable. Audit holds that the goods were required to be assessed according to specific valuation rulings and dominant data of the same goods.

The DAC, in its meetings held in September, December 2023 and January 2024, directed the department to expedite recovery, pursue the cases under adjudication or pending in courts, submit comprehensive replies in cases under scrutiny, and to get their stated position verified by Audit. No further progress was reported till the finalization of this report.

The Audit recommends to expedite recovery of admitted amounts, pursuance of cases under adjudication, and submission of comprehensive replies in under scrutiny cases. Audit further recommends fixing of responsibility in cases where specific valuation rulings were available but not applied.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23 vide para numbers 4.8.10, 4.8.8, 7.1(iii), 7.1 and 8.13

respectively having a financial impact of Rs 4,543.77 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-54]

7.7 Short-realization of duties and taxes due to misclassification of imported goods – Rs 855 million

Goods imported into Pakistan are classified according to PCT headings given in the First Schedule to the Customs Act 1969, for the realization of customs duties and allied taxes.

It was observed during the audit of the FYs 2021-22 and 2022-23 that eight (08) field offices of FBR, in four thousand seven hundred and ninety-eight (4798) cases, cleared various imported goods (like mobile pouches, wooden beads, LED modules, adhesive glue, hacksaw blades etc.) by misclassifying them under incorrect PCT headings, attracting lower rates of duties and taxes instead of correct headings with higher rates. This resulted in short realization of duties and taxes amounting to Rs 855.15 million.

These instances were pointed out from February to November 2023. The management replied that cases amounting to Rs 252.43 million were under recovery, Rs 415.15 million were under scrutiny and Rs 0.24 million were pending in adjudication. The management contested an amount of Rs 187.34 million on the plea that the goods were correctly classified. Audit holds that the goods were misclassified and need to be assessed as per the First Schedule to the Customs Act 1969.

The DAC, in its meetings held in September, December 2023 and January 2024, directed the department to expedite recovery, pursue the cases under adjudication, submit comprehensive replies in cases under scrutiny, and to get their stated position verified by Audit. No further progress was reported till the finalization of this report.

The Audit recommends to expedite recovery of admitted amounts, pursuance of cases under adjudication, and submission of comprehensive replies in under scrutiny cases. Audit further recommends to institute faceless assessments besides strengthening risk-based desk audits.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2021-22 and 2022-23 vide para numbers 4.8.8, 4.8.5, 7.4 and 8.9 respectively having a financial impact of Rs 2,212.99 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure- 55]

7.8 Non/short-realization of sales tax and value addition tax – Rs 776 million

According to Section 3, 7 and 13 read with Third, Sixth and Eighth Schedules of the Sales Tax Act 1990, there shall be charged, levied, exempted and paid sales tax at prescribed rates on goods imported into Pakistan, irrespective of their final destination inside territories of Pakistan.

Further, according to the Twelfth Schedule of Sales Tax Act 1990, value addition tax shall be levied and collected at the rate of three percent (3%) on all imported goods subject to exclusions provided in law.

It was observed during the audit of the FYs 2021-22 and 2022-23 that eighteen (18) field offices of FBR, in six thousand three hundred and sixty-two (6362) cases either did not realize the sales/value addition tax or realized the same at lower than applicable rates on goods (school bags, shoes, cosmetics, mobile phone accessories, auto parts etc.). Non-adherence to relevant laws and weak monitoring controls caused non/short realization of sales tax and value addition tax amounting to Rs 776.28 million.

These irregularities were pointed out from February to November 2023. The management replied that cases amounting to Rs 238.52 million were under recovery, Rs 124.46 million were under scrutiny, Rs 1.28 million were pending in adjudication and Rs 147.18 million were pending in court of law. The management contested an amount of Rs 264.84 million on the plea that the goods were meant for in-house consumption of the importers-cum-manufacturers/ service providers. Audit holds that the goods were finished in nature and not used in manufacturing or furtherance of taxable activity.

The DAC, in its meetings held in September, December 2023 and January 2024, directed the department to expedite recovery, pursue the cases under adjudication or pending in courts, submit comprehensive replies in cases under scrutiny, and to get their stated position verified by Audit. No further progress was reported till the finalization of this report.

The Audit recommends to expedite recovery of admitted amounts, pursuance of cases under adjudication, and submission of comprehensive replies in under scrutiny cases.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23 vide para numbers 4.8.13,15,27, 4.8.2,15,22, 7.1(i), 7.2 and 8.8 respectively having a financial impact of Rs 7,388.73 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-56]

7.9 Non-finalization of cases under adjudication – Rs 601 million

According to Section 179(3) of the Customs Act 1969, the cases shall be decided within ninety (90) days of the issuance of show cause notice or within such period extended by the Collector for which reasons shall be recorded in writing, but such extended period shall in no case exceed sixty days.

It was observed during the audit of the FYs 2021-22 and 2022-23 that seven (07) field offices of FBR, in seven hundred and six (706) cases did not finalize adjudication proceedings within stipulated or extended period. This resulted in non-finalization of cases involving revenue amounting to Rs 600.83 million.

These irregularities were pointed out from March to November 2023. The management replied that cases amounting to Rs 513.40 million were finalized/adjudicated, Rs 10.54 million were under recovery, Rs 46.93 million were under adjudication and cases involving Rs 29.96 million were subjudice in the High Court.

The DAC, in its meetings held in September 2023 and January 2024, directed the department to refer the finalized cases to the respective Collectorates for further necessary action as per law, expedite recovery and pursue subjudice cases.

The Audit recommends implementation of DAC directives.

[Annexure-57]

7.10 Non/short-collection of income tax – Rs 594 million

Section 148 of the Income Tax Ordinance 2001, provides income tax collection at the import stage as per rates specified in Part-II of the First Schedule in respect of goods classified in Part I to III of the Twelfth Schedule to the Ordinance.

It was observed during the audit of the FYs 2021-22 and 2022-23 that twelve (12) field offices of FBR, in four thousand two hundred and fifty-one (4251) cases either did not collect tax at the time of clearance of imported goods or collected at lower than specified rates. This resulted in non/short realization of income tax amounting to Rs 593.79 million.

These instances were pointed out from February to November 2023. The management replied that cases amounting to Rs 399.75 million were under recovery, Rs 12.24 million were under scrutiny, and Rs 181.80 million were pending in court of law.

The DAC, in its meetings held in September, December 2023 and January 2024, directed the department to expedite recovery, pursue the cases pending in courts, submit comprehensive replies in cases under scrutiny, and to get their stated position verified by Audit. No further progress was reported till the finalization of this report.

The Audit recommends to expedite recovery of admitted amounts besides fixing of responsibility against the concerned.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2021-22 and 2022-23 vide para numbers 4.8.12, 4.8.28,31, 7.8 and 8.11 respectively having a financial impact of Rs 985.84 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-58]

(3) 7.11 Blockage of revenue due to non-clearance of overstayed bonded goods – Rs 392 million

According to Rule 350(2) of the Customs Rules 2001, the goods imported by diplomatic bonded warehouses and duty-free shops for sale to entitled persons can be kept in the bonded

warehouse for a period of two years from the date of in-bonding thereof without payment of penal surcharge. Further, Rule 350(4) provides that input goods imported or procured locally by a manufacturing bond licensee shall be consumed within a period which shall run from the date on which the imported goods are placed under the manufacturing bond procedure.

It was observed during the audit of the FYs 2021-22 and 2022-23 that six (06) field offices of FBR, in fifty-five (55) cases did not initiate action for clearance of warehoused goods along with levy of surcharge from the importers who either failed to clear/utilize the warehoused goods within the stipulated or extended period. This resulted in a blockage of revenue amounting to Rs 391.54 million.

These instances were pointed out from February to November 2023. The management replied that cases amounting to Rs 250.44 million were under recovery and Rs 146.20 million were under scrutiny.

The DAC, in its meetings held in September, December 2023 and January 2024, directed the department to expedite recovery, submit comprehensive replies in cases under scrutiny and to get their stated position verified by Audit. No further progress was reported till the finalization of this report.

The Audit recommends to expedite recovery of admitted amounts and submission of comprehensive replies in under scrutiny cases besides fixing of responsibility against the concerned.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2021-22 and 2022-23 vide para numbers 4.8.23, 4.8.19, 7.10 and 8.7 respectively having a financial impact of Rs 384.61 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-59]

7.12 Loss of revenue due to fraudulent clearance of non-existent mobile phones at nominal values – Rs 360 million

Section 80 of the Customs Act 1969 provides that on the receipt of Goods Declaration (GD), an officer of Customs shall satisfy himself regarding the correctness of the particulars of the imports, including declaration, assessment, payment of duty, taxes and other charges thereon. Further, section 80 (3) of the Act *ibid* provides that if during the checking of GD, it is found that any statement in such declaration or document or any information so furnished is not correct, the goods shall be re-assessed and duty, taxes and other charges levied thereon.

It was observed during the audit of the FY 2022-23 that the Collectorate of Customs Islamabad, in six (6) cases cleared 5,576 mobile phones which were not found during the examination and assessed at nominal value of USD 01. An intimation was also sent to Pakistan Telecommunication Authority (PTA) that duty and taxes for all of the declared mobiles along with International Mobile Equipment Identity (IMEI) Nos had been collected. All of these mobiles got

registered with PTA and were activated in Pakistan. Later on, the Collector Adjudication (Customs) adjudicated to recover the short-paid amount of duty/taxes after re-assessment of the mobiles as per data of 'used mobiles' rather than 'Device Identification, Registration and Blocking Systems' (DIRBS) value. The concerned customs staff was requested to provide information about the re-assessment of cases during the audit but nothing was provided despite several requests. The Audit observed that the lapse led to fraudulent clearance by examination and appraisal officers/officials. It is worth mentioning that the importers/clearing agents involved in this incident were still active and the department did not take legal action to black-list them. This resulted in a loss of government revenue amounting to Rs 360.31 million.

These instances were pointed out from August to November 2023. The management replied that cases amounting to Rs 360.31 million were pending in Islamabad High Court and in trial court in respect of criminal proceedings.

The DAC, in its meeting held in December 2023, directed the department to pursue the cases pending in courts. No further progress was reported till the finalization of this report.

The Audit recommends to pursue the cases pending in Islamabad High Court, blacklist the involved importers/clearing agents, and initiate criminal proceedings against the concerned officers/officials.

[DP No.8675-Cus]

7.13 Non-follow up of cases initiated by the Directorate of Post Clearance Audit – Rs 338 million

Post Clearance Audit (PCA) is governed under SROs 500 & 501(I)/2009 dated 13.06.2009 and CGO No.13/2008 dated 18.10.2008 read with Pakistan Customs Post Clearance Audit Manual. Functions of the Post-Clearance Audit include developing a comprehensive monitoring mechanism to verify the correctness of trade related declarations and to detect, investigate and propose measures to prevent commercial and trade related frauds.

It was observed during the audit of the FY 2022-23 that Directorate of Post Clearance Audit, Karachi, raised observations in eighty-eight (88) cases regarding misclassification, mis-declarations, inadmissible exemptions, non-application of valuation rulings, non-realization of anti-dumping duty etc. amounting to Rs 337.69 million. However, no compliance status was provided to the Audit which depicted lack of follow-up of the cases by the Directorate of PCA.

These irregularities were pointed out in November, 2023. The management did not submit a reply, therefore, the para was not discussed in the DAC meeting.

The Audit requires that the pointed out irregularities be actively followed up for timely recovery of government revenue. Furthermore, number of PCAs conducted and recoveries actuated thereof may be made part of KPIs and separately reported in the MPRs.

(4) [DPs No. 3281, 3282, 3283, 3284 & 3285-CD/K]

(5) 7.14 Non-recovery of adjudged revenue – Rs 286 million

Section 202 of the Customs Act 1969, read with the Chapter-XI, of Customs Rules, 2001, provides detailed procedure for recovery of government dues by requiring any other officer of Customs to deduct federal excise and sales tax from any money owing to such person by attachment and sale of any movable or immovable property of the defaulter and arrest/detention of defaulter.

It was observed during the audit of the FY 2021-22 that eight (08) field offices of FBR, in one hundred and thirty-six (136) cases did not initiate further legal proceedings for recovery of adjudged revenue despite the lapse of considerable time (12 months). The adjudged dues amounting to Rs 285.68 million remained unrecovered due to inaction of the department.

These irregularities were reported to the department from February to November, 2023. The management replied that cases amounting to Rs 17.62 million were under recovery, Rs 173.14 million were under scrutiny, Rs 3.63 million were pending in adjudication and Rs 91.29 million were pending in court of law.

The DAC, in its meetings held in September, December 2023 and January 2024, directed the department to expedite recovery, pursue the cases under adjudication or pending in courts and submit comprehensive replies in cases under scrutiny for verification to the Audit. No further progress was reported till the finalization of this report.

The Audit recommends to expedite recovery of admitted amounts, pursue cases under adjudication/court of law and submit comprehensive replies in cases under scrutiny.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2021-22 and 2022-23 vide para numbers 4.8.7, 4.8.6, 7.15 and 8.1 respectively having a financial impact of Rs 5,671.26 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-60]

7.15 Illegal retention of goods declaration processing fee – Rs 138 million

According to Rules 4 to 8 of General Financial Rules, all money recovered as due to the Government, is required to be deposited/credited into public account without any delay. Further, according to clause 21 of the Public Finance Management Act, 2019, all Ministries and Divisions, attached departments and subordinate offices and all public entities are required to remit all revenues to the Federal Consolidated Fund.

It was observed during the audit of the FYs 2021-22 and 2022-23, that six (06) field offices of FBR collected good declaration processing fees for the period from 1st July 2021 to 30th June 2023 amounting to Rs 137.55 million but the same was neither reported to the Treasury Offices concerned nor remitted to the State Bank of Pakistan. The money was retained in the Collector's account

maintained in a commercial bank, in violation of PFM Act as the same was required to be deposited immediately in government treasury. The audit required disclosure of the reasons behind the non-deposit of fees into the government treasury and date-wise credit/debit history from the account maintained by Collector for deposit of GD processing fee for the period referred above. However, no such record was produced to the Audit.

The irregularity was pointed out from February to November 2023. The management replied that cases amounting to Rs 137.55 million were under scrutiny.

The DAC, in its meetings held in September and December 2023, directed the department to submit comprehensive replies in cases under scrutiny. No further progress was reported till the finalization of this report.

The Audit recommends that amount collected on account of goods declaration fee be deposited in the government treasury besides initiating disciplinary action against the concerned for the non-deposit of public money in government treasuries and retaining it in their private accounts.

[Annexure-61]

7.16 Irregularities in auction of vehicles/goods – Rs 109 million

According to Rule 58 (2) of Customs Rules 2001, the Collector shall cause the reserved price of the auction-able goods to be determined in accordance with the provisions of Section 25 of the Customs Act 1969. Moreover, any duties or taxes which would have been payable under clause (c) of sub-Section (2), on the date of fixation of the reserve price of such goods, shall be added to this value. Furthermore, Rule 73 of Customs Rules 2001, states that the highest bid given at an auction may be accepted after satisfying that the reserve price and the quantity/condition of goods are appropriate.

It was observed during the audit for the FY 2022-23, that in five (05) field offices of FBR, forty-two (42) cases committed the following irregularities during auction process amounting to Rs 108.74 million;

- (i) Incorrect/lesser determination of reserve price;
- (ii) Earnest money not forfeited despite the fact that remaining bid amount was not paid within seven days after final approval from the competent authority;
- (iii) Unjustified rejection of highest bid & acceptance of lower bid;
- (iv) Unjustified auction of goods at lower than the reserve price;
- (v) Non-auction of perishable goods turned unfit for human consumption and destroyed later on;
- (vi) Incomplete/non-maintenance of auction record; and
- (vii) Non-reconciliation of auction proceeds and non-verifications of vouchers with bank.

These irregularities were pointed out during July to November 2023. The management replied that cases amounting to Rs 1.00 million were under recovery, Rs 71.86 million were under

examination and Rs 35.89 million were contested on the plea that goods were assessed according to the conditions of the products. Audit holds that reserve price was required to be determined as per notified/ market price.

The DAC in its meeting held in January 2024, directed the department to expedite recovery, submit comprehensive replies in cases under examination/contested to the Audit and to enquire the matter and fixing of responsibility on persons at fault. No further progress was reported till the finalization of this report.

The Audit recommends expeditious recovery of admitted amounts and expedite examination/scrutiny in remaining cases, besides fixing of responsibility on the person(s) at fault.

[Annexure-62]

7.17 Inadmissible benefit of DTRE regime – Rs 92 million

According to Rule 297 (b) of Customs Rules, 2001, the DTRE facility shall be available to persons who make value-addition in the manufacture and export of goods in accordance with the prevalent value-addition of the relevant industry. This value addition shall not be less than 15% fifteen percent. Further, Section 2(16) (c) of the Sales Tax Act, 1990 provides that manufacture or produce includes process and operations of assembling, mixing, cutting, diluting, bottling, packaging, repacking or preparation of goods in any other manner;

It was observed during the audit of the FYs 2021-22 and 2022-23 that the Collectorate of Customs (Appraisalment), Lahore, in two (2) cases did not initiate any action against DTRE users who exported the goods without observing the 15% threshold of minimum value addition. Less value addition indicates misuse of DTRE which is against the spirit of the scheme. In addition to this, monitoring and post exportation audit by the management were also unsatisfactory. This resulted in undue benefit of DTRE regime amounting to Rs 92.15 million.

These irregularities were reported to the department from February to May, 2023. The management replied that cases amounting to Rs 70.91 million were under scrutiny. The management contested an amount of Rs 21.25 million on the plea that importer was commercial importer which requires 5% value addition. However, the Audit holds that goods were repacked, therefore, fall in manufacturing category. Thus, departmental contention is not tenable.

The DAC, in its meetings held in September and December 2023, directed the department to submit comprehensive replies in cases under scrutiny, and to get their stated position verified by Audit. No further progress was reported till the finalization of this report.

The Audit recommends to expedite recovery and to provide comprehensive reply where action is awaited, besides fixing of responsibility against the concerned.

[DP No. 8409 & 8413-Cus]

7.18 Non-payment of duty and taxes on wastage – Rs 78 million

According to Section 95(2)(a) of the Customs Act, 1969, the owner of any warehoused goods may carry on any manufacturing process or other operations in the warehouse in relation to such goods. Where in the course of any such operation or process there is any waste or refuse, duty shall be paid on such waste or refuse.

It was observed during the audit of the FYs 2021-22 and 2022-23 that three (03) field offices of FBR, in seven (7) cases, importers-cum-exporters imported raw materials for manufacturing of textile articles. However, the importers did not pay duty and taxes on the amount of wastage as leviable under aforesaid rules. This is an indication of weak monitoring of licensee of manufacturing bonds. The lapses resulted in the non-realization of revenue amounting to Rs 78.25 million.

These irregularities were pointed out from February to November 2023. The management replied that cases amounting to Rs 21.66 million were under recovery, Rs 48.41 million were pending in adjudication and Rs 8.18 million were pending in court of law.

The DAC, in its meetings held in September, December 2023 and January 2024, directed the department to expedite recovery and pursue the cases under adjudication or pending in courts. No further progress was reported till the finalization of this report.

The Audit recommends to expedite recovery of admitted amounts and to pursue cases pending in courts. Moreover, enforcement of taxation on wastage needs to be ensured through monitoring of manufacturing bond scheme besides fixing of responsibility on the relevant Inspectors.

[DP No. 8389, 8393 & 8453-Cus& 3145-CD/K]

7.19 Inordinate delay in auction of confiscated goods – Rs 60 million

According to Rule 58 (2) of Customs Rules 2001, the Collector shall cause the reserved price of the auction-able goods, to be determined in accordance with the provisions of Section 25 of the Customs Act 1969, and any duties or taxes which would have been payable under clause (c) of sub-Section (2) on the date of fixation of the reserve price of such goods shall be added to this value. Furthermore, Rule 73 of Customs Rules 2001, states that the highest bid given at an auction may be accepted after satisfying that the reserve price and the quantity/condition of goods are appropriate.

It was observed during audit for the FY 2022-23 that two (02) field offices of FBR, in seven (07) cases scheduled goods for auction after the lapse of 04 to 05 years. Such unjustified delay in scheduling of the goods for auction caused deterioration of goods and blockage of revenue amounting to Rs 59.52 million.

These irregularities were pointed out during July to November 2023. The management reported that in four (04) cases goods of Rs 30.23 million were under auction and in three (03) cases goods of Rs 29.29 million were awaiting action.

The DAC in its meeting held in January 2024, directed the department to expedite auction and recovery and submit comprehensive replies in cases under examination/contested for

verification by the Audit. The DAC further directed to enquire the matter and fixing of responsibility on the persons at fault. No further progress was reported till the finalization of this report.

The Audit recommends expeditious auction of goods/vehicles and examination/scrutiny in remaining cases.

7.20 Non-realization of revenue on unconsumed quantity – Rs 38 million

According to Rule 307 A (1) of the Customs Rules 2001, if a DTRE user fails to consume the duty and tax-free input goods, he shall be liable to pay duties and taxes including additional duties or additional tax and penalties leviable on such goods as per prescribed law.

It was observed during the audit of the FYs 2021-22 and 2022-23 that two (02) field offices of FBR, in twelve (12) cases did not recover duty and taxes from the DTRE users who failed to export the goods manufactured from duty-free input imported under the DTRE scheme. This resulted in the non-realization of revenue amounting to Rs 38.08 million.

These irregularities were pointed out from August to November 2023. The management replied that cases amounting to Rs 38.08 million were under recovery.

The DAC, in its meeting held in December 2023, directed the department to expedite recovery. No further progress was reported till the finalization of this report.

The Audit recommends to expedite recovery of admitted amounts besides strengthening post-exportation audits.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23 vide para numbers 4.8.20, 4.8.14, 7.4, 7.12 and 8.6 respectively having a financial impact of Rs 801.76 million. The recurrence of the same irregularity is a matter of serious concern.

7.21 Non-realization of anti-dumping duty – Rs 35 million

According to the Notification of National Tariff Commission (NTC) issued under section 50 of Anti-Dumping Duty Act 2015, NTC imposed definitive anti-dumping duty on import of certain items at the rates specified therein.

It was observed during the audit of the FY 2022-23 that four (04) field offices of FBR, in fifty-eight (58) cases cleared imported goods without realization of anti-dumping duty, whereas the goods (like PVC resin, hydrogen peroxide, CR coils etc.) were liable to anti-dumping duty under the NTC Notifications. It indicates weak internal controls in assessment and monitoring. The omission resulted in non-realization of revenue amounting to Rs 34.71 million.

These lapses were pointed out from August to November 2023. The management replied that cases amounting to Rs 6.73 million were under recovery and Rs 11.14 million were under scrutiny. The management contested an amount of Rs 16.84 million on the plea that goods were meant for export scheme hence anti-dumping duty was not recoverable. Audit holds that no documentary evidence has been provided by the Collectorate that goods were imported for re-export after value addition.

The DAC, in its meeting held in December 2023 and January 2024, directed the department to expedite recovery and submit comprehensive replies in cases under scrutiny and to get their stated position verified by Audit. No further progress was reported till the finalization of this report.

The Audit recommends early recovery and submission of comprehensive replies in under scrutiny cases, besides enforcement of anti-dumping duty and monitoring by the DC concerned.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2021-22 and 2022-23 vide para numbers 4.8.34, 4.8.17, 7.6 and 8.14 respectively having a financial impact of Rs 473.91 million. The recurrence of the same irregularity is a matter of serious concern.

(6) [Annexure-65]

7.22 Non/short-realization of federal excise duty – Rs 30 million

Federal excise duty on goods is leviable under Section 3 of the Federal Excise Act 2005, on imported goods at rates specified in the First Schedule of the Act.

It was observed during the audit of the FYs 2021-22 and 2022-23 that three (03) field offices of FBR, in three hundred and thirty-four (334) cases either did not realize federal excise duty on imported goods (E-liquids, cement, clinker etc.) or realized the same at lesser rates as compared to the rates specified in the First Schedule of the Act. This resulted in non/short realization of federal excise duty amounting to Rs 30.13 million.

These instances were pointed out from February to November 2023. The management replied that cases amounting to Rs 25.71 million were under recovery and Rs 4.42 million were contested.

The DAC, in its meetings held in September, December 2023 and January 2024, directed the department to expedite recovery and get their stated position verified from Audit. No further progress was reported till the finalization of this report.

The Audit recommends expediting recovery of admitted amount besides levy of FED on weight basis.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23 vide para numbers 4.8.18, 4.8.20, 7.1(vi), 7.7 and 8.10 respectively having a financial impact of Rs 714.36 million. The recurrence of the same irregularity is a matter of serious concern.

(7) [Annexure-66]

7.23 Loss of revenue due to misuse of DTRE regime – Rs 30 million

According to Rule 307A of Customs Rules, 2001 if a DTRE user fails to account for the duty and tax-free input goods, finished goods manufactured therefrom, un-exported same-state-goods, or consumes the duty and tax-free acquired input goods in exports in full, then he shall be liable to pay duties and taxes including additional duties or additional tax and penalties leviable on such goods.

It was observed during the audit of the FY 2022-23 that the Collectorate of Customs, Islamabad allowed one DTRE user to import 750 MT pine-nuts without payment of duty and taxes on the pretext of subsequent export to China. The DTRE user did not export the processed goods or the raw material, as evident from the stock-taking report available on record. Further, due to weak monitoring and financial controls, the DTRE user evaded duty and taxes by misusing the DTRE facility. This resulted in the loss of government revenue amounting to Rs 30 million due to misuse of the DTRE facility.

The lapse was pointed out from August to November 2023. The management replied that case amounting to Rs 30 million were under recovery.

The DAC, in its meeting held in December 2023, directed the department to expedite recovery. No further progress was reported till the finalization of this report.

The Audit recommends expeditious recovery of admitted amounts.

(8) [DP No. 8783-Cus]

(9) 7.24 Loss of revenue due to non-recovery of surcharge – Rs 23 million

Ministry of Commerce vide SRO No.598 dated 19.05.2022 disallowed import of fruits and dry fruits falling under Chapter 08 except classified 0802.1910. Later on, vide OM dated 19th August 2022, allowed import of these goods which landed after 30th June 2022 and on or before 31st July 2022, subject to payment of 25% surcharge. Those consignments, which arrived after 31st July 2022 to 18th August 2022, are subject to payment of surcharge @35% of assessed value.

It was observed during the audit of the FY 2022-23 that two (02) field offices of FBR, in one hundred and sixty-one (161) cases cleared dry fruits after due dates without imposing surcharge in violation of SRO ibid. This resulted in non-recovery of surcharge amounting to Rs 22.67 million.

These lapses were pointed out from August to November 2023. The management replied that cases amounting to Rs 16.99 million were under recovery and Rs 5.68 million were under scrutiny.

The DAC, in its meeting held in December 2023, directed the department to expedite recovery and submit comprehensive replies in cases under scrutiny for verification from the Audit. No further progress was reported till the finalization of this report.

The Audit recommends expeditious recovery and submission of comprehensive replies in cases under scrutiny, besides fixing of responsibility on person(s) at fault.

(10)

[DP No. 8683, 8695 &
8724-Cus]

7.25 Non-realization of capital value tax – Rs 21 million

Section 8 of the Finance Act 2022 provides that capital value tax shall be charged on the motor vehicle held in Pakistan where (i) the engine capacity exceeds 1300 cc; or (ii) in case of electric vehicles, the battery power capacity exceeds 50kwh.

It was observed during the audit of FY 2022-23 that three (03) field offices of FBR, in one hundred and thirty-six (136) cases cleared vehicles i.e. BMW, Toyota land cruiser, Mercedes etc. without charging Capital Value Tax (CVT). It is a clear indication of weak monitoring of assessment process by the customs authorities. This resulted in loss of revenue amounting to Rs 20.71 million.

These instances were pointed out from July to November 2023. The management replied that cases amounting to Rs 20.71 million were under recovery.

The DAC, in its meeting held in January 2024, directed the department to expedite recovery of pointed out amount. No further progress was reported till the finalization of this report.

The Audit recommends expeditious recovery of admitted amounts, besides fixing of responsibility on person(s) at fault.

(11)

[Annexure-67]

7.26 Non-realization of late payment surcharge – Rs 11 million

According to section 83 (2) of the Customs Act, 1969, where the owner fails to pay import duty and other charges within ten days from the date on which the same has been assessed, he shall be liable to pay surcharge at the rate of Karachi Interbank Offer Rate (KIBOR) plus three per cent (3%) on import duty and other charges payable on such goods.

It was observed during the audit of the FY 2021-22 that Collectorate of Customs Appraisalment (East) Lahore, in thirty (30) cases cleared imported goods without realization of late

payment surcharge where the importer failed to deposit the assessed dues within ten (10) days of assessment. This happened due to lack of supervisory review at higher level at the office of Assistant Collector Customs (BWH). This resulted in short-realization of revenue amounting to Rs 10.60 million.

These lapses were reported to the department from February to May, 2023. The management replied that entire amount of Rs 10.60 million were under recovery.

The DAC, in its meetings held in September and December 2023, directed the department to expedite recovery of the admitted amount. No further progress was reported till the finalization of this report.

The Audit recommends early recovery of the late payment surcharge.

[DP No. 8368-Cus]

(12) 7.27 Non/short-realization of redemption fine and penalty – Rs 8 million

According to SRO 499(I)/2009 dated 13.06.2009, the Federal Board of Revenue imposed a redemption fine in place of confiscation of goods imported which contravened the Customs Act 1969 keeping in view the severity of the violation.

It was observed during the audit of the FY 2022-23 that four (04) field offices of FBR, in thirty-two (32) cases cleared the imported/smuggled goods contravening Customs Act 1969 either upon short assessment or without assessing redemption fine leviable. This resulted in a non/short realization of redemption fine amounting to Rs 8.36 million.

These irregularities were pointed out from August to November 2023. The management replied that cases amounting to Rs 1.29 million were under recovery, Rs 3.27 million were pending in adjudication and Rs 3.80 million were pending in court of law.

The DAC, in its meetings held in December 2023 and January 2024, directed the department to expedite recovery, pursue the cases under adjudication or pending in courts and to get their stated position verified by Audit. No further progress was reported till the finalization of this report.

The Audit recommends expeditious recovery and submission of comprehensive replies in contested/non-responded cases.

(13)

[Annexure-68]

(14) 7.28 Short-realization of duties and taxes due to incorrect application of exchange rate – Rs 8 million

Section 30 and 31(a) of the Customs Act, 1969 provides that in case of exercising the option for the redemption fine instead of confiscation of the goods seized during anti-smuggling operations, the rate of duty shall be the rate prevalent either on the date of seizure or date of payment of duty and taxes, whichever is higher. Moreover, the rate of exchange at which any foreign currency is to

be converted into local currency shall be the rate of exchange in force on the date immediately preceding the relevant date.

It was observed during the audit of the FY 2022-23 that four (04) field offices of FBR, in twenty-one (21) cases released smuggled goods on payment of duty and taxes without imposition of redemption fine and applied lower rate of exchange. The goods were required to be released by applying the rate of exchange one day before the date of payment under the law. This resulted in short realization of government revenue amounting to Rs 7.75 million.

These lapses were pointed out from August to November 2023. The management replied that cases amounting to Rs 2.14 million were under scrutiny, Rs 5.61 million were contested on the plea that provisions of Section 30 and 31A were applicable on imported/exported and not on confiscated goods. Audit holds that goods were required to be assessed under the proviso of Section 30 i.e. the rate of duty and rate of exchange are applicable on the date of seizure or date of payment of duty and taxes whichever is higher.

The DAC, in its meeting held in December 2023, after detailed deliberations referred the matter to Federal Board of Revenue for clarification. No further progress was reported till the finalization of this report.

The Audit recommends pursuance of clarification from the Board and recover the amount accordingly.

(15) [Annexure-69]

(16) 7.29 Blockage of revenue due to non-encashment of financial instruments

According to Section 81 of the Customs Act 1969, imported goods may be assessed provisionally. Furthermore, imported goods are cleared without payment of duty and taxes on submission of bank guarantees or post-dated cheques. These instruments were required to be encashed to recover government dues upon non-fulfilment of prescribed conditions.

It was observed during the audit of the FYs 2021-22 and 2022-23 that eleven (11) field offices of FBR, in two thousand one hundred and three (2103) cases did not encash financial instruments where the importers/exporters failed in fulfilling the requisite conditions of law within the stipulated time period. Moreover, the expired financial instruments were not re-validated by the customs authorities due to weak monitoring and financial controls. This resulted in blockage of revenue amounting to Rs 2,513.87 million.

These irregularities were pointed out from February to November 2023. The management replied that cases amounting to Rs 71.27 million were under recovery, Rs 2,329.63 million were under scrutiny and Rs 112.97 million were pending in courts.

The DAC, in its meetings held in September, December 2023 and January 2024, directed the department to expedite recovery, pursue the cases pending in courts and submit comprehensive

replies in cases under scrutiny for verification to the Audit. No further progress was reported till the finalization of this report.

The Audit recommends encashment of financial instruments for realization of government revenue without further delay besides fixing of responsibility against the person (s) at fault in cases where financial instruments have expired.

Note: This issue was also reported earlier in the Audit Reports for the Audit Years 2018-19, 2019-20, 2020-21, 2021-22 and 2022-23 vide para numbers 4.8.4, 4.8.9, 7.1(iv), 7.5,17 and 8.3 respectively having a financial impact of Rs 13,662.14 million. The recurrence of the same irregularity is a matter of serious concern.

(17)

[Annexure-70]

7.30 Non-conduct of post-exportation audit of DTRE users

According to Rule 307-E (1) of Sub-Chapter-7 of the Customs Rules, 2001 post-exportation audit is to be carried out and completed satisfactorily within a period of three months. Further, Rule 14 of the Export Oriented Unit Rules issued vide SRO 327(1)/2008 dated 29.03.2008, the liability of a licensee to pay duty and taxes under a security instrument furnished by him is not discharged unless post-exportation audit is carried out and completed to the satisfaction of the Collector at the end of every financial year.

It was observed during the audit of the FYs 2021-22 and 2022-23 that six (06) field offices of FBR, in one hundred and fifty-six (156) cases did not conduct post-exportation audits of licensees of Export Oriented Units and DTRE users. This resulted in irregular remission of duty and taxes amounting to Rs 2,119.26 million.

These irregularities were pointed out from February to November 2023. The management replied that cases amounting to Rs 9.34 million were under recovery, Rs 2,030.26 million were under process and Rs 79.66 million were pending in adjudication.

The DAC, in its meetings held in September, December 2023 and January 2024, directed the department to expedite recovery, pursue the cases under adjudication and expedite the process of post exportation audit. No further progress was reported till the finalization of this report.

The Audit recommends to finalize the post exportation audits and recover the amounts.

[Annexure -71]

7.31 Inconsistent valuation of imported goods

The imported goods are assessed under section 25 of the Customs Act 1969. Furthermore, the Directorate General Valuation issues valuation rulings for items which are commercially traded, whose import values show wide variations, and where under-invoicing is suspected. These include fabrics, footwear, tiles, and articles of iron/steel/plastics etc.

It was observed during the audit of the FY 2021-22 that the Collectorate of Customs Appraisal, East, Lahore assessed imported goods at lower value. Statistical impact on revenue of undervalued finished plastic goods and coconut was to the tune of Rs 1,564 million and Rs 19.97 million respectively. Furthermore, Directorate of Valuation is required to consider both ends of measurement i.e. weight and units of the imported goods like sweaters, while undertaking determination of valuation rulings to foil any attempt at concealment of value or weight. In cases of sweaters, value was determined per piece, but weight had not been mentioned. In addition to loss of revenue this discourages the local manufacturing market through lower valuation of imported finished goods. Moreover, these valuation surveys were carried out at discretion without a specific time frame. Flawed surveys, assessments, and valuation rulings by Directorate of Valuation are causing recurring losses to the national exchequer.

These irregularities were reported to the department from February to May, 2023. The management contested the para on the plea that the goods were assessed in line with Section 25 of the Customs Act 1969.

The DAC, in its meetings held in September and December 2023, directed the department to submit comprehensive reply in support of its contention. No further progress was reported till the finalization of this report.

The Audit recommends to develop a transparent mechanism for determination of valuation of imported goods according to size, nature, weight, origin etc. Moreover, the valuation may be reviewed quarterly to reflect actual market conditions besides consistent enforcement of these valuations.

[DP No. 8360-Cus]

7.32 Non-compliance of prescribed procedures for State Warehouses

CGO 12 of 2002 dated 15th June, 2002, prescribes procedures for State Warehouses i.e. the seized goods should be dispatched under proper escort to the State Warehouse and detailed inventory of the seized goods should be prepared. The Custodian of warehouse will maintain stock register. The stock in the state-warehouse will be physically checked twice a year.

It was observed during the audit of the FY 2022-23, that nine (09) field offices of FBR, in two hundred and thirty-eight (238) cases have committed the following irregularities in operations/maintenance of State Warehouses;

- (i) Release of goods/vehicles valuing Rs 917.07 million without entry into state warehouse;
- (ii) 6,117 Metric Tons of sugar valuing Rs 775.94 million was kept in open space instead of state warehouse out of which 117 MT of seized sugar valuing Rs 11.28 million were damaged/expired due to rain and improper handling;
- (iii) Non deposit of betel nuts and cigarettes in “A Class” State Warehouse;

- (iv) Incomplete/non-maintenance of seizure / warehouse registers/ record;
- (v) Non-compliance of opening & closing procedure for State-Warehouses;
- (vi) Non tracing of whereabouts of the owner of the smuggled goods/vehicles;
- (vii) Non-conducting of stock taking of warehoused goods.

These instances were pointed out during July to November 2023. The management reported that there was shortage of space in the warehouses and non- provision of sufficient funds. The matter had been taken up with the Board to provide sufficient funds for warehouse. The management also stated that state warehouse record was being properly maintained and stock taking process had been initiated.

The DAC, in its meeting held in January 2024, directed the department to ensure strict observance of law, enquire the matter, expedite stock taking exercise, take corrective measures and report progress within 60 days. No further progress was reported till the finalization of this report.

The Audit recommends that non-compliance of the prescribed procedures be ensured / justified.

[Annexure-72]

7.33 Burden on public exchequer due to ineffective Internal Audit functions – Rs 34 million

Rule 10 (i) and (iv) of General Financial Rules, Volume-I, states that every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public money as a person of ordinary prudence would exercise in respect of expenditure of his own money. Public moneys should not be utilized for the benefit of a particular person or section of the community.

It was observed during the audit of the FY 2022-23 that the Directorate of Internal Audit Customs, Karachi conducted 13 audits out of planned 27 audits. Moreover, neither any meeting with auditee was conducted nor any recovery was made. The Directorate failed in fulfilling its primary responsibility, while incurring an expenditure amounting to Rs 33.85 million which is not justified.

This instance of poor performance was pointed out during August 2023. The management sought time for submission of reply to Audit.

The DAC, in its meeting held in January 2024 expressed concerns on unsatisfactory performance and directed the formation to re-examine the issue and submit a comprehensive report indicating overall performance of the Directorate along with documentary evidence. No further progress was reported till the finalization of this report.

The Audit recommends that justification for utilization of budget including payment of special performance/fixed FBR incentive allowance may be provided besides conducting effective audit.

(18) [DP No. 3276-CD-PE/K]

CHAPTER-8 EXPENDITURE

8.1 Inadmissible payment on account of cash reward – Rs 1,539 million

According to Customs Reward Rules 2012 and Inland Revenue Reward Rules 2021, the calculation of reward in cases involving evasion of duty and taxes and confiscation of goods shall be sanctioned after the realization of the duty and other taxes involved. Furthermore, cash reward to the employees would be allowed on the basis of meritorious/extra-ordinary services performed. “Meritorious services” includes exceptional performance like exceeding budgetary targets through extra-ordinary planning and efforts, displaying exceptional results in the recovery of arrears, enlarging the base of tax-payers, exceptional performance in defending cases before the ATIR, and displaying extraordinary devotion to duty and acumen towards making some original contribution.

It was observed during audit of the FYs 2021-22 and 2022-23 that FBR (HQ) and its thirty-seven (37) field offices, in three thousand, eight hundred & nine (3809) cases paid cash reward to officers/officials in violation of reward rules. Cash reward was paid without determination of merit in accordance with aforesaid rules. This rendered payment of cash reward of Rs 1,539 million as inadmissible.

These irregularities were pointed out during February to November 2023. The department informed that reward was granted to employees based on meritorious services rendered by the officers/officials duly approved by the Board.

The DAC in its meetings held in August, September, December 2023 and January 2024 directed the department to provide detailed justification in line with criteria / circular issued by the Board for processing and sanction of reward. No further progress was reported till finalization of this report.

The Audit recommends strict compliance of criteria laid down for disbursement of cash reward for meritorious services besides expediting recovery from the concerned officer/officials.

Note: The issue was also reported earlier in the Audit Reports for Audit years 2018-19, 2019-20, 2021-22 and 2022-23 vide para numbers 4.9.4, 4.9.1, 8.4 and 9.2 respectively having a financial impact of Rs 349.96 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-73]

8.2 Irregular expenditure due to non-observance of Public Procurement Rules – Rs 827 million

According to the Rule 8 read with Rule 9 and 16-A of Public Procurement Rules 2004 all procuring agencies shall devise a mechanism, for planning of proposed procurements with the object of realistically determining the requirements of the procuring agency. Further, procuring agency

shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly without any splitting or regrouping of the procurements so planned. Furthermore, as per Rule 12(1), procurements over five hundred thousand Pakistani Rupees and up to the limit of three million Pakistani Rupees shall be advertised on the Authority's website in the manner and format specified by the Authority from time to time.

It was observed during audit of the FYs 2021-22 and 2022-23 that FBR (HQ) and its fifty-eight (58) field offices, in four hundred and twenty-two (422) cases expenditure was incurred on purchase of office stationery, payment of service rendered, uniform and liveries, cost of other stores and repair & maintenance in violation of provision of the rules. These violations pertained to lack of planning, splitting, repeated purchases without any specific justification, demand requisition, satisfactory work completion certificate, acknowledgement receipts etc. Poor internal controls lead to mis-procurement which resulted in irregular expenditure on procurement amounting to Rs 826.70 million.

These irregularities were pointed out during February to November 2023. The management contested the para on the grounds that the expenditure was made after fulfilling all codal formalities. Furthermore, the procurement of different items was made from time to time based on requirements. Audit holds that the record provided by the department to Audit did not support their stance.

The DAC in its meetings held in August, September, December 2023 and January 2024 showed serious concern over no reply and improper working papers and directed the head of the department to look into the matter and take action against the responsible officers/officials besides taking corrective action. Furthermore, the department was directed to either provide relevant documentary evidence or get the matter regularized. No further progress was reported till the finalization of this report.

The Audit recommends fixing responsibility against the persons at fault and regularization of subject mis-procurement besides preparing and uploading annual procurement plans on PPRA website.

Note: The issue was also reported earlier in the Audit Reports for Audit years 2018-19, 2019-20, 2021-22 and 2022-23 vide para numbers 4.9.2, 4.9.7, 8.7 and 9.1 having financial impact amounting to Rs 24.35 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-74]

8.3 Inadmissible expenditure on account of pay and allowances – Rs 249 million

According to the Revised Leave Rules, 1980 and Rule 7-A of Supplementary Rules, any employee proceeding on leave is not entitled to draw conveyance allowance. In case of extraordinary leave, no pay and allowance are admissible to government servants. Further, FBR's Circular No.01 of 2015 dated 6th March, 2015, provides that the Performance Allowance shall not be admissible in case of leave beyond 48 days.

It was observed during audit of the FYs 2021-22 and 2022-23 that FBR (HQ) and its forty-seven (47) field offices, in one thousand and seventy-two (1072) cases paid inadmissible pay and allowances during leave period. This depicts ineffectiveness of HR and DDO functions. This resulted in inadmissible payment of pay and allowances amounting to Rs 248.76 million.

These irregularities were pointed out during February to November 2023. The management replied that the recovery of amount pointed out was underway.

The DAC in its meetings held in August, September, December 2023 and January 2024 directed the department to recover the amount pointed out and submit comprehensive reply. No further progress was reported till the finalization of the report.

The Audit recommends expeditious recovery from the officers/officials involved. Moreover, sanctioning and authorizing function needs to be segregated and pre-audit role should be performed by a designated treasury officer at FBR HQs.

Note: The issue was also reported earlier in the Audit Reports for Audit years 2018-19, 2019-20, 2021-22 and 2022-23 vide para numbers 4.9.11, 4.9.5, 8.1 and 9.5 respectively having a financial impact of Rs 258.56 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-75]

8.4 Irregular expenditure on POL and unauthorized use of official vehicles – Rs 212 million

According to Cabinet Division's notification No.6/7/2011-CPC, Islamabad, dated 12.12.2011, departments needing operational vehicles were required to get authorization for such vehicles from the vehicle committee constituted for the purpose. Furthermore, Rules 9, 15 & 18 of Staff Car Rules 1980, provide that proper records in the shape of log books, movement registers, and requisition slips shall be maintained in respect of all government vehicles to effectively control the expenditures of POL and repair/maintenance.

It was observed during audit of the FYs 2021-22 and 2022-23 that FBR (HQ) and its fifty-four (54) field offices, in two hundred fifty-eight cases (258), incurred expenditure on POL, repair/maintenance without maintaining log-books, movement registers and requisition slips. Further, the vehicles were used without authorization of the concerned quarter. Thus, expenditure on account of POL aggregating to Rs 212.45 million was irregular and unauthorised.

These irregularities were pointed out during February to November 2023. The management replied authorization of vehicles were obtained from the committee of the Cabinet Division and the requisite record duly signed by the concerned quarter was available.

The DAC in its meetings held in August, September, December 2023 and January 2024, showed serious concern over poor progress and submission of improper working papers. The DAC

further directed the department to look into the matter besides fixing responsibility on person (s) at fault. No further progress was reported till the finalization of this report

Audit recommends to enforce Staff Car Rules, 1980 in letter and spirit besides implementation of DAC directives.

Note: The issue was also reported earlier in the Audit Reports for Audit years 2018-19, 2019-20, 2021-22 and 2022-23 vide para numbers 4.9.1, 4.9.3, 8.15 and 9.3 respectively having a financial impact of Rs 370.72 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-76]

8.5 Excess/inadmissible expenditure – Rs 80 million

According to Rule 10 of General Financial Rules, every public officer authorized to incur expenditure from the public funds shall observe the high standards of financial propriety and is expected to exercise the same vigilance in respect of expenditure from public money, as a person of ordinary prudence will exercise in respect of expenditure of his own money. Similarly, Rule-11 of General Financial Rules Vol-I provides that the head of the department and subordinate disbursing officers are responsible for enforcing financial order and strict economy at every step.

It was observed during audit of the FYs 2021-22 and 2022-23 that FBR (HQ) and its fifteen (15) field offices, in twenty-seven (27) cases incurred expenditure on purchase and repairs of various items in violation of above stated rules. This depicted poor internal controls on the part of the department. This resulted in excess and inadmissible expenditure amounting to Rs 80.09 million due to lack of vigilance and internal control lapses.

These irregularities were pointed out during February to November 2023. The management replied that the expenditure was incurred after fulfilling all codal formalities.

The DAC in its meetings held in August, September, December 2023 and January 2024, directed the department to provide relevant documentary evidence besides fixing responsibility on the person (s) at fault for sanctioning expenditure without necessary documents. No further progress was reported till the finalization of this report.

The Audit recommends recovery of excess and inadmissible expenditure fixing of responsibility against the persons at fault.

Note: The issue was also reported earlier in the Audit Reports for Audit years 2018-19 and 2019-20 vide para numbers 4.9.8 and 4.9.10 respectively having a financial impact of Rs 17.34 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-77]

xiv) 8.6 Unauthorized disbursement of funds in cash – Rs 77 million

According to Para 2.3.2.8 of the Accounting Policies and Procedures Manual, the accounting system shall include controls to minimize the risk of fraud and corruption. To achieve this objective, the payments are to be made through direct bank transfer or through cheques to the vendors/payees.

It was observed during audit for the FYs 2021-22 and 2022-23 that FBR (HQ) and its four (04) field offices, in six hundred seventy eight (678) cases made payments in non-transparent manner by drawing funds through cash in the name of DDOs instead of payments through cheques to the vendors/payee. Non-observance of codal formalities showed weak monitoring by the department in financial matters. The lapse resulted in unauthorized withdrawal of funds amounting to Rs 77.49 million.

The irregularity was pointed out during February to November 2023. The management informed that budget was received at the end of June; therefore, cheques were drawn in the name of DDO and cash paid to concerned vendors / officers & officials in urgency.

The DAC in its meetings held in August, September, December 2023 and January 2024, directed the department to justify the unauthorized expenditure with documentary evidence. No further progress was reported till the finalization of this report.

The Audit recommends strict compliance of codal formalities in letter and spirit to avoid unauthorized withdrawal of government money besides conducting inquiry and fixing of responsibility on the concerned person(s).

Note: The issue was reported earlier also in the Audit Reports for the Audit Years 2019-20 and 2022-23 vide para numbers 4.9.23 and 9.6 having financial impact of Rs 44.63 million. Recurrence of same irregularity is matter of serious concern.

[Annexure-78]

8.7 Non-deduction of tax on payment of goods and services – Rs 56 million

According to section 149 & 153 of the Income Tax Ordinance, 2001 provides that every person responsible for paying salary to an employee shall, at the time of payment, deduct tax from the amount paid at the employee's average rate of tax computed at the rates specified on the estimated income of the employee chargeable under the head "Salary" for the tax year. Every prescribed person making a payment in full or part including a payment by way of advance to a resident person for the sale of goods, rendering or providing of services and on the execution of a contract is liable to deduct tax from the recipients.

It was observed during audit of the FYs 2021-22 and 2022-23 that FBR (HQ) and its ten (10) field offices, in ninety-nine (99) cases made payments for goods & services, salaries and cash reward but income tax was not withheld/deducted at the time of making payments. This resulted in non-deduction of tax amounting to Rs 56.14 million.

These irregularities were pointed out during February to November 2023. The management replied that necessary changes had been sent to AGPR/DAO for recovery from concerned vendors. Further LTO Lahore reported that work related to installation of electrical/networking falls under manufacturing category. However, the Audit holds that the vendor was a manufacturer of furniture instead of electrical networking.

The DAC in its meetings held in August, September, December 2023 and January 2024, directed the department to expedite recovery of amount pointed out by audit from the concerned and get the departmental contention verified in contested cases. No further progress was reported till the finalization of this report.

The Audit recommends expeditious recovery at the earliest besides fixing of responsibility against the concerned.

Note: The issue was also reported earlier in the Audit Reports for Audit years 2018-19, 2019-20 and 2021-22 vide para numbers 4.9.16, 4.9.18 and 8.11 respectively having financial impact of Rs 9.45 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-79]

8.8 Un-authorized payment to contingent paid/daily wages staff – Rs 44 million

Federal Government enforced complete ban on appointment of contingent paid / daily wagers staff as per Finance Division's O.M No. F-7(1)Exp-VI/2016-340 dated 07.07.2022, in pursuance of the decision taken by the Federal Cabinet in case No.147/15/2022, dated 07.06.2022.

It was observed during audit of the FYs 2021-22 and 2022-23 that in FBR (HQ) and its seven (07) field offices, one hundred thirty-nine (139) workers were appointed/hired as contingent/daily wages staff during different spells. Audit is of the view that appointment of daily contingent/wagers staff is contrary to the decision taken by the Federal Cabinet. This resulted in unauthorized expenditure amounting to Rs 44.09 million.

The irregularity was pointed out during February to November 2023. Management replied that Contingent Paid Staff had been working in the department since 01.12.2020. Their contracts of appointment were renewed from time to time. However, the Audit holds that above mentioned rules were also applicable to all contingent paid staff.

The DAC in its meeting held in January, 2024 directed the department to enforce the recovery. No further progress was reported till finalization of this report.

The Audit recommends adherence to the directives of Federal Cabinet and recovery of the amount pointed out.

[Annexure-80]

8.9 Inadmissible payment of hired residential accommodations – Rs 17 million

According to Ministry of Housing and Works letter No.F.2(3)/2003-Policy dated 31.07.2004, scale-wise rental ceiling and covered area has been specified for assessment of rent. Further, as per paras 8(10) of Accommodation Allocation Rules 2002, a hired or requisitioned house is to be allotted at the station of posting at specified stations.

It was observed during audit of the FYs 2021-22 and 2022-23 that FBR (HQ) and its fourteen (14) field offices, in seventy-five (75) cases incurred expenditure on account of rent of residential accommodations which did not comprise prescribed covered area. Further, payments were also made on account of rent of accommodation at specified station whereas posting was at non-specified station. This resulted in inadmissible payment of hired residential accommodation amounting to Rs 16.63 million due to weak monitoring by the department on financial matters.

These irregularities were pointed out during February to November 2023. The management informed that the recovery of over-payment was under process.

The DAC in its meetings held in August, September, December 2023 and January 2024 directed the department to enforce recovery and get the contention verified from Audit. No further progress was reported till finalization of this report.

The Audit recommends expeditious recovery of excess payment of rent from the concerned quarter besides strict compliance of relevant rules and observance of all necessary codal formalities in hiring cases.

Note: The issue was also reported earlier in the Audit Reports for Audit years 2018-19, 2019-20, 2021-22 and 2022-23 vide para numbers 4.9.7, 4.9.9, 8.3 and 9.8 respectively having a financial impact of Rs 88.68 million. The recurrence of the same irregularity is a matter serious of concern.

[Annexure- 81]

8.10 Unjustified expenditure on account of rent of office building – Rs 15 million

According to FBR Letter No.1(42) SO-CH/FBR/2009 dated 15.10.2009, the Federal Board of Revenue handed over the residential cum office building owned by Customs in Gilgit to the GB Government for establishing a permanent Governor house. However, it was decided in the meeting held in Aiwan-e-Saddar dated 08.10.2009 that Gilgit Baltistan (GB) Government will provide a suitable building for the office cum residence of the then Additional Collector so that the existing premises can be vacated besides providing land to develop a custom house later.

During audit of Collectorate of Customs, Gilgat Baltistan for the FY 2022-23, the Audit observed that an agreement dated 08.10.2009 was made between FBR and Government of GB that Custom House (Tufail Shaheed House) at Gilgit was handed over to the Government of GB on 15.02.2010. As per agreement, Government of GB was required to pay rent of Office-Cum-Residential building of the Collectorate of Customs till construction of its own building. However, Audit further observed that payment of rent was made by the Collectorate of Customs out of annual budget grant. Therefore, rent paid amounting to Rs 15.36 million by FBR on this account since May, 2013 was unnecessary/unjustified.

The irregularity was pointed out in October 2023. The management informed that reply would be furnished after scrutiny of the observation and relevant record. No further progress was reported till finalization of the report.

The DAC in its meeting held January 2024 directed the Collectorate of Customs, Gilgit Baltistan to take up the matter with the office of the Governor Gilgit Baltistan for acquiring land and recovery of rent paid as per agreement. FBR to assist and facilitate the Collectorate to get this matter resolved.

The Audit recommends to comply with the DAC directives.

[DP No.8737-Exp]

8.11 Non-recovery of loans/advances and interest – Rs 13 million

According to Rules 243 to 258 of GFR Vol-I, recovery of loans and advances is to be made in specified instalments and the first instalment is to commence after the advance is drawn and the recovery of interest will commence from the month following the month in which the principal amount has been repaid.

It was observed during the audit for the FYs 2021-22 and 2022-23 that FBR (HQ) and its twelve (12) field offices, in ninety-six (96) cases paid different kinds of loans and advances to their employees, however, recovery of principal/interest amount was not initiated. The omission resulted in non-recovery of loans/advances and interest amounting to Rs 13.47 million.

These irregularities were pointed out from February to November 2023. The management informed that recovery from the concerned employees was underway through AGPR and concerned district accounts offices.

The DAC in its meetings held in August, September, December 2023 and January 2024, directed the department to expedite the recovery from concerned employees. Further, progress was not reported till finalization of the report.

The Audit recommends expeditious recovery of advances along with interest.

Note: The issue was also reported earlier in the Audit Reports for Audit years 2018-19, 2021-22 and 2022-23 vide para numbers 4.9.5, 8.2 and 9.10 respectively having a financial impact of Rs 90.50 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-82]

8.12 Irregular expenditure due to mis-classification of head of account – Rs 14 million

According to Para 5(d) of the System of Financial Control and Budgeting 2006, Accounting Officer is responsible for ensuring that the expenditure is not incurred in excess of the budget allocation. He shall ensure that payments are correctly classified under the appropriate heads of accounts and that departmental accounts are regularly reconciled every month with the figures communicated by the Controller General of Accounts (CGA)/Accountant General of Pakistan Revenues (AGPR). He shall, in addition, keep himself well informed not only of the actual expenditure but also of the liabilities, which have been incurred and must ultimately be met.

It was observed during audit of the FYs 2021-22 and 2022-23 that FBR (HQ) and its fifteen (15) field offices, in eighteen (18) cases incurred expenditure in violation of stated rule. Furthermore, due to misclassification certain heads were disbursed more than the actual grant. This resulted in irregular expenditure of Rs 14.18 million.

These irregularities were pointed out during February to November 2023. The management contested the para in eight cases that the expenditures were incurred under the correct head of account. The departmental contention is not tenable as expenditure on repair/maintenance of buildings and purchase of furniture was incurred from the head 'Cost of Other Stores'. In remaining cases, no reply was furnished by the department, therefore, the matter may be regularized and contention of the department be verified.

The DAC in its meetings held in August, September, December 2023 and January 2024, directed the department to provide detailed justification of mis-classification of expenditure to Audit for verification and furnish the reply with relevant evidences and get the position verified from Audit within 15 days. No further progress was reported till the finalization of this report.

The Audit recommends compliance of DAC's directives at the earliest.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2019-20, vide para numbers 4.9.21 having financial impact of Rs 1.23 million. Recurrence of same irregularity is matter of serious of concern.

[Annexure-83]

8.13 Non-disposal of condemned vehicles and un-serviceable store items – Rs 4 million

According to Rules 167 and 168 of the General Financial Rules Vol-I, stores which are reported to be obsolete, surplus or unserviceable may be disposed of by sale or auction or otherwise under orders of the competent authority. Furthermore, according to Rule 26 of Staff Car Rules 1980, all vehicles except accidental cars shall be disposed of through public auction.

It was observed during audit of the FYs 2021-22 and 2022-23 that seven (07) field offices of FBR, in forty-eight (48) cases did not dispose of condemned vehicles and unserviceable store items. The delay in disposal caused blockage of potential revenue amounting to Rs 4.25 million.

The irregularity was pointed out during February to November 2023. The management replied that disposal of condemned vehicles and unserviceable store items was under process.

The DAC in its meetings held in August, September, December 2023 and January 2024, directed the department to expedite disposal of condemned vehicles and unserviceable store items under the prescribed rules. No further progress was reported till the finalization of this report.

The Audit recommends expeditious disposal of condemned vehicles and unserviceable store items.

Note: The issue was reported earlier also in the Audit Report(s) for Audit Year(s) 2018-19, 2019-20, 2021-22 and 2022-23 vide para numbers 4.9.14, 4.9.11, 8.16 and 9.14 having financial impact of Rs 127.19 million. Recurrence of same irregularity is matter of serious concern.

[Annexure-84]

8.14 Irregular reimbursement of medical charges – Rs 5 million

Finance Division (Regulation Wing), Islamabad vide O.M No. F.6 (1)R-10/2010-171-2011 dated 24.03.2011 has allowed reimbursement of amount spent on account of purchase of medicines for medical treatment at OPD by civil employees of the Federal Government or member of his/her family, suffering from chronic diseases as detail given in the O.M ibid. Re-imburement of medical charges for treatment taken from private hospital/clinic without an emergency or without referring by an authorized medical attendant is not allowed under the rules.

It was observed during audit of the FYs 2021-22 and 2022-23 that nine (09) field offices of FBR, in forty-two (42) cases made re-imburement of medical charges without fulfilling the codal formalities and basic requirements for re-imburement of medical claims. The claims were sanctioned without proper prescriptions for the treatment from private hospital/clinic or without an emergency or without referral by the authorized medical attendant for medical treatment of non-chronic disease. This resulted in irregular payment of medical re-imburement charges amounting to Rs 4.99 million due to internal control lapses.

These irregularities were pointed out during February to November 2023. The management replied that the re-imburement of Medical Charges was duly verified and sanctioned by the competent authority after compliance of codal requirements. However, the Audit holds that basic requirements i.e. emergency certificates and distance certificates were not attached with the bills.

The DAC in its meetings held in August, September, December 2023 and January 2024, directed the department either to provide relevant documentary evidence or recover the amount pointed out by Audit. No further progress was reported till the finalization of this report.

Audit recommends recovery of inadmissible expenses on medical charges besides strengthening of internal controls to avoid recurrence of such lapses in future.

Note: The issue was also reported earlier in the Audit Reports for Audit years 2018-19, 2019-20 and 2021-22 vide para numbers 4.9.19, 4.9.12 and 8.5 respectively having a financial impact of Rs 14.83 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-85]

8.15 Irregular expenditure on account of publication and printing – Rs 4 million

According to Serial No. 9(13) of System of Financial Control and Budgeting 2006, the printing of certain items was required to be carried out from Government Printing Press. However, printing at a press other than press of Printing Corporation of Pakistan, should be undertaken if the Principal Accounting Officer is satisfied that it is in public interest to do so and record a certificate to this effect. Moreover, NOC from Printing Corporation of Pakistan is also required to get the printing done from a private printer.

It was observed during audit for the FYs 2021-22 and 2022-23 that seven (07) offices of FBR, in ten (10) cases made payment under the head “Printing and Publication - A03902” without observing the government instructions. This resulted in irregular expenditure of Rs 4.33 million.

The irregularity was pointed out during February to November 2023. The department replied that printing of files was made from authorized vendor and was sanctioned by the Controlling Authority. The Audit holds that it is a clear violation of government instructions, therefore, departmental reply is not tenable.

The DAC in its meetings held in August, September, December 2023 and January 2024, directed the department to justify their stance with documentary evidence and get it verified from Audit.

(1) *The Audit recommends implementation of DAC’s directives at the earliest besides regularization of the expenditure from competent authority.*

Note: The issue was also reported earlier in the Audit Reports for Audit years 2019-20 and 2021-22 vide para numbers 4.9.20 and 8.13 respectively having a financial impact of Rs 2.45 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-86]

8.16 Non-deduction of sales tax on goods – Rs 4 million

According to Section 3(7) read with the Eleventh Schedule of the Sales Tax Act 1990 and Sales Tax on Services (Withholding) Rules 2015, a withholding agent shall deduct sales tax at prescribed rates of sales tax shown in the sales tax invoice issued by a registered person/service provider.

It was observed during audit for the FYs 2021-22 and 2022-23 that five (05) field offices of FBR, in twenty-nine (29) cases made payments on purchase of goods but the department, being a withholding agent did not collect sales tax while making payments to the vendors. This resulted in non-deduction/payment of sales tax amounting to Rs 4.07 million.

These irregularities were pointed out during February to November 2023. The management informed that the matter was under scrutiny and progress would be submitted in due course of time.

The DAC in its meetings held in August, September, December 2023 and January 2024, directed the department to expedite the recovery from the concerned. No further progress was reported till the finalization of this report.

The Audit recommends to expedite recovery from the concerned vendors besides fixing of responsibility against the person(s) at fault.

Note: The issue was also reported earlier in the Audit Reports for Audit years 2018-19, 2019-20, 2021-22 and 2022-23 vide para numbers 4.9.15, 4.9.13, 8.10 and 9.11 respectively having a financial impact of Rs 23.86 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-87]

8.17 Non-deduction of house rent allowance/charges – Rs 3 million

According to Rule 26 of the Accommodation Allocation Rules, 2002, unless entitled to rent free accommodation, the allottee of an accommodation is to be charged normal rent at the rate of 5% of the emoluments as defined in Rule 2(d) of the Rules *ibid*.

It was observed during audit of the FYs 2021-22 and 2022-23 that FBR (HQ) and its five (05) field offices, in forty-four (44) cases neither deducted 5% house rent charges nor discontinued the house rent allowance of the officers/officials who were allotted Government accommodation or availed hired accommodation. The omission resulted in non-deduction of house rent allowance/charges amounting Rs 3.16 million due to internal controls lapses.

These irregularities were pointed out during February to November 2023. The management replied that the action regarding recovery had been initiated from the employees.

The DAC in its meetings held in August, September, December 2023 and January 2024, directed the department to recover the excess payment and get the stance verified from Audit. No further progress was reported till finalization of this report.

The Audit recommends expediting the recovery from the concerned officers/officials.

Note: The issue was also reported earlier in the Audit Reports for Audit years 2018-19 and 2019-20 vide para numbers 4.9.13 and 4.9.15 respectively having a financial impact of Rs 11.56 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-88]

8.18 Non-collection of sales tax on services – Rs 2 million

According to Section 8 of the Sales Tax on Services Acts (Punjab/Sindh), a withholding agent, other than a recipient of advertisement services, shall withhold the whole amount of sales tax shown in the tax invoice issued by a registered person as service provider and make payment of the balance amount of the invoice to the registered person.

It was observed during audit of the FYs 2021-22 and 2022-23 that FBR (HQ) and its fourteen (14) field offices, made payments in twenty-eight (28) cases on acquiring taxable services without collection of sales tax. This resulted in non-withholding of sales tax amounting to Rs 2.02 million.

These irregularities were pointed out during February to November 2023. The management replied that the amount pointed out was under-recovery.

The DAC in its meetings held in August, September, December 2023 and January 2024, directed the department to expedite recovery. No further progress was reported till finalization of this report.

The Audit recommends to expedite recovery of amount pointed out.

Note: The issue was also reported earlier in the Audit Reports for Audit years 2018-19, 2019-20, 2021-22 and 2022-23 vide para numbers 4.9.9, 4.9.13, 8.10 and 9.9 respectively having a financial impact of Rs 57.84 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-89]

8.19 Non/short-deduction of group insurance and benevolent fund – Rs 1 million

Rule 6A of Federal Employees Benevolent Fund & Group Insurance Fund Rules 1972, provides that contribution/subscription to group insurance and benevolent fund is mandatory at the specified rates.

It was observed during audit of the FYs 2021-22 and 2022-23 that FBR HQ and its six (06) field offices, in two hundred ten (210) did not deduct amounts in respect of group insurance and benevolent fund at prescribed rates. The lapse resulted in non/short-deduction of group insurance and benevolent fund amounting to Rs 1.22 million.

These irregularities were pointed out during February to November 2023. The management replied that recovery from the concerned employees was underway through the AGPR and concerned district accounts offices.

The DAC in its meetings held in August, September, December 2023 and January 2024, directed the department to get the stance verified from audit. No further progress was reported till finalization of this report.

The Audit recommends to expeditious recovery of the government dues and ensuring compliance of deductions through concerned DDOs.

Note: The issue was also reported earlier in the Audit Reports for Audit years 2018-19, 2019-20 and 2021-22 vide para numbers 4.9.19, 4.9.12 and 8.5 respectively having a financial impact of Rs 5.27 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-90]

8.20 Irregular expenditure on account of courier service – Rs 1 million

According to the Government of Pakistan Cabinet Division's U.O. No.7-1/2018 dated 20.03.2018, all government offices shall use services of Pakistan Post for mailing their domestic and international correspondence.

It was observed during audit for the FY 2022-23 that six (06) field offices of FBR made payment to private courier service providers under the head (A03205-Courier & Pilot Services) without observing the government instructions. This resulted in irregular expenditure of Rs 1.12 million.

The irregularity was pointed out during February to November 2023. The management replied that private courier service providers were engaged due to wide territorial jurisdiction in which they have to carry out judicial exercises for levy/recovery of taxes including urgent requirement of courier & pilot services. Audit holds that it is clear violation of government instructions which needs a proper justification with documentary evidence.

The DAC in its meetings held in December 2023 and January 2024, directed the department to justify their stance with documentary evidence and get it verified from Audit.

(2) *The Audit recommends implementation of DAC's directives at the earliest besides regularization of the expenditure from competent authority.*

Note: The issue was also reported earlier in the Audit Reports for Audit years 2019-20, 2021-22 and 2022-23 vide para numbers 4.9.14, 8.12 and 9.13 respectively having a financial impact of Rs 14.9 million. The recurrence of the same irregularity is a matter of serious concern.

[Annexure-91]

CHAPTER-9 IMPACT AUDIT OF FULLY AUTOMATED SALES TAX E-REFUND (FASTER) SYSTEM

1. Introduction

a. Background

Impact audit is aimed at determining impact of an initiative or program with a special focus on determining the outcome/results attributable to an initiative/new program while eliminating other contributing factors or variables. It is a conceptual evolution of performance audit and reports solely on the effectiveness aspect of an initiative. The decision making in public sector is increasingly becoming data-driven. Impact audit reports would help the stakeholders and decision-makers in the public sector to formulate, review and adjust these initiatives/programs besides serving as a template for future planning.

Taxpayers can claim input tax refunds under the Value Additional Tax (VAT) regime as per Section-10 and 66 of the Sales Tax Act, 1990. These refunds are claimed against taxes already paid on raw materials and purchases which are consumed during the manufacturing process. Therefore, proper functioning of VAT regime relies heavily on efficient and justified disbursement of refunds.

b. Role of technological intervention in refund payment of sales tax (FASTER)

The advent of information technology in the public as well as private sectors has fundamentally altered the outlook as well as operations of these organizations. Similarly, FBR adopted various technological interventions for facilitation of taxpayers over the years. These palpable and impalpable interventions were aimed at creating a stakeholder friendly environment and strengthening FBR in collection of revenue and disbursement of refunds.

FBR's automation of Sales Tax refund started in 2002 through the introduction of STARR (Sales Tax Automated Refunds Repository) which is a semi-automated system that allows taxpayers to file refund claims online through Refund Claims Preparatory System (RCPS). The latest intervention for payment of refunds is Fully Automated Sales Tax e-Refund (FASTER) system. It was introduced for the disbursement of sales tax refunds to five specific export oriented sectors in 2019.

Previously, inputs of five export-oriented sectors were zero-rated (textiles, leather, carpets, sports and surgical goods). The subject zero-rating was abolished vide SRO 694(I)/2019 dated 29.06.2019. In order to address liquidity issues of exporters of these sectors, a new IT module known as Fully Automated Sales Tax e-Refund (FASTER) was developed and operationalized in 2019. The stated objectives of FASTER were to fully automate the refund process, decrease processing time, alleviate the credit crunch of exporters, decrease interaction of taxpayers with tax officials, and increase taxpayers' confidence in tax administration.

Both systems have been working in parallel for processing refund payment. The main difference between the two systems is that cases through FASTER are processed centrally for all stages i.e. from verification of claims up to authorization of payment at FBR HQ. On the other hand, processing and sanctioning of refund through STARR is dealt by the respective field formation. An overall view of workload of refund processing through FASTER vs STARR is given in the following table:

(Rs in million)

Financial Year	System	No. of claims	Amount
2019-20	FASTER	10,350	89,126
	STARR	10,660	49,248
2020-21	FASTER	3,413	35,663
	STARR	8,697	35,797
2021-22	FASTER	3,539	59,210
	STARR	4,003	31,063
2022-23	FASTER	32,397	50,277
	STARR	515	9,360

It can be seen from the above table that refunds through FASTER have increased in comparison to refunds through STARR, both in terms of number of claims as well as total claimed amount.

2. Overview

High-income countries pay VAT refunds equivalent to 30% of gross VAT collection as compared to an average ratio of only 11% for low income and lower middle-income countries. Delayed refund issuance distorts the production and manufacturing sectors by decreasing their liquidity and increasing the indebtedness of governments. Poorly functioning VAT refund mechanisms may have profound fiscal policy implications—from adverse effects on VAT design to broader macro fiscal challenges. These may include misrepresenting the fiscal deficit’s size, less prudent spending, impairing treasury operations, accumulating expenditure arrears, and, at times,

creating financing shocks⁵⁹. This impact audit has been conducted to measure the impact of FASTER against the intended objectives of FBR beneath governance objectives of transparency, fairness and accountability.

Transparency

Transparency of an intervention is ensured through clear and measurable objectives, openness of decision-making, and continuous reform. To measure the impact on transparency; reduction in processing times, easing of credit crunch, increase in exports, trust of taxpayers and decreased interaction with tax officials were analysed.

Fairness

Fairness of an intervention is ensured through equitable allocation of resources and removal of systematic barriers to access. Impact of FASTER in terms of fairness is analysed in terms of proportion of refunds paid to large vs small taxpayers.

Accountability

Public sector interventions have to strike a balance between accountability and efficiency. Increasing efficiency through automation of processes also poses a challenge to compliance and regulatory regimes in the absence of strong monitoring mechanisms. The impact on accountability has been examined through overall health of internal controls.

3. Scope and methodology

3.1. Scope

The stakeholders of this impact audit are the Federal Board of Revenue, taxpayers, and public at large. Cases processed through FASTER were treated as the “treatment group” and cases processed through STARR as the “control group”. Both of these systems have been working in parallel since 2019. STARR processes all export-oriented sectors including some exports refund cases of five sectors assigned exclusively to FASTER. Since the audit was planned retrospectively and that too without any control assessment designed into the intervention by the management, therefore, discretion was used in selection of control and treatment groups.

3.2. Methodology

Prospective impact audit and evaluations thereafter, are likely to produce credible results. However, FASTER started functioning in 2019; therefore, the impact Audit was planned retrospectively. The audit relied on primary data (all refund cases paid through FASTER and STARR) provided by FBR. The audit selected STARR as a control group due to identical functions

⁵⁹ IMF Note 21/04 *How to Manage Value-Added Tax Refunds, 2021*

and technological nature of operations. Resultantly, the validity of impact assessment is limited by following factors:

- i) The threshold data provided by project management of FASTER is used. This includes data of refund payments before and after the intervention of FASTER.
- ii) Measures of success and deliverables identified by FBR were used. These included processing time, time taken for credit in taxpayers' bank accounts, and effect on volume of exports.

A Sample was selected based on materiality of refund claims for the analysis of exports. A survey was conducted with Chambers of Commerce and Industries (CCI) Lahore and Karachi as well as individual taxpayers to gauge trust level. Data of exports reported by State Bank of Pakistan was used as a secondary source. Formal and informal discussions with the management were also conducted.

4. Findings

4.1. Impact on Transparency

4.1.1. Decreased processing time

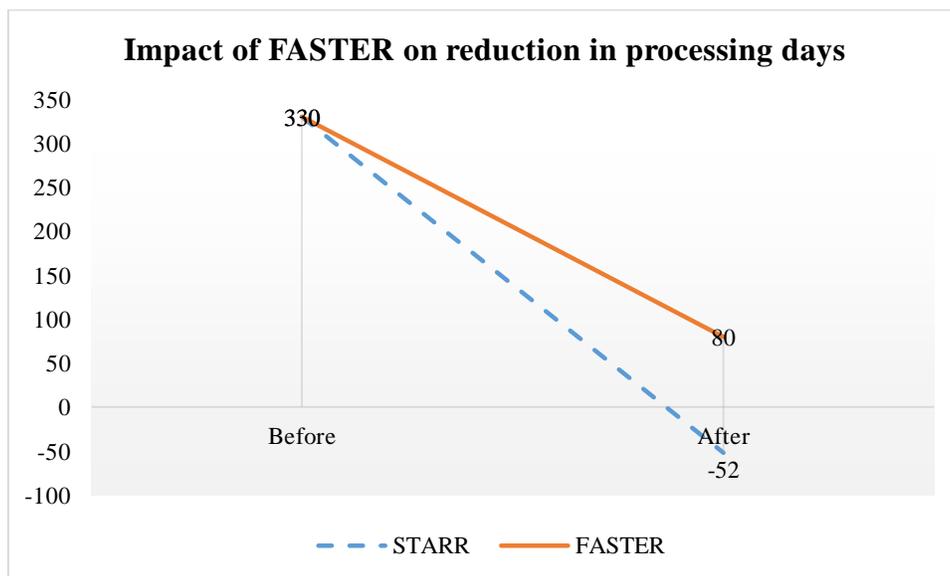
One of the deliverables of FASTER was reducing processing time of refund claims. The average processing days of FASTER versus STARR are tabulated as follows:

Year	Average payment days per case		%age improvement	
	FASTER	STARR	FASTER	STARR
2019-20	19	286	-	-
2020-21	16	753	16%	-163%

2021-22	8	724	50%	4%
2022-23	10	539	-25%	26%

As evident from the above table, FASTER took 8 to 19 days on average for processing while processing through STARR varied between 286 to 753 days for the period under consideration. Moreover, percentage improvement through FASTER was better as compared to STARR for all time periods except 2022-23. In 2019-20, the baseline average for STARR was 286 days which increased to 753 days in the successive year. Shift of focus of management to FASTER from STARR compounded with scarcity of financial resources due to Disbursement Linked Indicator (DLI) of revenue collection targets agreed with IMF may explain this increase.

Impact of FASTER in terms of reduction in number of processing days (using Difference in Differences Approach) is presented in the following graph:



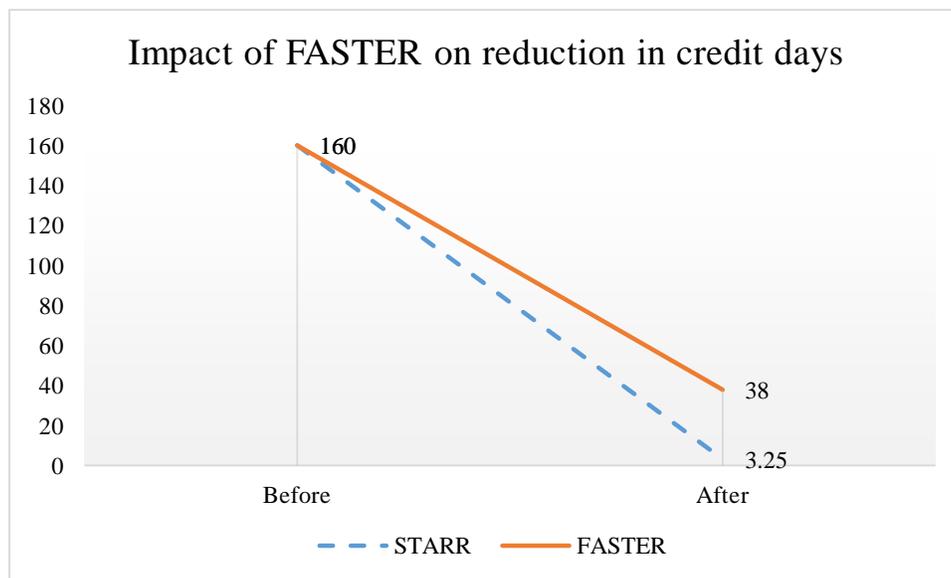
It is evident from above that there was a significant impact of 132 days on reduction in processing days in the treatment group (FASTER) as compared to the the control group (STARR).

4.1.2. Decreased credit days through FASTER

Post-processing delays are another hurdle faced by taxpayers while claiming input tax refunds. An analysis of time consumed by the system to credit refunds is as follows:

Year	Average credit days per case		%age improvement	
	FASTER	STARR	FASTER	STARR
2019-20	19	153	-	-
2020-21	14	169	26%	-10%
2021-22	9	164	36%	3%
2022-23	29	173	-222%	-5%

Average credit days ranged from 153 to 173 days in STARR, while cases processed through FASTER took 9-29 days. This shows a comparative improvement in time taken for credit through FASTER. Impact of FASTER on reduction in credit days (using Difference in Differences Approach) is presented below:



It is evident from above that there was a significant impact of 35 days in the treatment group (FASTER) as compared to the control group (STARR).

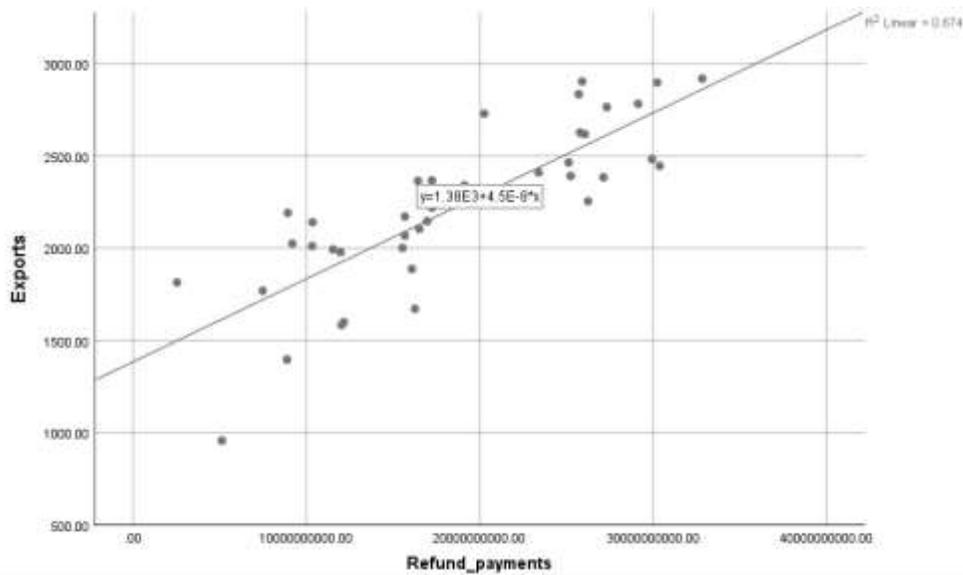
The management vide its letter dated 17th January 2024, replied that the credit days had been reduced to 48 hours and the same could be verified from SBP.

The Audit holds that calculation of average credit days is based on the difference in sanction date and cheque date as per data provided by the management. Afterwards, reliance has been made on statistical technique of Difference in Differences which calculates outcomes (reduction in

processing days) instead of outputs (processing days). The method takes into account the effect of improvement in outcomes over a period of time due to the intervention as compared to the counterfactual which postulates absence of the intervention.

4.1.3. Regression analysis of refunds versus exports

One of the stated objectives of FASTER was to alleviate the credit crunch of exporters thereby increasing exports. Monthly data of refund payments processed through FASTER and monthly exports (reported by SBP) were used to construct the following scatterplot through Statistical Package for Social Sciences (SPSS) software:



Since there appeared to be a linearity as depicted in the above scatterplot a linear regression model was constructed to analyse the significance of correlation of refund payments with exports. The results of regression analysis are as follows:

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.821a	0.674	0.666	246.60993
a. Predictors: (Constant), Refund payments				

ANOVA ^a						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5024557.441	1	5024557.441	82.618	0.000b
	Residual	2432658.393	40	60816.460		
	Total	7457215.833	41			
a. Dependent Variable: Exports						
b. Predictors: (Constant), Refund payments						

Coefficients						
Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1384.227	100.140		13.823	.000
	Refund payments	4.497	0.000	0.821	9.089	.000
a. Dependent Variable: Exports						

The above calculation shows that, with a confidence interval of 95%, there is a statistically significant correlation between refund payments and overall exports. Moreover, 67.4% of the variation in exports can be explained through the variation in refund payments. The constant has a t-value of 13.823, and the associated p-value is very low (0.000). This implies that the intercept term is statistically significant, therefore, the estimated value of the dependent variable when all predictor variables are zero (the intercept) is significantly different from zero.

In spite of the above, other variables which might have had a significant bearing on the increase in exports (which have been excluded from the model) are overall economic growth, inflation, currency devaluation, award of GSP plus status to Pakistan by European Union, and diversion of trade routes during COVID-19 pandemic. Moreover, lag effect of refund has not been accounted for in correlating the exports over the entire data set, however, since the analysis covered 04 years therefore impact of the lag was reasonably captured.

To further investigate the effect of improved liquidity on exports sample based analysis of 10 companies (highest materiality) paid through FASTER is as follows:

Limited Companies	% increase in refunds (refund in last year/refund in first year)	% increase in exports (Last year exports/First year exports)
Nishat	570%	195%
Gul Ahmed	125%	213%
Feroze 1888	366%	169%
Liberty Textiles	338%	207%
Getz Pharma	1540%	189%
Artistic Milliners	195%	n/a
US Apparel	426%	n/a
Interloop	707%	329%
Yunus Textiles	216%	187%
Sadaqat Textiles	260%	184%

It is evident from the above table that although there was an increase in exports, however, percentage increase in refund payments didn't commensurate with percentage increase in exports for any of the companies with only one exception.

The management vide its letter dated 17th January 2024, replied that there was 31% increase in exports of ex-zero rated sectors in 2022 compared to the previous FY. The increase in refunds for the same period stood at 27%. However, the management questioned the reliability of sample data on the grounds that the data pertained mainly to textile sector.

The Audit is of the view that subject export data includes textile sector because of high materiality of refund amounts. Moreover, the management is only considering the increase in exports in two (02) consecutive years whereas the instant study covers a span of four (04) years. The management may share month-wise data of exports of ex-zero rated sectors from 2019 onwards for further analysis.

4.1.4. Decreased visits to the tax office

FASTER also intended to decrease the number of visits of taxpayers to tax offices. This objective was indirectly linked with increasing taxpayer's confidence and trust.

According to the survey conducted by these offices with Chambers of Commerce and Industries Lahore and Karachi, responses are summarized as follows:

Number of visits to tax office	
Before	8
After	3

As depicted in the table above the number of visits to tax office reduced by 5 visits per taxpayer on an average.

4.1.5. Increased trustworthiness of FBR

Another objective of this intervention was to decrease the interaction of taxpayers with the tax officials and increase trustworthiness of FBR. The results of the survey are summarized as follows:

Trust Rating after introduction of FASTER	
Highly trustworthy	4%
Trustworthy	48%
Somewhat distrustful	35%
Highly distrustful	0%
No Comments	13%

The results tabulated above show that majority of the taxpayers (48%) showed trust in FBR after introduction of FASTER for processing of refunds. However, 35% respondents viewed FBR authorities with distrust and 13% respondents reserved their comments.

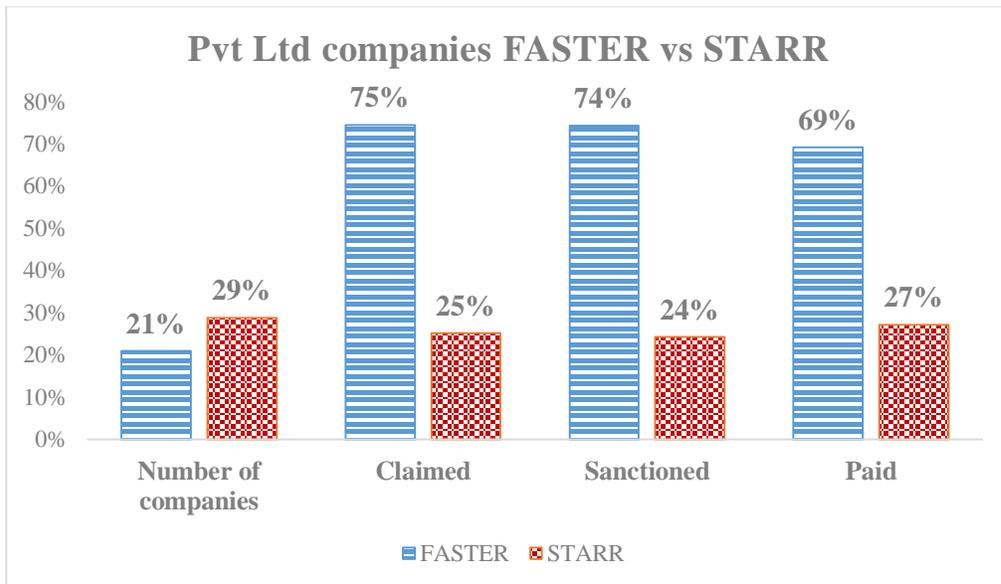
4.2. Impact on Fairness

4.2.1. Payments to private limited companies

Fairness of an intervention in public sector lies in equal treatment of all citizens. An analysis of payments to the listed companies in proportion to total claims revealed the following:

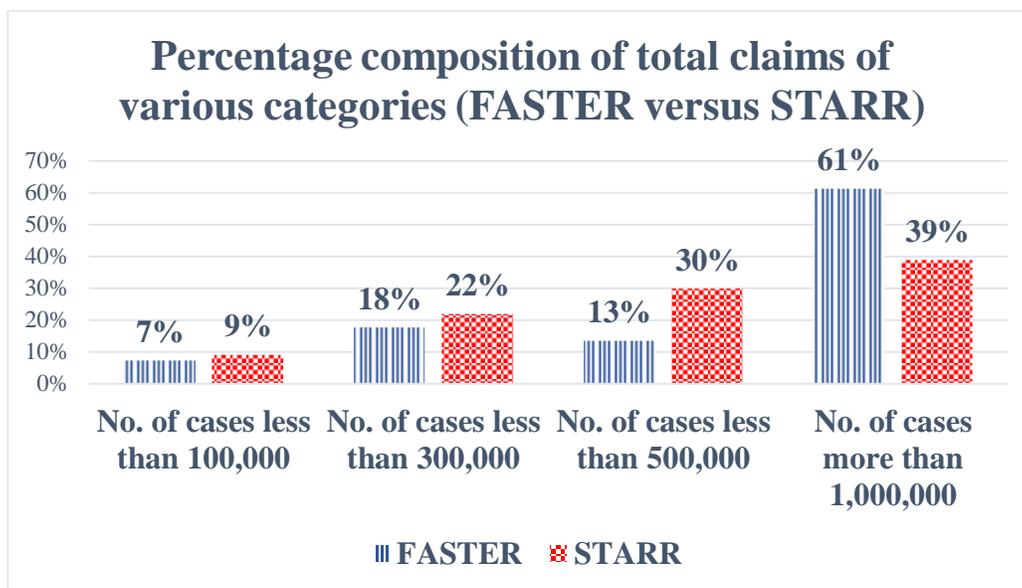
(Rs in Billion)

Description	STARR		FASTER	
	(Pvt) Ltd Companies	(Pvt) Ltd as %age of total cases	(Pvt) Ltd Companies	(Pvt) Ltd as %age of total cases
Number of companies	790	29%	1,117	21%
Claimed amount	32	25%	1,099	75%
Sanctioned amount	28	24%	1,056	74%
Paid amount	13	27%	568	69%



The above table and graph show that although the number of private limited companies was 8% lower in FASTER but these companies were paid 42% more refunds as compared to STARR. It is also pertinent to mention here that larger claims which constituted only 10% of the total claims were paid 76% of the total refund amount through FASTER. The Audit also observed that FASTER allowed relaxation to refund claimants of filing Annex-H (stock position) 120 days after submission of sales tax return. The unfair quantum of payments to corporate sector and relaxation of legal requirements raises question on the fairness of FASTER towards small taxpayers.

Moreover, further analysis of percentage composition of claims processed by the systems according to ceilings of refund amount is as follows:



As depicted in the above graph claims of Rs 1.00 million or more constituted 61% of the total cases processed through FASTER which was proportionately greater as compared to STARR. On all other accounts, STARR had a better distribution of cases according to various ceilings.

The management vide its letter dated 17th January 2024, replied that the intervention does not differentiate between registered persons whether a company or an individual and that refund claimants can file Annex-H with or 120 days after the submission of sales tax returns.

The Audit is of the opinion that subject analysis found that FASTER was discriminatory because the quantum of payments is unduly tilted towards corporate sector. Refund is a government liability, therefore, an intervention to ease taxpayer's refund woes should ideally be available to other taxpayers as well.

4.3. Impact on Accountability

4.3.1. Analysis of objected claims

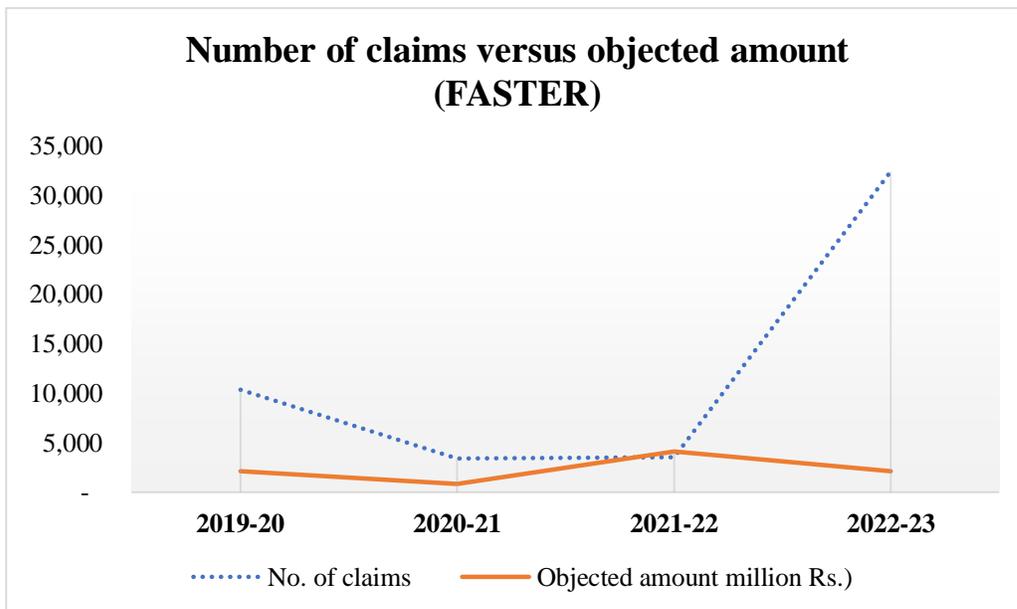
After processing the risk based system either sanctions, rejects, defers or carry forwards the claimed amount. A comparison of FASTER and STARR systems on above classifications is as follows:

	Rejected ratio		Deferred ratio		Carry forward ratio	
	FASTER	STARR	FASTER	STARR	FASTER	STARR

2019-20	2%	8%	2%	4%	195%	45%
2020-21	1%	11%	2%	13%	222%	50%
2021-22	1%	5%	7%	6%	238%	35%
2022-23	3%	2%	5%	4%	251%	16%

The above table shows that although FASTER had comparatively lower rejected ratios but the scale of carried forward amounts was much larger as compared to STARR. Moreover, deferred ratios for FASTER were initially lower but increased in recent years as compared to STARR. The huge quantum of deferred amount is problematic because governments are forced to devise alternative financing sources to pay outstanding refund claims (like issuance of bonds and securities). This ultimately increases a government's liabilities.

An analysis of number of claims processed through FASTER and amount objected by the system is presented below:



As shown in the above graph the amount objected by the system remained static as compared to the number of claims except for FY 2021-22. The amount objected by FASTER was highest in 2021-22 after which controls appear to have been scaled down thereby decreasing the objected amount.

The management vide its letter dated 17th January 2024, replied that FASTER was a fully integrated system with an inherent mechanism to reject claims which were not related to list of approved HS codes of five export oriented sectors. Moreover, only non-export claims with refund amount greater than zero were being rejected.

The Audit is of the view that a number of observations have been raised in various Audit Reports where inadmissibility of inputs for refund payments were established. In addition to this, the management also admitted to processing refunds of other sectors in the cited letter, therefore, the risk management system needs to be reviewed in the light of audit observations. The management may share the risk parameters and validation checks of the RMS with the Audit for further analysis. Moreover, the management did not reply on the issue of high carry forward and low rejection ratios of refund.

4.3.2 Refund payments through FASTER to other than ex-zero rated sectors

Subsequent to the abolition of zero rating and application of VAT mode to ex-zero rated sectors, FASTER was introduced for processing of refunds to export-oriented sectors specifically textiles, leather, carpets, sports, and surgical goods. However, the Audit observed that refund claims of taxpayers belonging to other than these five sectors were also processed through FASTER. A summary of these payments is tabulated below:

(Rs in million)

Industry	Number of claims	Amount of claim	Amount paid
Pharmaceutical	375	8,004	4,352
Rice Mills	876	1,678	1,313
Food	1,702	11,320	8,147
Soap	25	56	41
Stainless steel	167	2,149	1,338
Kitchen and Cookware	42	49	38
Total	3,187	23,256	15,231

The above refund payments are indicative of the fact that arbitrary barriers to entry incentivize collusion and malpractice.

The management vide its letter dated 17th January 2024, replied that it was decided by FBR that in order to facilitate the exporters and to overcome the limitations of the system during teething period that refund to all exporters shall be processed through FASTER. However, since the system has matured now, therefore, the temporary arrangement has been done away with and FASTER has been restricted to five export oriented sectors from September 2023 as provided in the rules.

The Audit requires the management to share the approval of the quoted decision.

4.3.3. Non-compliance of legal framework for refund payment

Section 8(1)(h) and (i) of Sales Tax Act, 1990 forbids adjustment of input tax on purchases of certain items including building and construction materials, vehicles and parts of vehicles. Section 7(2)(i) of the Act ibid read with Rule 33 of Sales Tax Rules, 2006 disallows input tax on utility bills not used in taxable supplies. Section 8(2) requires apportionment of input tax between taxable and non-taxable supplies. Rule 33 of Sales Tax Rules, 2006 limits the refund to the extent of input tax paid on purchases/imports actually consumed in the manufacturing of goods which have been exported or supplied at the rate of zero percent. Section 33 (11) (c) requires levy of penalty on any person who knowingly/fraudulently makes false statement/false declaration. Section 21 read with Rule 12 of Sales Tax Rules, 2006, requires that no refund can be paid to suspended/blacklisted registered persons.

The Audit has repeatedly pointed out absence of validation checks in refund processing against incorrect claims of domestic purchases, non-verification of use of utility bills as input invoice, unlawful adjustment of prior year's refunds, non-apportionment of input tax between taxable/non-taxable supplies, non-consideration of outstanding liabilities in sales tax refunds, and non-levy of penalties. One of the control failures observed during the conduct of this study pertained to payment of refund claims on the basis of invoices issued by suspended/blacklisted registered persons (**list attached as Annex-92**) as depicted in the following table:

FY	No. of claims	Amount Paid (Rs in million)
2019-20	8	70
2020-21	51	201
2021-22	54	310
2022-23	41	323

An increasing trend of payment to taxpayers claiming input on invoices issued by blacklisted/suspended taxpayers is visible in the above table. Furthermore, an inquiry report vide Order C.No.ST/I&I-IR/FR/04/2020-21/937 dated 28.08.2020 by FBR highlighted the fact that certain System Based Risk Minimizing Checks/Parameters were disabled (made non-functional) in order to facilitate expeditious processing despite clear legal provisions. Similarly, the cross-checking of refund claims by an authorized treasury office has also been eliminated. The role of treasury officer as principal signatory is being performed by Chief CSTRO while the DDO is performing the role of co-signatory. Moreover, Rule 39-G of Sales Tax Rules, 2006 which requires post refund audit of sales tax refunds is also not implemented consistently. To simplify the process of refunds, conventional documentation isn't required to be submitted and the rules require the claimant to produce the necessary documentation only when asked by the tax authorities. Despite clear instructions by the Board to institute post-refund audit cells in each formation, post-refund audit is not being conducted by the formations. This has led to an increase in the risk of refund fraud. The

Audit is of the view that taxpayer facilitation and any intervention by the management thereof, should not compromise on the legal framework.

Accountability is established through robust internal controls and monitoring mechanisms. Progressive automation of governmental processes can lead to a sense of diffused responsibility due to the presence of a 'system' which can have negative consequences in terms of reduced accountability and non-compliance. Therefore, the drive of automation through FASTER needs to be coupled with a continuous review of internal controls so that facilitation of taxpayers goes hand in hand with prevention of undue refunds.

The management vide its letter dated 17th January 2024, replied that no payment to black listed/suspended registered persons had been made through the CSTRO module. Moreover, post audit refund cells were operational in field formations despite of human resource constraints and a designated cell was also working at FBR HQ level to conduct post refund audit.

The Audit is of the view that refund claims have been processed by FASTER, based on invoices issued by black-listed/suspended registered persons (as provided in the Annex-92). The management may like to conduct a fact-finding inquiry to ascertain these cases. The Audit holds that post refund audit cells are non-functional as communicated by various formations. Moreover, the record of registered persons is available with the respective formation where the taxpayer is registered, therefore, post refund audit should be carried out at the formation level.

5. Key Audit Findings

- i) The number of processing days on average before FASTER were 632 which were reduced to 13 days. Similarly, average credit days were 160 which were reduced to 18 days.
- ii) There was a positive correlation between refund payments and exports. A sample of major exporters, however, shows that the increase in exports did not commensurate with the increase in refund payment.
- iii) The number of visits to tax office were reduced to 5 visits per taxpayer on an average. Majority of the taxpayers availing facility of FASTER (52%) reposed their trust in FBR.
- iv) Corporate sector was paid 42% more refund through FASTER as compared to STARR. Moreover, 10% largest claims processed through FASTER were paid 76% of the total claimed amount.
- v) There was a huge incidence of deferred amounts on both systems. However, the quantum of carried forward amounts was very high in FASTER as compared to STARR.
- vi) Payment function had been centralized in the office of CSTRO. The rules required a treasury officer to pre-audit the claims, however, the role of treasury officer had been eliminated in violation of these rules.

- vii) FASTER was discriminatory to other than ex-zero rated sectors as it relaxed legal requirements like filing Annexure-H (stock position) at the time of filing of refund claims. The relaxation of regulatory framework selectively for refund processing had increased the risk of refund fraud specifically in the absence of effective post-refund audit.

6. Conclusion

FASTER achieved transparency by reducing processing/credit times, increasing taxpayer trust and decreasing interaction with tax officials. There is some evidence which links efficient refunds to an increase in exports due to increased liquidity. However, fairness of FASTER is questionable on the touchstone of equitable treatment. The intervention needs improvement in terms of inclusivity as 76% of the payments were made to large taxpayers who constituted only 10% of the population of claims. The huge quantum of deferred amounts of refunds is still problematic. In the context of accountability, health of internal controls is weak as evidenced by reported violations of regulatory framework and non-conduct of post-refund audit. Thereby, risk of refund fraud has multiplied. Moreover, exclusive treatment created incentive for misuse/collusion as evident by payments to taxpayers from other sectors through FASTER. A multitude of refund processing systems and multiple barriers to access pose challenges to good governance. Above in view, sustainability of FASTER as a tool for refund payments should be reviewed to address its shortcomings in fairness and accountability.

7. Recommendations

- i) There should be one platform for processing of refund cases. Other sectors not falling within its ambit as of now may also be allowed to file refund claims through FASTER.
- ii) The Tax Gap Framework of FBR needs to be reviewed to incorporate refund liabilities and potential refunds. The department needs to address the systemic issue of non-payment of refunds. Risk categorization of pending refund claims be carried out and payments be prioritized according to risk.
- iii) Annexure-H enclosed with sales tax returns be made machine-readable.
- iv) Consistent enforcement with increased rates of penalties may act as a deterrent and decrease risk of refund fraud.
- v) The centralized processing of payments by CSTRO be pre-audited by a treasury officer.

- vi) The computerized risk management system be reviewed and updated regularly. The risk parameters of the system be reviewed by the management for regulatory compliance.
- vii) Post refund audit (PRA) be ensured according to Rule 36(1) of the Sales Tax Refund Rules 2006 at field level. Separate reports by the field formations on conduct of PRA of claims processed through FASTER may be made a part of Monthly Performance Reports (MPR).

CHAPTER-10 THEMATIC AUDIT OF AFGHANISTAN PAKISTAN TRANSIT TRADE

1.1 Introduction

Afghanistan is a landlocked country which is dependent on Pakistan for trade with the world. Afghanistan-Pakistan Transit Trade Agreement, 2010 (APTTA) is a bilateral trade agreement between the two neighbouring countries. Afghanistan uses the ports of Pakistan for its imports and exports under this agreement. As quid pro quo, Pakistan is allowed access to Central Asia through Afghanistan. The objective of transit trade facility is to ensure effective administration of transit transport, avoid unnecessary delays, enhance transparency in transit documentation & procedures, promote freight transport and prevent smuggling.

Directorate General of Audit Inland Revenue (South), Karachi conducted a thematic audit of Afghanistan-Pakistan Transit Trade. The Thematic Audit highlights the misuse of Afghanistan-Pakistan Transit Trade facility and the level of management's compliance with the applicable laws, rules, and regulations. It is alleged that most of the goods imported by Afghanistan through transit trade facility are pilfered or smuggled back into Pakistan.

1.2 Background

Pakistan, since 1947, has allowed Afghanistan to use Karachi Sea Port for imports. The transit trade agreement was signed in 1965. This agreement did not envisage reciprocal trade access to Pakistan with regard to defunct USSR and Central Asian Republics. The present Afghanistan-Pakistan Transit Trade Agreement allows Pakistan to have trade access with Central Asia through Afghanistan. It also permits both the countries to use each other's designated transit corridors. Afghanistan, while taking advantage of this facility, imports goods worth Billions of dollars.

It is known that large quantities of these imported items are smuggled back to Pakistan reducing production of local manufacturing industry. The high tariff smuggled goods to Pakistan include fabric, tea, electronic items, cosmetics, machinery etc.

1.3 Establishing the audit theme

1.3.1 Reasons for selection

The Government of Pakistan imposed restrictions on imports of non-essential and luxury goods during the FY 2022-23 due to pressures on foreign exchange reserves. Further, regulatory duty and sales tax were enhanced from 20% to 49% and 17% to 25% respectively on imports of certain items. In this connection, SROs 598(I)/2022 dated 19.05.2022,

1571(I)/2022 dated 22.08.2022 and 297(I)/2023 dated 08.03.2023 were issued by the Government of Pakistan which decreased Pakistan's imports volume by 32% in the FY 2022-23 as compared to the FY 2021-22 as per detail given below:

Pakistan's total imports from all over the world (US\$ in millions)			
Description	2021-22	2022-23	Diff %
Cosmetics/Chemicals	10,451.02	7,093.46	-32.13
Plastics	3,824.83	2,788.77	-27.09
Textile related items	4,544.81	3,607.09	-20.63
Footwear products	43.98	28.75	-34.63
Ceramics	70.02	48.75	-30.38
Iron / Steel products	5,457.75	3,378.66	-38.09
Machinery	11,353.09	5,931.51	-47.75
Vehicle and others	4,340.85	1,739.52	-59.93
Toys/furniture/arms/watches	400.89	251.16	-37.35
Prepared Food / Others	706.30	494.40	-30.00
Other items	38,000.05	28,295.54	-25.54
Total Import Value	79,193.58	53,657.60	-32.25

Source: Customs import data FY 2021-22 & 2022-23

Afghanistan's overall imports for the last five years show a decreasing trend as per data given below:

Afghanistan's total imports from all over the world (US\$ in millions)

Imports value in 2018-19	Imports value in 2019-20	Imports value in 2020-21	Imports value in 2021-22	Imports value in 2022-23
11,021.11	8,831.79	8,729.55	7,367.57	7,561.73

Despite decreasing trend in Afghanistan's overall imports, the increase of transit trade volume during 2022-23, especially increase in those items which were discouraged by the Government of Pakistan, is problematic. Afghanistan's Transit Trade imports via Pakistan, during the FY 2022-23, increased to US \$ 6.75 Billion from US \$ 4.00 Billion during the FY 2021-22 which was 69% higher than the previous year. The increase in transit trade volume in 2022-23 is unjustified because neither a significant increase in population was witnessed nor any significant economic development was reported in Afghanistan. The annual population growth rate of Afghanistan was 2.67% and the annual **rate of urbanization was only** 3.34% (Source: www.worldometers.info). After the Taliban's takeover of the country in August 2021, the United States froze \$9.5 Billion in assets belonging to the Afghan Central Bank¹.

Due to high demand coupled with import restrictions in Pakistan, the increase in transit trade of these items depicts that the facility of transit trade was misused. Further, smuggling of dollars from Pakistan to Afghanistan was also reported in media, ostensibly smuggled dollars were used for payments of transit trade imports.

1.3.2 Purpose/Objectives

The main objective of the study was to analyse the misuse of transit trade facility and to determine management's compliance with the applicable laws, rules, and regulations in pursuance of the purpose and objectives of the Afghanistan-Pakistan Transit Trade Agreement (APTTA) 2010.

1.3.3 Scope

The thematic audit covers the office of the Directorate General of Transit Trade, Karachi, Directorates of Transit Trade Karachi, Gwadar and Quetta. The thematic audit analysed transit trade data for the last three financial years from 2020-21 to 2022-23. Further, field audit team also reported significant instances of misuse of transit trade facility including ineffective monitoring and en-route pilferage of transit goods.

2. Legal framework governing the theme

Customs Act, 1969, Custom Rules, 2001, Customs General Order (CGO), SROs 121(I)/2014 dated 24.02.2014, 609(I)/2020 dated 07.07.2020, 1013(I)/2021 dated 05.08.2021,

1466(I)/2021 dated 11.11.2021, 659(I)/2023 dated 05.06.2023, 598(I)/2022 dated 19.05.2022, 1571(I)/2022 dated 22.08.2022 and 297(I)/2023 dated 08.03.2023.

¹Bloomberg dated 18.08.2021

3. Stakeholders and governmental organizations identified as directly/indirectly involved

The Directorate General of Transit Trade, the Government and traders of Afghanistan are the key stakeholders in the thematic audit.

4. Role of important organizations

The Directorate General of Transit Trade and its field offices are responsible for safe and sound transit of goods to Afghanistan via Pakistan without any en-route pilferage. The Directorate has to review and recommend suitable internal controls, automated processes and fool proof security system for cross border of transit cargo to Afghanistan.

5. Organization's Financials

The Directorate General of Transit Trade and its field offices meet its expenditure and cost incurred on transit trade facility from the consolidated fund of the Government of Pakistan through Federal Board of Revenue.

6. Field audit activity

This office allocated three hundred twenty-six (326) man-days for the thematic audit activities. Thirty-eight (38) man-days were allocated for planning and desk audits. Two hundred eighty-eight (288) man-days were allocated for the execution of the thematic audit. The thematic audit was executed from 29.08.2023 after detailed planning at the start of August 2023.

6.1 Methodology

The methodology of the thematic audit includes the following;

- i. Understanding the audited entity
- ii. Conducting a risk assessment
- iii. Defining detailed audit objectives
- iv. Developing audit program
- v. Performing analytical procedures
- vi. Testing the internal controls
- vii. Determining sample size for substantive testing of details
- viii. Conducting substantive tests
- ix. Evaluating results
- x. Reporting

xi. Follow up

6.2 Audit Analysis

6.2.1 Review of Internal Controls

The implementation of statutory obligations by the department was found to be lacking. It was observed that in various cases the Directorate General of Transit Trade failed to curb en-route pilferages of goods in transit trade facility.

Audit observed that:

- In sixty-eight (68) cases cross border certificate of cargo transited to Afghanistan were not issued (details in para 6.2.3.1 (A) below).
- Eighty-one thousand three hundred and fifty-two (81352) transit consignments were not acknowledged by the Afghan Customs Authorities (details in para 6.2.3.1 (B) below).
- One-hundred thirty-one thousand and seven hundred sixty-eight (131,768) pending insurance guarantees were not revalidated/encashed (details in para 6.2.3.1 (C) below).
- Afghan Transit Trade volume via Pakistan was increased to US \$ 6.75 Billion during the FY 2022-23 from US \$ 4.00 Billion during the FY 2021-22 (details in para 6.2.3.2 below).
- Since 2012, tracking and monitoring system has been run by only a single tracking company i.e. M/s TPL Trakker Limited (details in para 6.2.3.3 (A) below).
- M/s TPL Trakker Limited had failed to install tracking and monitoring devices on a truck and loaded two containers (details in para 6.2.3.3 (B) below).
- The tracker company was facing a shortage in tracking devices and Container Security Devices (CSDs) (details in para 6.2.3.3 (C) below).
- M/s TPL Trakker Limited generated erroneous intimations/alerts (details in para 6.2.3.3 (D) below).
- Alerts pertaining to unusual stoppage of vehicles, door opening alerts, deviation from the route and Out-of-Sync Prime Mover Devices (PMD) and Containers Security Devices were either not generated or communicated late (details in para 6.2.3.3 (D) below).

- The transit trade containers are examined, de-sealed at the Afghan Transit Yard, located at Chaman Railway Station situated 2-3 kilometres away from the border (details in para 6.2.3.4 below).
- Despite having a tracking and monitoring system and licensed bonded-carriers/transport operators, frequent incidents were unearthed by the customs authorities, which shows that en-route pilferages are routine occurrences in the Afghanistan-Pakistan Transit Trade (details in para 6.2.3.5 below).
- In six (06) cases the transport operators/bonded carriers did not perform their legal responsibilities during en-route transit of goods to Afghanistan (details in para 6.2.3.6 below).
- In four (04) adjudicated cases the department was failed to recover government dues of Rs 120 million (details in para 6.2.3.7 below).
- In import documents/data complete description of the transit goods was not recorded (details in para 6.2.3.8 below).

6.2.2 Critical Review

Based on scrutiny of transit trade data provided by the Directorate General of Transit Trade, Karachi, incidents report and performance of tracking & monitoring company, the Audit is of the view that the Directorate General of Transit Trade and its field formations were not making significant efforts to curb en-route pilferages of transit goods and to avoid misuse of transit trade facility. More specifically following inferences can be drawn:

- The Directorate General of Transit Trade is not effectively monitoring the timely cross border and acknowledgement of transit consignments from Afghan's Customs Authorities;
- The Directorate is not analysing sudden influx in transit trade business keeping in view that certain tariff & non-tariff restrictions on non-essential & luxury items were imposed by the Government of Pakistan for its own imports;
- The Directorate is unable to engage multiple tracking & monitoring companies in transit trade business through competitive bidding process; and
- There is lack of effective monitoring & accountability on lapses committed by clearing agents, transport operators/bonded carriers and tracking company in discharging their legal responsibilities.

6.2.3 Significant Audit Findings

6.2.3.1 Non-reconciliation/confirmation of import under Afghanistan-Pakistan transit trade

According to Customs Rules, 2001, at the time of cross-border of the transit goods, the office en-route shall take a print-out of the GD, which will be handed over to Afghan Customs for endorsement in token of receipt of transit goods, the Afghan Customs will also provide a copy of T-1 bearing cross reference of GD filed in Pakistan and a certificate to the effect that the transit goods have crossed the border. Further, under Electronic Data Interchange (EDI) between Afghanistan and Pakistan Customs, the confirmation regarding cross border and arrival of the goods at the Afghan Customs shall be received electronically. Further, the Deputy/Assistant Director of Securities of the Office of Departure shall be responsible for taking appropriate steps on a fortnightly basis for timely reconciliation, encashment, revalidation or physical release of financial guarantee. In case of non-receipt of cross border certificate along with T-1 or non-fulfilment of any conditions against which the security was furnished by the Afghan importer or exporter, the security shall be encashed for recovery of government revenue.

During scrutiny of the soft data of Director General Transit Trade, for the period from July 2020 to June 2023, Audit observed the following irregularities:

A) Non issuance of cross border certificate of cargo transited to Afghanistan

Sixty-eight (68) containers/trucks of transit commercial cargo forwarded to Afghanistan from Karachi and Gwadar ports had not crossed the Afghanistan-Pakistan Border despite the lapse of considerable time. This irregularity indicates that the goods are pilfered en-route in Pakistan's territory. A year-wise summary is given below:

S#	Financial Years	Containers which did not cross the border
01	2020-21	22
02	2021-22	12
03	2022-23	34
Total		68

The irregularity was reported to the department in November 2023. The management informed that cross border certificates of 08 containers had been obtained. In the remaining 60 cases, letters had been written to the Directorate of Transit Quetta and Peshawar to take necessary action to complete the process of obtaining cross border certificates.

The Audit is of the view that non-receiving cross border certificates even after lapse of almost three years is a serious issue which must be investigated at senior management level.

The DAC in a meeting held in January 2024, directed the Directorate General of Transit Trade to ascertain the reasons for the non-confirmation of cross-border of the remaining 60 containers even after a lapse of three years.

Audit recommends for early investigation of non-cross border of consignment, besides fixation of responsibility on the person(s) at fault.

B) Non-acknowledgement of 81,352 transit consignments by Afghan Customs Authorities

Eighty-one thousand three hundred and fifty-two (81352) containers/trucks of transit commercial cargo forwarded to Afghanistan from Karachi and Gwadar ports and crossed the Afghanistan-Pakistan Border (as per soft data), however, their receipt in Afghanistan by the Afghan Customs Authorities was not acknowledged (T-1) despite lapse of considerable time. A year-wise summary is given below:

S#	Financial Years	Containers not acknowledged by Afghanistan
01	2020-21	3,755
02	2021-22	37,280
03	2022-23	40,317
	Total	81,352

The irregularity was reported to the department in November 2023. The management informed that six thousand one hundred and twenty-two (6,122) containers had been acknowledged by Afghan customs authorities. For the remaining cases, the T-1 document had not been uploaded in the WeBOC system by Afghan Customs. The Directorate General of Transit Trade, Karachi had requested the Consulate General of the Islamic Republic of Afghanistan to expedite the uploading of T-1 document.

The Audit is of the view that non acknowledgment of remaining 75,230 transit trade containers by Afghan Customs authority is very serious issue which should be taken up by the Directorate General of Transit Trade with the relevant authorities for future clearance of transit consignments.

The DAC in a meeting held in January 2024, directed the Directorate General of Transit Trade, Karachi to effectively pursue the matter with the relevant quarters and ascertain the reasons for clearance of further cargo despite the non-acknowledgement of the containers by Afghan Customs even after a lapse of three years. Moreover, specifying the time period for acknowledgement and after lapse of the prescribed time securities/guarantees should be en-cashed.

Audit recommends for effective pursuance with the relevant authorities for early resolution of the matter.

C) Non-encashment/release of 131,768 insurance guarantees

One-hundred thirty-one thousand and seven hundred sixty-eight (131,768) insurance guarantees involving an amount of Rs 1,469.65 Billion in respect of transit commercial cargo forwarded to Afghanistan from Karachi and Gwadar ports were outstanding/pending despite the fact that their validity period had expired. The Directorate neither obtained fresh insurance guarantees nor revalidated the expired guarantees. A year-wise summary is given below:

S#	Financial Years	Insurance guarantees pending/expired
01	2020-21	40,104
02	2021-22	34,512

03	2022-23	57,152
	Total	131,768

The irregularity was reported to the department in November 2023. The management informed that insurance guarantees in eight hundred and seventy-six (876) cases had been released. For the remaining cases, the T-1 document had not been uploaded in the WeBOC system by Afghan Customs, therefore, securities were not released.

Audit is of the view that the Directorate General of Transit Trade was required to take prompt action for revalidation and encashment of financial securities.

The DAC in a meeting held in January 2024, directed the Directorate General Transit Trade to look into the matter and justify non-revalidation of expired securities, besides taking remedial actions/measures.

Audit recommends for revalidation of expired securities, besides fixation of responsibility on the person(s) at fault.

6.2.3.2 Abnormal increase in import of smuggling-prone items by Afghanistan in transit through Pakistan

The government of Pakistan vide SROs 598(I)/2022 dated 19.05.2022, 1571(I)/2022 dated 22.08.2022 and 297(I)/2023 dated 08.03.2023 imposed certain restrictions and increased rate of duty & taxes on the imports of non-essential/luxury items.

During the Thematic Audit of Afghan Pakistan Transit Trade, it was observed that the volume of Afghan Transit Trade (forward) via Pakistan increased to US \$ 6.75 Billion during the FY 2022-23 from US \$ 4.00 Billion during the FY 2021-22 which is almost 69% as compared to the previous year.

Total import under Transit Trade in relation to population				
Period	Population Million	Increase in population	Import value US\$ Million	Increase/decrease in import value US\$ (Million)

2020-21	40.10	-	4,622.31	-
2021-22	41.13	1.03 M (2.57%)	4,003.16	-619.15 (-13.39%)
2022-23	42.24	1.11 M (2.67%)	6,756.16	2,753 (68.77%)

Source: Transit Trade Data

Keeping in view the decreasing trend in overall imports of Afghanistan, limited exports and scarce funding sources, especially after the imposition of multiple sanctions on the interim Afghan Government, the huge increase in the volume of transit trade through Pakistan is not justifiable. Comparative analysis of the major items restricted by the Government of Pakistan and the increase in imports of identical/similar goods through transit trade in 2022-23 shows that this facility was misused and the goods intended for Afghanistan were pilfered or smuggled back into Pakistan.

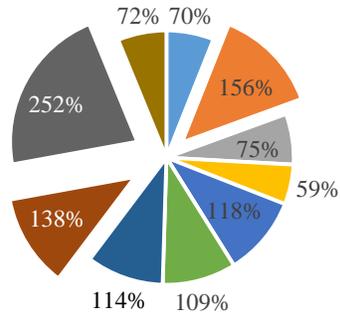
The following tables show a comparison and co-relation in a decrease of imports in Pakistan and an increase of these goods in transit trade:

Increase in transit trade volume:

Items	Quantity (MT)	Quantity (MT)	Import value US\$	Import value US\$	Increase in import value US\$	Increase %
	2021-22	2022-23	2021-22	2022-23		
Textile and articles thereof	195,882	340,538	1,465.83	2,488.82	1,022.99	70%
Shoes	5,967	14,644	19.23	49.24	30.02	156%
Tyres	2,529	5,661	223.60	392.97	169.36	75%
Tea	48,557	71,521	113.88	180.59	66.71	59%
Cooking Oil & Ghee	350,988	532,082	383.51	835.72	452.20	118%
Medicines	15,073	27,727	101.12	211.20	110.08	109%
Perfumes/Personal care products	7,842	15,827	23.64	50.66	27.02	114%
Soap	6,265	18,879	9.10	21.70	12.60	138%
Plant & Machinery	4,451	9,906	53.68	189.29	135.61	252%
Electrical appliances	51,665	96,252	368.83	633.27	264.44	72%
Total	689,219	1,133,037	2,762.42	5,053.45	2,291.03	83%

Source: Transit Trade Data

Percentage increase in import quantity through transit trade



- Textiles
- Shoes
- Tyres
- Tea
- Cooking oil
- Medicine
- Personal care
- Soap
- Plant & Machinery
- Electrical appliances

Decrease in Pakistan's import volume:

Pakistan's total imports from all over the world (US\$ in millions)			
Description	2021-22	2022-23	Diff %
Cosmetics/Chemicals	10,451.02	7,093.46	-32.13
Plastics	3,824.83	2,788.77	-27.09
Textile related items	4,544.81	3,607.09	-20.63
Footwear products	43.98	28.75	-34.63
Ceramics	70.02	48.75	-30.38
Iron / Steel products	5,457.75	3,378.66	-38.09
Machinery	11,353.09	5,931.51	-47.75

Vehicle and others	4,340.85	1,739.52	-59.93
Toys/furniture/arms/watches	400.89	251.16	-37.35
Prepared Food / Others	706.30	494.40	-30.00
Other items	38,000.05	28,295.54	-25.54
Total Import Value	79,193.58	53,657.60	-32.25

Source: PRAL's Import Data

There was an increase in Afghanistan's transit trade volume from US\$ 4.00 Billion to US\$ 6.75 Billion even though there was no change in demand since there was no change in population/urbanization nor in the economic prosperity of the country. On the contrary, the demand for the above items increased in Pakistani markets due to import restrictions & high tariffs. However, government of Pakistan in September/October 2023 has taken certain measures including replacement of insurance guaranties with bank guaranties equivalent to duties & taxes and levying processing fee on certain items. Since adoption of these measures, the volume of transit trade decreased by more than 32% in the first six months of the current financial year, which shows that the transit trade facility was grossly misused in 2022-23 and goods imported by Afghanistan were reportedly smuggled back into Pakistan.

The irregularity was reported to the department in November 2023. The management accepted the above facts and figures and informed that prevailing laws do not bar or limit the quantum of imports under transit trade, therefore, the goods were imported and cleared for transit to Afghanistan. Reportedly, the transit goods were smuggled back into the country which comes under the ambit of law enforcement agencies.

The Audit is of the view that the volume of the transit trade should be rationalized in proportion to the population growth rate and consumption patterns of the country.

In the DAC meeting held in January 2024, the matter was discussed at length wherein the Directorate of the Transit Trade is of the view that Customs Authorities implement the policies of the government which were previously very liberal and there is no link between the imports under transit trade *vis-a-vis* Afghanistan's socio-economic parameters. Except for auto parts and cigarettes, all commodities were allowed under the transit trade. However, the DAC was further informed that after the stringent anti-smuggling

policies adopted by the government of Pakistan during September/October 2023 whereby all imports under transit trade are now subject to submission of bank guarantees equivalent to the duty taxes involved in the goods instead of insurance guarantees and 10% processing fee charges of the value of the goods on certain items. Due to the above measures, there is a sharp decline of more than 50% in transit trade cargo. The above position strengthens the Audit point of view that the facility of transit trade was misused.

Audit recommends that any abnormal increase in the transit trade must be investigated further so that misuse of transit trade facility may be checked at the early stage.

6.2.3.3 Compromised tracking and monitoring system

According to the Customs Rules, 2001, the tracking & monitoring company shall be required to provide the following services, namely:

- (a) Monitoring and tracking of vehicles and containers carrying the cargo mentioned in these rules from the Customs port of entry to the Customs port of exit on a real-time basis.
- (b) Maintaining en-route integrity of cargo by preventing pilferage, theft, and losses.
- (c) Mounting, securing and ensuring the integrity of the device during the journey by using machine-readable serialized seals.
- (d) Alerts for unusual stoppages, device / tampering or infringement or intrusion or removal or door opening; and unusual deviation from geo-fencing device mounting or un-mounting.

Transit trade heavily relies upon effective tracking and monitoring systems. M/s TPL Trakker Limited was granted a license for tracking and monitoring of transit cargo in February 2012 under the administrative control of erstwhile CoC Preventive, Karachi. Later on, in July 2020 the licensing of tracking & monitoring function was shifted to the Directorate of Transit Trade, Headquarter, Karachi vide SRO 609(I)/2020 dated 07.07.2020. During the thematic audit of the record of the Directorate of Transit Trade, the Audit observed the following irregularities:

A) Monopoly of M/s TPL Trakker Limited on the entire Pak-Afghan Transit business

Since 2012, tracking and monitoring system has been run by only a single tracking company i.e. M/s TPL Trakker Limited despite the fact that the company was involved in the following serious irregularities and lapses, which put the whole system at risk.

B) Non-installation of trackers on Afghan transit containers

M/s TPL Trakker Limited had failed to install tracking and monitoring devices on a truck and loaded two containers gated out from M/s SAPT Karachi on 04.06.2020 for Afghanistan via

Chaman which were detained by staff of Customs Check Post, Baleli on 08.06.2020². This was a clear breach of legal responsibility entrusted upon the tracking company, gate out staff, clearing agent, transport operator etc.

C) Shortage of tracking devices to cater for the business

The company was facing a shortage in tracking devices and Container Security Devices (CSDs) not only for Afghan forward transit but for transshipment consignments as well. This resulted in huge financial losses as demurrage/detention charges on traders due to failure of the tracking company.

D) Erroneous data intimation and alerts

M/s TPL Trakker Limited generated erroneous intimations/alerts³. As per Customs Rules, 2001, the licensee was responsible for providing access of their Web portal to Customs which was not done.

²(Ref: MCC Enforcement & Compliance (E&C) Quetta letter C.No. 01-Cus/Misc/transit/ MEUs/2020/17812 dated 24.06.2020)

³(Ref: Directorate of Transit Trade, Peshawar letter C.No. 05-05/DTP/2013/Pt-V/203 dated 05.11.2020 and Directorate of Transit Trade, Quetta letter C.No. 03-Transit/Misc-Corr/Yaroo/2022/714-717 dated 21.01.2022).

E) Late/non-communication/issuance of alerts

Alerts pertaining to unusual stoppage of vehicles, door opening alerts, deviation from the route and Out-of-Sync Prime Mover Devices (PMD) and Containers Security Devices were either not generated or communicated late from the Central Control Room (CCR) and Regional Control Room (RCR) of the tracking company⁴.

On the above observations of Audit, the management informed as under:

- Due to litigation and stay order of the Honourable Sindh High Court the tracking & monitoring system was being run by M/s TPL Trakker Limited.
- Non-availability of tracking devices was due to blockage of consignments, increase in Afghan Transit Trade volume, and induction of Transshipment in monitoring regime. However, the issue was addressed by induction of new devices in inventory.
- Door opening alerts were dependent on other factors such as poor road conditions and abrupt breaking of the vehicle which may lead to the generation of door alerts.
- SOPs had been issued for effective and rapid response to the alerts. Staff had also been deputed for effective control, moreover Mobile Enforcement Units were also

available 24x7 in all formations for rapid response in coordination with the Central Control Room.

The Audit is of the view that allowing single tracking & monitoring company since 2012 is a big question mark on the performance of the Directorate General of Transit Trade. Failures of the management to engage tracking & monitoring companies through the competitive bidding process must be enquired and investigated at senior management level.

The DAC in a meeting held in January 2024, showed dissatisfaction with the performance of the tracking & monitoring company in the transit trade business and directed the Directorate General, Transit Trade, to ascertain the reasons for non-pursuance of legal cases for early vacation of stay order. Moreover, services of other tracking & monitoring company may be acquired with better performance and report to Audit & FBR in 60 days.

⁴(Ref: Directorate of Transit Trade, Quetta letters C.No. 124-Transit/DG/Misc/QTA/ 2019-20/4164 dated 11.12.2020 & C.No. 03-Transit/Misc-Corr/Yaroo/2022/714-717 dated 21.01.2022, & Incident Reports C.No. 01 -Transit/Misc-Corr/Yaroo/2021 dated 03.12.2021 and C.No. 01-Transit/Misc-Corr/Yaroo/2022 dated 02.01.2022).

Audit recommends for early investigation of non-acquiring the services of multiple tracking companies, besides fixation of responsibility on the person(s) at fault.

6.2.3.4 Defective procedure at border customs station susceptible to en-route pilferage of transit trade goods

The transit trade containers, selected for examination, are de-sealed at the Afghan Transit Yard, located at Chaman Railway Station situated 2-3 kilometres away from the border. The containers after examination are sent to the border without monitoring and tracking system which creates room for pilferage of transit goods. Reportedly, a container loaded with textile linen fabric was de-sealed and examined at Transit Trade Yard, Chaman on 07.08.2021. It was found as per declaration after which tracker was removed and the gate pass was signed and handed over to the clearing agent for crossing the cargo from Pak-Afghan Border Gate 2-3 kilometres away from Transit Yard. Later on, the fabric was unloaded from the container at a private godown situated on the way from Transit Trade Yard Chaman to the Pak-Afghan Border. The stakeholders attempted to en-route pilferage of transit goods⁵.

The Directorate informed that the arrival of consignments at Chaman border station are examined on a risk profiling basis and are processed to proceed for cross-border delivery under escort. There is a 2 to 2.5 km distance between Chaman yard and cross border point.

However, suitable measures and internal checks had been installed to ensure the integrity of cargo, after which no such incident was reported.

The Audit is of the view, that the cargo was required to be dispatched either under the escort or the examination of the goods and de-sealing should be carried out at the border in order to avoid such lapses in future.

The DAC in a meeting held in January 2024, directed the Directorate General, Transit Trade to strengthen internal controls, besides acquiring of examination yard at the Chaman border in order to minimize or avoid such lapses in future.

Audit recommends for early probe into the matter for non-acquiring of examination yard at border, besides fixation of responsibility on the person(s) for sending of cargo from railway yard to border without customs squad.

⁵(Ref: FIR No. 01-Cus/FIR/ATT/Chaman/2021/112 dated 12.08.2021 in Case No. 01-Cus/Seize/ATT/Chaman/ 2021).

6.2.3.5 En-route pilferage of transit goods causing loss of government revenue

Despite having a tracking and monitoring system and licensed bonded carriers/transport operators, the following incidents were unearthed by the customs authorities, which shows that en-route pilferages are routine occurrences in the Afghanistan-Pakistan Transit Trade:

- A) A vehicle bearing a fake number plate TLE-794 loaded with Container No. OOCU7804850 carrying textile products having a value of Rs 20.01 million, vide GD No. ITTK-AT-12799 dated 10.11.2020 for transit to Afghanistan via Torkham. The technician of M/s TPL Trakker Limited installed tracking device on the container but did not activate/start the trip intentionally. The vehicle with a fake number plate and the loaded container left the port around 04:00 AM on 25th November 2020 and moved towards the parked vehicle waiting at some remote place around 16 km away from the port. At around 5:56 AM the device was installed and paired with the replaced/subject vehicle and then the trip was started around 6:00 AM. On 29.11.2020 the container was examined on Risk Management Basis at Transit Station Torkham. During the examination, it was revealed that entire goods consisting of textile fabric were replaced with used/worn clothing during transit⁶.

B) A consignment of textile fabric 26,880 Kg, valuing Rs 38.50 million, was transported from Karachi on 05.08.2021 through a bonded carrier M/s. E-Movers/e-Movers (Pvt) Ltd. Instead of presenting the consignment to transit staff at Chaman, the transit consignment was taken by the bonded carrier and driver to a private godown on 08.08.2021. On 20.08.2021 information was received by Superintendent, Transit Trade Chaman that the transited goods i.e. textile fabrics were replaced in the container with Pakistani origin Fauji Fertilizer and Customs Authorities seized the fabric, fertilizer, vehicle and container⁷.

⁶(Ref: O-N-O No. 239 of 2021 dated 30.06.2021)

⁷(Ref: O-N-O No. 12 of 2022 dated 20.01.2022)

C) A container, containing Polyester Gents Suiting Fabrics, bearing number BMOU4093282 loaded on vehicle JT 4447 cleared from Karachi vide GD No. AT 17591 dated 27.10.2019 imported by M/s Sahil Asad Afghan Ltd. through clearing agent M/s Track Triangle Aviation Services Ltd. and a bonded carrier M/s e-Movers (Pvt) Ltd. Upon examination the container was found to be stuffed with old and used clothing. However, no alert was generated for a door opening or breaking seal⁸.

D) On 02.01.2022 at 02:39 PM, M/s TPL Trakker Limited generated a route deviation alert with respect to vehicle bearing registration number TKS-607 carrying 8,432 kgs of "green resin best" valuing Rs 4.56 million. As per the driver's statement, the vehicle was snatched at 11:00 AM on 02.01.2022 when they reached Gulistan Cross en-route from Chaman to Wagha⁹.

The management informed that the stakeholders i.e. clearing agents, bonded carriers/transport operators, tracking & monitoring company had failed to fulfil its obligations and did not perform its responsibilities. Accordingly, legal proceedings have been initiated against them for suspension/cancellation of their license in the light of relevant provisions of law and the Audit authorities shall be informed about further progress in due course.

The Audit is of the view that the bonded carriers/transport operators were legally bound for safe and secure transportation of transit cargo but failed to do so. M/s. TPL Trakker Company was responsible for effective tracking & monitoring of transit consignments, however, it could not generate alert in respect of opening of door, unusual stoppage and diversion of routes even after lapse of considerable time and created doubt on the credibility of tracking and monitoring system.

The DAC in a meeting held in January 2024, directed the Directorate General, Transit Trade to expedite adjudication proceedings and pursue the cases before legal fora and initiate legal proceedings against the other culprits involved in such irregularities and report progress within 60 days.

⁸(Ref: Show-cause Notice issued vide No. APPG/LA/5-154/2011 M/s. e-Movers (Pvt) Ltd./SCN 3/DTT (Part-III) dated 04.06.2022)

⁹(Ref: Incident Report issued vide letter C.No. 01-Transit/Misc-Corr/Yaroo/2022 dated 02.01.2022)

Audit recommends for implementation of DAC's directives, besides fixation of responsibility on the person(s) at fault.

6.2.3.6 Inefficiencies in discharging of legal responsibilities by the bonded carriers/transport operators

As per Rule 480 of SRO 121(I)/2014 dated 24.02.2014, the transport operator shall be responsible and bound to deliver the bonded transit goods to its destination within the prescribed time limit and by using the notified transport route. In case of any accident on the way between the office of departure and the office en-route which may cause a delay in the delivery of goods beyond the specified time, the transport operator shall communicate the nature of the accident, exact time and place of the accident along with complete details thereof to the office of departure and office en-route telephonically or electronically.

During scrutiny of the record/data of the Directorate of Transit Trade, Quetta for the period from July 2020 to June 2023, it was observed that in six (06) cases the following transport operators/bonded carriers did not perform their legal responsibilities during en-route transit of goods to Afghanistan.

S. No.	Name of the transport operator	Incident	Remarks

01	M/s D to D Logistics	As per the incident report vide letter C.No. 01-Transit/Misc-Corr/Yaroo/2021 dated 03.12.2021, A vehicle TLL-171 carrying 02 containers loaded with cooking oil, reached Yaroo Check Post at 12:00 Hours on 25.11.2021. It was found that due to a malfunction of the engine the vehicle was replaced with a new vehicle TLL-433 without prior intimation and approval from the concerned Directorate of Transit Trade.	A show-cause notice was issued by the Directorate on 25.02.2022 which was also not finalized to date.
02	M/s. Abid Logistics	As per letter C.No. 02-Transit/misc-Corr/Yaroo/2022/691 dated 19.01.2022, a vehicle GLTA-847 carrying a container loaded with new tyres, met an accident and the vehicle was replaced with new vehicle TMC-846 without prior intimation and approval from the concerned Directorate of Transit Trade. Accordingly, a show-cause notice was issued on 25.02.2022 which was also not finalized to date.	O-N-O No. 01/2022 dated 24.11.2022 was issued by the Directorate and imposed a penalty of Rs. 25,000 on the bonded carrier as no pilferage occurred.
03	M/s. Bolan Logistics	As per the incident report issued vide letter C.No. 01-Transit/Misc-Corr/Yaroo/2022 dated 02.01.2022, on 02.01.2022 at 02:39 PM M/s. TPL Co. generated a route deviation alert in respect of vehicle TKS-607 carrying 8,432 kgs of "green resin best" valuing Rs. 4.56 million. As per the driver's	The transport operator did not timely inform the Custom's authority about the incident. Further, the outcome of the case is still awaited.

		statement, the vehicle was snatched at 11:00 AM on 02.01.2022 when they reached Gulistan Cross en-route from Chaman to Wagha.	
04	M/s. e-Movers (Pvt) Ltd	As per the incident report issued vide letter C.No. 01-Transit/Misc-Corr/Yaroo/2021 dated 29.12.2021, a vehicle No. TLF-994 was replaced with new vehicle No. TLH-827 without prior intimation and approval from the concerned Directorate of Transit Trade	The outcome of the legal action against the bonded carrier is awaited.
05	M/s. e-Movers (Pvt) Ltd	As per the Show-cause Notice issued vide File No. APPG/LA/5-154/2011 M/s. e-Movers (Pvt) Ltd./SCN 2/DTT (Part-II) dated 25.02.2022, a bonded carrier M/s. e-Movers (Pvt) Ltd started the journey from Karachi to Chaman on 31.12.2021 when the vehicle reached Surab, Baluchistan it broke down and the vehicle was repaired/replaced without getting prior permission from the competent authority of the concerned Directorate of Transit trade.	The outcome of the legal action against the bonded carrier is awaited.
06	M/s. e-Movers (Pvt) Ltd	As per Directorate of Transit Trade, Quetta letter C.No. 03-Transit/Misc-Corr/Yaroo/ 2022/714-717 dated 21.01.2022, a bonded carrier M/s. e-Movers (Pvt) Ltd, carrying DAP started the journey from Gwadar to Chaman on 13.12.2021. On 27.12.2021 an alert of	The Bonded Carrier was responsible for an inordinate delay of twenty days in communicating and sharing information with respect to the

		the door opening was generated after that on 18.01.2022 after the lapse of 20 days a screenshot was shared by M/s. TPL that PMD was replaced with a new PMD.	whereabouts of the vehicle.
--	--	--	-----------------------------

The management informed that show-cause notices/explanation memos had been issued. The cases were pending before the competent licensing authority (Directorate General of Transit Trade, Karachi). The Audit will be apprised accordingly about outcome and subsequent progress.

The Audit is of the view that due to lack of effective internal controls & monitoring by the Directorate General of Transit Trade these incidents were occurred which ultimately caused pilferages in transit trade.

The DAC in a meeting held in January 2024, directed the Directorate General, Transit Trade to finalize adjudication proceedings and report progress within 60 days.

Audit recommends for implementation of DAC's directives, besides fixation of responsibility on the person(s) at fault.

6.2.3.7 Failure of the department to recover the adjudged government dues – Rs 120 million

Section 202 of the Customs Act 1969, read with Chapter-XI, recovery of arrears of the Customs Rules 2001, provides a detailed procedure for recovery of government dues from the defaulters.

During scrutiny of the record/data of the Directorate of Transit Trade, Quetta for the period from July 2020 to June 2023, it was observed that the adjudicating authority imposed a penalty vide following Order-In-Original which was later upheld by the higher legal forum, however, recovery of the same is still outstanding. Detail is given below:

S#	O-N-O No. & Date	Name of the accused person	Penalty Rs	Remarks
01	12/2022, 20.01.2022	e-Movers (Pvt) Ltd	10.00	The O-N-O was set aside by the Appellate Tribunal. Later on, the Honourable Baluchistan High Court vide order dated 06.04.2023 set aside the decision of the Appellate Tribunal and upheld the O-N-O
		Azizullah Khan Afridi	5.00	
		Mansoor Ahmed Shaikh	5.00	
		M. Isa Afridi	5.00	
		Mushtaq Ahmed Shaikh	5.00	
		Zahir, Driver	0.50	
02	11/2022, 20.01.2022	M/s. Akbar Khan & Brothers, Border Agent	1.00	The pitch of penalty was reduced from 2.5 million to 1.0 million by the Appellate Tribunal vide Appeal Nos. Q-77, 78 & 126/2022 dated 21.06.2022
03	80/2022, 30.05.2022	M/s. Rawandi & Brothers	1.00	-
		Najeebullah S/o Mirwaise	0.50	-
04	239/2021, 30.06.2021	Clearing Agent at Karachi i.e. M/s. Integrated Services (Pvt) Ltd	20.01	-
		Clearing Agent at Torkham i.e. M/s. Shahid Ali	2.00	-

	Tracking & Monitoring Company i.e. M/s. TPL Trakker (Pvt) Ltd	1.90	-
	Bonded Carrier i.e. M/s. D to D Logistic (Pvt) Ltd	Duty & Taxes + 20.01	-
	Drivers of the vehicle	2.00	-
	Mr. M. Rizvi, representative of M/s. D to D Logistics	1.00	-
	Hassnain Sarwar representative of Afghan Importer	40.02	-
	Total	119.94	

This resulted in the non-recovery of the adjudged penalty of Rs 119.94 million.

The management informed that only one million rupees had been recovered and the remaining amount of Rs 118.94 million was under recovery process.

The Audit is of the view that non recovery of the government revenue despite lapse of considerable time shows inefficiency on the part of the management.

The DAC in a meeting held in January 2024, directed the Directorate General, Transit Trade to provide justification for the delay in realization of government dues, besides prompt recovery of the remaining amount and report progress within 30 days.

Audit recommends for prompt recovery of adjudged government dues without further delay, besides fixation of responsibility on the person(s) responsible for such inordinate delay.

6.2.3.8 Incomplete description of transit goods

As per Rule 472 of SRO 121(I)/2014 dated 24.02.2014, the trader or his authorized Customs agent shall file the Afghan Transit Goods Declaration (hereinafter called AT GD) online in the Customs Computerized System at the office of departure through a User ID.

During scrutiny of soft data of the Directorate General of Transit Trade, Karachi for the period from July 2020 to June 2023, it was observed that incomplete descriptions of the goods were declared by the importers as well as assessed by the customs authorities. For example, for all kinds of fabric mostly a term textile fabric was used, similarly for all brands of perfumes the term of perfumes was written. In the goods declarations brand names, make, model etc. of all commercial goods were concealed which make the soft data incomplete and doubtful regarding actual goods imported under transit trade.

The management replied that it had enhanced the incidence of examination of high tariff smuggling-prone items at Karachi port to enable Transit Trade Stations to cross-verify the description and HS code of the goods on Customs computerized system. Further, it had requested the consignees of the transit trade to mention unambiguous, specific and accurate description and PCT code of high-tariff smuggling-prone goods in the Goods Declarations (GDs).

The DAC in a meeting held in January 2024, showed dissatisfaction with the present state of affairs in the transit trade and directed the Directorate General, Transit Trade, to look into the matter and justify the non-recording of the complete description of the goods in the import record, besides taking remedial measures to record complete description of imported goods in transit GDs.

Audit recommends for implementation of DAC's directives.

7. Recommendations

A) Policy Recommendations

i) Demand-Supply Strategy

Audit recommends that imports under transit trade may be in accordance with the actual demand of the Afghanistan. It is expedient to limit the quantity of goods in proportion to Afghanistan's population and their verified consumption preferences and patterns. For example, the population of Afghanistan is 42 million and per capita consumption of tea is 0.6 kg, it may be allowed to import 25,200 tons of tea whereas it imported 71,520 tons and at the other hand if tea

drinking habit is green tea then don't allow or restrict black tea. The same principle should be applied to electronic gadgets and domestic appliances. Denying access to those industrial inputs for which no industrial capacity exists in Afghanistan. The comprehensive exercise should be conducted considering the imports to Afghanistan from other countries, especially from Iran.

ii) Finance Driven Approach

In order to restrain the influx of goods under transit trade which ultimately re-enter into Pakistan, Audit proposes the adoption of one of the following methodologies:

a) Revenue-Centric Methodology

The parity duty and taxes may be collected or equivalent bank guaranties may be required on all transit cargo by Pakistan. Subsequently the duty and taxes so collected may be refunded to the Afghanistan government for subsequent refund/return to their genuine traders.

b) Cost-Centric Methodology

Government of Pakistan incurs huge expenditure on transit trade facility which includes infrastructure, security, administration, and other indirect costs without charging any amount from Afghan Government. Therefore, the Audit recommends that all costs need to be charged on transit trade consignments.

c) Stringent Penalty Mechanism

It is observed that mechanism for penalizing the non-compliant/evaders/violators is weak, therefore, it is expedient to strengthen the system of financial penalties to avoid misuse of the facility.

iii) Stakeholders' Participation

Stakeholders of both sides including local manufactures in Pakistan should be involved in policy and decision making relating to transit trade so that insights and feedback be taken during policy formulation and trade facilitation measures.

iv) Strengthening the Legal Framework

The legal framework should be strengthened to ensure stringent timely actions against violations to discourage pilferages in transit trade cargo.

B) Operational recommendations to counter transit trade pilferages

- Advanced scanning technologies at ports and border crossing stations may be adopted for comprehensive checks on consignments to detect any anomaly or illicit materials.
- Effective real-time surveillance of transit cargo may be ensured on routes to monitor the movement of goods and identify any suspicious activities along the path.

- Biometric verification may be made compulsory for individuals engaged in transit trade to ascertain their identities and maintain a secure and verified database of traders, bonded carriers, clearing agents.
- Combined checkpoints of all law enforcing agencies at strategically vital positions along the transit route, especially at spots prone to smuggling activities, must be established.
- Implement a real-time block chain secure and transparent data exchange mechanism between Pakistan and Afghanistan to facilitate immediate information sharing on consignments, traders, and trade patterns.
- Conduct regular training sessions for Customs and border agencies on modern surveillance technologies, risk analysis, and operational best practices.
- A well-structured bilateral dispute resolution mechanism may be established on both sides of the border for speedy disposal of the trade dispute between the two countries.

8. Conclusion

The increase of transit trade volume by 69% in the FY 2022-23 doesn't match the socio-economic conditions of Afghanistan. Due to weak tracking, monitoring and surveillance by Directorate General of Transit Trade, and ineffective border control by Customs; the transit trade facility was exploited on both sides of the border in collusion with concerned authorities since these items are either pilfered or smuggled back into Pakistan. This resulted in evasion of duty & taxes worth Billions of rupees besides damaging the formal sector and local industries. There is a need to re-negotiate trade agreements with Afghanistan on the pattern of demand & supply driven strategy along with improving the tracking, monitoring and surveillance mechanism to curb its misuse so that Pakistan's tax revenue and local industries can be safeguarded.

9. References

- Customs data
- Bloomberg Report
- Press clipping of newspapers
- Incident reports
- Websites

CHAPTER-11 THEMATIC AUDIT OF TAX EXPENDITURE

1. Introduction

Tax expenditure is revenue forgone because of selective provisions in the tax code.¹ This includes rebates, credits, subsidies and exemptions, designed by the government for promoting specific economic objectives. The Organization for Economic Cooperation and Development (OECD) defines tax expenditure as “the estimated costs to the tax revenue of preferential treatment for specific activities.”² Measurement of cost-effectiveness of tax expenditures is a key step in evaluating economic efficiency because it provides a perspective on the ability of the tax expenditure measures to improve overall real income.

Tax expenditure is an alternative policy by which the government delivers financial support not only to individual taxpayers but also to the corporate sector in Pakistan. Similarly, tax exemptions to educational and medical institutions (NPOs/NGOs) are granted to promote education and health facilities for the general masses. Tax expenditure can appear on either the revenue or expenditure side of the budget, e.g. exemption/ reduced rate of tax on the import of inputs by the fertilizer sector and reduced rate of sales tax on all types of fertilizer.

Directorate General of Audit Inland Revenue (North), Lahore conducted a thematic audit of tax expenditure during the FY 2022-23 to gauge the effectiveness of the tax expenditure regime. The audit selected six major tax expenditures i.e. NPOs, IPPs, distributors of cigarettes, real estate investment trusts, fertilizer sector and exemptions in erstwhile FATA/PATA. The audit found that the tax expenditure policy of the federal government lacked consistency and devoid of defined outcomes both in formulation and reporting. An amount of Rs 2,239.63 Billion has been allowed as tax expenditure during the period under audit i.e., FY 2021-2022.

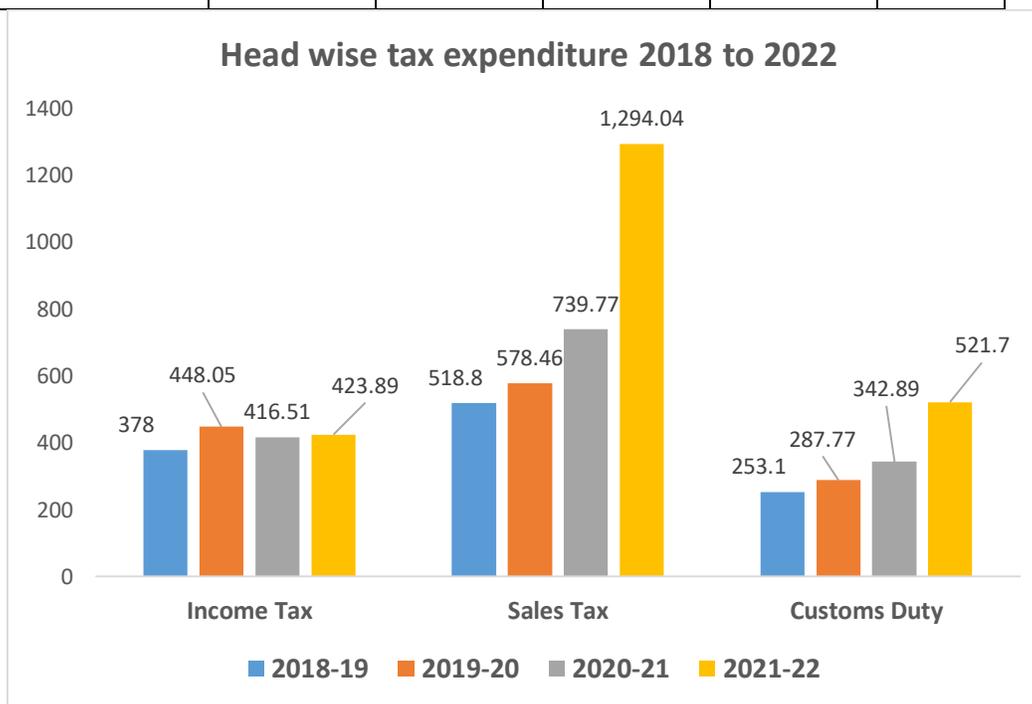
The total federal tax expenditure based on the data published by FBR relating to FY 2021-22 is estimated at Rs 2,240 Billion. The amount pertaining to Income Tax stood at Rs 424.00 Billion (18.92%), Sales Tax Rs 1,294.00 Billion (57.77%) and Customs Duty Rs 522 Billion (23.30%) of the total FBR collection under all head.

¹Tax expenditure Report, FBR 2023

Summary of tax expenditure for the last four years is presented below:

(Rs in Billion)

Tax Heads	2018-19	2019-20	2020-21	2021-22	Total
Income Tax	378	448	416	424	1,666
Sales Tax	519	578	740	1,294	3,131
Customs Duty	253	288	343	522	1,405
Total	1,150	1,314	1,499	2,240	6,203



The above table and graph depict a consistent increase in tax expenditure under all heads. However, Sales tax which is an indirect tax, exhibited a sudden increase in FY 2021-22 due to a reduction in the sales tax rate on POL products which resulted in an extra burden of Rs 633 Billion on the national kitty.

2. Background

Throughout the world, governments provide tax exemptions, concessions and tax relief to protect or uplift certain segments of society/areas/products. Due to varying policy designs and ideologies, there is a large variation in tax expenditure across countries. According to the "Global Tax Expenditure" data for 2019 and 2020, Russian Federation provides the largest tax exemptions of 14.8% of their GDP. In the U.S., income tax expenditure constitutes 6.6% of GDP. The tax expenditure in European countries is relatively close to the world average of tax expenditure (around 4% of GDP). Pakistan and India appear at the lower tail of this distribution. Pakistan has a tax expenditure equal to 2.8% of GDP and India has an expenditure of 0.4% of their GDP³.

3. Establishing of audit theme

3.1 Reasons for Selection

Tax expenditure constitutes around 35% of the total collection of tax revenue. In the environment of self-assessment system, there is a high risk that the condition of exemptions is not being monitored. No prior studies have so far been conducted on this topic by the DAGP, therefore, this study explores the theme of tax expenditure and its implications on the current control environment as well as economic policies.

3.2 Objectives

The Directorate General planned to conduct a thematic audit of tax expenditure to undertake a detailed analysis of the tax expenditure of the federal government to ensure that the tax expenditure is backed by legal frame work approved by the parliament. The broad objectives of the thematic audit are summarized as follow;

- Overview of tax expenditure under different provisions of Income Tax Ordinance 2001, The Sales Tax Act 1990 and Customs Act 1969.
- Analysis of tax expenditure methodology and policy for evaluation of effectiveness of tax expenditure.

3.3 Scope

The study analysed the tax expenditure reports published by the FBR for the last five years. Further, field audit teams also reported significant instances of misuse of tax exemptions/concessions in respect of direct and indirect taxes in various field formations of FBR.

³Tax Expenditure Report 2023 (FBR)

4. Legal frame work governing the theme

All tax laws provide provisions regarding exemptions, concessions, tax credits, tax rebate and preferential tax regime which constitute a tax expenditure. Legal frame work governing the theme is given as under:

- The Income Tax Ordinance, 2001
- The Sales Tax Act, 1990
- The Customs Act, 1969

5. Stakeholders and governmental organizations identified as directly/indirectly involved

FBR, Parliament, Ministries of Finance and Commerce, taxpayers, and general public

6. Role of important organizations

Tax policy wing of FBR is responsible for the consolidation and preparation of Tax expenditure report. Tax operations wing of FBR is responsible for the implementation and monitoring in this regard.

7. Field audit activity

All the field audit teams were assigned to report significant findings on the topic of tax expenditure separately. In addition to this, a designated team was also deputed at FBR, HQ to conduct the Thematic Audit.

8. Categorization of Tax Expenditure

8.1 Income Tax

Section 53 of the Income Tax Ordinance, 2001 provides legal authority in respect of the tax expenditure. Whereas, Part-I, Part-II, Part-III and Part-IV of the Second Schedule ibid provides conditions to the extent of which exemption from total income, reduction in tax rates, reduction in tax liability respectively is allowed. Further, the law also provides hundred percent tax credit towards tax liability subject to the conditions and limitations specified in the law. Tax expenditure on account of income tax is tabulated as under:

(Rs in million)

Description	Tax Expenditure		%age + (-)
	FY2020-21	FY2021-22	
Exemption and Tax Concessions	26,164	26,834	2.56
Deductible allowances	10,625	14,506	36.53
Tax Credits	65,465	52,133	-20.37
Income Exempt from Tax	232,852	232,398	-0.19
Reduction in Tax Rates	17,047	24,444	43.39
Reduction in Tax Liability	3,285	4,738	44.23
Exemption from Specific Provisions	61,076	68,881	12.71
Others / Miscellaneous	32,621	26,164	-19.8
Total Income Tax Expenditure	416,514	423,984	1.79

Reductions in tax liability, tax rates and deductible allowances witnessed a significant increase whereas tax credits experienced a significant reduction in the FY 2021-22 as compared to the previous year.

8.2 Sales Tax

Section 13 of the Sales Tax Act, 1990 read with Sixth Schedule of the Sales Tax Act provides exemptions of Sale Tax on local supply of goods and at import stage. Further Section 4 read with Fifth Schedule of Sales Tax Act 1990 provides zero rating of Tax at local supplies and at import stage as well. Moreover, the Eighth schedule of the Act provides reduced rate of tax on local supplies and at import stage. Furthermore, Section 7 and 8 of the Act and SROs issued under these provisions also allowed tax credits/ concessions subject to certain conditions given therein. Tax expenditure on account of Sales Tax is tabulated as below:

(Rs in million)

Types of Exemption	Tax Expenditure		%age + (-)
	FY2020-21	FY2021-22	
Zero Rating under Fifth Schedule of the Sales Tax Act 1990	33,422	139,448	317.23

Exemptions given on POL Products Through Various SROs	0	632,950	n/a
Exemption under Sixth Schedule on Imports	327,656	257,537	-21.40
Exemption under Sixth Schedule on Local supplies	139,046	133,178	-4.22
Reduced Rates Under Eighth Schedule	193,722	129,906	-32.94
Sales Tax on cellular Mobile Phones under Ninth Schedule	45,919	1,021	-97.78
Total Sales Tax Expenditure	739,765	1,294,041	74.93

It is evident from the above table that exemption on POL was introduced for the first time. Zero-rating on exports under the Fifth Schedule showed a significant increase of 317% whereas sales tax on cellular phones exhibited 98% decrease as compared to the previous year.

8.3 Customs Duty

As per provisions of Section 19 of the Customs Act 1969, the Federal Government exempts any goods imported into or exported from Pakistan from the whole or any part of the customs-duties chargeable thereon. Exemptions are also allowed through Free Trade Agreements and Preferential Trade Agreements. Further, exemptions are admissible to export oriented sectors as well. Tax expenditure on account of Customs Duty is tabulated below:

(Rs in million)

Type of Exemption	Tax Expenditure		%age + (-)
	FY2020-21	FY2021-22	
Chapter-99 Exemptions	15,963	22,240	39.32
FTA & PTA Exemptions	46,105	102,658	122.66
Fifth Schedule Exemptions & Concessions	168,754	172,978	2.50
General Concessions: Automobile sector, E&Ps, CPEC, etc.	60,987	192,950	216.38
Export Related Exemptions	51,081	30,878	-39.55
Total Custom Expenditure	342,890	521,703	52.15

General concessions on automobile, E&P and CPEC witnessed a significant increase of 216% while export related exemptions decreased by 39% in FY 2021-22 as compared to the previous year.

9. Methodology

Tax expenditure is commonly estimated by using one of three approaches i.e. revenue forgone, revenue gain, and outlay equivalent. These estimates can be calculated either on cash or accrual basis.

FBR uses a revenue-forgone methodology for preparing tax expenditure reports. This method is simple and easy to estimate however; it needs to be coupled with a strong monitoring mechanism to ensure achievement of intended objectives.

Audit relied on tax expenditure reports published by FBR. Moreover, repeated instances of control failures reported by the Audit previously have been analysed. A sample-based evaluation of non-compliance with the tax expenditure framework was also performed for major beneficiaries of the scheme. Initially, analysis of four financial years was planned but due to non-availability of reliable data the report is limited to the analysis of two years only.

10. Key audit findings

10.1 Critical appraisal of tax expenditure mechanism

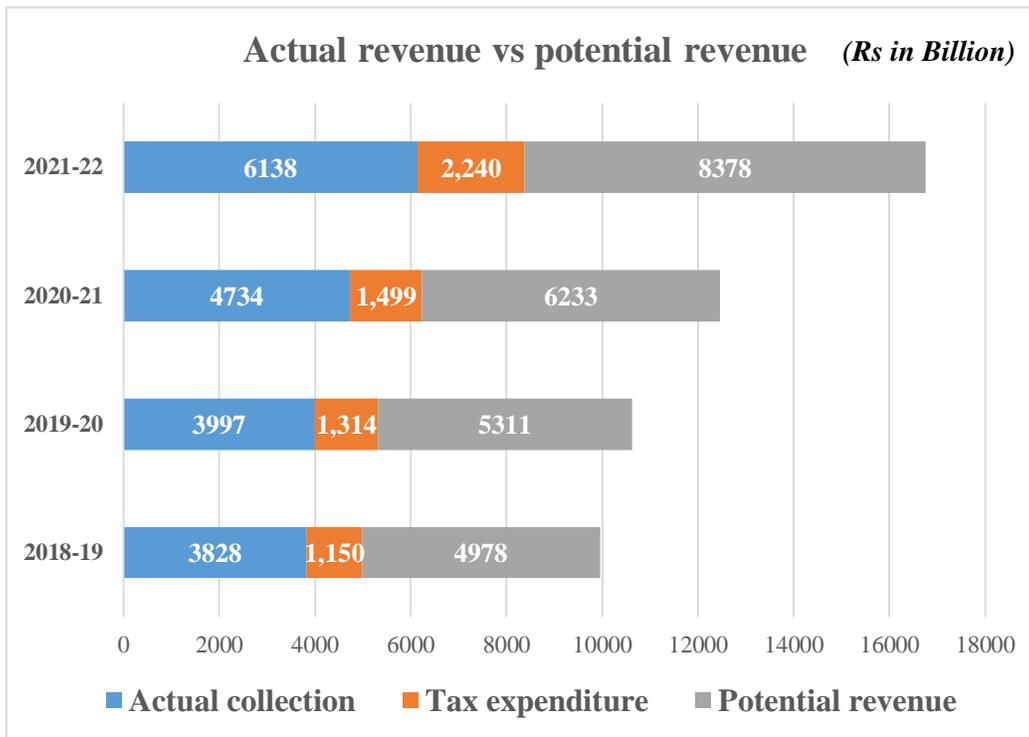
FBR started publishing tax expenditure reports in 2019 based on revenue foregone method on the recommendations of the World Bank. However, the audit observed that these reports lacked clearly defined outcomes and objectives. The effectiveness of tax expenditure is difficult to ascertain due to the lack of aforementioned reason. The role of these reports is undefined because these are not legally required to be debated in the parliament. Therefore, the contribution of these reports in planning and subsequent budget planning is non-transparent and lacks conformity.

According to IMF, Pakistan is currently capturing only 24% of its total tax potential. Additional constraints through tax expenditure on a government already struggling financially should be investigated. Such a review should link the intended expenditure with measurable outcomes thereby making informed decision during budget planning and monitoring phases. Tax expenditure and revenue collection for the last four years are as follows:

(Rs in Billion)

FY	Actual collection (A)	Tax expenditure (B)	Potential revenue (A+B)	Percentage of tax expenditure (B/A)
2018-19	3,828	1,150	4,978	30%
2019-20	3,997	1,314	5,311	33%

2020-21	4,734	1,499	6,233	32%
2021-22	6,138	2,240	8,378	36%



Source: FBR Tax Expenditure Report 2023

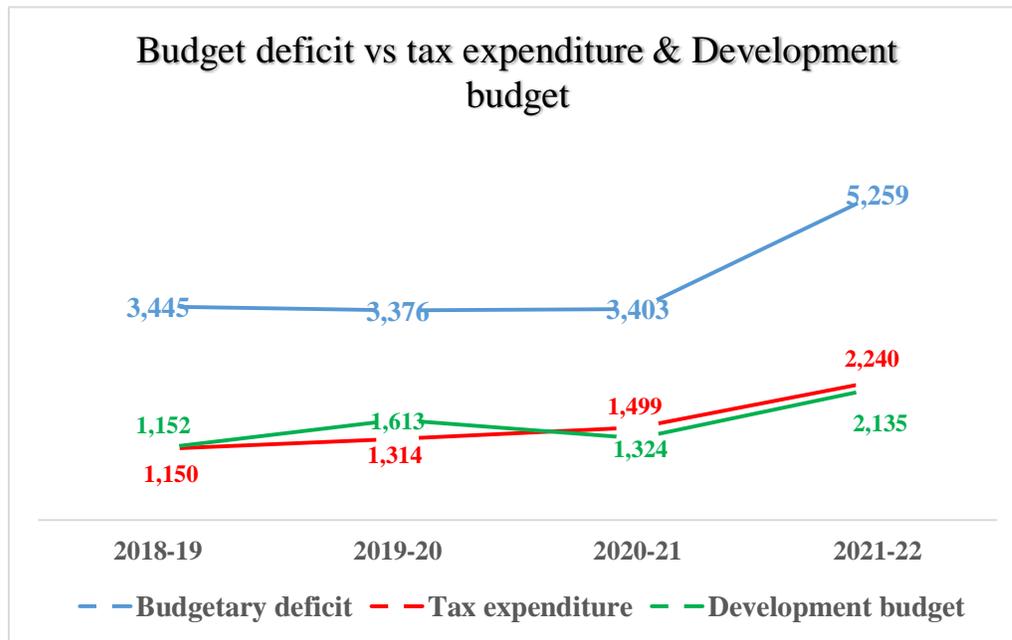
The above table and graph show that tax expenditure has consistently risen over the past four years along-with actual revenue collection. However, in FY 2021-2022, while the revenue collection increased by 130%, tax expenditure increased by 150% as compared to the previous year.

The following table and graph depict tax expenditure against the budgetary deficits and development budgets of the federal government over the last four years:

(Rs in Billion)

FY	Budgetary deficit (A)	Tax expenditure (B)	Development budget (C)	Percentage (B/A*100)
2018-19	3,445	1,150	1,152	33.38%
2019-20	3,376	1,314	1,613	38.00%
2020-21	3,403	1,499	1,324	44.00%
2021-22	5,259	2,240	2,135	42.00%

Source: Fiscal Policy statements



The above table and graph depict that the tax expenditure has consistently increased over the last four years. The budget deficit was reduced in FY 2019-20, which created some fiscal space for increasing the development budget. In FY 2020-21, tax expenditure exhibited an increase but the development budget decreased. Afterwards, the budgetary deficit increased exponentially in FY 2021-22, apparently because of the increasing effect of both tax expenditure and development budgets. Fiscal Responsibility and Debt Limitation Act, 2005 requires the federal government to limit the budgetary deficit to 6% of its GDP. Pakistan has struggled to plug its budgetary deficits over the years. The budget deficit for the FY 2021-22 was 6.5% of its GDP. Moreover, fiscal space for development outlays has

been shrinking over the years in the presence of ever-rising demands for development expenditure.

10.2 Non-monitoring of Non-Profit Organizations established unlawfully

Section 100C of Income Tax Ordinance, 2001 provides that non-profit organization shall be allowed a tax credit equal to one hundred percent of tax payable under any of the provisions of this Ordinance including minimum and final taxes in respect of incomes subject to the prescribed conditions. Further, Section 2(36) of Income Tax Ordinance, 2001 defines non-profit organization (NPO) as “any person other than an individual, which is established for religious, educational, charitable, welfare purposes for general public and registered by or under any law as a non-profit organization”. Moreover, all the provinces have promulgated laws for the registration of the non-profit organization (Trust) viz Punjab Trust Act 2020, Sindh Trust Act 2020, Khyber Pakhtunkhwa Trust Act 2020, Baluchistan Trust Act 2020 and Islamabad Capital Territory Trust Act 2020. Previously, all the NPOs were registered under the Trust Act 1882 which was repealed after 18th amendment in the Constitution of Islamic Republic of Pakistan 1973. Now, each province requires every trust registered to register afresh under the new law within six months. Further, ministry of law and justice has also clarified vide U.O No 142/2022-Law-I dated 17.03.2022 regarding newly enacted provincial trust acts.

During audit of field offices of FBR, it was observed that the Trusts and Non-profit organizations were required to be registered under the respective law of the province with effect from the date as mentioned in the respective laws. No such registration of the non-profit organization has been done, which means that the tax credits u/s 100C of the Ordinance were not admissible to the non-profit organizations. Audit further observed that the department allowed tax credit amounting to Rs 15,432 Billion during the FY 2021-22 without ensuring the registration of the NPOs in the respective province.

10.3 Non-monitoring of exemptions granted to electric power generation projects

Section 53 (a) read with clause (132) of the Second Schedule to the Income Tax Ordinance, 2001 provides an exemption from payment of income tax to the profits and gains derived by a taxpayer from an Electric Power Generation project set up in Pakistan on or after the 1st day of July 1988 with the following conditions: -

- I. The project must be owned and managed by a company registered under the Companies Act, 2017 or having its registered office in Pakistan.
- II. The project is not formed by the splitting up, or the reconstruction or reconstitution, of a business already in existence
- III. The 50% shares and control is not with the Federal Government, Provincial Government or Local Government.
- IV. The exemption does not apply to oil-fired power plants set up between 22nd October

2002 and 30th June 2006 but shall apply to Dual Fuel (Oil/Gas) power projects set up on or after the first September 2005.

The audit observed that the Government allowed tax expenditure on the taxable profit earned by the electric generation projects amounting to Rs 167,896 million during the FY-2018 to 2022 to the two hundred and twenty (220) taxpayers being assessed as Independent Power Producers given the fulfilment of above-stated pre-conditions.

Audit, however, further observed that after the emergence of the self-assessment system through the promulgation of the Income Tax Ordinance, 2001 all the completed returns of income are deemed to be assessment orders, which can only be re-opened after obtaining definite information regarding concealment of taxable income as per the law. The completed return can also be re-opened, if the deemed assessment is prejudicial to the interest of revenue, or if the case of a particular taxpayer is selected for audit as per prescribed conditions under the law. Audit observed that the detail scrutiny of the NPOs in respect of above referred condition was not conducted by the department. Therefore, the cases remained unattended and the taxpayers may have gained the benefit of exemptions against the provisions of law. Further, profit earned on bank deposits, capacity charges received by the power producers and dividend income needs to be scrutinized for taxation under the law.

Audit has repeatedly pointed out in previous years that above mentioned conditions are not being fulfilled by the power producers. The audit further observed that the power producers availed tax exemption for an amount of Rs 168 Billion. Despite such a huge expenditure on account of exemptions to IPPs the issue of power sector persists.

Audit suggests that the above tax expenditure may be monitored under the relevant law. Moreover, tax expenditure policy in respect of IPPs needs to be reviewed and interlinked with the power policy.

10.4 Reduced rates on distributors of Cigarettes

Section 153 of the Income Tax Ordinance, 2001 provides that every prescribed person making a payment in full or part including a payment by way of advance to a resident person for the sale of goods shall, at the time of making the payment, deduct tax from the gross amount payable at the rate of five percent. However, clause 24-A part-II of the Second Schedule to the Income Tax Ordinance, 2001 allowed tax expenditure at a reduced rate of 1% from distributors of cigarette and pharmaceutical products.

Audit observed that tax exemption on the supply of cigarettes is irrational in view of the health policy of the federal government. Moreover, the subject exemption to cigarettes has been granted along with pharmaceutical products which is antithetical. Exemptions on account of supply of cigarette and pharmaceutical products amounting to Rs 14,694 million were allowed during FY 2021-22. The audit further observed that, on one hand, the government has increased indirect taxes in the shape of FED and Sales Tax on the business of cigarettes, but on the other hand allowed

exemption to cigarettes from payment of direct taxes. The increased burden in the form of indirect taxes falls on consumers while distributors are reaping the benefit of this tax exemption.

Audit suggests that the above tax expenditure may be discontinued for the cigarette sector.

10.5 Non-monitoring of Collective Investment Schemes and Real Estate Investment Trust Schemes

Clause 99 of Part 1 of Second Schedule to the Income Tax Ordinance, 2001 provides that any income derived by a Collective Investment Scheme or a Real Estate Investment Trust shall be exempt from payment of income tax if not less than ninety per cent of its accounting income of that year is distributed amongst the unit or certificate holders or shareholders as the case may be.

Audit observed that tax expenditure on income tax on above mentioned schemes for the FY 2021-22 has been allowed to the tune of Rs 26,284 million without ensuring that taxpayers had distributed ninety per cent of their accounting income for that year.

Audit suggests that all the cases that have availed exemption under Clause 99 of Part-1 of the Second Schedule to the Income Tax Ordinance, 20021 may be selected for audit to ensure that the main condition i.e. distribution of ninety percent of accounting income to respective shareholders is fulfilled or not.

10.6 Malpractices by the Fertilizer Sector

According to Sr. No 144 of the sixth schedule to the Sale Tax Act, 1990 sales tax on import of LNG by fertilizer sector is exempt. Further, the eighth schedule of the Sales Tax Act 1990 provides that sales tax on supplies of natural gas to the fertilizer sector and local supplies of fertilizers (all types) is 5% and 2% respectively. Moreover, sales tax on the import of Phosphoric Acid and Rock Phosphate by the fertilizer sector is also reduced to 5% and 10% respectively.

The Audit observed that as per tax expenditure report for the year 2023, total amount of expenditure involving Rs 58,187 million was granted on the supply of natural gas to fertilizer manufacturing units, import of Phosphoric Acid and Rock Phosphate and local supply of fertilizers of all types. The purpose of this expenditure was to provide fertilizer to growers at affordable prices with the ultimate goal of providing relief to the general masses. Despite availing exemptions and reduced rates of tax on inputs, fertilizers were not available to growers at notified prices. Thus, the growers were forced to buy fertilizers at higher than notified prices. Tax expenditure incurred in the shape of exemption and reduced rates failed to achieve the desired objectives of the government.

There is a need to evolve a mechanism to ensure monitoring of tax expenditure with the collaboration of concerned ministry to ensure trickle down of benefits to the end user.

10.7 Misuse of tax exemption in erstwhile tribal area

According to the Sixth Schedule to the Sales Tax Act 1990, supplies and imports of plant and machinery for installation in erstwhile tribal areas and of industrial inputs by the industries

located in the tribal areas as defined in the constitution of the Islamic Republic of Pakistan are exempt from Sales Tax.

The Audit observed that goods manufactured in industrial units established in erstwhile tribal areas were regularly brought to tariff areas without payment of leviable duty and taxes. The same malpractice was observed in the ghee, oil and cosmetics sectors. The basic purpose of the exemptions was to generate economic activity thereby uplifting the livelihood of the residents of tribal areas. Audit holds that exemptions granted on this account are being misused as sales tax law is extended to the whole of Pakistan after the 25th amendment. An amount of Rs 15,307 million was foregone as per the tax expenditure report for FY 2021-22.

The Audit recommends that the impact of revenue foregone and distortion of the market due to exemption extended every year to erstwhile tribal areas needs to be reviewed.

10.8 Duty and tax exemptions extended to vehicles plying in erstwhile FATA/PATA

On the commencement of the 25th Amendment to the Constitution of Pakistan, 1973, Federally and Provincially administered areas of Khyber Pakhtunkhwa stood merged in the province of Khyber Pakhtunkhwa. After the merger, exemption from customs duty / taxes was extended through Finance Act, 2018 up to 30th June, 2022, it was further extended up to June, 2024.

The Audit analysed the data provided by the Excise and Taxation Department, Khyber Pakhtunkhwa, that 53,668 non-duty paid vehicles were profiled in Malakand region alone comprising 08 districts. In addition, non-duty paid vehicles were also plying in districts of erstwhile FATA. As these vehicles were already plying in these areas before the said amendment, therefore, the Government of Pakistan allowed exemptions. Audit further observed that revenue amounting to Rs. 107,336 million (53668 x Rs 2,000,000 Approx.) was forgone by the government.

Audit recommends that exemptions of duty and taxes granted to non-duty paid vehicles in FATA/PATA areas needs to be rationalized.

10.9 Repeated control failures of non-monitoring of tax expenditure

The Audit has been pointing out weaknesses of internal controls/ irregularities leading to loss of revenue over the years in its annual audit reports. These irregularities relate to incorrect claims of tax credits, inadmissible allowances of tax depreciation, inadmissible exemptions of sales tax, and inadmissible exemption/ concession claimed at the import stage. These reported irregularities amounted to Rs 53,489 million for the FYs 2020 to 2024.

The recurrence of the same irregularities is a matter of serious concern and points towards inaction by the management in addressing these control failures. The irregularities pointed out by Audit over the years are summarized below: -

Nature of misuse/Tax Expenditure	Legal provisions	(Rs in million)	Reference
Income Tax			
Inadmissible claim of tax credits	Section 65B, 65D, 65E(1), 65F of the Income Tax Ordinance 2001	11,672	Para 4.2 of Audit Report 2021-22
Incorrect claim of Tax depreciation allowance	Section 22 read with section 23 of the Income Tax Ordinance	1,545	Para no 4.9 of Audit Report 21-22
Inadmissible claims of Tax Credits	Section 65 and section 100C of the Income-tax Ordinance	13,094	Para 5.4 of Audit Report 2022-23
Incorrect claim of tax credits	Section 100C of the Income Tax Ordinance 2001	6,071	Para 4.4 & 4.22 Audit Report 2023-24
		32,382	
Sales Tax			
Inadmissible exemption of Sales Tax	Sixth Schedule of the Sales Tax Act	186	Para 5.16 of Audit Report 2021-22
Inadmissible exemption of Sales Tax	Section 13 read with Sixth Schedule of the Sales Tax Act 1990	1,728	Pars 6.9 of Audit Report 2022-23
Inadmissible exemption of Sales Tax	Section 13 read with Sixth Schedule of the Sales Tax Act 1990	3,458	Pars 5.7 of Audit Report 2023-24
		5,372	
Customs Duties			
Inadmissible concession/exemptions in duties and taxes	Section 19 of the Customs Act 1969 and various statutory enactments	800	Para 7.3 of Audit Report 2021-22.
Non-adherence to DTRE Rules	Export-related DTRE Rules.	839	Para 7.18 of Audit Report 2021-22

Inadmissible concession/ exemptions in duties and taxes	Section 19 of the Customs Act 1969 and various statutory enactments	5,405	Para 8.4 of Audit Report 2022-23
Export-related exemptions/ concessions	Various SROs related to export-oriented schemes	2,077	Para 8.6 of Audit Report 2022-23
Inadmissible concession/ exemptions in duties and taxes	Section 19 of the Customs Act 1969 and various statutory enactments.	6,454	Para 7.2 of Audit Report 2023-24.
Non-adherence to DTRE Rules	Export-related DTRE Rules.	160	Para 7.17, 7.20 & 7.23 of Audit Report 2023-24.
		15,735	16 paras

FBR is one of the highly automated public sector organizations, therefore, such automation should help FBR to curb non-compliance with self-declared scheme. Non-monitoring of these exemptions/concessions as reported by the Audit are evidence of the slackness of FBR in this regard.

11. Recommendations

- The tax expenditure in respect of IPPs be monitored under the relevant law. Moreover, tax expenditure policy in respect of IPPs be reviewed and interlinked with the power policy.
- Reduction in tax liability of cigarette distributors be reviewed.
- There is a need to rationalize exemptions granted to non-profit organizations working in Pakistan. Many of these organizations are carrying out commercial activities which are required to be audited in coordination with other regulatory bodies. FBR may design a policy in the medium to long term for bringing their commercial activities into the tax net.
- Tax exemption and reduction in sales tax allowed to fertilizer industry be reviewed as the benefit of affordable prices is not trickling down to the farmers.
- The impact of revenue foregone and distortion of the market due to exemption extended every year to erstwhile tribal areas be reviewed.
- A mechanism to ensure the monitoring of tax expenditure on IPPs be evolved. Such a mechanism may include a certificate on 100% production capacity utilization by the concerned IPP and subsequent audit by the FBR.

12. Conclusion

Tax expenditure planning and reporting lacks defined objectives and outcomes. Consecutive budget deficits and ever-increasing demands for development expenditure require a review of tax expenditure policies. Therefore, the management needs to devise effective coordination mechanisms with the concerned ministries in order to report outcomes for informed decision making. Monitoring of exemptions to sectors like IPPs, fertilizer, real estate, and NPOs should be ensured for compliance with legal requirements. The benefits envisioned in the tax expenditure have not been quantified against any outcome, therefore, the same cannot be ascertained to arrive at a conclusive assessment. Moreover, the internal controls of FBR to monitor tax expenditure are weak and need further improvement. Repeated misuse of these benefits as pointed out by the Audit reflects inefficacy of existing mechanisms and a lack of interest of FBR in addressing the same.

13. References

Tax expenditure reports 2019, 2020, 2021, 2022

CHAPTER-12 OTHER SIGNIFICANT ISSUES

Para 20 of General Financial Rules, Vol-I requires that any loss of public money, departmental revenue receipts, stores, etc., held by or on behalf of government, whether caused by defalcation or otherwise, must be reported to Audit immediately even if such loss has been made good by the party responsible for it. During the year under report, some important/major cases of losses/ defalcation of public revenue of Rs 323,839 million came to the notice of Audit through formal and informal information. None of these cases was, however, reported to Audit by the concerned authorities as required under the Rules.

12.1 Non realization of sales tax – Rs 312 Billion

According to internal audit report M/s KH & Sons having NTN # 7637554 and STRN # 3277876300770, registered with RTO–I Karachi, committed a huge tax fraud of Rs 314 Billion. The matter was also reported by print & electronic media. The Audit requisitioned the auditable record of the above taxpayer but the Commissioner concerned did not provide requisite auditable record pertaining to sales tax and income tax for the FYs 2021-22 & 2022- 23 to the Audit, despite repeated requisitions.

The matter was taken up with the department during August to November 2023. The department replied that FIR was lodged against the taxpayer for tax fraud of Rs 312 Billion instead of Rs 314 Billion and case was subjudice and all record in respect of taxpayer was under the custody of the court.

The DAC, in its meeting held in December 2023 directed the department to pursue the case expeditiously.

The Audit recommends that prompt action should be taken against the taxpayer, intimate the outcome of criminal proceedings already initiated, and fixing of responsibility for inordinate delay/lapse against the person(s) at fault besides recovery of due tax.

[PDP No.7227-ST/K]

12.2 Inadmissible sales tax refund on benami transactions – Rs 12 Billion

The Chief Commissioner, Large Taxpayers Office, Lahore was asked in November, 2023 to furnish a detailed report regarding M/s Millat Tractors Limited. The registered person allegedly committed tax fraud through benami transactions amounting to Rs 12.00 Billion as reported in the daily “Business Recorder” dated 17.11.2023. In response the department reported that “post refund scrutiny had been initiated but proceedings had been stayed by the Honourable Lahore High Court till 10.11.2023. On the said date, the Lahore High Court referred the matter back to the department to decide the legal issues raised by the registered person before proceeding further in the matter. The

proceedings have been reinitiated in the light of the orders of the Honourable Lahore High Court and shall be concluded as directed by the Honourable Court”.

Audit requested the LTO Lahore to provide the details of the case and outcome of the post refund scrutiny of the tax periods which have been completed so far. But, no reply was furnished by the department till finalization of this report.

The Audit recommends that outcome of the departmental audit proceedings as directed by the Honourable Lahore High Court and findings/recommendations of the Federal Tax Ombudsman, Islamabad in complaint No.3367/ISB/ST/2022 dated 21.11.2022 be finalized at the earliest and remedial action be taken as per law.

12.3 Mis-declaration and over invoicing of imported solar panels resulted in trade base money laundering – Rs 74 Billion

It was observed during the audit of the FY 2022-23 that a major scam of over-invoicing and Trade Base Money Laundering (TBML) in imports of solar panels was unearthed by the PCA and also reported in newspapers “The Tribune, Business Recorder and daily Jang (Urdu)” dated 06-09-2023. As per audit reports of Directorate of Post Clearance Audit (PCA) (South), the implicated persons imported solar panels at inflated rates of USD 0.23 per watt and above during 2019 to 2022. However, the Directorate calculated that the import values of Chinese origin solar panels should have ranged below 0.22 USD per watt. The importers transferred a staggering amount of Rs 73.83 Billion out of Pakistan. Total over-invoiced amount in 2,178 import GDs stood at Rs 37.76 Billion. Moreover, the clearance Collectorates did not assess value of goods under Section 25 of the Customs Act. The goods were imported from China whereas third-party remittances were made to Dubai/Hong Kong but the Collectorates did not take up the matter with the concerned banking authorities. ‘Used’ solar panels were purchased in China and imported as ‘new’ and import certificates were managed to prove the same. This issue was not probed by the clearing Collectorate. The Directorate neither framed contraventions against the importers nor assessed the importers under Section 111 of Income Tax Ordinance, 2001 and Section 11(2) of the Sales Tax Act, 1990. Further, the Directorate did not provide record/data of “Solar Panels” for the period from July 2018 to June 2023 to the Audit.

The matter was taken up with the department in November 2023. The management did not submit a reply.

The DAC, in its meeting held in January 2024, expressed serious concern on non-submission of reply and directed the department to submit comprehensive reply to the Audit and FBR. No further progress was reported till the finalization of this report.

Audit recommends that the matter may be referred to FIA (Anti-Money Laundering) to probe the matter and intimate its outcome to the Audit.

[Annexure-93]



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

DIRECTORATE GENERAL AUDIT (PETROLEUM AND NATURAL RESOURCES)

Chapter-1

Public Financial Management

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

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

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

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

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

(Rs in million)

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

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

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

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

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

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

[ML No. 3]

1.1.2 Misclassification of receipts - Rs 3,440.899 million

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

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

(Rs in million)

Sr. No.	Name of formation	Description of Receipts	Correct head of Accounts	Booked by FTO in incorrect head of Accounts	Amount
1.	DG (PC)	PTA	C01008	C03808	3,429.278
2.	DG (PC)	Royalty on Gas	C03906	C03905	9.816

3.	DG (PC)	Royalty on Crude Oil	C03905	C03808	1.805
Total					3,440.899

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

The matter was reported to the management in September, 2023. The management in its reply dated October 13, 2023 stated that correction slips in respect of misclassified amount of Rs 3,429.278 million and Rs 1.805 million were issued to AGPR. FTO, Karachi had been requested to book the misclassified amount of Rs 9.816 million in the correct head of account C03906. However, FTO posted the amount in C03905 instead of C03906.

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

Audit recommends to pursue the matter for corrective measures.

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

[ML No. 2]

1.1.3 Non-surrender of savings - Rs 11.190 million

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

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

(Rs in million)

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

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

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

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

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

[MR GSP No. 1.7]

1.1.4 Violation of procedure of Assan Assignment Account

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

During financial attest audit of GSP for the FY 2022-23, it was observed that four Senior Auditors (BS-16) who were allowed to work as AAO in their own pay scale i.e. BS-16 were performing the function of signatories. Whereas the officer holding regular or

current charge in BS-17 was required to be nominated as signatory. This resulted in violation of procedure of Assan Assignment Account.

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

The matter was reported to the management in September, 2023. The management in its reply dated October 13, 2023, stated that there was an acute shortage of AOs / AAOs. The requisition had been sent to CGA office on May 04, 2023 for posting of AOs / AAOs in CAO (sub-offices) Karachi, Lahore, Islamabad and Peshawar. However, response from CGA office was awaited.

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

Audit recommends to ensure compliance of procedure of AAA.

[MR GSP No. 1.6]

Chapter-2

Ministry of Energy

2.1 Petroleum Division

2.1.1(A) Introduction

The Ministry of Energy was created in August, 2017 after merging of Ministry of Petroleum and Natural Resources with the Power Division of the Ministry of Water and Power. The Ministry has two Divisions - Petroleum and Power, each being administered by a Federal Secretary. The Petroleum Division is responsible for coordinating the development of natural resources of energy and minerals in Pakistan. It aims to ensure, secure and make available sustainable energy supply for economic development as well as facilitate and promote exploration and production of oil, gas and mineral resources in the country.

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

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

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

(Rs in million)

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

(Detail is at Annexure-2)

(B) Comments on Budget and Accounts

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

(Rs in million)

Nature of Receipt	Original Target* 2022-23	Revised Target* 2022-23	Collection** 2022-23	Difference from Revised Target	
				Absolute	Percentage
1	2	3	4	5 (4-3)	6
Petroleum Levy (C0-3901)	855,000	542,000	579,910	37,910	6.54

Gas Development Surcharge (C0-3902)	40,000	14,000	10,672	(3,328)	(31.18)
Royalty on Oil (C0-3905)	46,000	54,000	50,182	(3,818)	(7.61)
Royalty on Gas (C0-3906)	70,000	65,000	70,131	5,131	7.32
Discount Retained on Local Crude Oil (C0-3910)	20,000	20,000	23,081	3,081	13.35
Windfall Levy (C0-3915)	10,000	30,000	27,731	(2,269)	(8.18)
Gas Infrastructure Development Cess (C0-3916)	30,000	10,000	10,940	940	8.59
Petroleum Levy on LPG (C0-3917)	8000	3450	3419	(31)	(0.91)
Others	2,804	1,674	5,120	3,446	67.30
Total	1,081,804	740,124	781,188	41,062	

**Explanatory Memorandum of Federal Receipts 2023-2024*

*** Collection according to AGPR Data*

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

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

(Rs in million)

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

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

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

2.1.2 Classified Summary of Audit Observations

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

Overview of Audit Observations

(Rs in million)

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

2.1.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	%age of Compliance

2000-01	6	0	6	0
2001-02	1	0	1	0
2002-03	1	0	1	0
2003-04	1	1	0	100
2004-05	3	0	3	0
2005-06	2	1	1	50
2007-08	4	0	4	0
2008-09	16	10	6	63
2009-10	11	0	11	0
2010-11	27	20	7	74
2011-12	28	12	16	43
2012-13	22	10	12	45
2013-14	31	17	14	55
2014-15	25	9	16	36

2015-16	47	13	34	28
2016-17	49	1	48	2
2017-18	54	14	40	26
2018-19	10	2	8	20
2019-20	9	1	8	89
2020-21	1	0	1	0
2021-22	8	0	8	0
Total	356	112	244	31%

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

2.1.4 Audit Paras

Assessment and Realization of GIDC and GDS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.1.4.3 Inadmissible adjustment of GDS - Rs 14,745.904 million

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

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

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

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

The matter was reported to the management in September, 2023. The management in its reply dated December 14, 2023 stated that MPCL supplied gas to Fertilizer Sector in accordance with prices notified by OGRA on the advice of Federal Government. MPCL adjusted the negative differential margin in feed stock against fuel stock. Further, to address the issues of negative GDS, amendments in GDS Ordinance, 1967 were in process.

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

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

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

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

[DP No. 2509]

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

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

During audit of DG (Gas) for the FY 2022-23, it was observed that DG (Gas) could not ensure implementation of its policy letter dated March 24, 2016 whereby MPCL was obliged to deposit notified GDS as per applicable gas sales prices. This happened due to short payment on fuel stock at less rate by two fertilizer plants. This resulted in short realization of GDS of Rs 6,138.610 million. Further, GST on differential price amounting to Rs 1,043.563 million was also not recovered and paid to FBR by MPCL.

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

The matter was reported to the management in September, 2023. The management in its reply dated December 14, 2023 stated that MPCL was issuing gas sales invoices to Engro Fertilizer Ltd. (EFL) and Pak-Arab Fertilizer Ltd. (PFL) as per letter dated March 24, 2016. However, EFL and PFL were not in agreement with the above stated invoicing /

billing mechanism which resulted in differential margin (GDS) on fuel stock along with related GST amounts.

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

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

[DP Nos. 2511 & 2574]

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

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

During audit of DG (Gas) for the FY 2022-23, it was observed that three companies M/s SNGPL, SSGC and PPL did not completely deposit the outstanding GIDC within allowable limit of two years as per Supreme court decision. They were liable to pay LPS on all payment of GIDC up to June, 2023. However, payment of Rs 7,875.041 million was paid by these companies which should had been made with LPS since it was done after allowable limit. Therefore, accrued LPS amounting to Rs 973.425 million was outstanding on part of the companies.

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

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

prayer regarding increase of number of instalments from 24 to 48. Hence, the clarification of Additional Attorney General was not in line with the judgment of Supreme Court of Pakistan.

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

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

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

[DP No. 2512]

Assessment and Realization of Royalties on Crude Oil and Gas

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

According to the Rules 36, 35 and 38 of the Pakistan Exploration and Production Rules, 1986, 2001 and 2009 respectively, “the licensee or holder of a lease shall pay a Royalty at the rate of 12.5% of the well head value of the Petroleum produced and saved. Royalty is payable monthly within 10 days of the expiry of the calendar month in question under E&P Rules, 1986 and within 45 days under E&P Rules, 2001 & 2009. Further, if delayed beyond this stipulated period, would attract fine at the rate of the London Inter-Bank Offer Rate (LIBOR) plus two per cent as may be determined by the Authority.”

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

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

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

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

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

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

[DP No. 2516]

Assessment and Realization of Petroleum Levy

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

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

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

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

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

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

Audit recommends to pursue the recovery of outstanding amount.

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

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

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

According to Rule 9 (1&3) of Petroleum Product (Development Surcharge), Rules 1967, “every licensee shall deposit Petroleum Levy payable by it in respect of sale of LPG produced in Pakistan from its production facilities during the calendar month within seven days of the close of that month. A mark up at the rate of four per cent above the three months KIBOR shall be payable on any amount due under sub-rule (1), if the said amount is not paid within seven days of the close of that month.”

During audit of DG (LGs) for the FY 2022-23, it was observed that M/s POL and OGDCL did not deposit Petroleum Levy collected on sale of LPG. The companies sold a quantity of 4,604.13 M. Tons and collected the petroleum levy of Rs 191.479 million from LPG distributing and marketing companies but did not deposit the collected amount in Government treasury. Further, a markup would also be recoverable after recovery of principal amount.

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

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

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

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

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

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

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

According to Rule 9 (1&3) of Petroleum Product (Development Surcharge), Rules 1967, “every licensee shall deposit Petroleum Levy payable by it in respect of sale of LPG produced in Pakistan from its production facilities during the calendar month within seven days of the close of that month. A mark up at the rate of four per cent above the three months KIBOR shall be payable on any amount due under sub-rule (1), if the said amount is not paid within seven days of the close of that month.”

During audit of DG (LGs) for the FY 2022-23, it was observed that LPG producing companies did not pay Petroleum Levy on 2,584 M. Tons of LPG by short reporting of LPG produced. The companies reported a quantity of 309,673 M. Tons to MoE-PD instead of actual production of 312,257 M. Tons as communicated to OGRA by these companies. This resulted in short payment of Government dues including Petroleum Levy amounting to Rs 122.070 million.

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

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

The DAC in its meeting dated December 20, 2023, directed the management to get the stated stance verified from Audit and to present the data in tabulated form to Audit for verification. DAC further directed the management to take up the matter with concerned company / DG (PC) / FBR for reconciliation of production & sale and calculation of Government dues (Petroleum Levy, Royalty and Sales Tax) and directed the relevant company to deposit the short fall with a copy to FBR and DG (PC). No further progress was reported till finalization of the report.

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

[DP No. 2551]

Training Fund, Social Welfare Obligation and License & Lease Rent

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

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

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

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

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

drafted in early 2023, which included all the provisions pointed out by Audit. The reply was not tenable as the applicable Guidelines were not implemented.

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

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

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

[DP No. 2518]

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

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

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

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

2	OGDCL	Shakardra	105,000	31.290
3	PPL	Gambat South	50,535	14.149
4	PPL	Kandhkot	38,400	11.443
Total				2,142.882

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

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

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

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

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

[DP Nos. 2517 & 2797]

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

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

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

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

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

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

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

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

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

[DP Nos. 2521, 2537 & 2541]

2.1.4.13 Short realization of Social Welfare Obligation - Rs 376.423 million

According to Annexure VII of the Pakistan Petroleum (Exploration and Production) Policy, 1994 and other policies introduced from time to time read with Clause 4 of Social Welfare Guidelines, 2021, “E&P companies will open a joint bank account with DCOs / DCs concerned and will deposit the Social Welfare contribution Fund within one month of signing of PCA and subsequently by 31st January each year. The amount of Social Welfare Funds pledged by the companies in their respective agreement and deposited in the joint account opened for the purpose are required to be utilized to give lasting benefits to the communities, where exploration is being carried out.”

During audit of DG (PC) for the FY 2022-23, it was observed that 10 E&P companies in 61 cases did not either deposit or short deposit Social Welfare Obligation in the joint accounts of the concerned DCOs / DCs. This resulted in short realization of Social Welfare Obligation of US\$ 1,472,667 equivalent to Rs 437.750 million.

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

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

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

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

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

[DP No. 2526]

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

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

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

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

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

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

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

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

[DP Nos. 2519 & 2773]

Exploration & Development Related Issues

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

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

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

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

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

The matter was reported to the management in September, 2023. The management in its reply dated December 12, 2023 stated that extensions / renewal of leases was examined / processed but could not be finalized due to various issues. The management further stated that extensions had been granted to 10 leases, in 6 leases reference were sent to Law Division, renewal of 4 leases would be granted subject to settlement of financial obligation and 5 leases had Windfall Levy Obligation issue.

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

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

[DP No. 2532]

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

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

During audit of DG (PC) for the FY 2022-23, it was observed that development and production (D&P) lease in respect of following fields had completed maximum period of 30 years. However, DG (PC) did not take any decision as Authority on the renewal of the lease. As a result, the 15% of wellhead value was not recovered from the company in pursuance of Rule 35 of Pakistan Onshore Petroleum (E&P) Rules 2013 despite the fact that production was continued from the field. This resulted in non-recovery of Rs 23,959.539 million on account of 15% of wellhead value of the reservoir as detailed under:

(million)

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

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

The matter was reported to the management in September, 2023. The management in its reply dated December 12, 2023 stated that OGDCL had provided consent for payment of 15% additional wellhead value of the produced petroleum. However, matter of imposition of financial obligations had been referred to Law Division. The D&P lease would be

renewed accordingly. An amount of Rs 2,359.164 million on account of 15% wellhead value was recovered from OGDCL and same had been verified by Audit leaving a balance of Rs 21,600.375 million. Further, UEPL had also submitted consent for payment of 15% additional wellhead value and renewal of lease was under process.

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

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

[DP Nos. 2525 & 2529]

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

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

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

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

The matter was reported to the management in September, 2023. The management in its reply dated December 12, 2023 stated that one of the licensees, PEL provided performance guarantee in the form of first or preferred lien on assets which was already in place for two blocks. In other cases, PEL and Dewan had been directed to provide the

performance guarantee. Audit contended that the stance regarding acceptance of old guarantees in form of first or preferred lien on assets for two blocks of PEL was not acceptable because the company provided lien on field which had not been developed despite lapse of 18 years.

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

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

[DP Nos. 2572]

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

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

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

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

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

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

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

[DP No. 2524]

Others

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

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

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

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

The matter was reported to the management in September, 2023. The management in its reply dated December 14, 2023 stated that verified claims were submitted to Finance Division on monthly basis before any release with all details related to each consumer

availing the tariff. Therefore, submission of separate report to the ECC was not required. The management further, stated that based on the recommendations of Committee constituted under Convenorship of MoE, a summary was submitted which was accordingly considered by the ECC. The reply was not tenable as no report was provided to Audit.

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

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

[DP No. 2513]

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

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

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

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

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

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

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

[DP No. 2672]

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

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

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

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

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

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

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

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

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

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

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

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

The matter was reported to the management in September, 2023. The management in its reply dated December 12, 2023 stated that in May 2017, Finance Division withdrew its earlier stance and advised to maintain the “G-Liabilities” account for receipts generated through the sale of technical data. Petroleum Division decided to follow up with Finance Division to seek exemption from opening “G-Liabilities” account for transfer of funds and to continue with NBP account. Further, after grant of approval by Finance Division to continue with bank account in NBP, investment strategy would be devised.

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

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

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

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

[DP No. 2523]

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

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

During Special Audit of DG (PC) for the FY 2014-15, it was observed that E&P companies incurred expenditure of Rs 131.050 million against pension, leave encashment, bonus, catering, travelling expenses and land compensation etc. and claimed the same against Royalty Processing Charges (RPC). Audit held that the instant expenditure under RPC was not admissible as per guidelines. Further, in another case M/s MOL made short payment of Royalty of Rs 180.00 million by claiming operating / production expenses e.g. purchase of furniture, appliances, inventory incidental cost, well surface facility, road maintenance, security surveillance project and water treatment as capital expenditure. The depreciation / amortization on these items was subsequently claimed as RPC. This resulted in inadmissible claim of RPC amounting to Rs 311.050 million. Moreover, RPC guidelines, 2006 were also not got approved from the competent forum i.e. ECC by DG (PC).

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

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

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

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

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

According to Clause 2.9 of the contract for the management and operations of Pakistan Petroleum, Exploration and Production Data Repository dated September 28, 2016, the contractor is responsible for maintaining and managing the Concession Management System (CMS) owned by DG (PC). The purpose of the CMS is to facilitate DG (PC) in managing Petroleum Concession Agreements, Production Sharing Agreements, licenses and lease deeds, as well as information related to operators, Royalty payments, Rent, Production Bonuses, Training Obligations, and other financial obligations arising from granted rights to E&P companies.”

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

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

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

Audit recommends to take effective steps to make CMS functional.

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

Department of Explosives

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

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

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

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

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

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

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

[DP No. 2484]

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

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

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

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

The matter was reported to the management in October, 2023. The management in its reply dated December 14, 2023 stated that provisional license was issued to M/s AOSPL by the Petroleum Division in year 2005 under which there was no restriction of limiting the marketing operation of the said company. After the issuance of OGRA letter dated January 05, 2018, the marketing operation of M/s AOSPL was restricted to the province of Punjab

and Sindh only. The reply was not tenable as two letters of OGRA having same number and date were provided to Audit, wherein, based on the storage capacity of Tarujaba and Sahiwal, marketing was allowed in Punjab and KP in one letter and in other letter permission was granted for Punjab and Sindh provinces.

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

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

[DP No. 2490]

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

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

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

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

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

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

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

[DP No. 2491]

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

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

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

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

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

The DAC in its meeting held on December 21, 2023 directed the management to get the relevant record verified on case to case basis by Audit and pursue the court cases vigorously. No further progress was reported till finalization of the report.

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

[DP No. 2498]

2.1.4.29 Illegal operation of 153 retail outlets by PSO

According to ECC’s decision No. ECC-107/9/2003 dated October 25, 2003, it was directed to maintenance specified stock by all OMCs for 20 days in relation to their projected marketing. Further, OGRA in its regulatory meeting 02 of 2017 held on August 04, 2017 approved criteria for establishment of retail outlets by the oil marketing companies

i.e. 2 MT / day as average benchmark for construction of maximum number of retail outlets by all the OMCs corresponding to their available back up storage infrastructure, province-wise.”

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

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

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

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

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

[DP No. 2499]

Geological Survey of Pakistan (GSP)

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

According to Rule 8 of the Public Procurement Rules, 2004, “within one year of commencement of these rules, all procuring agencies shall devise a mechanism, for planning in detail for all proposed procurements with the object of realistically determining the requirements of the procuring agency, within its available resources, delivery time or completion date and benefits that are likely to accrue to the procuring agency in future. Further, according to Rule 12(2) of PPRA Rules 2004, all procurement opportunities over three million Pakistani Rupees should be advertised on the Authority’s website as well as in other print media or newspapers having wide circulation.

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

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

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

The matter was reported to the management in September, 2023. In the DAC meeting held on January 19, 2024, the management stated that tender notice in one case was published on PPRA website but the same could not be appeared in press, surfaced after the repair work of the field vehicles had already been done by the successful (lowest) bidder. Therefore, the retendering option was not available. On the recommendation of the Committee, the technical officer heading the Procurement Branch was replaced from his assignment. In other case, funds of Rs 287 million were provided to the GSP under recurrent budget for Research and Development. The fund was used for Geo-scientific Survey Activities, Drilling Activities and Exploratory Operations. Audit's assertion that Exploratory Operation was the Core Activity of the department was factually incorrect, as Geo-scientific Surveys and laboratory work were also among the core activities of GSP. The Procurements of Goods and Services were made through multiple Tenders as per applicable PPRA rules.

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

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

[DP Nos. 2612 & 2615]

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

According to Rules 11 & 12 of GFR Vol -I, "each head of a department is responsible for enforcing financial order and strict economy at every step. He is responsible

for observance of all relevant financial rules and regulations both by his own office and by subordinate disbursing officers. A controlling officer must see not only that the total expenditure is kept within the limits of the authorized appropriation but also that the fund allotted to spending units are expended in the public interest and upon objects for which the money was provided.”

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

(Rs in million)

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

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

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

The DAC in its meeting held on January 19, 2024 observed that there were serious issues of weak financial management in GSP which resulted in non-observance of austerity measures, delay in adjustment of advances, mis-procurement in violation of PPRA Rules

and irregular re-appropriation of funds from core activity to operational heads. DAC directed the management to submit detailed reply with justification of re-appropriations. No further progress was reported till finalization of the report.

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

[DP No. 2788]

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

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

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

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

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

The DAC in its meeting held on January 19, 2024 directed the management to conduct fact-finding inquiry with reference to SOPs for grant of advances and its adjustments and share the same with Audit. DAC further directed recover the unspent balance from concerned and adjust the advances within fortnight and get it reconciled from

Chief Account Officer and provide the same for verification. DAC further directed the management to adjust / recover the advance within two months. No further progress was reported till finalization of the report.

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

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

[DP Nos. 2613, 2614 & 2621]

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

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

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

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

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

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

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

[DP No. 2624]

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

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

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

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

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

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

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

[DP No. 2617]

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

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

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

(Rs in million)

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

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

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

The matter was reported to the management in September, 2023. In DAC meeting held on January 19, 2024, the management stated that Budget Allocation of GSP for Non-Salary head was increased by Finance Division by more than 300% from Rs 164 million in 2021-22 to Rs 495 million in FY 2022-23 to enable the department to enhance its technical activities. Following the Austerity Measures of FD, no expenditure was incurred on account of Purchase of Vehicles, Machinery, Furniture, Newspapers, Refreshment etc. An amount of Rs. 24.706 million was surrendered as austerity cut on non-salary budget. Increase in expenditure on account of Utilities by 93.37% year on year basis was due to increase in electricity/gas rates. Further, increase in expenditure on account of Travel & Transportation by 332.20% was due to enhanced field work for performing technical activities.

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

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

[DP No. 2616]

2.2 Oil and Gas Development Company Limited

2.2.1 (A) Introduction

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

(B) Comments on Company Performance

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

i. Exploration and Drilling Activities

Name of Activity	2022-23	2021-22	2020-21	2019-20	2018-19	2017-18
Oil and Gas Discoveries	3	7	6	5	3	4
Exploration Licenses	57	57	59	51	49	51
Development & Production Lease	77	77	77	76	79	72
2D Seismic Survey - Line KM	1804	2,003	2,539	3,407	1,324	2,073
3D Seismic Survey - Line KM	765	601	600	-	620	792
Total Seismic Survey	2,569	2,604	3,139	3,407	1,944	2,865
Well Drilled (Exploratory / Appraisal, Development)	10	7	20	25	16	20

Cost of Dry & Abandoned Well (Rs in million)	7,161	7,657	8,373	10,026	6,092	10,086
Prospecting Expense	11,861	7,929	8,994	8,187	6,408	6,104
Exploration and Prospecting Expenditure (Rs in million)	19,022	15,586	17,367	18,213	12,500	16,190

ii. Financial Performance

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

(Source: Annual Audited Accounts)

iii Non-achievement of operational targets

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

- i) Production of crude oil, gas, LPG and sulphur was decreased by 8.75%, 7.43%, 11.14% and 54.43% respectively in the FY 2022-23, as compared to previous year;
- ii) Net sales and profit after tax was increased by Rs 78,130.280 million and Rs 90,837.000 million due to impact of increasing international oil prices and rupee devaluation despite decline in production;
- iii) The exploration and prospecting expenditure increased to Rs 19,023.821 million in 2022-23 from Rs 15,585.757 million in 2021-22 (22.06% increase) despite decrease in company's exploration portfolio as evident from above table (Exploration and drilling activities). Seismic surveys were decreased to 1,804 Line km in 2022-23 from 2,003 Line km in 2021-22. No new exploration license and development & production lease during last three years;
- iv) The company's current assets stood at Rs 959,117.636 million as on June 30, 2022 comprising of trade receivables of Rs 576,968.545 million. Accumulation of huge receivables resulted in increase in debtor turnover to 411 days in FY 2022-23 from

218 days in FY 2017-18. This created liquidity issues which resulted in decrease in payment of dividend to shareholders as evident from dividend pay-out ratio which was reduced from 55% in FY 2017-18 to 16% in FY 2022-23 and cash dividend per share from Rs 10 in FY 2017-18 to Rs 8.55 in FY 2022-23.

- v) In 2013, the GoP approved issuance of TFCs by M/s Power Holding Limited (PHL) for principal Rs 82,000.000 million carrying interest rate KIBOR plus 1% for partial resolution of circular debt. As on June 30, 2023 overdue principal of Rs 82,000.000 million and interest amount of Rs 73,207.000 million were outstanding against M/s PHL; and
- vi) The management failed to meet the major targets set in its business plans (as reflected in table iii above) which showed that either the management was not serious towards achievements of targets or business plan was prepared ambitiously without keeping in view the ground facts.

[DP No. 2656]

2.2.2 Classified Summary of Audit Observations

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

Overview of Audit Observations

(Rs in million)

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

2.2.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	%age of Compliance
1994-95	19	14	5	74
1995-96	13	11	2	85
1998-99	9	4	5	44
1999-00	11	8	3	73
2000-01	29	24	5	83
2001-02	4	3	1	75
2002-03	5	3	2	60
2003-04	15	8	7	53
2004-05	4	3	1	75
2005-06	23	19	4	83
2006-07	30	29	1	97
2007-08	17	10	7	59

2008-09	13	10	3	77
2009-10	12	9	3	75
2010-11	29	29	0	100
2011-12	19	14	5	74
2012-13	23	20	3	87
2013-14	14	14	0	100
2014-15	32	31	1	97
2015-16	50	41	9	82
2016-17	47	38	9	81
2017-18	36	27	9	75
2018-19	21	17	4	81
2019-20	21	18	3	86
2021-22	11	2	9	18
Total	507	406	101	80%

Overall compliance of PAC directives needs further improvement.

2.2.4 Audit Paras

Project & Procurement Management

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

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

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

Similar situations were observed in three other projects i.e. Dakhni-Soghri-Jhand gas fields, Uch gas field and Qadirpur gas field which resulted in production loss of 49.518 BCF gas valuing Rs 22,422.982 million from three fields. Although the compression facility was installed at Qadirpur in April, 2022 but it took 4 years after the reservoir study report was received (November 2018). During this period, production was declined from 83,846 MMCF to 61,979 MMCF. Moreover, situation in Uch gas field is critical as non-installation of compressor may result in supply of off- spec gas to Uch Power Private Limited and imposition of huge penalty ranging from US\$ 350,000 to US\$ 600,000 per day as per GSA.

Project was delayed because multiple reservoir studies were conducted during 2016, 2018 and 2021. Two tenders were floated; one was annulled in February, 2021 and second tender was floated with eight months delay.

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

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

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

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

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

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

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

and Engineering Works 1987, the Council may issue licence to foreign contractor which is mandatory condition as per ITB Clause 1.5 (b) & (c).

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

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

The matter was reported to the management in September & October, 2023. In DAC meeting held on January 4 & 5, 2024, the management stated that submission of provisional PEC License during bidding was acceptable as per Clause 7(2) of PEC Bye-laws, 1987. The bid had been submitted by HHGTL on behalf of China Oil HBP Science and Technology Co. and contract had been awarded. Audit contended that M/s China Oil HBP Science and Technology Co. did not participate in the bidding and acceptance of parent company's experience not covered under ITB. Further, no reply was furnished regarding provisional completion certificate and submission of standard licence at the time of award of contract.

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

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

[DP Nos. 2628 & 2642]

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

According to Rule 39A of Public Procurement Rules, 2004, "where required the procuring agency may incorporate the provision of letter of credit (LC) and International

Chamber of Commerce incoterms (International Commercial Terms), in such processes where shipments and custom clearance are involved and where procuring agency's bank mitigate procurement risk in terms of quality assurance and delivery mechanism and bidder's bank in terms of its payments.”

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

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

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

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

[DP No. 2630]

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

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

During audit of OGDCL for the FY 2022-23, it was observed that on recommendation of Bidder Grievance and Redressal Committee (BGRC), the management annulled a tender for purchase of chemical. Audit contented that the proceedings of BGRC were unwarranted and against the provisions of PPRA rules, 2004 as complainant was not a bidder and. Further, BGRC did not complete its proceedings in ten days as required under the above rule. Due to delay in proceedings by 5 months the validity period of other bidders expired and the management had to go for re-tendering process. The re-tendering process

was finalized at cost of US\$ 1.062 million which was 34.90% higher than the estimated cost and 60.4% higher than the last purchase price. Thus, annulment of 1st tender resulted in delayed procurement and extra cost of Rs 89.964 million.

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

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

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

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

[DP No. 2631]

Exploration and Drilling Management

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

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

During audit of OGDCL for the FY 2022-23, it was observed that the management as operator announced 55 discoveries during the period FYs 2009-10 to 2021-22 but remained unable to monetize 38 of them. An essential production of 194.584 MMCFD gas and 8,198.217 BPD oil worth Rs 49,125.079 million was expected to be injected in the system. Though these discoveries’ production from 17 remaining discoveries was also delayed for considerable period of time. OGDCL also remained unable to develop other 07 discoveries (i.e. where lease had been granted) since 2005-06 and production from these fields could not be started causing loss of potential revenue of Rs 12,747.000 million. This resulted in loss of potential revenue of Rs 61,872.079 million.

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

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

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

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

[DP No. 2644]

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

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

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

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

The matter was reported to the management in October 2023. In DAC meeting held on January 4 & 5, 2024, the management stated that extra days were consumed due to operational complications. Further, as per agreement, contractor was allowed lump sum

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

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

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

[DP No. 2640]

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

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

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

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

The matter was reported to the management in October, 2023. In DAC meeting held on January 4 & 5, 2024, the management stated that rig number N-1 was temporarily stacked due to shortage of consumable spares because of Government restrictions on imports, whereas rig number N-4 was affected with flood and substructure

was shifted to M/s Karachi Shipyard & Engineering Works for repair. Minimum crew was retained at number N-4. Audit contended that management did not prioritize the import of spares for rigs despite the allocation of foreign exchange of US\$ 12 million during FY 2022-23. No rationalization of expenditure and rig crew on stacked rig number N-1 was done and no documentary evidence of minimum rig crew at rig number N-4 was provided. Further, management did not take any decision regarding rig number N-1 for repair or its retirement.

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

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

[DP Nos. 2637 & 2638]

Production Management

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

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

During audit of OGDCL for the FY 2022-23, it was observed that during the period from 2019-20 to 2022-23, 7,248 MMCF gas produced valuing Rs 2,174.400 million and 2,417 barrels of crude oil valuing Rs 24.170 million could not be accounted for in the reconciliation statements. Moreover, there were exorbitant transit losses of 187,530 barrels of crude oil valuing Rs 886.383 million. This resulted in abnormal transit losses and unaccounted for quantities of crude oil and gas amounting to Rs 3,084.953 million

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

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

The DAC directed the management to provide justification for abnormal transit losses and to sort out unverified quantity of oil and gas besides submitting detailed report

on unverified quantity of gas with documentary evidence. No further progress was reported till finalization of the report.

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

[DP Nos. 2650]

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

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

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

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

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

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

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

[DP No. 2715]

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

According to Rule 4 read with Rule 38B(2) of Public Procurement Rules, 2004, “procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for

money to the agency. As per feasibility and economic viability, installation of 5 ESP, average oil production from the 05 wells would increase from 2,500 to 5,800 standard barrels and additional expected reserves are 9 million standard barrels with expected incremental revenue of approximately US \$81 million.”

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

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

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

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

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

[DP No. 2651]

2.2.4.11 Non-achievement of production targets

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

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

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

The matter was reported to the management in October 2023. In DAC meeting held on January 4 & 5, 2024, the management stated that production from Uch and Qadirpur fields depended on the requirements of buyers and Qadirpur gas field had undergone decline at the rate of 13% during the period.

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

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

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

[DP Nos. 2648 & 2649]

Financial Management

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

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

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

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

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

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

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

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

[DP No. 2657]

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

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

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

(Rs in million)

Field name	Net Sales	Royalty	OPEX	Transport a-tion cost	Operating profit / (Loss)

Pirkoh	97.302	7.749	10,862.6 76	0	(10,773.123)
Tando Alam	7,145.078	530.330	12,345.8 07	119.248	(5,850.307)
Loti	4,196.155	303.578	7,378.56 2	183.300	(3,669.285)
Dhodak	1,471.090	157.892	5,066.85 6	3.586	(3,757.244)
Dakhni	15,318.85 5	1,816.14 8	16,338.3 22	46.601	(2,882.217)
Chak Naurang	2,376.392	292.612	2,817.43 1	29.972	(763.623)
Miano	1,539.178	134.837	2,154.12 5		(749.784)
Saand	716.514	93.017	1,056.98 3		(433.486)
Total					(28,879.071)

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

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

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

Audit recommends to rationalize the expenditure in uneconomical fields.

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

[DP No. 2659 & 2652]

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

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

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

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

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

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

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

[DP No. 2658]

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

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

During audit of OGDCL for the FY 2022-23, it was observed that OGDCL was working interest owner of 27.76% in TAL block with JV partners of GHPL, PPL and MOL (operator). A fire incident occurred at TAL block’s warehouse located in Makori Central Processing Facilities on September 21, 2022 which caused damage to inventory / spares. Resultantly, operator filed an insurance claim with relevant insurers / loss adjuster based on initial estimates of US\$ 33 million equivalent to Rs 7,590.000 million having OGDCL’s share of Rs 2,106.984 million. However, this claim was yet to be realized despite lapse of twelve months.

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

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

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

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

[DP No. 2655]

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

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

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

Company Ltd. (SEHCL) in Guddu block amounting to Rs 7.777 million aggregating to Rs 2,621.783 million.

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

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

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

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

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

[DP No. 2653]

2.2.4.17 Non preparation of Joint Accounts for Joint Ventures

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

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

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

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

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

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

[DP No. 2654]

HR / Admin Related Issues

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

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

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

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

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

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

Audit recommends to conduct inquiry and share report with Audit.

[DP No. 2663]

2.2.4.19 Irregular acceptance of resignation during the disciplinary proceeding

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

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

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

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

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

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

[DP No. 2667]

2.3 Pakistan Petroleum Limited

2.3.1 (A) Introduction

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

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

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

(B) Comments on Audited Accounts

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

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

(Source: Consolidated Annual Audited Accounts)

- i) Operating expenses increased from Rs 40,755.673 million to Rs 49,277.810 million during FY 2022-23 as compared to 2021-22, registering an increase by 17.29%;
- ii) Field Expenditure and Other Operating Expenses substantially increased from Rs 84,747.119 million to Rs 147,507.269 million during FY 2022-23 as compared to the 2021-22, registering an increase of 74.05%;
- iii) Trade debts (receivables) increased from Rs 366,251.547 million in 2021-22 to Rs 513,488.874 million during FY 2022-23, registering an increase of 40%. Increase in trade debts reflects unsatisfactory receivable management; and
- iv) Trade and other payables increased from Rs 89,664.907 million to Rs 112,266.683 million during FY 2022-23, registering an increase of 25%.

2.3.2 Classified Summary of Audit Observations

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

Overview of Audit Observations

(Rs in million)

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

2	Others	3,522.959
---	--------	-----------

2.3.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	% age of Compliance
2009-10	2	2	0	100
2010-11	8	8	0	100
2011-12	6	3	3	50
2012-13	1	1	0	100
2013-14	6	5	1	83
2014-15	9	5	4	56
2015-16	11	11	0	100
2016-17	15	10	5	71
2017-18	11	8	3	73
2018-19	16	9	7	56
2019-20	4	1	3	25
2021-22	2	0	2	0
Total	91	63	28	69%

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

2.3.4 Audit Paras

Financial Management

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

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

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

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

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

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

Audit recommends to recover the remaining outstanding amount.

[PDP No. 2772]

Procurement Management

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

According to Clause 12(2) of PPRA Rules, 2004, "all procurement opportunities over three million Pakistani Rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the

newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.”

During audit of PPL for the FY 2022-23, it was observed that management awarded direct contract on June 29, 2022 to M/s Ikon Science, Malaysia for “seismic reservoir study Block 2468-12 (Kotri)” for US\$ 151,000 equivalent to Rs 31.293 million and to M/s Geo Software, Malaysia for 3D Seismic Study in Kharan East Block, Balochistan on May 10, 2023 for Rs 54.652 million without open competitive bidding. This resulted in irregular award of contract without open competitive bidding - Rs 85.945 million.

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

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

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

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

[PDP Nos. 2776 & 2795]

HR / Employee Related Irregularities

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

According to advertisement dated August 21, 2022 for Head of Legal and Commercial the ideal candidate should possess a law degree i.e. LLB or Juris Doctor from a reputable local or foreign university / institute recognized by the Higher Education Commission with at least 19 years of post-qualification relevant experience. Further, according to Clause 3.5.3 of HR Policy, Panel interviews shall be primarily used for assessing the suitability of experienced professionals against vacant position. To ensure an independent assessment of the candidates by the technical experts and HR, the appointing authority / MD will meet only the final shortlisted candidate(s) after 2nd level interview.

During audit of PPL for the FY 2022-23, it was observed that the management violated advertised criteria for appointment as Head of Legal and Commercial in Job Group-

12 by selecting a candidate with less experience as was advertised. Incumbent had an experience of 18 years and 9 months on the closing date of the application i.e. September 02, 2022 whereas the required minimum experience was 19 years. MD selected, the candidate having less than advertised experience and who was also ranked second and third by second level interview panel. This resulted in irregular appointment of Head of Legal and Commercial by extending undue favour.

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

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

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

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

[PDP No. 2779]

CSR Related Issues

2.3.4.4 Irregular spending of CSR funds - Rs 193.446 million

According to Clause 9(3) sector / areas of intervention and funding of PPL CSR Policy, PPL will consider innovative initiatives which are sustainable and beneficial for general public. The areas of social sector to be considered for financial assistance include Health, Education, Training & Research, water supply, water resources development and conservation.

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

Non-development of sustainable water supply resources in violation of CSR policy was also observed.

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

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

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

Audit recommends that amount spent for CSR, should be clearly identified on the basis of actual work. The water supply system should be developed on sustainable basis. Amount already shown as booked under CSR should be got verified besides developing sustainable scheme to supply water to Sui town.

[DP No. 2774]

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

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

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

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

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

The DAC reduced the para to the extent of verified amount of Rs 19.890 million out of Rs 124.440 million and directed to submit the required documents for the remaining amount. DAC further directed the management to get the relevant record from the concerned institution and get it verified from Audit regarding enrolment / attendance of students. No further progress was received till finalization of the report.

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

[DP Nos. 2775 & 2778]

Contract Management Related Issues

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

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

During audit of PPL for the FY 2022-23, it was observed that issue of reservoir communication of straddled fields i.e. Shahdadpur, Adam West & Kinza operated by PPL

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

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

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

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

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

[DP No. 2784]

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

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

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

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

The matter was reported to the management in October, 2023. In DAC meeting held on January 15, 2024, the management stated that the matter was being pursued for reallocation of gas from Kandhkot field to a customer other than Genco-II due to inability to offtake full potential from the field.

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

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

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

[PDP No. 2785]

Others

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

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

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

(Rs in million)

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

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

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

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

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

[DP No. 2793]

2.4 Pakistan State Oil Company Limited

2.4.1(A) Introduction

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

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

(B) Comments on Company Performance

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

(Rs in million)

Particulars	2022-23	2021-22	2020-21	2019-20	2018-19
Net Sales	3,539,155	2,541,730	1,223,678	1,108,358	1,154,298
Gross Profit	84,406	178,127	57,255	12,227	36,017
Other Revenues	16,796	25,348	19,415	10,210	7,559
Marketing & Administrative Exp.	22,041	17,765	15,737	14,806	12,414
Other Exp.	4,515	14,772	4,053	220	4,699
Operating Profit	74,208	165,832	55,981	7,749	26,257
Finance Cost	43,410	5,962	11,554	13,427	8,987

Share of profit from associates	869	690	575	545	200
Profit before Tax	29,929	160,560	45,003	(5,134)	17,477
Profit for the Year	9,816	95,723	29,557	(6,466)	10,587

(Source: Consolidated Annual Audited Accounts)

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

2.4.2 Classified Summary of Audit Observations

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

Overview of Audit Observations

(Rs in million)

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

2.4.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	%age of Compliance
1988-89	5	2	3	40
1993-94	7	4	3	57
1995-96	7	2	5	29
1996-97	6	5	1	83
1998-99	4	3	1	75
1999-00	7	5	2	71
2000-01	14	13	1	93

2002-03	6	3	3	50
2003-04	11	9	2	82
2004-05	8	6	2	75
2008-09	4	2	2	50
2009-10	1	0	1	0
2010-11	18	11	7	61
2011-12	9	4	5	44
2012-13	5	1	4	20
2013-14	10	9	1	90
2014-15	3	3	0	100
2015-16	28	23	5	82
2016-17	25	10	15	40
2017-18	14	13	1	93
2018-19	9	8	1	89
2019-20	13	8	5	62

2021-22	5	0	5	0
Total	219	144	75	66%

The overall compliance of PAC directives needs to be improved.

2.4.4 Audit Paras

Financial Management

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

[DP No. 2462]

Procurement Related Issues

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

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

During audit of PSO for the FY 2022-23, it was observed that the management awarded a contract to M/s Mepsanic for supply, installation, and maintenance of Dispensing Units for PSO retail outlets, for Rs 1,727.889 million. This bid exceeded the estimated value

of Rs 1,021.246 million by 69%. It was also observed that in 08 other cases, bids exceeding by less margins (18% to 42% of the estimated value) were rejected and retendering was initiated. However, in the instant case, the management awarded the contract for Rs 1,727.889 million to a bidder whose bid was 69% higher than the estimated cost.

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

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

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

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

[DP No. 2440]

2.4.4.4 Irregular award of contracts - Rs 449.680 million

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

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

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

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

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

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

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

[DP Nos. 2429 & 2431]

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

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

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

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

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

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

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

[DP No. 2439]

2.4.4.6 Inefficient procurement process of PSO

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

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

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

opening of financial bids against the PPRA Rules. Resultantly, after change of rate of quoted bid, the bidder became the lowest and got the contract for Rs 40.470 million.

In case of procurement of sealing services at Kemari terminals, the conditions for qualification of bidders were frequently changed over different tenders for the same nature of job. Condition of time period without fatal accident was changed from 10 years to 5 years and then again to 2 years in different tenders. Resultantly, a bidder, rejected in one case, won two other cases of Rs 26.879 million.

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

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

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

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

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

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

Non-recovery of dues

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

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

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

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

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

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

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

[DP No. 2447(P)]

Others

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

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

During audit of PSO for the FY 2022-23, it was observed that the management exceeded the quota for import of High Sulphur Furnace Oil (HSFO) fixed by OGRA in various monthly product review meetings (PRM) on different occasions. OGRA allowed a cumulative figure of 260,000 M. Ton HSFO to be imported during the FY 2022-23. However, PSO imported a quantity of 469,285 M. Ton of HSFO, exceeding the allocated quantity by 209,285 M. Ton, valued at Rs 29.670 billion. This resulted in a blockage of funds due to excess import of HSFO than quota allowed by OGRA amounting to Rs 29,670 million.

Audit also observed that excessive inventories were being maintained by PSO during the year. Minimum mandatory stock requirement was 20 days average use as decided by ECC dated October 25, 2003. However, the management was maintaining a stock for

194 days cover on June 09, 2023 (409,123 M. Ton of furnace oil) which showed that excessive quantities of fuel were imported without keeping in view the consumption levels and allocations by PRM.

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

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

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

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

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

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

[DP No. 2452]

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

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

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

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

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

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

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

[DP No. 2474]

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

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

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

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

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

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

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

[DP No. 2457]

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

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

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

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

The matter was reported to the management in October, 2023. The management in its reply dated December 29, 2023 stated that 03 cases involving Rs 1.803 million were approved by NICL, 03 cases of Rs 4.671 million were settled, 04 cases of Rs 4.003 million were under process while one case of Rs 27.33 million was rejected by the NICL arguing that the loss occurred due to leakage

from pipeline which already required maintenance. Audit contended that the payment against approved cases was still pending whereas the reasons for settlement of three cases of Rs 4.671 million was not got verified from Audit. Further, as loss of Rs 27.33 million occurred due to negligence of management, hence, needed action against the person at fault.

The DAC in its meeting held on January 17, 2024 directed the management to get the recovered amount verified from Audit, expedite the recovery of balance amount and share the inquiry report of rejected case. No further progress was reported till finalization of the report.

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

[DP No. 2446]

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

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

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

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

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

The matter was reported to the management in September, 2023. The management in its reply dated December 29, 2023 stated that 700 tank lorries were delisted but were restored after nation-wide strike and on the directives of Ministry of Energy. Moreover, integrity assessment of both Horizontal and vertical tanks will be completed by the end of

2025 and 2026 respectively. Audit contended that both were critical issues and needed remedial steps for their resolution.

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

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

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

[DP Nos. 2438 & 2471]

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

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

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

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

The matter was reported to the management in October, 2023. The management in its reply dated December 29, 2023 stated that upgradation of firefighting system was under process, provision of foam injection system on the tanks at Kotlajam Depot and Chitral

would be conducted in FY 2025 and FY 2026 respectively. For Kotlajam & Chitral depots, HR has been requested to replenish staff through hiring. At Globe PSO service station, actions have been taken by removal of CNG spreaders from site, shifting of Dispensing Units from the site to depot and initiation of process for replacement of leaky tank. While the spilled quantity was almost fully retrieved & faulty valve was also rectified and reprimand letters were served to all the concerned officials.

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

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

[DP No. 2469]

2.5 Sui Northern Gas Pipelines Limited

2.5.1(A) Introduction

Sui Northern Gas Pipelines Limited (SNGPL) was incorporated as a private limited company in 1963 and was converted into a public limited company in January, 1964 under the Companies Act, 1913 (now Companies Act, 2017). The company is listed in Pakistan Stock Exchange Limited and deals with the business of purchase, transmission and distribution of natural gas. Direct and indirect shareholding of GoP is more than 57.96% with direct shareholding of GoP 31.68%. SNGPL is largest gas company in Pakistan having 7.559 million consumers and an extensive network of pipeline of 155,379 KMs in Punjab, Khyber Pakhtunkhwa and Azad Jammu & Kashmir.

(B) Comments on Company Performance

(Rs in million)

Details	2022	2021	2020
Sales	1,076,740	644,504	618,528
Add / (Less): Tariff adjustment / GDS	216,937	113,123	126,027
Net Sales	1,293,677	757,627	744,555
Cost of gas sold	(1,208,155)	(704,775)	(690,164)
Gross Profit	85,522	52,852	54,391
Other operating income	21,452	19,513	19,164
Operating expense	(16,658)	(15,684)	(15,456)
Finance Cost	(57,296)	(40,037)	(48,976)
Take or pay adjustment	(13,768)	-	-
Expected Credit Loss	(1,209)	-	-
Other Charges	(2,539)	(802)	(707)
Profit / (Loss) before taxation	15,504	15,842	8,416
Dividend %	40	40	40

No. of employees	8,488	8,709	8,872
Consumers in Numbers	7,559,609	7,330,880	7,043,147
T&D Network in KM)	155,379	152,173	145,476

(Source: Annual Audited Accounts)

- i) Cost of goods sold, finance cost and other charges increased by 71.42%, 43.10% and 216.58% respectively. The management failed to control substantial increase in finance cost and other charges;
- ii) Trade debts of the company were Rs 307,900.341 million in FY 2021-22. Out of this an amount of Rs 230,816.010 million was unsecured. Further, an amount of Rs 26,478.006 million (7.92%) on June 30, 2022 was considered as doubtful;
- iii) Payables increased to Rs 828,842.370 million in FY 2021-22 from Rs 528,308.720 million in FY 2020-21 registering an increase of 56.88%; and
- iv) OGRA determined profit shortfall of Rs 69,587.000 million as per FRR for the FY 2021-22 whereas in the Annual Report, SNGPL incorporated Rs 101,640.000 million as shortfall on indigenous gas, causing excess reporting of shortfall in annual accounts by Rs 32,053.000 million, impairing the true and fair view and veracity of accounts.

2.5.2 Classified Summary of Audit Observations

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

Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	
A	UFG Related Issues	2,700.641
B	Receivables Management	112,628.191
C	Weak Assets Management	442.800
D	Project Management	11,621.670

E	Regulatory Affairs	131.000
F	Procurement Related Issues	1,106.293
G	HR / Employee Related Irregularities	35.427
2	Others	61,482.712

2.5.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	%age of Compliance
1991-92	15	9	6	60
1992-93	16	15	1	94
1993-94	12	10	2	83
1995-96	10	8	2	80
1996-97	16	15	1	94
1998-99	10	9	1	90
2000-01	20	15	5	75
2001-02	9	6	3	67
2003-04	7	6	1	86
2006-07	12	10	2	83
2007-08	18	15	3	83
2008-09	22	20	2	91
2009-10	11	10	1	92
2010-11	48	40	8	83
2011-12	17	15	2	88
2012-13	7	5	2	71
2013-14	15	14	1	93

2014-15	5	1	4	20
2015-16	18	10	8	56
2016-17	53	35	18	66
2017-18	36	18	18	50
2018-19	19	4	15	21
2019-20	23	14	9	61
2021-22	8	0	8	0
Total	427	304	123	71%

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

2.5.4 Audit Paras

UFG Related Issues

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

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

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

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

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

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

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

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

[DP Nos. 2789 & 2695]

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

According to the Para 10.1 read with Para 11.6.2 of Billing Manual, “GM (Billing) is responsible to ensure collection of company’s gas bills in respect of all categories of consumers. Further, as per Clause(e) of OGRA’s letter dated August 16, 2005 regarding procedure for dealing with theft of Gas cases, “the direct tapping including ‘self-reconnecting / connection cases shall be checked by company’s vigilance team on receipt of any information, preferably in association with a magistrate or judicial officer and police / army / paramilitary personnel’.”

During audit of SNGPL for the FY 2022-23, it was observed that the management detected 28 gas pilferage cases of various consumers which were using direct tapping, bypass connection, domestic connections used for commercial purpose, meter tempering and fake meter installation etc. Regional Detection and Evaluation Committees rejected application of these 28 consumers but the management failed to recover the amount of gas pilferage and LPS amounting to Rs 547.340 million.

Audit was of the view that weak recovery mechanism resulted in non-realization of gas pilferage charges and LPS.

The matter was reported to the management in September & October, 2023. The management in its reply dated December 27, 2023 stated that Rs 260.479 million was recovered and Rs 286.861 million was sub-judice in Gas Utility Court, Multan. The company was making efforts to liquidate the outstanding dues from the defaulting consumers.

The DAC in its meeting held on January 18 & 19, 2024 directed the management to pursue the court cases vigorously and reduce the para to the extent of recovered and verified amount of Rs 260.479 million. No further progress was reported till finalization of the report.

Audit recommends to pursue the court case for early recovery besides ensuring recovery of remaining outstanding amount.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2022-23, 2021-22, 2020-21 and 2018-19 vide para numbers 2.5.4.2, 2.5.4.8, 2.5.6.3 and 2.5.4.3

having financial impact of Rs 448.190 million, Rs 350.356 million, Rs 2,170.656 million, and Rs 5,866.762 million respectively. Recurrence of same irregularity is a matter of serious concern.

[DP Nos. 2673 & 2700]

Receivables Management

2.5.4.3 Non-recovery of cost of RLNG from SSGC - Rs 69,166.000 million

According to Sections 3 and 4(4) of Natural Gas Regulated Third Party Access (TPA) Rules, 2012 read with Clause No.7.1(a) of GTA executed between SNGPL and SSGC, “transportation service consists of taking delivery of the gas available by a shipper at one or more entry points along with the gas pipeline transportation system and delivering an equivalent quality of gas to shipper.” Further, according to Clause 7.6(v) of Rule *ibid*, “in no event shall SSGC be entitled to utilize the RLNG in the RLNG pipeline for delivery thereof to its other customers except with the prior written permission of SNGPL.”

During audit of SNGPL for the FY 2022-23, it was observed that SSGC delivered less RLNG than it received at its terminal. RLNG amounting to Rs 69,166 million was consumed by SSGC up to FY 2022-23 without intimating any demand to SNGPL. This resulted in non-recovery of cost of RLNG from SSGC amounting to Rs 69,166.000 million.

Audit was of the view that weak financial management resulted in non-recovery of cost of RLNG from SSGC.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that as per SSGC’s point of view, they withheld these amounts against volume handling loss claim and this claim would likely to be resolved after report of Consultants / Auditors appointed by OGRA. During FY 2022-23 SNGPL had issued invoices for Rs 102,321 million against RLNG withheld by SSGC and SSGC paid Rs 95,975 million there against. Audit required sharing the break up / aging of Rs 69,166 million from SSGC and report of 3rd party auditor appointed by OGRA.

The DAC in its meeting held on January 18 & 19, 2024 directed the management to pursue the matter with OGRA for early finalization of 3rd party audit and resolve the issue. No further progress was reported till finalization of the report.

Audit recommends to pursue OGRA for early finalization of 3rd party audit and expedite recovery of RLNG cost from SSGC.

Note: The issue was also reported earlier in the Audit Report for Audit Year 2022-23, vide para number 2.5.4.4 having financial impact of Rs 47,524 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2712]

2.5.4.4 Non-recovery of outstanding gas charges from Power Sector - Rs 20,575.000 million

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

During audit of SNGPL for the FY 2022-23, it was observed that management failed to recover outstanding amount of gas charges from the 09 consumers of power sector. This resulted in non-recovery of outstanding gas charges of Rs 125,114.000 million.

Audit was of the view that weak financial management resulted in non-recovery of outstanding amount.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that an amount of Rs 104,539.000 million was recovered and remaining amount was under litigation / arbitration or related to circular debt.

The DAC in its meeting held on January 18 & 19, 2024 directed the management to pursue the court case vigorously and get the recovered amount of Rs 6,600.000 million verified from Audit within 03 days. DAC reduced the para to the extent of recovered and verified amount of Rs 104,539.000 million. No further progress was reported till finalization of the report.

Audit recommends to get the recovered amount verified and pursue the court cases vigorously.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2022-23, 2021-22, 2020-21, vide para numbers 2.5.4.5, 2.5.6.19 and 2.5.6.5 having financial impact of Rs 23,322 million, 12,902.220 million and Rs 54,532 million, respectively. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2691]

2.5.4.5 Non-recovery of subsidy on supply of gas to fertilizer companies - Rs 19,685.898 million

According to the ECC decision in case No. ECC-96/12/2022 dated March 30, 2022 ratified by the Federal Cabinet in case No.155/Rule-19/2022 dated April 02, 2022, “subsidized gas / RLNG shall be provided by SNGPL to M/s Fatima Fertilizer and Agritech”.

During audit of SNGPL for the FY 2022-23, it was observed that SNGPL management provided subsidized gas of Rs 14,885.424 million and Rs 19,470.571 million to two urea fertilizer plants in Punjab namely Fatima Fertilizer, Sheikhpura and Agritech, Mianwali respectively, aggregating to Rs 34,355.995 million from July, 2022 to January, 2023. The Government paid an amount of Rs 8,296.274 million to SNGPL as subsidy while Rs 26,059.721 million was still recoverable from Government. An amount of LPS of Rs 3,626.176 million was also recoverable for the period from July, 2022 to January, 2023. This resulted in non-recovery of subsidized gas including LPS amounting to Rs 29,685.898 million.

Audit was of the view that weak financial management resulted in non-recovery of subsidized amount.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that Rs 10.000 billion was recovered and efforts were made to recover the remaining amount.

The DAC in its meeting held on January 18 & 19, 2024, reduced the para to the extent of recovered and verified amount of Rs 10.000 billion. DAC directed the management to reconcile and expedite the recovery of balance outstanding amount. No further progress was reported till finalization of the report.

Audit recommends to take up the matter with Finance Division through Petroleum Division for early recovery of subsidy amount.

[DP No. 2703]

2.5.4.6 Non-realization of gas charges and security shortfall from defaulters - Rs 3,181.293 million

According to the Para 10.1 read with Para 11.6.3 (ii), 13.1 and 13.2 of Billing Manual, it will be the responsibility of GM (Billing) to ensure collection of company’s gas bills in respect of all categories of consumers and it will also be ensured that all industrial,

commercial and domestic consumers, whose bills exceed the security deposit, are disconnected immediately.

During audit of SNGPL for the FY 2022-23, it was observed that in 158 cases the management disconnected domestic, commercial and industrial connections due to non-payment of gas charges including GIDC, Sales Tax, and RLNG tariff adjustment charges etc. amounting to Rs 2,728.907 million. Further, in 177 cases security shortfall had not been recovered from CNG sector consumers of Rs 540.640 million. This resulted in non-realization of gas charges and security shortfall of Rs 3,269.547 million.

Audit was of the view that weak internal controls resulted in non-realization of gas charges along with RLNG tariff adjustment charges, GIDC, and Sales Tax etc.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that an amount of Rs 88.254 million was recovered from 04 industrial consumers while remaining cases were under litigation.

The DAC in its meeting held on January 18 & 19, 2024, reduced the amount in para to the extent of recovered and verified amount of Rs 88.254 million. DAC further directed the management to provide the detail of recovery and pursue the court cases vigorously besides providing copy of stay orders of Khyber Pakhtunkhwa CNG Association to Audit. No further progress was reported till finalization of the report.

Audit recommends to pursue the court cases and intimate the outcome to Audit.

Note: The issue was also reported earlier in the Audit Report for Audit Year 2022-23, 2021-22, 2020-21, 2019-20 and 2018-19 vide para numbers 2.5.4.6, 2.5.4.13, 2.5.6.4, 2.5.6.16 and 2.5.4.4 having financial impact of Rs 13,749.590, Rs 13,474.270 million Rs 86,146.550 million, Rs 58,049.650 million and Rs 18,252.320 million. Recurrence of same irregularity is a matter of serious concern.

[DP Nos. 2683, 2686 & 2706]

2.5.4.7 *Loss due to late submission of information for encashment of bank guarantee - Rs 20.000 million*

According to terms and conditions of Bank Guarantee dated January 06, 2021, “guarantee shall remain in full force and affect for a period of two years. Claim, if any must be lodged with us before the expiry two months from the last mentioned date. That is to say claim must be lodged before January 04, 2016 failing which we shall be absolved of our liability whether or not you have suffered any loss”. Further, according to Clause 3.11 of Billing Manual of SNGPL, “timely / maximum recovery of gas dues from all categories of consumer is required to be arranged. Special attention is to be paid to recover gas dues from

big industrial and general industrial consumers which contribute major share of our sales revenue.”

During audit of SNGPL for the FY 2022-23 it was observed that management disconnected connection of M/s Fatima Enterprises due to non-payment of gas charges of Rs 47.100 million. The consumer filed writ petition on December 29, 2015 in the Lahore High Court Multan Bench which was dismissed with the direction “to en-cash bank guarantee and kept it as security of the installed meter and no disconnection of meter be made on account of security deposited”. The management was required to inform MCB for encashment of bank guarantee on or before January 04, 2016 but MCB was informed on January 12, 2016, therefore, MCB refused to en-cash the bank guarantee. The management filed a court case in the court of senior Civil Judge Multan which was pending. This resulted in loss of Rs 20.000 million due to late submission of information for encashment of bank guarantee.

Audit was of the view that slackness on the part of management resulted in loss of security deposit.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that the matter was in the court of Senior Civil Judge, Multan.

The DAC in its meeting held on January 18 & 19, 2024 directed the management to pursue the court case vigorously. No further progress was reported till finalization of this draft para.

Audit recommends to conduct a fact-finding inquiry against the responsible for delay in submission of information to bank for encashment of bank guarantee and pursue the court case.

[DP No. 2685]

Assets Management

2.5.4.8 Failure to defend title of physically possessed Wah Transmission Store Land and Rent demand - Rs 352.800 million

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

During audit of SNGPL for the FY 2022-23 it was observed that management purchased 12 Kanal land for Wah Transmission Store. The sale agreements were duly

registered with Registrar and got the land mutated on September 06, 1983. SNGPL received a legal notice for rent of Rs 352.800 million from 1985 to 2017 to be paid to petitioner who filed petition before Honourable, Lahore High Court, Rawalpindi Bench regarding encroachment by SNGPL on his legally owned land. As referred by the Honourable Lahore High Court Rawalpindi Bench, DC, Rawalpindi decided that SNGPL encroached the land since inception to date. As per orders issued by DC Rawalpindi, management of SNGPL did not submit any written reply in its support. This resulted in failure to defend the title of land of Wah Transmission Store before DC and rent demand of Rs 352.800 million by the petitioner.

Audit was of the view that weak asset management resulted in failure to defend the title of possessed Wah Transmission Land.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that impugned order issued by DC Rawalpindi had been challenged before the Lahore High Court, Rawalpindi Bench.

The DAC in its meeting held on January 18 & 19, 2024 directed the management to pursue the court case vigorously. No further progress was reported till finalization of this draft para.

Audit recommends to pursue the case vigorously besides fixing responsibility on persons at fault.

[DP No. 2707]

2.5.4.9 Loss due to theft of gas pipe - Rs 90.000 million

According to Clause 4.3.5 of Store Manual of SNGPL, “every Store In charge will ensure that the material stacked in the pacing / cartons / crates / pallets is checked at regular intervals and in re-stacked at least once a year, so as to eliminate the chances of any material theft or misappropriation going unnoticed for a long period of time. The Store In charge will maintain record of such activity and submit completion report to GM (Stores).”

During audit of SNGPL for the FY 2022-23, it was observed that management carried out stock-taking on October 19, 2023 at Manga Store and found that 44,742 meters MS Pipe of 2” dia worth Rs 90.000 million had been stolen from Manga Store. This resulted in loss of Rs 90.000 million.

Audit was of the view that weak internal controls resulted in loss due to theft of gas pipe.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that the estimated loss of theft had been calculated

at Rs 380.000 million and matter was referred to FIA for investigation. Further, in order to determine the exact amount of loss multiple actions were taken immediately i.e. fact-finding enquiry and physical stock-taking.

The DAC in its meeting held on January 18 & 19, 2024 directed the management to finalize the disciplinary proceedings against responsible besides pursuance of the case with FIA and Police for early conclusion of investigation and share the outcomes with Audit. DAC further directed to share the stock-taking and Internal Audit report for verification by Audit. No further progress was reported till finalization of the report.

Audit recommends to inquire the matter at Ministry level besides recovering the loss from the persons at fault.

[DP No. 2674]

Project Management

2.5.4.10 Non-completion of gas development jobs within stipulated time - Rs 7,499.132 million

According to budget instruction for the FYs 2020-21 for carrying out capital and revenue jobs, “job holder (head of project / distribution department) will be responsible for timely completion of jobs within stipulated period specified in job approval document. Further, according to Para 13 of Cabinet Division’s Development Wing Notification No. F.7 (2)(Dev)/2016 dated October 10, 2016, “the executing agencies shall ensure that the schemes are completed within the same year and the approved cost.”

During audit of SNGPL for FY 2022-23, it was observed that 139 development jobs costing Rs 7,499.132 million were in process during FY 2022-23. The required finances were already sanctioned and material was also issued to these jobs but these jobs could not be completed within same year. This resulted in non-completion of jobs having cost estimate of Rs 7,499.132 million.

Audit was of the view that poor project management, resulted in non-completion of jobs in time.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that the jobs could not be completed due to certain reasons like NOCs from NHA Railway, shortage of material, political constraints etc.

The DAC in its meeting held on January 18 & 19, 2024 directed the management to submit revised reply with job wise details for verification of Audit. No further progress was reported till finalization of this draft para.

Audit recommends to ensure expeditious completion of jobs.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2022-23, 2021-22, 2020-21, 2019-20 and 2018-19 vide para number 2.5.4.8, 2.5.4.22, 2.5.6.34 and 2.5.4.7 having financial impact of Rs 15,030.490 million, Rs 18,383 million, Rs 28,394, 18,639 million and Rs 17,397 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2714]

2.5.4.11 Non-initiation of jobs due to non-arrangement of NOCs - Rs 1,728.809 million

According to Para 3.1 of Project Manual of SNGPL, “Land Section is required to arrange permissions / No Objection Certificates (NOCs) from outside agencies for pipeline crossings.”

During audit of SNGPL, for the FY 2022-23, it was observed that development / project jobs having sanctioned cost of Rs 1,728.809 million were started during the FY 2021-23. These jobs could not be completed as Lands Department could not arrange NOC for ROW or pipeline crossings from NHA, CDA, Railways or Irrigation department etc. This resulted in non-initiation of jobs of Rs 1,728.809 million.

Audit was of the view that due to weak managerial controls; resulted in no-arrangement of NOCs from other agencies after approval of jobs.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that Lands Department was continuously following the pending crossing matters from outside agencies like NHA, CDA, Railway or Irrigation Department for timely completion of subject jobs.

The DAC in its meeting held on January 18 & 19, 2024 directed the management to pursue the matter with quarters concerned for early resolution. No further progress was reported till finalization of the report.

Audit recommends to arrange NOCs at planning stage and complete the jobs at the earliest.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2022-23, 2021-22, 2020-21, 2019-20 and 2018-19 vide para numbers 2.5.4.8, 2.5.4.22, 2.5.6.10, 2.5.6.34 and 2.5.4.7 having financial impact of Rs 15030.490 million, Rs 18,383 million and Rs 28,394 million, Rs 18,639 million and Rs 17,397 million respectively. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2698]

2.5.4.12 Non-surrendering of savings due to over-estimation of projects - Rs 929.138 million

According to DG (Gas) notification dated June 2, 2005, criteria approved by Cabinet Committee on Energy CCE in 1992, was subsequently revised by the ECC of the Cabinet vide decision dated July 15, 2008 for supply of gas to new areas / towns. The portion of funds equal to the requirement over the criteria specified for undertaking the schemes shall be provided by Federal Government whereas cost within criteria shall be borne by company from its own resources.

During audit of SNGPL for the FY 2022-23, it was observed that management prepared cost estimates of 47 jobs on the basis of survey conducted and unit construction cost of MS pipe or PE pipes and funds were released to execution departments. The jobs were completed by incurring an expenditure of Rs 728.848 million against estimated cost of Rs 1,657.987 million. This showed that jobs were over-estimated to the tune of Rs 929.138 million due to which these funds could not be assigned to other jobs / schemes. This resulted in blockage of funds due to over-estimation of jobs amounting to Rs 929.138 million.

Audit was of the view that due to over-estimation of cost of jobs, funds of Rs 929.138 million were blocked which could be used for other purposes i.e. gas schemes, rehabilitation jobs, replacement of old network and rectification of leakages etc.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that the projects pertaining to the jobs highlighted in the audit para were at different stages of completion. The management contended that savings would be determined after completion of the whole scheme / project as there was likely hood that some jobs of the same scheme may exceed their original estimates / sanctioned amount.

The DAC in its meeting held on January 18 & 19, 2024 directed the management to provide job wise status of schemes showing budget estimates, actual expenditure incurred, savings thereon and savings surrendered to the Government. No further progress was reported till finalization of the report.

Audit recommends to surrender the savings and implement the decision of DAC.

[DP No. 2689]

2.5.4.13 Non-completion of process of mutation of land in favour of company and non-adjustment of advances - Rs 574.256 million

According to Clause 3.2.1 of Project Manual of SNGPL, “award is announced by the Land Acquisition Collector, a copy of which is sent to SNGPL for getting the amount

adjusted against advances of relevant pipeline. After receiving award from Land Acquisition Collector, mutation in favour of company shall be carried out.”

During audit of SNGPL for the FY 2022-23, it was observed that management issued advances of Rs 737.540 million for purchase of land / right of way for various projects out of which Rs 163.284 million was adjusted by having mutation in favour of SNGPL. This resulted in non-completion of process of mutation of land in favour of company and non-adjustment of advances of Rs 574.256 million.

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

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that mutation of awarded land was the responsibility of concerned Revenue Officials to mutate the land in favour of the company. However, the management was continuously following the mutation of acquired land with concerned Revenue Officials.

The DAC in its meeting held on January 18 & 19, 2024 observed that the company was showing laxity in resolution of this issue. DAC directed the management to identify the hurdles in the process and resolve these as early as possible. No further progress was reported till finalization of the report.

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

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2022-23, 2021-22, 2020-21 and 2018-19 vide Para No. 2.5.4.12, 2.5.4.27, 2.5.6.14 and 2.5.4.25 of Rs 337.492 million, of Rs 743.227 million and of Rs 302.150 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2709]

2.5.4.14 Non-completion of cost sharing gas development work jobs within stipulated time - Rs 499.218 million

According to Para 3.2 of budget instruction for the FYs 2018-19 & 2019-20 for carrying out capital and revenue jobs, “job holder (head of project / distribution department) will be responsible for timely completion of jobs within stipulated period specified in job approval document.

During audit of SNGPL for the FY 2022-23, it was observed that 40 cost sharing jobs having sanctioned cost of Rs 499.217 million were started during FYs from 2019-20

to 2022-23. The consumers had already deposited their 100% share in cost estimates in advance. But these jobs were not completed after lapse of period ranging from 01 to 03 years owing to want of material requirement or NOC. This resulted in non-completion of jobs having cost estimates of Rs 499.218 million.

Audit was of the view that due to weak project management, jobs were not completed as per plan.

The matter was reported to the management in September, 2023. The management in its reply dated December 27, 2023 stated that 40 jobs, which pertained to category of 100% cost recovery where network was laid in privately developed localities, 20 jobs pertained to the FY 2022-23, whereas, 10 jobs pertained to FY 2021-22. Out of highlighted jobs, 06 jobs were commissioned, whereas, work on remaining jobs was in progress. In most of the cases, the work was delayed due to requirement of NOCs or non-clearance of sites which was responsibility of the concerned Society.

The DAC in its meeting held on January 18 & 19, 2024 directed the management to submit the job wise details of all 40 schemes along with supporting documents to Audit for verification and take necessary actions for early completion of schemes. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC and get the stated stance verified from Audit besides completing the jobs at the earliest.

[DP No. 2690]

2.5.4.15 Loss at Bannu West Project due to weak internal controls - Rs 213.240 million

According to Rules 7(1) & 2(b) of Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall establish appropriate arrangements to ensure it has access to all relevant information, advice and resources necessary to enable it to carry out its role effectively. Significant issues like internal audit reports, including cases of fraud or major irregularities etc. shall be placed before the Board for its information and consideration, in order to formalize and strengthen the corporate decision-making process.

During audit of SNGPL, for the FY 2022-23, it was observed that certain irregularities / discrepancies were noticed in Banu West Project such as short account of inventory, non-availability of requisite material when needed and irregularities in hiring and payment to casual labour. These irregularities caused loss of 213.240 million.

Audit was of the view that weak internal controls resulted in loss of Rs 213.240 million.

The matter was reported to the management in November, 2023. In DAC meeting held on January 18 & 19, 2024, the management reported that initial inquiry was conducted, the result of which did not address the issue and de-novo inquiry was ordered. Audit contended that initial inquiry be shared with Audit and complete the de-novo inquiry at the earliest.

The DAC directed the management to finalize the de-novo inquiry and share the same with Audit within two months. No further progress was reported till finalization of the report.

Audit recommends to finalize the inquiry at the earliest and share the findings.

[DP No. 2711]

2.5.4.16 Non-recovery of cost overrun from the consumers on account of cost sharing jobs - Rs 74.452 million

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

During audit of SNGPL for the FY 2022-23, it was observed that 71 consumers requested RLNG connections on 100% cost recovery basis. The management recovered Rs 523.586 million and actual cost of the jobs was Rs 598.038 million. Cost overrun of Rs 74.452 million could not be recovered from the consumers thereby causing a loss of Rs 74.452 million.

Audit was of the view that weak financial management resulted in non-recovery of cost overrun in these jobs.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that certain jobs had not been completed / commissioned. The management would recover the cost before provision of gas connections to the consumers as per prevailing procedure.

The DAC in its meeting held on January, 18 & 19, 2024 directed the management to expedite the efforts to recover the amount and share the outcomes with Audit. No further progress was reported till finalization of the report.

Audit recommends to recover the amount from the consumers at the earliest.

Note: The issue was also reported earlier in the Audit Report for Audit Year 2022-23 vide Para No. 2.5.4.17 of Rs 16.200 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2708]

2.5.4.17 Non-refund of savings to consumers in cost sharing jobs - Rs 63.621 million

According to Para 9.2.2 of Accounting Manual of SNGPL, “the duties and responsibilities of Area Accountant include arranging recovery / refund from / to consumers after completion of cost sharing jobs.” Further, OGRA granted SNGPL license on September 03, 2003 to undertake the regulated activities i.e., transmission of natural gas and distribution and sale of natural gas. Furthermore, according to condition No. 5.2 of the Licensee, it is to be ensured the grant of 17.5% return on the value of its average net operating fixed assets for each financial year.

During audit of SNGPL for the FY 2022-23, it was observed that the management completed jobs with actual expenditure of Rs 250.892 million against recovered amount of Rs 314.513 million fetching savings of Rs 63.621 million. However, the management did not refund accrued savings to consumers.

Audit was of the view that weak financial management, resulted in non-refund of savings to consumers.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that audit was based on single job analysis of each consumer, however, it was to be noted that provision of gas connections to consumers involved execution of multiple jobs e.g. Pipeline and TBS. Based on the same premise, savings would be calculated if any.

The DAC in its meeting held on January, 18 & 19, 2024 directed the management to reconcile the job wise budget estimates with actual expenditure, incurred and ensure refund the savings to consumers. DAC further directed to improve the system of budgeting of schemes and possibilities of refunds of savings to customers. No further progress was reported till finalization of the report.

Audit recommends to improve job estimation mechanism besides final determination of savings and refund to consumers.

Note: The issue was also reported earlier in the Audit Report for Audit Year 2021-22 vide Para No. 2.5.4.24 of Rs 611.210 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2692]

2.5.4.18 Non-surrender of savings of SDGs completed Job to Government - Rs 28.249 million

According to Para 14 of notification No.F.7(2)(Dev)/2016 dated October 10, 2016, “Guidelines for implementation of the Prime Minister’s Global SDGs Achievement Programme, savings against the schemes completed shall be surrendered immediately on completion of the scheme without waiting for closing of the financial year.”

During audit of SNGPL for the FY 2022-23 it was observed that job No. 19/35/001312 relating to Sustainable Development Goals (SDGs) was started during FY 2018-19 with sanctioned cost of Rs 57.125 million. The job was commissioned and completed on August 04, 2022 with a cost of Rs 28.875 million leaving saving of Rs 28.249 million which was not surrendered to the Federal Government.

Audit was of the view that weak financial management resulted in non-surrender of savings to Government.

The matter was reported to the management in November, 2023. The management in its reply dated December 27, 2023 stated that saving of the project was evaluated after completion of the whole project as there was a possibility that there was a saving in one project while the other job had exceeded the budget. Audit contended that the project may be completed and details of projects along with its savings be shared with Audit. No further progress was reported till finalization of the report.

The DAC in its meeting held on January, 18 & 19, 2024 directed the management to expedite the completion of projects and ensure early surrender of savings.

Audit recommends to complete the projects for early final determination and surrender of savings to Government.

[DP No. 2701]

2.5.4.19 Non-recovery of relocation charges from NHA and loss of MS Pipe recoverable from contractor - Rs 11.555 million

According to Para 13 of Cabinet Division’s Development Wing Notification dated October 10, 2016, the executing agencies shall ensure that the schemes are completed within the same year and the approved cost. Further, according to Clause 19 C & 21 of General Terms and Condition of the contract, any loss of material shall be responsibility of the contractors. Furthermore, according to SNGPL Multan Regional officer letter dated August

25, 2020 and dated February 10, 2023, estimated relocation charges of Rs 5.244 million was demanded from NHA.

During audit of SNGPL for the FY 2022-23 it was observed that SNGPL management failed to recover relocation charges from NHA of Rs 5.244 million. Further, the management sustained loss of Rs 6.311 million due to mishandling of MS pipe by the contractors. This resulted in non-recovery of Rs 11.555 million from NHA and the contractor.

Audit was of the view that weak vigilance resulted in non-recovery of loss from the contractors & NHA.

The matter was reported to the management in September, 2023. The management in its reply dated December 27, 2023 stated that the matter of recovery of relocation charges was being taken up with NHA Head office Islamabad. Further, the matter of recovery from contractor would be taken up with tender evaluation committee for resolution of issue. Audit contended that amount was required to be recovered from NHA as well as loss from the contractor.

The DAC in its meeting held on January, 18 & 19, 2024 directed the management to pursue the matter with NHA through Petroleum Division for recovery of loss and also resolve the issues with contractor within one month and share the outcomes with Audit. DAC further directed the management to fix the responsibility on the person responsible for not taking back the material from the contractor. No further progress was reported till finalization of the report.

Audit recommends to ensure recovery from NHA and the contractor.

[DP Nos. 2681, 2682, & 2699]

2.5.4.20 Non-preparation of mandatory PC-II

According to Para 1.53 of Manual of Development Projects 2010, issued by Planning Commission, PC-II is required for conducting surveys and feasibility studies, in respect of larger projects. Further, the Ministry of Planning & Commission vide letter No. 1(1)PW/PD/CMO/ Infra/1/PMIC dated March 25, 2020 directed that all projects costing 50 million to 500 million should be based on feasibility studies prepared by the professionals hired by the Ministries/Divisions/executing agencies for respective Project Management Unit / Planning Cell etc. According to Clause 6 of Manual-Projects 2021 issued by Planning Commission, the project is completed or closed when all the funds were utilized and objectives achieved or abandoned for any reason. At this stage, the project must be closed

formally, and reports prepared on its overall performance and results achieved using the PC-IV proforma.

During audit of SNGPL for the FY 2022-23, it was observed that Petroleum Division (DG Gas) did not prepare PC-II for the project “supply of 40 MMCFD Gas to Allama Iqbal Industrial City, Special Economic Zone, Faisalabad” costing Rs 785 million financed by Federal through PSDP. However, PC-1 was approved by DDWP without consideration of feasibility study. As per Manual *ibid*, PC-II was mandatory for project costing Rs 50.000 million to Rs 500.000 million and was required to be approved from DDWP before consideration of PC-1.

Audit was of the view that poor project planning resulted in non-preparation of PC-II, violating guidelines issued by the Planning Commission.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that PC-II was not prepared by SNGPL as no such instructions were given by the Ministry while planning the said project. Now project had been completed with actual cost of Rs 770.516 million against funds released of Rs 785.000 million. Audit contended that savings of Rs 14.484 million be surrendered to the Government immediately besides providing justification for non-preparation of PC-II.

The DAC in its meeting held on January, 18 & 19, 2024 directed the DG (Gas) to come up with reasons for non-preparation of PC-II. DAC further directed the management to pursue the matter with Planning Commission for early approval of PC-IV besides early finalization of accounts with respect to project. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC besides surrendering of savings to the Government.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2022-23, vide para number 2.5.4.19. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2710]

Regulatory Affairs

2.5.4.21 Unjustified legal and other expenses due to non-adherence with instructions of Regulator - Rs 131.000 million

According to Rule 17(h) of NGT Rules read with Section 8(1&2) of the OGRA Ordinance, 2002, “tariff should generally be determined taking into account a rate of return

as provided in the license, a prudent operation and maintenance costs, depreciation, Government levies and if applicable financial charges and cost of natural gas.”

During audit of SNGPL for the FY 2022-23 it was observed that management claimed legal expenses of Rs 264.000 million under DFRR for FY 2021-22 but the Regulator allowed only Rs 145 million meaning thereby an amount of Rs 119.000 million was disallowed which included an amount of Rs 61.000 million spent on arbitration. Further, Regulator rejected justification for increase of 40% in legal expenses RERR for the said year. Audit also observed that Rs 12.000 million spent on sponsorship of Chair at various Universities may also be regulated against tangible benchmarks. This resulted in unjustified expenses of Rs 131.000 million.

Audit was of the view that non-compliance with standards set by Regulator resulted in profit loss to the extent of disallowance of legal, professional and other charges by OGRA.

The matter was reported to the management in October, 2023. In its reply dated December 27, 2023, the management stated that despite disallowing by the Regulator, the expenditure incurred was duly approved by the BoD.

The DAC in its meeting held on January, 18 & 19, 2024 directed the management to seek clarification from Law Division through Petroleum Division regarding the power of BoD in allowing these expenditures after these had been disallowed by Regulator i.e. OGRA in light of SOE Act, 2023 and Corporate Governance Rules, 2017. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC besides developing benchmarks against sponsorship of Chairs in various Universities.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2022-23, 2020-21 and 2019-20 vide para number No. 2.5.4.24, 2.5.6.19 and 2.5.6.46 having financial impact of Rs 2,237 million, 5,241 million and 1,694 million. Recurrence of same irregularity is a matter of serious concern.

[DP Nos. 2704 & 2705]

Procurement Related Issues

2.5.4.22 Un-necessary procurement resulting in blockage of funds - Rs 971.894 million

According to Clause 17.1 of SNGPL Stores Manual, “the Coordinator (PB&MC) will coordinate with the Indenters that minimum number of slow moving and non-moving items remain in the company’s inventory.” Further, according to Clause 17.2.3 of Manual

ibid, “each Indenter will be asked to confirm that quantities being indented by them will be utilized within two years and will not fall in the slow and non-moving category.”

During audit of SNGPL for the FY 2021-22, it was observed that the management unnecessarily procured and maintained stock of non-moving / slow moving items valuing Rs 971.894 million which resulted in blockage of funds.

Audit was of the view that in-efficient inventory management resulted in blockage of funds amounting to Rs 971.894 million in the shape of slow moving and non-moving items.

The matter was reported to the management in June, 2023. The management stated that items of Rs 160.520 million had been issued for utilization, items of Rs 288.690 million were mandatory items whereas age-wise detail of items of Rs 522.680 million of slow and non-moving items was shared. Audit contended that utilization of items of Rs 160.520 million may be got verified from Audit. In case of mandatory items, as per last year audit report of 2022-23, management stated that items of Rs 152 million were mandatory so there was an increase of Rs 136.690 million (47%) in mandatory items which needed to be justified. No plan to dispose of or utilized the remaining items was shared with Audit.

The DAC in its meeting held on September 26, 2023 directed the management to carry out an exercise to identify the items which were required to be retained, utilized or disposed of and provide it to Audit for scrutiny up to December 31, 2023. No further progress was reported till finalization of the report.

Audit recommends to enhance the efficiency of inventory management to avoid accumulation of un-necessary purchase of material.

Note: The issue was also reported earlier in the Audit Report for Audit Year 2022-23, vide para number 2.5.4.29 having financial impact of Rs 368.737 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2365]

***2.5.4.23 Excess payment to M/s Solar Turbine for short-shipment
- Rs 105.637 million***

According to general terms of the contract, “the supplier is required to deliver the items as per delivery schedule from the receipt of purchase order or from the receipt of operative letter of credit. Furthermore, as per general terms to the contract, if the materials, as given in the order have not been dispatched / delivered on time and as per stipulations in the contract, SNGPL shall be entitled to recover 1% or 0.5% as the case may be of the total value of the delayed part of the material for each week of delay, by way of late delivery

charges and not by way of penalty subject to a maximum of 10% of the total value of the delayed part of the material.”

During audit of SNGPL for the FY 2021-22, it was observed that management issued two purchase orders to M/s Solar Turbine Europe UAE for the supply of spares for overhauling of 02 Central Engines (T-40/T-45) and 02 Saturn Engines of US\$ 1,463,438 and US\$ 179,887 respectively. The entire amount was paid by management for purchase orders despite short shipment of US\$ 370,658 equivalent to Rs 105.637 million was made by the supplier.

Audit was of the view that poor contract management resulted in excess payment and non-recovery of short-shipment from the contractor amounting to Rs 105.637 million.

The matter was reported to the management in June, 2023. The management in its reply dated September 22, 2023 stated that on arrival the consignment was burnt in the terrorist attack on June 08, 2014 inviting the Clause relating to force majeure.

The DAC in its meeting held on September 26, 2023 directed the management to recover the amount from supplier.

Audit recommends to recover the amount from supplier.

[DP No 2369]

2.5.4.24 Theft of industrial scrapped meters - Rs 28.762 million

According to Section 5(5)(a) of Public Sector (Corporate Governance) Rules, 2013, “the principle of probity and propriety entails that company’s assets and resources are not used for private advantage and due economy is exercised so as to reduce wastage.” Further, according to Clause 1.3.3 of Accounts Manual, “all insurance matter and claims will be handled by the Accounts department of SNGPL. Moreover, according to clause 1.3.10 of Accounts Manual “it is the duty of CFO to deal with banks and insurance companies regarding problems faced in day-to-day working”.

During audit of SNGPL for the FY 2021-22, it was revealed that 3,500 scrapped industrial meters were dispatched from central meter shop but only 400 meters were received at Manga store. FIR dated November 02, 2022 against certain employees was lodged at Police Station, Quaid-e-Azam, Industrial Area, Lahore. SNGPL management also lodged fidelity insurance claim of Rs 28.762 million with NICL which was pending.

Audit was of the view that weak internal controls resulted in theft of industrial meters.

The matter was reported to the management in June, 2023. The management in its reply dated June 15, 2023 stated that departmental inquiry was under process to probe the matter and FIR had been registered against the concerned official. The management further, informed on December 27, 2023 that initially loss was estimated to Rs 28.762 million and the same was communicated to NICL and accused were also arrested.

The DAC in its meeting held on September 26, 2023 directed the management to finalize the inquiry at the earliest and share the outcome with Audit. DAC in its meeting held on January 18-19, 2024 also directed management to pursue the case with NICL for settlement of claim within one month. DAC further directed to devise a mechanism to strengthen the security checks on stock and pursue the case vigorously. No further progress was reported till finalization of the report.

Audit recommends to conclude the inquiry, recover the loss from the accused at the earliest and share the out comes with Audit and settle the insurance claim with NICL besides devising a mechanism to strengthen the security checks on stock.

[DP Nos. 2377 & 2676]

HR / Employee Related Issues

2.5.4.25 Inaction against illegal network and non-finalization of disciplinary proceedings - Rs 35.427 million

According to Para 110.3 of the SNGPL HR Manual, company encourages all disciplinary issues to be handle as soon as they come in to notice. Where management undertakes disciplinary action, its intention is to ensure that breaches of the Policy in case of under-performance are handled fairly and uniformly and without unnecessary escalation.

During audit of SNGPL for the FY 2022-23, it was observed that management did not finalize disciplinary proceedings against the employees as detailed below:

- i) The management finalized inquiry / fact-finding on August 23, 2022 and issued charge sheet to Executive Accountant Peshawar (D) on December 15, 2022 wherein he was held responsible for wrong posting of suspense account amounts of Rs 29.160 million in the Account ID 6512473000.
- ii) GM (East & West), Lahore planned system rehabilitation program (SRP) for the FY 2021-22 without issuance of work orders and work of pipe laying on these jobs were not carried out till March, 2022. Thus, belated work orders for 48 jobs were issued in March, 2022 without approval and after revision of the rates. The fact-finding enquiry on this matter to carry out detailed investigation in the matter, fix the responsibility and determine the financial loss was still pending. This resulted in loss

due to payment of already work done at revised rates resulted in loss of Rs 6.267 million.

Audit was of the view that inefficient disciplinary mechanism resulted in non-finalization of disciplinary proceedings.

The matter was reported to the management in November, 2023. The management in its reply dated December 27, 2023 stated that inquiry in these cases were pending.

The DAC in its meeting held on January 18 & 19, 2024 directed the management to finalize the inquiries within two months. No further progress was reported till finalization of the report.

Audit recommends to finalize the inquiry proceedings at the earliest.

[DP No. 2790]

Others

2.5.4.26 Inadmissible diversion of RLNG to domestic sector in summer months in violation of Winter Load Management - Rs 53,019.000 million

According to ECC decision dated November 27, 2018, “SNGPL was allowed to inject RLNG volumes for consumption by domestic and commercial consumers”. Further, according ECC decision dated May 11, 2018, “SNGPL and SSGC be allowed to manage gas loads on their system through RLNG-System gas swap mechanism”. Furthermore, Winter Load Management Plan for four months from November, 2022 to February, 2023 was issued by the Federal Government.

During audit of SNGPL for the FY 2022-23, it was observed that SNGPL diverted 17,858,314 MMBTU of RLNG from July, 2022 to October, 2022 and March, 2023 to June, 2023 to domestic and commercial consumers in violation of Gas Load Management Plan. For supply of indigenous gas, first priority was to be given to domestic sector and RLNG was required to be diverted only in case of higher demand than available for supply. SNGPL claimed the differential amount of Rs 53,019.000 million on account of diversion of RLNG in summer months.

Audit was of the view that Winter Load Management was meant for the months of November to February each year and diversion of RLNG to domestic and commercial consumers in other months did not come under the ambit of Winter Load Management and required specific approval of the competent authority.

The matter was reported to the management in November, 2023. The management in its reply dated December 27, 2023 stated that pursuant to GoP directions, SNGPL was obligated to supply blend of system gas and RLNG to 5 export oriented industrial sectors.

SNGPL informed MoE (Petroleum Division) that RLNG was being diverted as system gas for 09 to 10 months in a year. SNGPL was obligated to provide system gas to the consumers of Khyber Pakhtunkhwa, however, owing to insufficient gas even in summers months, RLNG had to be diverted to domestic consumers to meet the demand of high priority sector. The reply was not tenable as selling of RLNG gas as system gas during the months of summer did not come under the ambit of Winter Load Management.

The DAC in its meeting held on January 18 & 19, 2024 directed the management to submit the comprehensive reply regarding the matter for verification of Audit along with relevant record. No further progress was reported till finalization of the report.

Audit recommends to provide the approval of competent forum for diversion of RLNG gas as system gas during the months of summer and provide sales data for verification besides fixing responsibility for deviation from the policy.

Note: The issue was also reported earlier in the Audit Report for Audit Year 2022-23, vide para number 2.5.4.6 having financial impact of Rs 16,217 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2684]

2.5.4.27 Inadmissible grant of subsidy to CPPs without having co-generation facility - Rs 7,078.490 million

According to CCoE decision vide case No.91/04/2021 dated January 26, 2021, all such captive power plants connected with Power Grid (having electricity connections) will be disconnected from March 01, 2021 and before disconnecting gas supply to these industrial units, relevant DISCO would confirm in writing its technical viability to serve the sanctioned power load. Captive power plants not connected with Power Grid having no electricity connections shall submit their applications to respective DISCO for grid connectivity by March 31, 2021.

During special study on “Supply of RLNG to exports sectors on concessionary rates” for the FYs 2018-19 to 2021-22, it was observed that the management supplied RLNG to 60 CPPs which did not have co-generation facility on concessionary tariff (at US\$ 6.5/MMBTU) from April, 2021 to June, 2022 in violation of CCOE decision. Thereby, SNGPL extended undue benefit of concessionary rates to tune of Rs 5,035.344 million and excess blend of indigenous gas of Rs 2,043.146 million aggregating to Rs 7,078.490 million.

Audit was of the view that due to non-implementation of CCoE decision, undue benefit of Rs 7,078.490 million was extended to CPPs.

The matter was reported to Petroleum Division, DG (Gas) and SNGPL on April 28, 2023. In DAC Meeting held on September 27, 2023 the management of SNGPL stated that

breakup of 60 cases consisting of 5 consumers were co-generation consumers, 6 consumers had been disconnected, 13 consumers' cases for electricity load enhancement were with respective DISCOS and 36 consumers had provided stay orders against disconnection.

The DAC directed the management to get the stated stance verified by Audit within 15 days and give updated position relating to 13 CPPs where DISCOS action was to be finalized by December 31, 2021. DAC further directed to pursue 36 remaining court cases. No further progress was reported till finalization of the report.

Audit recommends to probe the matter for fixing responsibility for extending undue benefit besides expediting recovery proceedings against the CPPs.

[Para No. 2.3.4 of special study report on Supply of RLNG to Export
Sector at Concessionary Rate Audit Year 2023-24]

2.5.4.28 Irregular grant of subsidy due to inadmissible supply of RLNG to 02 meters at same premises – Rs 686.080 million

According to Para 67 of Sales Manual of SNGPL, applications for industrial gas connections for generating Captive Power shall be received on prescribed Proforma along with documents such as layout plan of factory premises, photocopy of registry of land / factory (in case of owner), photocopy of lease agreement (in case of tenant). Further, according to SNGPL's letters dated January 27, 2022 & dated December 22, 2021, two Captive Power Meters cannot be installed at same premises.

During special study on "Supply of RLNG to exports sectors on concessionary rates" for the FYs 2018-19 to 2021-22 it was observed that SNGPL management installed two meters at same premises of M/s JK Spinning Mills Ltd. Faisalabad in violation of Gas Sales Agreement. In this way, Export Oriented Unit (EOU) availed subsidy of Rs 766.444 million and Rs 686.080 million simultaneously from both meters. Resultantly, installation of 2nd meter at the same premises and inadmissible subsidy of Rs 686.080 million was given to the EOU.

Audit was of the view that due to weak internal controls and poor vigilance, undue benefit was given in installation and subsidy of Rs 686.07 million to EOU on second CPP connection for the same premises.

The matter was reported to Petroleum Division, DG Gas and SNGPL on April 28, 2023. In DAC meeting held on November 30, 2023, the management stated that in-house fact-finding inquiry was conducted and report was shared with Audit. Audit contended that vigilance report and reply of EOUs clearly depicted that two meters were installed at same premises.

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

Audit recommends to probe the matter relating to provision of two CPP connections at the same premises besides initiating recovery proceedings.

[Para No. 2.3.7 of special study report on Supply of RLNG to Export
Sector at Concessionary Rate Audit Year 2023-24]

2.5.4.29 Loss due to non-deposit of advance tax collected from CNG stations resulting in imposition of default surcharge - Rs 316.507 million

According to Section 161 of the Income Tax Ordinance, “2001 “where a person collected tax under Division II of this Part 4 or Chapter XII or deducted tax under Division III of this Part 5 or Chapter XII fails to pay the tax to the Commissioner as required under Section 160, the person shall be personally liable to pay the amount of tax to the Commissioner.” Further, according to sub-section (1B) of the Ordinance *ibid*, “where at the time of recovery of tax under sub-section (1) it is established that the tax that was to be deducted from the payment made to a person or collected from a person has meanwhile been paid by that person, no recovery shall be made from the person who had failed to collect or deduct the tax but the said person shall be liable to pay default surcharge at the rate of twelve per cent per annum from the date he failed to collect or deduct the tax to the date the tax was paid.”

During audit of SNGPL for the FY 2022-23 it was observed that management collected advance tax from the CNG stations under Section 234 A of the Ordinance *ibid* along with gas charges during tax years 2008, 2009, 2011 and 2013 to 2021. But the management failed to deposit collected amount of Rs 2,031.012 million in Government exchequer within due time. Therefore, Tax Authorities imposed default surcharge of Rs 316.507 million on SNGPL due to late deposit of collected advance tax.

Audit was of the view that due to inactive financial management company was penalized with default surcharge.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that the company paid the amount to FBR as per advice of its Tax Consultant. Further, the company, aggrieved with the decision of Tax Authorities was pursuing the legal course against the said demand and currently the matter was pending before ATIR.

The DAC in its meeting held on January, 18 & 19, 2024 directed the management to probe the matter regarding late deposit of tax which resulted in extra liability of default surcharge. DAC further directed to fix the responsibility and share the same with Audit. No further progress was reported till finalization of the report.

Audit recommends to identify the responsible for non-depositing of advance tax collected from CNG consumers besides pursuing the case in the court of ATIR.

[DP No. 2687]

2.5.4.30 Absence of EOBI registration deprived the labour / workers - Rs 182.718 million

According to Section II(i) of the Employees' Old Age Benefits Rules 1976, wherein five or more persons are employed by the employer, directly or through any other person, whether on behalf of himself or any other person, or were so employed on any day during the preceding twelve months, and shall continue to apply to every such industry or establishment even if the number of persons employed therein is, at any time after this Act becomes applicable to it, reduced to less than five "Contribution shall be payable every month by the employer of the Institution in respect of every person in his insurable employment, at the rate of six percent of his wages in the prescribed manner.

During audit of SNGPL for the FY 2022-23, it was observed that management deducted EOBI contribution from hired casual / daily wages employees without registration of non-permanent employees with EOBI. The company kept on depositing huge amounts with EOBI as employer & employee contribution of Rs 182.718 million but did not get the beneficiaries registered with EOBI. This had deprived non-permanent / casual staff of the company of their right.

Audit was of the view that negligence of the management resulted in non-registration of casual employees.

The matter was reported to the management in November, 2023. The management in its reply dated December 27, 2023 reported that the temporary staff who became entitled to EOBI pension was being facilitated by submitting their complete record of engagement to EOBI and the benefit of pension was extended by the EOBI. It was expected that all the temporary staff would soon be registered with EOBI with effect from the date of their first engagement.

The DAC in its meeting held on January, 18 & 19, 2024 directed the management to get the stated stance verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to register each employee / worker with EOBI and also make sure that the amount deducted from the employees had been deposited against the name of each employee registered with EOBI since the beginning of their employment.

[DP No. 2792]

2.5.4.31 Non-recovery of decreed amount from the defaulting consumers - Rs 157.003 million

According to Clause 3.11 of Billing Manual of SNGPL, “timely / maximum recovery of gas dues from all categories of consumer is required to be arranged. Special attention is to be paid to recover gas dues from big industrial and general industrial consumers which contribute major share of our sales revenue.”

During audit of SNGPL for the FY 2022-23, it was observed that management failed to recover gas charges of Rs 172.557 million from 12 consumers against whom recovery was decreed in favour of the company. Further, 02 cases were decided against SNGPL due to negligence and filing of case against irrelevant persons involving Rs 6.528 million. This resulted in non-recovery from the defaulting consumers amounting to Rs 179.085 million.

Audit was of the view that negligence on the part of management resulted in non-recovery.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that in 03 cases an amount of Rs 22.082 million was recovered and appeal in 02 cases was decided against the SNGPL.

The DAC in its meeting held on January, 18 & 19, 2024 directed the management to expedite the process of attachment of property of accused. Para was reduced to the extent of recovered and verified amount of Rs 22.082 million. DAC further directed the management to probe the matter regarding documents and share report to Audit. No further progress was reported till finalization of the report.

Audit recommends to pursue the court cases besides recovery of decreed amount.

Note: The issue was also reported earlier in the Audit Report for Audit Year 2021-22 vide para number 2.5.4.17 having financial impact of Rs 332.18 million. Recurrence of same irregularity is a matter of serious concern.

[DP Nos. 2702 & 2791]

2.5.4.32 Non-settlement of insurance claim - Rs 24.306 million

According to Clause 1.3.3 of Accounts Manual, “all insurance matter and claims will be handled by the Accounts department of SNGPL.” Further, according to Clause 1.3.10

of Accounts Manual, “it is the duty of CFO to deal with banks and insurance companies regarding problems faced in day-to-day working.”

During audit of SNGPL for the FY 2022-23, it was observed that the management failed to get insurance claim of Rs 24.306 million settled from National Insurance Company Limited even lapse of more than two years. This resulted in non-settlement of insurance claim amounting to Rs 24.306 million.

Audit was of the view that lack of liaison between NICL and SNGPL resulted in non-settlement of insurance claim.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 stated that loss was assessed by surveyor and joint survey reports of the same were awaited.

The DAC in its meeting held on January, 18 & 19, 2024 directed the management to pursue the case with NICL for settlement of claim within one month. DAC further directed to provide the details of loss due to fire at Accounts and Telecom Departments and take action against the person(s) responsible for delay. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP Nos. 2675, 2677 & 2678]

2.5.4.33 Non-deposit of unclaimed dividend in Government Account - Rs 18.608 million

According to Section 244 of the Companies Act, 2017, “where dividend declared by a company remains unclaimed or unpaid for a period of three years from the date it is due and payable, the company shall give ninety days’ notice to the shareholders to file claim. If no claim is made by the shareholder, the company shall, after ninety days from the date of publication, deposit any unclaimed or unpaid amount as well as the proceeds from the sale of shares to the Federal Government in a profit-bearing account with the State Bank of Pakistan or National Bank of Pakistan.”

During audit of SNGPL for the FY 2022-23, it was observed that total dividend payable stood at Rs 230.526 million as on June 30, 2023. Out of this an amount of Rs 18.608 million for the FY 2018-19 was added as unclaimed dividend in current year as it was not paid since more than 3 years. This resulted in undue retention of unclaimed dividend of Rs 18.608 million by the company.

Audit was of the view that weak financial management resulted in non-deposit of unclaimed dividend of Rs 18.608 million to Federal Government. The same issue was raised

by Audit previously as well. However no remedial action was taken by the management so far.

The matter was reported to the management in October, 2023. The management in its reply dated December 27, 2023 that as required under Section 244 of the Companies Act, 2017, Federal Government had not yet notified any account for such deposit.

The DAC in its meeting held on January, 18 & 19, 2024 reiterated its early directives dated 05.01.2023 as the DAC directed the management to follow up the matter with Petroleum Division / Finance Division. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

Note: The issue was also reported earlier in the Audit Reports for Audit Years 2022-23 and 2021-22, vide para numbers 2.5.4.35 and 2.5.4.43 having financial impact of Rs 109.039 million and Rs 111.462 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2696]

2.6 Sui Southern Gas Company Limited

2.6.1(A) Introduction

Sui Southern Gas Company Limited (SSGC) is a public limited company incorporated in Pakistan and listed in Pakistan Stock Exchange. Shareholding of Government of Pakistan in the company is 53.18%.

Main activity of the company is transmission and distribution of natural gas in the provinces of Sindh and Balochistan. The company is also engaged in certain activities related to the gas business including manufacturing and sale of gas meters, construction contracts for laying of pipelines and transportation of RLNG to SNGPL. SSGC is serving more than 3.113 million consumers in Sindh and Balochistan through pipeline network of 47,520 KMs. The company is facing multiple problems that include governance issues, operational inefficiency, weak contract and project management that have suppressed the profitability and business growth of the company over the period of time. The company has not been able to finalize its accounts for the FY 2022-23 due to non-resolution of issues with Oil and Gas Regulatory Authority (OGRA) leading to non-determination of its revenue requirements for the aforesaid financial year.

2.6.1(B) Comments on Company Performance

Audited accounts for the financial years 2022-23 were not finalized till finalization of this report. Working results of the company for the financial year 2021-22 as compared to the previous years are tabulated below:

(Rs in million)

Head of Account	2021-22	2020-21	2019-20	2018-19
Sales (Net)	375,559	296,128	290,240	297,167
Other Income	17,280	19,463	15,769	14,410
Total Revenues	392,839	314,771	306,009	311,577
Cost of Gas	367,840	301,878	307,291	295,127
Expenses	32,734	11,757	19,987	34,812
Total Expenses	400,574	313,635	327,278	329,939
Total Profit or Loss	(11,444)	1,955	(21,269)	(18,362)

(Source: Annual Audited Accounts)

- i) Despite an increase of 26.82% in its sales, profit of the company was reduced and converted to loss during the FY 2021-22 (from profit of Rs 1,956 million to loss of Rs 11,444 million);
- ii) The company did not comply with the provision of the statement of compliance as required under serial No. 19 of Schedule-I of Corporate Governance Rules, 2013, where the performance evaluation of members of the Board including the Chairperson and the Chief Executive would be undertaken annually by the Government for which the Government was to enter into performance contract with each member of the Board at the time of his or her appointment;
- iii) As per Note 44, finance cost on short-term borrowing from banks increased by Rs 637.042 million from Rs 1,386.695 million to Rs 2,023.737 million for the year 2021-22. This reflected SSGC's increased dependence on short-term borrowing to meet its liquidity requirements;
- iv) As per Note 31 of Audited Financial Statements for the FY 2020-21, at the end of 2021-22, trade debts of the company, receivable from different stakeholders, were Rs 109,085 million. Out of this, an amount of Rs 102,295 million, which was 94 % of total outstanding trade debts, was unsecured;
- v) As per Note 18.1, trade and other payables increased by Rs 123,898 million in FY 2021-22 from Rs 387,937 million to 511,835 million;
- vi) Trade Debts and other Receivables increased from Rs 92,133 million to Rs 109,085 million as on June 30, 2022;
- vii) External auditors accorded a qualified opinion on the accounts of SSGC for the FY 2021-22 as detailed below.
 - a. The reason for the qualification was trade debts including receivables of Rs 29,652 million with LPS Rs 151 billion and Rs 25,312 million with LPS Rs 82 billion from K-Electric Limited (KE) and Pakistan Steel Mills Corporation (Private) Limited (PSML), respectively. Significant portion of such receivables included overdue amounts, which had been considered good by management. However, due to the adverse operational and financial conditions of PSML, disputes by KE and PSML with the company on LPS, total overdue amounts from KE and PSML were likely to be recovered and timeframe over which such recovery would be made; and
 - b. Interest accrued includes interest receivable of Rs 10,957 million and Rs 5,101 million from SNGPL and WAPDA, respectively. Due to dispute with WAPDA and SNGPL, company was unable to determine the extent to which the interest accrued amounts due from SNGPL and WAPDA were likely to be recovered and the timeframe over which such recovery will be made.

2.6.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 526,552.857 million were raised in this report during the current audit of SSGC. This includes recoverable amount of Rs 274,226.597

million as pointed out by Audit. Summary of the audit observations classified by nature is as follows:

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	
A	Distribution / UFG Losses Related Issues	23,808.844
B	Receivables Management	274,261.009
C	HR / Employee Related Irregularities	39.471
D	Procurement Related Issues	2,517.000
E	Project Management	11,030.756
F	Land Acquisition Related Issues	424.820
2	Others	214,470.957

2.6.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	%age of Compliance
1992-93	10	9	1	90
1994-95	2	1	1	50
2000-01	5	4	1	80
2002-03	8	7	1	88
2003-04	8	6	2	75
2006-07	13	10	3	77
2007-08	11	10	1	91
2010-11	27	20	7	74
2011-12	8	0	8	0

2012-13	2	0	2	0
2013-14	9	8	1	89
2014-15	3	0	3	0
2015-16	45	19	26	42
2016-17	39	6	33	15
2017-18	24	7	17	29
2018-19	14	0	14	0
2019-20	9	5	4	56
2021-22	2	0	2	0
Total	239	112	127	47%

The overall compliance of PAC directives needs improvement. Special attention is required for the years where 'NIL' compliance was reported in above table.

2.6.4 Audit Paras

Distribution / UFG Losses Related Issues

2.6.4.1 *Loss due to UFG beyond permissible limit - Rs 23,436.992 million*

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

During audit of SSGC for the FY 2022-23, it was observed that OGRA allowed Unaccounted for Gas (UFG) losses @ 6.97% for the FY 2021-22 but the company recorded UFG losses of 17.84%. Thus, the company sustained a loss of 10.87% UFG beyond that allowed by OGRA which amounted to Rs 23,436.992 million. It was also observed that the management could not prioritize the problematic areas which needed immediate and focused intervention. One way to identify such problematic areas was the reconciliation of gas supplied and billed at Town Boarder Station (TBS) level which was not done leading to continued loss of gas and subsequent revenue loss beyond the permissible limit of OGRA. Audit would like to quote the example of Karachi city, where the number of illegal gas consumers stood at 0.700 million causing a UFG loss of 10.000 BCF annually.

It was also observed that OGRA had set 30 Key Monitoring Indicators (KMIs) like number of visits to identify theft, FIRs registered, maintaining record of gas leakage etc, aimed at reduction in UFG to allow annual UFG allowance. However, during FY 2021-22 SSGCL could only achieve 75.84% of KMI target which showed lack of commitment on the part of management to control the UFG.

Audit was of the view that weak internal controls resulted in huge UFG losses of Rs 23,436.992 million.

The matter was reported to the management in November, 2023. The management in its reply dated January 12, 2024 stated that 25 BCF out of 45 BCF, UFG volume recorded in SSGC system was contributed by Balochistan and around 75% of all domestic gas meters in Quetta were tampered. The management of SSGC was continuously pursuing the MoE and the Provincial administration for the implementation of administrative measures to curb gas theft. Further, measures to carryout reconciliation at TBS level was being carried out.

The DAC in its meeting held on January 16, 2024, directed the management to submit region wise detail to Audit and three years trend analysis of UFG. DAC also directed to share the detail of TBS installed against targets as well as number of TBS equipped with

measuring instruments and without measuring instruments along with reason for non-reconciliation of gas at TBS level. DAC further directed the management to take steps to reduce number of illegal consumers. No further progress was reported till finalization of the report.

Audit recommends to take effective steps to reduce UFG and bring UFG losses within permissible limit besides implementing the decision of the DAC. It is also recommended that tangible steps may be taken to achieve KMI targets.

Note: The issue was reported earlier also in the Audit Reports for Audit Years 2018-19, 2019-20, 2020-21 & 2021-22 vide para numbers 2.6.4.5, 2.6.6.10, 2.6.6.2 & 2.6.4.2 having financial impact of Rs 12,091 million, Rs 39,549.84 million, Rs 22,254 million & Rs 12,982.70 million. Recurrence of same irregularity is a matter of serious concern.

[DP Nos. 2717, 2718, 2734 & 2740]

2.6.4.2 Non-recovery of gas charges decreed in favour of the company - Rs 256.166 million

According to Para No. 3.1 of Legal Services Policy, Legal Services Department is responsible to manage and look after the organization's legal matters and to give advisory service and strategic guidance, consultation and support on legal issues, ensuring legal and regulatory compliance.

During audit of SSGC for the FY 2022-23, it was observed that the management failed to recover gas charges of Rs 256.166 million from 58 consumers against whom recovery and declaratory cases had already been decided in favour of the company. The management failed to take necessary steps to ensure recovery of decided cases amounting to Rs 256.166 million.

Audit was of the view that due to negligence of the management, outstanding dues could not be recovered from the defaulters against whom cases were decided.

The matter was reported to the management in September, 2023. The management in its reply dated January 12, 2024 stated that efforts were being made to recover dues from defaulters.

The DAC in its meeting held on January 16, 2024, directed the management to recover the amount and get verified not due amount from Audit (especially against M/s Maxco) within a week. DAC further directed to share monthly progress report to Audit. No further progress was reported till finalization of the report.

Audit recommends to intimate reasons for slow pursuance of pending declaratory cases besides expediting recovery of declaratory cases.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2022-23 vide para number 2.6.4.5 having financial impact of Rs 574.093 million. Recurrence of same irregularity is a matter of serious concern.

[DP Nos. 2723 & 2744]

2.6.4.3 Non-initiation of criminal proceedings against un-registered consumers involved in pilferage of gas - Rs 62.180 million

According to Clause D-3 of Procedure for dealing with theft of gas cases issued by OGRA in its letter dated August 16, 2005, “in case of strong evidences leading to confirmation of the act of theft, the company will disconnect the gas supply of the consumer / defaulter and will remove all devices which can facilitate the consumer / defaulter in illegal restoration of gas supply.” Further, according to Clause 3.1 of Billing Manual, “Billing Department is responsible to report theft cases to Consumer Relations Department for prompt and appropriate action.”

During audit of SSGC for the FY 2022-23, it was observed that in 14 cases various areas of Karachi, Hyderabad, Nawab Shah and Quetta, unregistered persons were using gas directly from distribution lines through illegal network. It was also observed that illegal supply of gas was continued to approximately 4,900 houses in different cases. The management estimated value of stolen gas to be Rs 62.180 million. Despite such huge network of illegal supply, no serious effort was found on record to identify the persons within SSGC responsible for gas theft. No recovery and criminal proceedings were initiated against un-registered persons involved in pilferage of gas.

Audit was of the view that weak network surveillance and ineffective management led to non-detection of laying of illegal network and pilferage of gas as well as non-initiation of criminal proceedings against theft of gas.

The matter was reported to the management in November, 2023. The management in its reply dated January 12, 2024 stated that FIRs had been lodged against the cases of direct use of gas by un-registered consumers.

The DAC in its meeting held on January 16, 2024, directed the management to pursue the criminal cases and get the efforts made in this regard verified by Audit. No further progress was reported till finalization of the report.

Audit recommends to pursue the criminal cases besides recovering the gas theft charges.

[DP Nos. 2739 & 2763]

2.6.4.4 Loss due to gas theft by consumers - Rs 53.506 million

According to Clause D-3 of Procedure for dealing with theft of gas cases, issued by OGRA in its letter dated August 16, 2005, “in case of strong evidences leading to confirmation of the act of theft, the company will disconnect the gas supply of the consumer / defaulter and will remove all devices which can facilitate the consumer / defaulter in illegal restoration of gas supply.”

During audit of SSGC for the FY 2022-23, it was observed that company suffered a loss amounting to Rs 67.815 million on account of gas pilferage by 95 domestic, commercial and industrial consumers.

(Rs in million)

Sr. No.	Category	No. of consumers	Amount
1	Commercial	64	49.752
2	Domestic	30	17.465
3	Industrial	01	0.598
Total		95	67.815

Audit was of the view that ineffective monitoring resulted in loss of Rs 67.815 million to the company in the shape of pilferage of gas.

The matter was reported to the management in August, 2023. The management in its reply dated January 12, 2024 stated that Rs 21.669 million had been recovered.

The DAC in its meeting held on January 16, 2024, reduced the para to the extent of recovered and verified amount of Rs 14.309 million and directed to expedite the recovery of balance amount of Rs 53.506 million. No further progress was reported till finalization of the report.

Audit recommends to recover the balance amount from domestic, commercial and industrial consumers.

Note: The issue was reported earlier also in the Audit Reports for Audit Years 2018-19, 2019-20, 2020-21, 2021-22 & 2022-23 vide para numbers 2.6.4.4, 2.6.6.12, 2.6.6.12, 2.6.6.6, 2.6.4.13 & 2.6.6.4.2 having financial impact of Rs 6,784.948 million, Rs 971.92 million, Rs 1423.493 million, Rs 240.605 million & Rs 445.005 million. Recurrence of same irregularity is a matter of serious concern.

Receivables Management

2.6.4.5 *Non-recovery of outstanding dues from consumers - Rs 270,026.925 million*

According to Para 4.4.1 read with Para 4.4.7 of Natural Gas Consumer Service Manual, 2011 and Para 4.5 of SSGC Recovery Policies / Procedures, supply is disconnected if the customer commits a default in the payment of two consecutive monthly bills or where outstanding amount is not secured by the Gas Security Deposit (GSD) or surpass the GSD amount. Further, according to SSGC Recovery Policies / Procedures, “company will disconnect gas supply of a customer is defaulter of payment of regular gas bills or instalment of gas bill or any amount of gas supply deposit.”

During audit of SSGC for the FY 2022-23, it was observed that the management failed to recover outstanding amount of gas charges and Late Payment Surcharge (LPS) amounting to Rs 270,211.925 million from the power sector companies and industrial defaulters. The position is reported as under:

(Rs in million)

Organization	Principa l	LPS	Total
GENCO-I / GENCO-III / CPPA-WAPDA	3,197.00 0	5,379.000	8,576.000
ARL	42.000	0	42.000
K-Electric (Indigenous Gas)	29,653.0 00	146,761.00 0	176,414.0 00
Pakistan Steel Mills	23,052.0 00	61,600.000	84,652.00 0
Industrial defaulters (35 disconnected consumers)	527.925	-	527.925
Total	56,471.9 25	213,740.00 0	270,211.9 25

It may be pointed out that out of total recovery from industrial defaulters an amount of Rs 84,652.000 million was related to Pakistan Steel Mills Limited (PSML). An effort was made by both SSGC and PSML to partially offset the arrears through transfer of PSML land. However, the deal could not materialize due to slow follow up by SSGC. This resulted non- recovery of outstanding dues / settlement of Rs 270,211.925 million

Audit was of the view that weak financial management resulted in non- recovery / settlement of Rs 270,211.925 million.

The matter was reported to the management in November, 2023. The management in its reply dated January 12, 2024 stated that an amount Rs 185.673 million had been recovered and same had been verified by Audit. Further, it was also reported that company was vigorously pursuing PSML for recovery / settlement of outstanding dues.

The DAC in its meeting held on January 16, 2024 reduced the para to the extent of recovered and verified amount of Rs 185.673 million and directed to expedite the recovery of balance amount of Rs 270,026.925 million. No further progress was reported till finalization of the report.

Audit recommends to expedite the recovery process of outstanding dues.

Note: The issue was reported earlier also in the Audit Reports for Audit Years 2018-19, 2019-20, 2020-21, 2021-22 & 2022-23 vide para numbers 2.6.4.4, 2.6.6.12, 2.6.6.12, 2.6.6.6, 2.6.4.13 & 2.6.6.4.2 having financial impact of Rs 6,784.948 million, Rs 971.92 million, Rs 1423.493 million, Rs 240.605 million & Rs 445.005 million. Recurrence of same irregularity is a matter of serious concern.

[DP Nos. 2724, 2738, 2742 & 2750]

2.6.4.6 *Non-settlement of insurance claims - Rs 1,950.271 million*

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

During audit of SSGC for the FY 2022-23, it was observed that the company sustained a considerable loss of infrastructure and material due to floods in various regions of Balochistan and Sindh provinces during the FY 2021-22 (Annexure-4). The management

lodged 24 insurance claims with NICL amounting to Rs 1,950.271 million. However, management could not get these claims settled till finalization of this report.

Audit was of the view that slackness of the management resulted in non-settlement of insurance claims of Rs 1,950.271 million.

The matter was reported to the management in November, 2023. The management in its reply dated January 12, 2024 stated that the delay in settlement of claims was due to the nature & quantum of loss. However, rigorous efforts were being made to ensure settlement of these claims.

The DAC in its meeting held on January 16, 2024 directed the management to expedite their efforts for settlement of insurance claims. No further progress was reported till finalization of the report.

Audit recommends to pursue the claims with NICL effectively for early settlement.

[DP No. 2716]

2.6.4.7 Non-recovery of gas transportation charges from SNGPL - Rs 1,579.401 million

According to Clause 3.2 of gas transportation agreement between SSGC and SNGPL dated January 26, 2014, regarding transportation of Zamzama field gas from Dadu delivery point to Sui delivery point, SNGPL was to pay the monthly tariff according to tariff invoices issued by SSGC to SNGPL for each month.

During audit of SSGC for the FY 2022-23, it was observed that SSGC did not recover an amount of Rs 1,579.401 million due on June 30, 2023 from SNGPL on account of gas transportation charges.

Audit was of the view that weak financial control and contract management resulted in non-recovery of Rs 1,579.401 million on account of gas transportation charges.

The matter was reported to the management in November, 2023. The management in its reply dated January 12, 2024 stated that SNGPL had been withholding payment of gas transportation charges linking it with the settlement of RLNG withheld amount relating to the period prior to May, 2020. That issue would be settled after finalization of OGRA consultant report and consequently the outstanding amount of gas transportation charges would be recovered.

The DAC in its meeting held on January 16, 2024 directed the management to pursue the matter. No further progress was reported till finalization of the report.

Audit recommends to pursue the matter with SNGPL for early recovery of outstanding amount.

[DP No. 2748]

2.6.4.8 Non-recovery of claim against off-spec gas - Rs 670.000 million

According to Section 4.1.6(3) of Petroleum Exploration and Production Policy, 2012, “where the specification and quality of the gas from an approved Extended Well Testing (EWT) is acceptable to the buyer, the gas price shall entail a 5% discount from the applicable gas price for on-spec gas and 10% for off-spec gas for that Zone.”

During audit of SSGC for the FY 2022-23, it was observed that the management filed claim of Rs 1,700.000 million against off-spec gas with operators of Rehman and Sinjhora gas fields. However, only an amount of Rs. 1,030.000 million could be realized leaving a balance of Rs 670.000 million till June 30, 2023.

Audit was of the view that poor financial management resulted in non-recovery of Rs 670.000 million on account of off-spec gas.

The matter was reported to the management in September, 2023. The management in its reply dated January 12, 2024 stated that the financial calculations of Sinjhora off-spec gas quantities from the field for the period January, 2013 to December, 2015 were finalized. Further, this involves Federal Board of Revenue due to credit notes which would not be accepted by FBR, beyond 180 days. In order to take the impact of credit notes both tax teams of SSGC and OGDCL were on board.

The DAC in its meeting held on January 16, 2024 directed the management to conduct internal fact finding inquiry to identify the reasons for delay in execution of the agreement and expedite the recovery within one month. No further progress was reported till finalization of the report.

Audit recommends to conduct internal fact finding inquiry to identify the reasons for delay in execution of the agreement and expedite the recovery besides pursuing the matter with OGRA.

[DP Nos. 2737]

2.6.4.9 Loss to Government exchequer due to non-deposit of Stamp Duty - Rs 34.412 million

According to Section 3 of the Stamp Act 1899, “instruments shall be chargeable with Duty of the amount indicated in schedule-I of the act *ibid.*”

During audit of SSGC for the FY 2022-23, it was observed that the management made connection agreement with 344,125 consumers during the FYs 2017-18 to 2022-23 in Karachi, Hyderabad, Nawab Shah, Sukkur and Larkana Regions. However, the management failed to deposit the stamp duty on account of these connection agreements. This resulted in loss to the Government amounting to Rs 34.412 million.

Audit was of the view that poor financial management resulted in non-recovery of Stamp Duty of Rs 34.412 million.

The matter was reported to the management in September, 2023. The management in its reply dated January 12, 2024 stated that SSGC would recover and deposit Stamp Duty @ Rs 100 from each customer who had been provided connection.

The DAC in its meeting held on January 16, 2024 directed the management to deposit due amount within one month and identify the person responsible for lapse. No further progress was reported till finalization of the report.

Audit recommends to collect the due amount of Stamp Duty and deposit the same in Government treasury besides fixing responsibility for this lapse.

[DP No. 2719]

HR / Employees Related Issues

2.6.4.10 Unjustified payment to employee appointed on fake degree - Rs 39.471 million

According to para 6.9.1 of the HR Manual of SSGC, employment offer from SSGC is subject to a positive background check of the candidate and his / her qualification and references. This includes, but is not limited to, NADRA verification, Police verifications, past employee reference checks, educational documents verification, etc.

During audit of SSGC for the FY 2022-23, it was observed that an employee serving in PARCO was transferred to SSGC on February 19, 2008 on deputation basis for a period of 02 years against the post of Secretary in Grade IV. The management absorbed the employee in the SSGC as Career Executive in Grade-IV after completion of 02 years deputation period. However, on October 18, 2017 i.e. after a lapse of 07 years, the management decided to get his education documents verified, as a result of which his matric certificate was found tampered. Show cause notice was served to the employee on January 25, 2019 but it took the management 3 years to finalize disciplinary proceeding and finally he was dismissed from service on December 21, 2022. This resulted in unjustified payment of pay and allowances amounting to Rs 39.471 million to the employee.

Audit was of the view that delayed decision making resulted in unjustified payment of pay and allowances amounting to Rs 39.481 million.

The matter was reported to the management in October, 2023. The management in its reply dated January 12, 2024 stated that the matriculation certificate was found tampered after verification from concerned Board. Consequently, the petitioner was issued show cause notice on dated January 25, 2019.

The DAC in its meeting held on January 16, 2024 directed the management to conduct fact finding inquiry regarding delay in the processing of disciplinary proceedings and also provide admissibility of Rule for absorption in SSGC and share report with Audit within one month. No further progress was reported till finalization of the report.

Audit recommends to conduct fact finding inquiry regarding delay in the processing of disciplinary proceedings and also provide admissibility of Rule for absorption in SSGC and share report with Audit.

[DP No. 2736]

Procurement Related Irregularities

2.6.4.11 Escalation in project cost due to defective procurement process - Rs 2,423.000 million

According to para 3 of Procurement Department Policy Document of SSGC, Procurement department is responsible for the procurement of goods, services and works to support the business activities at SSGC.

During audit of SSGC for the FY 2022-23, it was observed that the management initiated the procurement of line pipe in December 2016 for the transmission pipeline project of 24" x 31 KM through tender inquiry # SSGC/FP/TE/7746. After evaluation of the procurement process the lowest bidder i.e. M/s Baosteel Singapore PTE Ltd was awarded the purchase order on January 04, 2017. The management did not evaluate the tendering process as per SRO 827 which supports local engineering industry by encouraging procurement of locally manufactured goods.

Therefore, the local bidder i.e. M/s Crescent Steel obtained the stay order from the High Court of Sindh on awarding of contract to foreign bidder on the dispute of calculation of price preference as per SRO 827 with SSGCs. The case was decided on January 27, 2020 and court ordered that to float fresh tender and allowed participation of M/s Crescent steel. The management did not initiate the process from January, 2020 till September, 2021 and new tender was initiated in January, 2022 and Purchase Order No. 12//TKC/31034 dated December 27, 2023 was issued to M/s Crescent Steel. Non-evaluation of price as per SRO

827 resulted in delay of procurement of pipeline of 6 years consequently the project cost increased by Rs 2,423.000 million.

Audit was of the view that due to inefficiency and non-adherence to the provision of SRO 827 procurement process was put in litigation and procurement was delayed by six years which resulted in the escalation of project cost by Rs 2,423.000 million.

The matter was reported to the management in November, 2023. In the DAC meeting held on January 16, 2024 the management stated that BoD directed to conduct investigation through Internal Audit Department and that investigation had been completed. Further, M/s Crescent Steel & Allied Products Ltd. initiated litigation in Sindh High Court however, that was dismissed by the court.

The DAC directed the management to share the final Internal Audit Department report and decision of the Sindh High Court dated January 27, 2020 with Audit within 15 days. DAC further directed to provide the approval of BoD regarding change in scope of the project. Further, the management share the draft fact finding report, the report only narrates the reasons of delay in procurement process. In the inquiry report action against the responsible persons due to inefficiency and non-adherence to the provision of SRO 827 was not concluded.

Audit recommends to fix the responsibility on the persons at fault.

[DP No. 2732]

2.6.4.12 Blockage of funds due to excessive procurement - Rs 94.000 million

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

During audit of SSGC for the FY 2022-23, it was observed that the management procured 22,000 meters of pipe from M/s Crescent Steel and Allied Products valuing Rs 1,032.423 million against the requirement of 20,000 meters. The management procured excess quantity of 2,000 meters which resulted in blockage of funds of Rs 94.000 million.

Audit was of the view that poor inventory control and inefficiency on the part of management resulted in blockage of funds amounting to Rs 94.000 million

The matter was reported to the management in September, 2023. The management in its reply dated January 12, 2024 stated that extra 10% increase in length was ordered

keeping in view the requirement of actual survey / construction activities. Therefore, 2,000 meter additional pipe was procured and this was normal practice.

The DAC in its meeting held on January 16, 2024 directed the management to submit detailed report regarding inventory, standard practices and utilization of pipes to Audit within a week. No further progress was reported till finalization of the report.

Audit recommends to submit detailed report regarding inventory, standard practices and utilization of pipes besides improving inventory management.

[DP No. 2721]

2.6.4.13 Irregular purchase of indigenous gas without GSAs with E&P companies

According to provisions of Sale of Goods Act, 1930 and Contract Act, 1872 all agreements or contracts should be negotiated, entered into or amended on an arms' length basis and in accordance with the provisions of rules.

During audit of SSGC for the FY 2022-23, it was observed that the management purchased 203,622,629 MMBTU gas amounting to Rs 210,963.314 million from 45 fields without executing Gas Sale Agreements with E&P companies. In the absence of formal GSAs, purchase of gas of Rs 210,963.314 million was held irregular.

Audit was of the view that purchase of gas without entering into GSAs with E&P companies was irregular which puts the company at risk of legal complications.

The matter was reported to the management in November, 2023. In the DAC meeting held on January 12, 2024 the management stated that currently only 05 agreements were under deliberation with the respective E&P companies and 22 agreements were duly signed. Audit contended 09 agreements of Rs 113,753.314 million were verified by Audit whereas 36 agreements of Rs 97,210 million were still pending.

The DAC directed the management to share the finalized agreements and enhance the efforts to finalize the remaining agreements. No further progress was reported till finalization of the report.

Audit recommends that the practice of purchase of gas without entering into formal agreement may be avoided in future. The pending 36 agreements may be finalized immediately.

Note: The issue was reported earlier also in the Audit Report for Audit Year 2021-22 vide para number 2.6.4.20. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2753]

Project Management

2.6.4.14 Cost overrun due to non-completion of project in time- Rs 8,989.000 million

According to Para No. 3.1 of Project & Construction Department Policy Document, Projects and Construction department is responsible for construction of major gas pipelines and commissioning of gas into those pipelines across the province of Sind and Baluchistan.

During audit of SSGC for the FY 2022-23, it was observed that the BoD and OGRA approved the project of 30” dia x 125 Km pipeline from SMS Sindh University to Pakland on March 04, 2017 and November 07, 2017 respectively with budgeted amount of Rs 5,014 million. The project was aimed to receive indigenous gas of 247 MMCFD from gas fields of OGDCL, UEPL & PPL. As per project plan the project was to be initiated on February 24, 2017 and to be completed by December 30, 2018. SSGC could not complete this project despite lapse of more than 06 years as a result the cost of the project was increased to Rs 14,006.000 million. This resulted in increase of project cost by Rs 8,989.000 million.

Audit is of the view that poor project management of SSGC resulted in increase of project cost by Rs 8,989.000 million. Moreover, non-completion of subject gas pipeline project also resulted in non-injection of indigenous gas into system to cater to the shortage of energy in the country & saving of costly foreign exchange reserves spent on imported RLNG.

The matter was reported to the management in September, 2023. The management in its reply dated January 12, 2024 stated that project was delayed due to the non-clearance of Right of Way (ROW) by the Government of Sindh. Reply of the management is not tenable as the project was planned to complete in December 2018. Therefore, SSGC could have taken up this matter seriously with the concerned authorities and get resolved the issue in order to receive the 247 MMCFD indigenous gas from the fields of above companies which was cheaper than RLNG.

The DAC in its meeting held on January 16, 2024 directed the management to justify the delay in the project and complete the remaining work of the project at the earliest. No further progress was reported till finalization of the report.

Audit recommends to take necessary measures to complete the project so that the indigenous gas be injected in the transmission system of SSGC, besides fixing the responsibility on the persons at fault.

[DP No. 2731]

2.6.4.15 Non-commissioning of LPG Air Mix plant - Rs 762.066 million

According to section 155 (1) of Mineral & Industrial Gases Safety rules, 2010, no person shall fill any cylinder, vessel, and container with compressed gas and no cylinder, vessel and container filled with compressed gas shall be possessed by anyone except under and in accordance with the conditions of a licence granted under these rules.

During audit of SSGC for the FY 2022-23, it was observed that the management installed LPG Air Mix plant at BELA (Balochistan) in December 2018 with a cost of Rs 762.066 million. However, the installed LPG Air Mix Plant has not yet been commissioned due to non-adherence of the Mineral and Industrial Gases Safety (MIGS), Rules 2010. Therefore, the management could not get license from the Department of Explosives, resultantly LPG Air Mix Plant could not be commissioned despite lapse of 05 years.

Audit was of the view that poor project management resulted in non-commissioning of installed LPG Air Mix Plant.

The matter was reported to the management in September, 2023. The management in its reply dated January 12, 2024 stated that the construction and equipment installation activities at LPG air mix plant were completed in December, 2018, however, the issuance of NOC from Department of Explosives, was bottleneck in commissioning of the plant.

The DAC in its meeting held on January 16, 2024 directed the management to submit a comprehensive report regarding delay in issuance of license from the Department of Explosives. DAC further directed to prepare a detailed report regarding LPG air mix plants concerning their feasibility and actual performance. No further progress was reported till finalization of the report.

Audit recommends to take effective steps to operationalize LPG Air Mix plant besides implementing the decision of DAC.

[DP No. 2730]

2.6.4.16 Non-completion of schemes for supply of gas - Rs 657.321 million

According to approval dated September 24, 2021 and August 10, 2020, schemes for supply of gas / RLNG to two Special Economic Zones (SEZ) at Bin Qasim Industrial Park and Dhabeji were to be completed up to March 21, 2023 and December 18, 2021 respectively.

During audit of SSGC for the FY 2022-23, it was observed that the schemes for supply of 13 MMCFD gas / RLNG to Bin Qasim Industrial Park and 13.50 MMCFD gas / RLNG to Dhabeji (Special Economic Zones) were initiated with 100% funding of Rs 657.321 million from the Federal Government. However, these schemes were not completed within the stipulated time. Owing to non-completion of development schemes by SSGC

within the stipulated period the objectives of the GoP to boost the industrialization and creation of employment opportunity in Special Economic Zones could not be achieved.

Audit was of the view that poor planning and inefficient project management resulted in non-completion of gas supply schemes amounting to Rs 657.321 objectives of the GoP to boost the industrialization and creation of employment opportunity in Special Economic Zones could not be achieved

The matter was reported to the management in October, 2023. The management in its reply dated January 12, 2024 stated that supply of gas to Bin Qasim Industrial Park was delayed as Letter of Credit could not be opened for procurement of an important part of scheme i.e. filter separators. Further, the management was pursuing with the relevant stakeholders to resolve the issues for completion of gas supply schemes.

The DAC in its meeting held on January 16, 2024 directed the management to get their stance verified from Audit. DAC further directed the management to complete the project at the earliest and pursue the matter with quarters concerned. No further progress was reported till finalization of the report.

Audit recommends to take effective measures to complete the schemes for supply of gas to SEZs.

[DP Nos. 2725, & 2767]

2.6.4.17 Loss due to non-capitalization of assets - Rs 622.369 million

According to Rule 4(3) of Natural Gas Rules, 2002, “every licensee shall file a petition with the Registrar, along with the fees specified in Schedule II, to enable the Authority to review the total revenue requirement of the licensee for the financial year, after incorporation of actual changes in the well-head prices and other relevant factors, and to determine the licensee’s revised total revenue requirement for that financial year.

During audit of SSGC for the FY 2022-23, it was observed that assets of Rs 1,785.341 million pertaining to years prior to FY 2019-20 were not capitalized in the relevant years. However, these assets were capitalized in FYs 2020-21 to 2022-22. Therefore, the company remained debarred from return on these assets of Rs 622.369 million (1,785.341 million * rate of return 17.43% * 2).

Audit was of the view that in-efficiency / slackness of the management to capitalize the assets resulted in loss of Rs 622.369 million.

The matter was reported to the management in September, 2023. The management in its reply dated January 12, 2024 stated that Work in Progress of SSGC was recorded Rs 4,400.000 million in June, 2019 pertaining to FYs 2002-03 to 2018-19.

The DAC in its meeting held on January 16, 2024 directed the management to submit detailed reply to Audit within three days. No further progress was reported till finalization of the report.

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

[DP No. 2761]

Land Acquisition Related Issues

2.6.4.18 Unjustified Payment of cost of land - Rs 230.000 million

According to Para 3.1 of Manual of Land and Estate Department of SSGC, “the land department is responsible for initiating land acquisition process including issuance of advances to Land Acquisition Collector and their subsequent adjustment for construction of pipelines and mutation of acquired land in favour of company as per procedure given in project manual and Land Acquisition Act, 1894.”

During audit of SSGC for the FY 2022-23, it was observed that BoD approved a project on March 4, 2017 for laying of 125 Km pipeline from Sales Meter Station (SMS) Sindh University to Pakland to receive indigenous gas from various gas fields. In order to lay pipeline for this project, land was allotted and challan for payment Rs. 230.000 million was issued. However, on December 08, 2020, Planning & Development Department of SSGC pointed that the said land fell in category “C” but the proposed rate was based on category “A” land. Land and State Management Department did not consult Government of Sindh for revision of rates and made unjustified payment of Rs 230.000 million on July 22, 2022 despite objection by P&D Department.

Audit was of the view that due to poor financial control and slackness on the part of management, payment of land was made on the basis of category “A” despite that land fell under category “C”.

The matter was reported to the management in November, 2023. The management in its reply dated January 12, 2024 stated that the amount of Rs 230.000 million was the collective payment for the land area falling in 03 districts. However, reservation on land related to area falling in district Thatta involving an amount of Rs 195.700 million.

The DAC in its meeting held on January 16, 2024 directed the management to submit detailed record for verification. No further progress was reported till finalization of the report.

Audit recommends to inquire the matter and fix responsibility on the person(s) found at fault.

[DP No. 2766]

2.6.4.19 Non-mutation of acquired land - Rs 194.820 million

According to Para 3.1 of manual of Land and Estate Department of SSGC, “the land department is responsible for initiating land acquisition process including issuance of advances to Land Acquisition Collector and their subsequent adjustment for construction of pipelines and mutation of acquired land in favour of company as per procedure given in Project Manual and Land Acquisition Act, 1894.”

During audit of SSGC for the FY 2022-23, it was observed that in 15 cases the management did not initiate land mutation process despite the fact that payment was made for land acquisition. The management initiated and completed various gas supply projects on the acquired land, however, mutation of land in favour of company was pending despite payment of Rs 194.820 million.

Audit was of the view that inefficient land management put the organization at the risk of litigation.

The matter was reported to the management in September, 2023. The management in its reply dated January 12, 2024 stated that mutation of land was under process with different Revenue Offices in Sindh and Balochistan.

The DAC in its meeting held on January 16, 2024 directed the management to provide supporting documents along with the complete detail of each case to Audit within 15 days. No further progress was reported till finalization of the report.

Audit recommends to complete the process of mutation of land besides fixing responsibility for delay in completion of process of mutation of land on the person(s) at fault.

[DP No. 2728]

Others

2.6.4.20 Blockage of revenue due to pending litigation of 2,170 cases of Rs 184,486.000 million

According to Clause 3.1 of Legal Department Policy Document, “Legal Services (the department) is responsible to manage and look after the organization’s legal matters and to monitor, evaluate and track the progress of Company’s cases pending in different courts.”

During audit of SSGC for the FY 2022-23, it was observed that there were 2,170 litigation cases pending at various courts as on June 30, 2023. As per data provided by SSGC, an amount of Rs 184,486.000 million was involved in these cases. Some of the cases were more than 20 years old. Ineffective pursuance of these cases leads to piling up of litigation cases which not only increase the legal expenses but also keeps a large amount of revenue under litigation. This resulted in blockage of revenue due to pending litigation of 2,170 cases of Rs 184,486.000 million.

Audit was of the view that poor monitoring and pursuance of litigation cases resulted in huge pendency involving Rs 184,486.000 million.

The matter was reported to the management in September, 2023. The management in its reply dated January 12, 2024 stated that prolonged delay in reaching resolutions of litigation cases was not within SSGC's control. Audit contended that the cases could be brought to early conclusion through effective monitoring.

The DAC in its meeting held on January 16, 2024 directed the management to provide case-wise detail of all the cases and get it verified from Audit.

Audit recommends to provide case-wise detail of all the cases and get it verified from Audit besides evaluating the performance of the Legal Department and legal counsels.

[DP No. 2727]

2.6.4.21 Irregular supply of gas to K-Electric without GSA - Rs 29,653.000 million

According to the decision of Cabinet Committee on Energy dated April 23, 2018, SSGC and K-Electric will initiate the process for signing of Gas Sale Agreement (GSA) for gas as well as for LNG within 15 days.

During audit of SSGC for the FY 2022-23, it was observed that the management was supplying gas to K-Electric for its power generation plant without any GSA. The management failed to resolve the pending issue with K-Electric despite lapse of 06 years resulting in irregular supply of gas worth Rs 29,653.000 million.

Audit was of the view that weak internal controls resulted in irregular supply of gas to K-Electric without GSA.

The matter was reported to the management in November, 2023. The management in its reply dated January 12, 2024 stated that GSA was not finalized due to non-resolution of issues with K-Electric.

The DAC in its meeting held on January 16, 2024 directed the management to pursue the matter for early finalization of Gas Sales Agreement and recovery of outstanding dues. No further progress was reported till finalization of the report.

Audit recommends that the matter be pursued at PAO level for early finalization of Gas Sale Agreement in order to resolve the long outstanding issue.

Note: The issue was reported earlier also in the Audit Reports for the Audit Years 2018-19 & 2021-22 vide para numbers 2.6.4.2 & 2.6.4.20 having financial impact of Rs 38,798 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2741]

2.6.4.22 Undue retention of funds of BESOS - Rs 331.957 million

According to orders of Supreme Court of Pakistan in case numbers C.A.421/2018, 422/2018 and 423/2018 dated October 22, 2020, Benazir Employees Stock Option Scheme (BESOS) was executed in breach of Article of 154 of the Constitution of the Islamic Republic of Pakistan.

During audit of SSGC for the FY 2022-23, it was observed that BESOS was initiated on August 14, 2009, under which the government decided to distribute 12 percent of its equity among workers of SOEs to encourage stake and ownership, resulting in improved performance. As per above orders of Supreme Court of Pakistan, the management of SSGC was required to wind up the BESOS. However, this order by the Supreme Court was not implemented despite lapse of 03 years. This resulted in irregular retention of funds of BESOS of Rs 331.957 million.

Audit was of the view that management of SSGC retained the amount of Rs 331.957 million under BESOS in violation of orders of the Supreme Court of Pakistan.

The matter was reported to the management in September, 2023. The management in its reply dated January 12, 2024 stated that it was clear that BESOS had been declared to be ultra vires of Article 154 of the Constitution of the Islamic Republic of Pakistan and SSGC Employee's Empowerment Trust ought to be wound up accordingly. Therefore, trustees sought guidance from Petroleum Division in this regard. However, no reply had been received from them.

The DAC in its meeting held on January 16, 2024 directed the management to pursue the matter with Petroleum Division to resolve the issue. No further progress was reported till finalization of the report.

Audit recommends that the matter be pursued with Petroleum Division for early resolution of the issue in compliance of the Supreme Court decision.

2.6.4.23 Non-issuance of invoices to OGDCL on account of Gas Transportation Charges

SSGC and OGDCL entered into Gas transportation agreement whereas OGDCL is willing to use about 40 Km Pesh Bogi - Pirkoh segment of Pirkoh Sui Pipeline for the transportation of Loti gas on tariff consideration and SSGCL willing to operate and maintain the said pipeline for use by OGDCL to transport Loti Gas.

During audit of SSGC for the FY 2022-23, it was observed that OGDCL was using 40 km pipeline, Pesh Bogi-Pirkoh segment of Pirkoh Sui Pipeline for the transportation of Loti gas on tariff consideration, whereas SSGCL was responsible to operate and maintain the said pipeline for use by OGDCL to transport Loti Gas. Gas Transportation Agreement between SSGC and OGDCL expired in 2013 since than SSGC was not issuing invoices of Gas Transportation Charges to OGDCL consequently the amount was also not realized from OGDCL.

Audit is of the view that poor contractual management resulted in non-recovery of outstanding amount on account of gas transportation from OGDCL.

The matter was reported to the management in November 2023. The management in its reply dated January 12, 2024 stated that the non-issuance of invoices to OGDCL was due to the fact that the pipeline has been fully depreciated and “Depreciation” was a component in the formula/mechanism for calculation of monthly transportation and matter has been taken up with OGRA. The reply of the management was not tenable because the management could not resolve the matter despite lapse of 10 years consequently the due amount on account of transportation could not be realized.

The DAC in its meeting held on January 16, 2024 directed the management to pursue the matter with OGRA.

Audit recommends to pursue the matter with OGRA for early resolution of the issue.

2.7 Other Organizations

This chapter includes paras in respect of Pakistan Mineral Development Corporation Private Ltd. (PMDC), Government Holdings Private Ltd. (GHPL), Saindak Metals Ltd. (SML) and Sui Southern Gas Company-LPG (SSGC-LPG).

2.7.1 Pakistan Mineral Development Corporations Private Limited

2.7.1.1(A) Introduction

Pakistan Mineral Development Corporation (PMDC) was incorporated in 1974 under the Companies Act, 1913 (now the Companies Act, 2017) with an authorized capital of Rs 1,000 million. The company is engaged in the business of mining, exploration and development of mineral deposits. PMDC is the only federal entity under the administrative control of Ministry of Energy (Petroleum Division) engaged in prospecting, exploration, evaluation, mining, and marketing of minerals in the country.

PMDC gets exploration licenses and mining leases from the respective Provincial Governments. It undertakes all activities from prospecting to the marketing of the minerals in competition with other public and private sector mining companies. PMDC is operating 05 Salt Mines / Quarries and 04 Coal Mines which are spread over four provinces and it has the mining rights of the world's largest pink salt mines. The estimated reserves of salt and coal at various places are detailed below:

Projects	Location	Total Reserve (Tones)
Salt		
Khewara	Jhelum, 160 Km South of Islamabad	Over 1 billion
Makrach	Chakwal	37.085 million
Warcha	Khushab, 267 Km South of Islamabad	Over 1 billion
Kala Bagh	296 Km from Islamabad or 50 km from Mianwali	28.503 million
Jatta/BK	217 Km from Islamabad	Over 1 billion
Coal		

Collieries Degari	35 Km South East of Quetta	15.42 million
Sor-range	16 Km East of Quetta city	12.95 million
Sharigh	160 Km North-East of Quetta	28.97 million
Lakhra Collaries, Dadu	Hyderabad	54 million

(B) Comments on Audited Accounts

The working results of the company for the FY 2021-22 as compared to previous years are given below:

(Rs in million)

Particulars	2021-22	2020-21	2019-20	2018-19
Sales	2,817.044	2,855.235	2,694.172	2,432.621
Cost of Sales	(1,948.829)	(1,787.792)	(1,833.421)	(1,763.152)
Gross Profit/(Loss)	868.215	1,067.443	860.751	669.469
Administrative Expenses	(520.092)	(494.679)	(508.698)	(457.578)
Selling Expenses	(166.181)	(147.871)	(149.722)	(146.880)
Operating Profit/(Loss)	181.942	424.893	202.331	65.011
Other Income	1,189.078	456.864	198.485	405.697
Other expenses	(68.551)	(39.621)	(19.232)	(79.476)
Profit Before Tax	1,302.469	842.136	381.584	391.232
Provision for Taxation	(467.898)	(252.009)	(62.887)	(97.155)

Net Profit After Tax	834.571	590.127	318.697	294.077
----------------------	---------	---------	---------	---------

(Source: Annual Audited Accounts)

- i) Gross profit was Rs 868.215 million during the FY 2021-22, recording a decrease of 19% as compared to the previous financial year (FY 2020-21: Rs 1,067.443 million). Similarly, operating profit was Rs 181.942 million, recording a decrease of 57% as compared to the previous financial year (FY 2020-21: Rs 424.893 million);
- ii) Trade debts (receivables) increased from Rs 709.591 million in 2020-21 to Rs 895.727 million during FY 2021-22, registering an increase of 26%. Increase in trade debts indicates unsatisfactory position with regards to recovery of outstanding dues;
- iii) Trade and other payables increased by 46% to Rs 991.982 million in FY 2021-22 from Rs 677.498 million in FY 2020-21; and
- iv) Operating expense increased by 05% to Rs 520.064 million in FY 2021-22 from Rs 494.679 million in FY 2020-21.

2.7.1.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 1,208.100 million were raised in this report during the current audit of PMDC. This amount also includes recoverable amount of Rs 610.600 million as pointed out by the Audit. Summary of the audit observations classified by nature is as under:

Over view of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	
A	Contract Management	136.192
B	Procurement Related Irregularities	452.539
C	Receivables Management	610.600

D	HR / Employee Related Irregularities	8.769
E	Board Related Issues	-

2.7.1.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	%age of Compliance
2006-07	05	04	01	80
2009-10	01	-	01	-
2010-11	10	10	-	100
2011-12	11	05	06	45
2012-13	01	01	-	100
2013-14	04	04	-	100
2014-15	03	03	-	100
2015-16	08	02	06	25
2016-17	09	07	02	78
2017-18	04	04	-	100
2018-19	01	-	01	0
2021-22	02	-	02	0
Total	59	40	19	68%

Overall

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

2.7.1.4 Audit Paras

Contract Management

2.7.1.4.1 Undue favour to excavation contractors due to non-recovery of cost of explosives – Rs 95.788 million

According to Clause 4.2 of Excavation Agreement, “explosives required by second party shall be provided by PMDC from its authorized magazine in such quantity as may be necessary and available with the PMDC, at actual cost-plus service charges at the rate of 10% and cost will be recovered from bills of contractor.”

During audit of PMDC for FY 2022-23, it was observed that the management supplied blasting powder (430,275 kg) and safety fuses (633,200 meters) to Salt Mines Warcha contractors at an approximated cost Rs 161 million. However, there was less recovery of costs of explosives from the excavation bills to the tune of Rs 21.101 million and Rs 65.979 million in FYs 2021-22 and 2022-23, respectively. The management cleared full payment of excavation bills without recovery of cost of explosives in violation of Excavation Agreement. This resulted in grant of undue benefit to the contractor of Rs 87.080 million and 10% service charges of Rs 8.708 million aggregating to Rs 95.788 million.

Audit was of the view that poor financial / contract management resulted in non-recovery of Rs 95.788 million due to undue favour extended to excavation contractors which impacted liquidity of PMDC.

The matter was reported to the management in November, 2023. In DAC meeting held on December 21, 2023, the management stated that the matter was under resolution at the management level and would be placed before the Board for approval.

The DAC directed the management to recover the amount as per contract. No further progress was reported till finalization of the report.

Audit recommends to expedite recovery of cost as well as service charges.

[DP No. 2407]

2.7.1.4.2 Excess payment of excavation charges – Rs 40.404 million

According to Memo No. Prod/salt-Dev(WA)/160 dated April 14, 2006, “excavation rates were enhanced for new and existing facilities.” Further, according to Memo No. PMDC/EST/-143 dated June 12, 2014, BoD in its 155th Board meeting held on April 11, 2014, “extended the initial contract period for new salt mines to 5 years, with a possible 5 years extension based on satisfactory performance of the contractor. Further 2 years

extension will be granted for meeting targets and existing contractors under the new investor policy receive corresponding extensions.”

During audit of PMDC for the FY 2022-23, it was observed that management extended undue benefit to the contractor, M/s Maqsood Khan by converting his contract of Mine No. 06 allotted under old policy on December 19, 2005 into new Investor Policy, 2006 which was meant for under development mines. Further, the contract was extended unauthorizably for 03 years beyond maximum extendable contract period of 12 years instead of open competitive bidding under PPRA Rules. Moreover, excavation rates were enhanced multiple times in violation of contract. This resulted in payment of excess amount of Rs 40.404 million above the due amount under applicable rates of adjacent mines.

Audit was of the view that weak contract management resulted in excess payment of excavation charges of Rs 40.404 million to the contractor due to application of higher excavation rates as compared to prevailing / adjacent mine.

The matter was reported to the management in November, 2023. In DAC meeting held on December 21, 2023, the management stated that at time of implementation of NIP, mine No. 06 was in development stage under old policy and to this effect its allotment was converted into new Investor Policy. Further, after expiry of 12 years of new Investor Policy, the BoD once allowed extension in November, 2018 for 03 years but in the next meeting the same was withdrawn as deleted from the minutes of the BoD. However, BoD in its meeting No. 201st held on January 18, 2021 decided that no extension would be granted under this policy and all the allotments would be concluded through competitive bidding.

The DAC directed the management to conduct fact-finding inquiry and submit report to Audit within two months.

Audit recommends to expedite the recovery of excess paid amount besides probing the matter.

[DP No. 2420]

Procurement Related Irregularities

2.7.1.4.3 Irregular award of contract and non-forfeiture of security deposit – Rs 354.992 million

According to Rule 40(1) of PPRA Rules, 2004, “without changing the cost and scope of work or services, the procuring agency may negotiate with the successful bidder (with a view to streamline the work or task execution, at the time of contract finalization) on methodology, work plan, staffing and special conditions of the contract.” Further, according

to Rule 19(b) of Rules *ibid*, “failure to fulfil contractual obligations may lead to blacklisting up to three years.”

During audit of PMDC for the FY 2022-23, it was observed that a tender for explosive items was awarded to M/s Chiniot Safety at Rs 648 per kg amounting to Rs 330.745 million for the period of six months from March 01, 2023 to August 31, 2023. As per tender documents the contract was required to be awarded for the period of one-year from February, 2023 to January, 2024 but contract was awarded for six months resulting in change of scope after bid evaluation. It was worth mentioning that M/s Chiniot Safety had previously defaulted in supplying the contracted quantity, causing significant revenue loss of Rs 2.000 billion in salt mine projects. Despite these defaults, the management did not initiate the blacklisting process under PPRA Rules, and allowed the contractor to participate again in tender process. Further, management failed to forfeit the security deposit of Rs 24.248 million, as per Clause 14 of the Excavation Agreement and the released security of Rs 8.86 million for the period December 01, 2020, to November 30, 2021. This resulted in irregular award of contract and non-forfeiture of security deposit of Rs 354.992 million.

Audit was of the view that weak procurement management resulted in irregular award of contract due to change in scope of contract as well as non-forfeiture of security deposits.

The matter was reported to the management in November, 2023. In DAC meeting held on December 21, 2023, the management stated that as per Clause 14 of the tender documents, the management reserves the right to increase or decrease the quantities mentioned in the tender to any limit before placing the purchase order and to increase or decrease the contracted quantities up to 15% after the order was placed. The contract for gun powder and safety fuses was awarded to successful bidder M/s Chiniot Safety Fuses and M/s Araka Enterprises. Further, PMDC released the security after satisfactory report from the concerned projects. Further, the matter of release of security money for the period from February 01, 2022 to January 31, 2023 was pending.

The DAC directed the management to conduct fact-finding inquiry and submit report to Audit within two months.

Audit recommends to probe the matter besides fixing responsibility on the concerned and expedite recovery of security deposits.

[DP Nos. 2408 & 2409]

2.7.1.4.4 Irregular award of excavation contract without open competition – Rs 97.547 million

According to Clause 12(2) of PPRA Rules, 2004, “all procurement opportunities over three million Pakistani Rupees should be advertised on the Authority’s website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu. Further, Board of Directors of PMDC in its 201th meeting dated January 18, 2021, decided no extension / new allotment will be granted under new investor policy and PMDC to switch to raising contracts for excavation of minerals through competitive process.”

During audit of PMDC for the FY 2022-23, it was observed that management allowed the contractors to continue excavation work till finalization of new contracts in respect of Warcha Jansukh and Koriyan Mines despite expiry of their contracts under either new Investor Policy or tender contracts. The management failed to initiate the process of floating tenders under PPRA Rules before the expiry of contracts and contractors were paid Rs 93.356 million on account of excavation charges. Further, management granted extension of 05 years in five other excavation contracts related to Mines of Makrach project under new Investor Policy, 2006 despite the fact that Policy was abolished in January, 2021. In this regard, management was required to award the contracts through open competition under PPRA Rules as per direction of BoD. However, in defiance to Board’s directives, the Finance Department of PMDC allowed to proceed for payment of Rs 54.191 million of excavation charges to contractors. This resulted in irregular award of excavation contracts without open competition of Rs 97.547 million.

Audit was of the view that weak procurement mechanism resulted in irregular award of excavation contract without open competition and irregular extension of excavation contract under New Investor Policy.

The matter was reported to the management in November, 2023. In DAC meeting held on December 21, 2023, the management stated that tenders were conducted and scrapped due to high prices. In the meantime, the affairs of the mines were continued on departmental basis on the lowest rates in vicinity till finalization of tenders in general. Further, the BoD in its 201th meeting held on January 18, 2021 decided that “going forward, no extension / new allotment would be granted under New Investor Policy. However, within the maximum of 12 years and the contracts already signed with the investors / contractors would be honoured.

The DAC directed the management to conduct fact-finding inquiry on case-to-case basis and submit report to Audit within two months. No further progress was reported till finalization of the report.

Audit recommends to probe the matter besides fixing responsibility on the persons at fault as well as ensure competitive bidding process.

[DP Nos. 2413 & 2416]

Receivables Management

2.7.1.4.5 Non-recovery of share of profit - Rs 610.600 million

According to Clause 5.1 of Agreement between PMDC and M/s MCC Huage Duddar Mining Company Private Ltd. (MHD) signed in 2003, “the profit accruing from project operations after the loans and supplier’s credits and the interests thereof have been fully repaid, shall be appropriated between MHD and PMDC in the ratio of 80:20 and in case the distributable profit in any financial year exceeds the projection of the M/s ENFI’s feasibility study by 20% or more the profit-sharing ratio for that year shall be changed 75:25.”

During audit of PMDC for the FY 2022-23, it was observed that PMDC did not receive its share of profit of US\$ 14.896 million for the calendar years 2016 to 2019 from MHD. The management did not make concrete efforts for early recovery despite lapse of 06 years. This resulted in non-recovery of its due share of US\$ 14.896 million equivalent to Rs 4,230.469 million.

Audit was of view that weak financial management and poor planning resulted in non-recovery of its share.

The matter was reported to the management in November, 2023. In DAC meeting held on December 21, 2023, the management stated that an amount of Rs 3,612.262 million (US\$ 12.74 million) was received up to November 21, 2023. The efforts were being made to recover the remaining amount of Rs 610.600 million (US\$ 2.15 million).

The DAC reduced the para to the extent of recovered and verified amount of Rs 3,612.262 million (US\$ 12.74 million) and directed to expedite the recovery of outstanding amount of Rs 610.600 million (US\$ 2.15 million) within one month. No further progress was reported till finalization of the report.

Audit recommends to expedite the recovery of balance amount.

[DP No. 2417]

HR / Employee Related Issues

2.7.1.4.6 Excess payment of Bonus to employees - Rs 8.769 million

According to inter departmental memo No. PMDC/CA-2(4) dated May 03, 2023 issued by Company Secretary to DGM (F&A), BoD in its 224th meeting dated April 07, 2023, approved the recommendation of 10th finance meeting held on April 04, 2023 in respect of payment of one month's basic salary as profit bonus to all employees of PMDC.

During audit of PMDC for the FY 2022-23, it was observed that management paid Bonus at the rate of one month gross salary instead of one month basic salary for the FY 2021-22. The HR / Admin Department vide notification dated April 13, 2023 issued instructions for payment of Bonus @ one month salary before the approval of minutes of BoD meeting. As per procedure for issuance of implementation memos (191th BoD meeting dated February 13, 2020), implementation memo was required to be issued after signatures of the Chairman. In this case, memo for Bonus equal to one-month basic salary was issued by Company Secretary on May 03, 2023 whereas payment for Bonus equal to one month gross salary was made on April 13, 2023. This resulted in excess payment of Bonus of Rs 8.769 million to employees in violation of Board's directives / approved procedure.

Audit was of the view that weak internal controls resulted in excess payment of Bonus to employees.

The matter was reported to the management in November, 2023. In DAC meeting held on December 21, 2023, the management stated that Bonus were paid in accordance with office order No. PMDC/CA-2 (4) dated May 03, 2023, as approved by the BoD.

The DAC directed the management to conduct fact-finding inquiry and submit the report to Audit within two months and get it regularized by the BoD. No further progress was reported till finalization of the report.

Audit recommends to expedite recovery of excess paid amount of Bonus besides fixing responsibility on the persons responsible for excess payment in violation of approved procedure of BoD.

[DP No. 2410]

2.7.1.4.7 Non-finalization of inquiry of employees

According to letter No. D.O.6(28)2011-DG-11 dated March 08, 2011 issued by Cabinet Secretariat Establishment Division, "the Prime Minister had been pleased to direct those measures should be taken to authenticate degrees / certificates of all Federal Government employees of the respective Ministries / Divisions, their attached departments, subordinates' offices and autonomous bodies under their administrative control." Further, as per judgment of Supreme Court of Pakistan (case 2009 SCMR 1492), "no leniency should be shown in favour of such employees possessing fake degrees. Supreme Court of Pakistan

recommended authorities to examine the possibility of getting registered criminal case against such employees so that in future no one should dare to commit such misconduct.”

During audit of PMDC for the FY 2022-23, it was observed that the management started the process of verification of academic degrees of all employees in FY 2022-23 wherein 03 degrees were found fake as relevant Educational Board did not verify their credentials / transcript. Therefore, the company initiated inquires against the concerned employees. The inquiry committee did not finalize the inquiry of 03 employees having fake degrees despite lapse of one year.

Audit was of the view that due to weak internal controls, the inquiry committee failed to finalize the inquiry against employees.

The matter was reported to the management in November, 2023. In DAC meeting held on December 21, 2023, the management stated that inquiry was finalized and the disciplinary proceedings had been initiated.

The DAC directed the management to identify the persons responsible for non-verification of degrees during probation period and expedite the disciplinary proceedings.

Audit recommends to probe in the matter besides expediting the disciplinary proceedings.

[DP No. 2421]

2.7.1.4.8 Irregular appointment of Managing Director / Chief Executive Officer

According to Clause 2(1) and 3 of Public Sector Companies (Appointment of Chief Executive) Guidelines, 2015 read with Rule 5(2) of Public Sector (Corporate Governance) Rules, 2013, “every public sector company shall appoint its Chief Executive in accordance with Schedule-I to the Guidelines. While making appointment of the Chief Executive, the Board shall evaluate the candidates based on the fit and proper criteria specified in Schedule-II to the guidelines.

During audit of PMDC for the FY 2022-23, it was observed that hiring process for Chief Executive was initiated on February 21, 2021. HR Committee shortlisted 45 candidates from 105 applicants on May 19, 2021. Pursuant to Board interviews and evaluations, 06 candidates were selected based on weighted averages and sent to Petroleum Division on July 19, 2021. Later BoD quashed the Chief Executive hiring process on February 24, 2022 in its 218th meeting and decided to re-advertise on March 05, 2022. Audit observed following irregularities:

- i) Advertisement mentioned 5 years' experience, contrary to the requirement of at least 10 years' experience of Chief Executive or senior management level;

- ii) Shortlisting of two candidates were unjustified owing to irrelevant qualifications and insufficient experience;
- iii) Re-advertisement published in March, 2022 with the same criteria in defiance to Guidelines *ibid*;
- iv) Despite deficiencies, nomination of GM (HSE) along with other 02 candidates were forwarded for appointment on April 10, 2023;
- v) Acting Chief Executive extended the contract of GM, HSE in January, 2023 which was going to expire in February 02, 2023 and BoD appointed GM, HSE as Chief Executive on additional charge basis as stop gap arrangement in June, 2023; and
- vi) Finally, GM, HSE was appointed as regular Chief Executive in September, 2023 despite these irregularities.

Audit was of the view that weak HR management resulted in grant of undue favour to the incumbent as well as irregular appointment of Chief Executive.

The matter was reported to the management in November, 2023. In DAC meeting held on December 21, 2023, the management stated that no undue favor was extended to GM (HSE) in granting Additional Charge of Acting MD by BoD. Further, minimum 10 years' experience was required under Guidelines whereas PMDC required overall 20 years' experience including five years' experience at Senior management level.

The DAC directed the management to submit detailed pointwise reply to Audit. No further progress was reported till finalization of the report.

Audit recommends to investigate the matter besides improving oversight of BOD.

[DP No. 2426]

Board Related Issues

2.7.1.4.9 Appointment of Chairman without approval from competent forum

According to Section 4(4) of Public Sector Companies (Corporate Governance) Rules, 2013 amended vide S.R.O. No. 275(I)/2017 dated April 21, 2017 and S.R.O. No. 715(I)/2019 dated July 01, 2019, "the Chairman of the Board shall be elected by the Board of Directors of the Public Sector Company. However, this provision shall not apply where Chairman of the Board is appointed by the Government."

During audit of PMDC for the FY 2022-23, it was observed that BoD in its 195th meeting held on June 17, 2020 and 200th BoD meeting held on December 10, 2020 elected two members as Chairman of BoD for distinct period without seeking approval of Federal Cabinet. Despite the fact that Petroleum Division approved both candidates as Director and not as Chairman of BoD. Further, while electing chairman in 195th meeting held on June 17, 2020, the Director of BoD (Joint Secretary, MoE-PD) informed the Board that such written nomination as Chairman from GoP was merely a precedent and not a requirement as per Rule 4(4) of the Public Sector Companies (Corporate Governance) Rules, 2013. This resulted in appointment of Chairman without approval from competent forum as well as payment of Rs 1.460 million as monthly cooperation fee, issuance of monthly fuel limit of 300 liters and allocation of locally assembled 1300cc car with driver to Chairman was unjustified.

Audit was of the view that weak regulatory oversight and laxity on the part of government nominated Directors resulted in appointment of Chairman without approval from competent forum.

The matter was reported to the management in November, 2023. In DAC meeting held on December 21, 2023, the management stated that BoD conducted fair and transparent election process of the Chairman in its 195th meeting held on June 17, 2020 wherein the Board unanimously elected its Chairman. There was no mandatory legal requirement of any statutory rules and regulation that only Federal Cabinet could select the Chairman.

The DAC directed the management to get the legal opinion from Petroleum Division.

Audit recommends to seek legal opinion from Petroleum Division on competent forum for appointment of Chairman of BoD.

[DP No. 2425]

2.7.1.4.10 Deficient composition / role of BoD and its committees resulting in decline in core business activity

According to Section 4(2) of Public Sector Companies (Corporate Governance) Rules, 2013 amended vide S.R.O. No. 275(I)/2017 dated April 21, 2017 and S.R.O. No. 715(I)/2019 dated July 01, 2019, “Chairman has a responsibility to lead the Board and ensure its effective functioning and continuous development, he shall not be involved in day-to-day operations of the Public Sector Company.” Further, according to Rule 5(7) of *ibid*, “the Board shall also formulate significant policies of the Public Sector Company.”

During audit of PMDC for the FY 2022-23, it was observed that the BoD and its committees conducted total 158 meetings during last 03 years however, BoD and its

committees failed to effectively fulfill their responsibilities vested under rules as detailed below:

- i) Three Board committees were formed without observance of Rule 12(2) of *ibid*;
- ii) Fourteen BD committee meetings approved only one Business Plan of FY 2021-22, lacking alignment with primary objectives of the company;
- iii) Twenty-eight Board / Committee meetings in four months (Mar-Jun 2023) focused on general agendas, ignoring operational improvement;
- iv) Performance of senior management was not evaluated against set objectives and key performance indicators as per Rule 8(2).
- v) Weak monitoring led to non-achievement of production targets for salt ranging from 72%-83% and coal ranging from 62%-93% during Board tenure;
- vi) Board failed in succession planning as per Rule 12(c) which was evident as 12 interim MD appointments and 04 DGMs against 12 sanctioned posts;
- vii) PMDC failed to formulate significant policy, such as identifying / monitoring principal risks, procurement / marketing of goods, and asset / investment management as per Rule 5(7);

Audit was of the view that weak regulatory oversight resulted in ineffective role of BoD and its committees leading to decline in core business activity of the company.

The matter was reported to the management in November, 2023. In DAC meeting held on December 21, 2023, the management stated that the observation was noted for future compliance. Further, the present Board and management was working on the long-term development, operational plans, short term business and succession planning of PMDC. Furthermore, former Board took up urgent matters only besides the approval of budget estimates, annual audited accounts and conducting AGM.

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

Audit recommends to improve corporate governance of the company.

[DP No. 2428]

2.7.2 Government Holdings (Private) Limited (GHPL)

2.7.2.1(A) Introduction

Government Holding Private Limited (GHPL) was incorporated as a private ltd. company on January 15, 2000 under the Companies Ordinance, 1984 (Now the Companies Act, 2017) and its registered office is situated at 5th Floor Petroleum House Ataturk Block, Islamabad. The company is fully owned and controlled by Federal Government through Ministry of Energy (Petroleum Division).

GHPL has two subsidiary companies i.e. ISGSL and PLL with 100% shareholding. GHPL holds working interests in Abu Dhabi Offshore Block 5 through Pakistan International Oil Limited (PIOL), a consortium of OGDCL, PPL, MPCL and GHPL. GHPL also acquired 8.33% equity stake in Reko Diq project on instructions of Government of Pakistan Reko Diq project is owned 50% by Barrick, 25% by three SoEs i.e. GHPL, OGDCL & PPL, 15% by Government of Balochistan on fully funded basis and 10% on free carried basis.

(B) Comments on Company Performance

(Rs in million)

Contents	2022-23 (Initialled)	2021-22	2020-21	2019-20
Sales Net	126,035.66	98,960.64	67,063.22	71,520.12
Royalty & other levies	(15,262.78)	(11,359.39)	(7,600.14)	(8,058.83)
Operating & others expenses	(18,410.83)	(16,161.79)	(13,168.13)	(13,985.29)
Gross Profit	92,362.06	71,439.47	46,294.95	49,476.01
Other income	328.59	149.20	0	4,670.23
Exploration and prospecting expenditure	(447.90)	(685.93)	(561.33)	(598.31)
General and administrative expenses	(1,494.12)	(763.14)	(555.34)	(536.56)
Other expenses	(11,156.46)	(7,070.14)	(1,320.29)	(1,705.21)

Operating Profit	79,935.18	62,529.75	44,852.11	51,306.17
Finance Cost/Income	6,547.39	5,163.27	3,548.91	(528.38)
Profit before Taxation	85,799.42	65,179.47	48,401.02	50,777.79
Taxation	(36,638.99)	(21,989.15)	(14,944.47)	(17,634.04)
Profit after taxation	49,160.43	43,190.32	33,456.56	33,143.76

(Source: Annual Audited Accounts)

- i) GHPL's General and administrative expenses were within the range of 0.50% to 0.80% of net sales during the last four FYs. However, these expenses increased to 1.20% of net sales during FY 2022-23. These expenses also increased by 96% as compared to previous FY 2021-22. Major increase was noticed under heads of salaries and Business Development;
- ii) Exploration and prospecting expenditure for FYs 2022-23, 2021-22, 2020-21 and 2019-20 were Rs 447.90 million, Rs 685.93 million, Rs 561.33 million, and Rs 598.31 million respectively whereas there was no increase in production of oil, gas and LPG;
- iii) Trade receivables increased by 36% to Rs 191,708.859 million in FY 2022-23 from Rs 141,458.170 million in FY 2021-22, due to low recovery of revenue mainly from SNGPL and SSGC; and
- iv) Trade and other payables increased by 39% to Rs 26,207.000 million in FY 2022-23 from Rs 18,788.000 million in FY 2021-22.

2.7.2.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 99,319.408 million were raised in this report during the current audit of GHPL. Summary of the audit observations classified by nature is as under:

Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	
A	Investment Management Related Issues	89,550.000

B	HR / Employees Related Irregularities	19,348.000
C	Financial Management Related Issues	158.560
D	JV Related Issues	9,591.500

2.7.2.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	% age of Compliance
2010-11	03	-	03	-
2011-12	01	01	-	100
2012-13	03	03	-	100
2013-14	05	04	01	80
2014-15	02	-	02	-
2017-18	03	03	-	100
2021-22	01	-	01	-
Total	18	11	07	61

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

2.7.2.4 Audit Paras

Investment Management Related Issues

2.7.2.4.1 Investment in Reko Diq project without ensuring cash flows for future investment - Rs 89,550.000 million

According to Companies Act, 2017, “the business of the company shall be managed by the board.” Further, Finance, Procurement and Risk Management Committee of Board in its meeting held on August 25, 2022, apprised that estimated sales volume for the FY 2022-23 would decrease as major fields are on natural decline / depletion.

During audit of GHPL for the FY 2022-23, it was observed that BoD in its meeting held on June 15, 2023 resolved, in compliance of ECC’s decision dated March 15, 2022, that reserves of Rs 51.230 billion be reallocated back to accumulated profits and new reserves of Rs 20.000 billion be accumulated over next four years by setting aside Rs 5.000 billion each year for Reko Diq project. According to Board Audit Committee meeting held on May 10, 2023, phase-1 for development of Reko Diq would continue till year 2028 and production of copper and gold would start in 2028. The committed investment of GHPL for phase-1 would be US\$ 398 million (equivalent to Rs 89,550.000 million) over the next five years. GHPL also had other investment commitments in various ventures which require future financial cover. Audit contended that in this scenario GHPL invested in Reko Diq project without due diligence and position of cash flows was not properly assessed. Therefore, funds created to fulfil other objectives were also reversed to fund investment in Reko Diq project. Further, GHPL share of Rs 89,550.000 million in Reko Diq project would be paid in US dollars and provision for maintaining funds in US dollars was not created nor US dollar account was maintained by the management.

Audit was of view that weak financial management of GHPL resulted in commitment of investment in US dollars without ensuring availability of funds as well as requisite foreign currency.

The matter was reported to the management in September, 2023. The management in its reply dated December 11, 2023 stated that GHPL business was not exposed to any liquidity risk. The company maintains a healthy cash flow position which could be gauged by the fact that its cash and cash equivalents as of June 30, 2023, were US\$ 0.130 billion. GHPL had full capacity to fulfil its commitment towards the Reko Diq Project.

The DAC in its meeting held on December 22, 2023 directed the management to share the sensitivity analysis of liquidity of company and detail of dollar account with Audit. No further progress was reported till finalization of the report.

Audit recommends to ensure arrangement of funds to complete the Phase-I of Reko Diq project. Further, BoD direction to open US dollar account and to maintain funds in dollars be implemented.

[DP No. 2389]

HR / Employee Related Irregularities

2.7.2.4.2 Irregular grant of advance for purchase of vehicles - Rs 19.348 million

According to Para 4.5.2 relating to Advance for the Purchase of Vehicle under GHPL Service Rules, 2012, “the advance shall only be granted to an employee, excluding employees on contract and deputation, having minimum three (3) years of regular service period with the company.”

During audit of GHPL for the FY 2022-23, it was observed that the management granted advance for purchase of vehicles to six contract employees amounting to Rs 19.348 million during FYs 2019-20 to 2021-22 in violation of Service Rules as advance was admissible to permanent employees only.

Audit was of the view that weak internal controls resulted in grant of inadmissible advances to contractual employees for purchase of vehicles in violation of Service Rules.

The matter was reported to the management in September, 2023. The management in its reply dated December 11, 2023 stated that Vehicle Monetization Policy, 2012 was applicable to the contractual and permanent employees. In revised GHPL Service Rules effective from July 20, 2022, the clarity regarding vehicle loan had been duly approved by Board of Directors and implemented accordingly. Audit contented that the pointed-out cases were relating to “Advance for Vehicle” as clearly mentioned on the Sanction Documents and were not relating to monetization.

The DAC in its meeting held on December 22, 2023 directed the management to share the Policy with Audit for verification. No further progress was reported till finalization of the report.

Audit recommends to recover the outstanding balance of advances in lump sum besides getting in-admissible payment be regularized from BoD.

[DP No. 2398]

2.7.2.4.3 Extension in contract of Managing Director without approval from Federal Cabinet

According to Rule 5(2) of the Public Sector Companies (Corporate Governance) Rules, 2013 “the Board shall evaluate the candidates based on the fit and proper criteria and

the guidelines specified by the Commission for appointment to the position of the Chief Executive and recommend at least three candidates to the Government for its concurrence for appointment of one of them as Chief Executive of the public sector company, except where the Chief Executive is nominated by the Government. On receiving concurrence or nomination of the Government, as the case may be, the Board shall appoint the Chief Executive in accordance with the provisions of the Ordinance. The Board shall also be responsible for development and succession planning of the Chief Executive.” Further, according to Section 18(1) of State Owned Enterprises (Governance and Operations) Act, 2023 “the Board shall appoint a Chief Executive Officer to the state-owned enterprise under a performance based contract for a specified period.”

During audit of GHPL for the FY 2022-23, it was observed that BoD in its 179th meeting held on June 22, 2023 decided that the term of Managing Director be extended till the appointment of new Managing Director or 60 days whichever is earlier commencing from June 19, 2023 after expiry of contract of Managing Director on June 18, 2023. However, the extension was not got approved from the Federal Government as required by the rule *ibid*. It is worth mentioning that management had initiated process of recruitment of Managing Director and post was advertised on May 21, 2023.

Audit was of the view that weak regulatory oversight and laxity on the part of Directors in observance of law resulted in extension in tenure of Managing Director without approval of Federal Government.

The matter was reported to the management in September, 2023. The management in its reply dated December 11, 2023 stated that as per Section 18(1) of the SOE Act, 2023, the board was authorized to appoint MD. The contract of existing MD was accordingly temporarily extended by the board as the recruitment process for the appointment of regular MD / CEO through advertisement was going on.

The DAC in its meeting held on December 22, 2023 directed the management to refer the matter to Law Division for seeking clarification on audit observation.

Audit recommends that irregular extension in tenure of Managing Director be regularized / approved from the Federal Government.

[DP No. 2401]

Financial Management Related Issues

2.7.2.4.4 Provision of loans of Rs 150.000 million to subsidiary in violation of Companies Act, 2017

According to Section 199 (2 & 6) of Companies Act, 2017 “a company shall not invest in its associated company by way of loans or advances except in accordance with an agreement in writing and the return on such investment shall not be less than the borrowing cost of the investing company.”

During audit of GHPL for the FY 2022-23, it was observed that funds of Rs 150.000 million were paid by GHPL to ISGS on December 30, 2022 without any agreement as required under above mentioned provision. In 59th Board Audit Committee meeting held on June 13, 2023 it was informed by the management that GoP (Finance Division) will reimburse all operating expenses paid to ISGS and this loan of Rs 150 million was also provided by GHPL to ISGS on the instructions of GoP (Finance Division). If interest was charged on such loan by GHPL, it would be paid by GoP (Finance Division). This showed that loan of Rs 150.000 million was given to subsidiary in violation of Companies Act, 2017.

Audit was of the view that weak management resulted in grant of loan of Rs 150.000 million without keeping in view compliance of provision of Companies Act, 2017.

The matter was reported to the management in September, 2023. The management in its reply dated December 11, 2023 stated that funds were provided to ISGS as per decision of ECC as a stopgap arrangement, to meet the immediate funding requirements of ISGSL. These funds would be reimbursed as actual to GHPL by the Finance Division from GIDC funds within three months of the cash call made by ISGSL.

The DAC in its meeting held on December 22, 2023 directed the management to make agreement in the light of ECC decision.

Audit recommends to investigate the violation of the Companies Act, 2017 and remedial measure be taken for its implementation.

[DP No. 2392]

2.7.2.4.5 Irregular payment of foreign travel expenses - Rs 8.560 million

According to Para 5.1 of GHPL Service Rules 2012, “the employees shall be entitled to hotel accommodation, TA/DA and incidental allowances on official visit(s) as per the admissible rates. In the case of self-arrangement for accommodation, the consolidated TA/DA rate plus incidental allowance as per rates shall apply.”

During audit of GHPL for the FY 2022-23, it was observed that management paid foreign travel expenses to Managing Director, GHPL along with two Government officials for travelling to USA in January, 2023 in connection with litigation proceedings of Reko Diq. Audit contended that the expenses incurred by two Government officials were inadmissible as they were not employees of GHPL and their travel expenses should had

been borne by their respective departments. Further, these expenses were incurred on account of newly formed company i.e. PMPL which had to look after the affairs of Reko Diq project therefore, these expenses should be charged to the accounts of PMPL instead of GHPL. This resulted in irregular expenses of Rs 8.560 million on foreign travel.

Audit was of the view that due to weak internal controls, travel expenses of subsidiary company as well as officials relating to other departments were paid from GHPL funds.

The matter was reported to the management in September, 2023. The management in its reply dated December 11, 2023 stated that as per directions of Petroleum Division travel expenses were paid to complete Reko Diq investment formalities.

The DAC in its meeting held on December 22, 2023 directed the management to take up the issue with concerned offices for provision of certificates that expenses were not drawn from budgets of their respective offices.

Audit recommends to charge the travelling expenses to the accounts of PMPL and recover expenses from two Government officials.

[DP No. 2399]

2.7.2.4.6 Sale of LPG share of GHPL through JV operators without LPG sales agreements

According to Article 8.2 of Joint Operating Agreement of PCAs, “each of the working interest owners shall have the obligation to lift and separately dispose of its entitlement in all petroleum produced and / or stored at such times, in such quantities and in accordance with such procedures as may be agreed by all working interest owners.”

During audit of GHPL for the FY 2022-23, it was observed that GHPL was JV partner with other working interest owner in concessions and leases. GHPL authorised JV operators to sell LPG on its behalf, however, no LPG sale agreements were executed with POL, UEPL & OGDCL authorising them to sell GHPL’s share of LPG. During FY 2022-23 operators sold GHPL’s share of LPG of 46,197 M. Tone equivalent to an amount of Rs 10,978.290 million. This resulted in sale of LPG of Rs 10,978.290 million without executing LPG sales agreements as required under JOAs.

Audit was of the view that due to weak financial management, LPG sales agreements were not executed with operators by GHPL and without legal agreement for disposal of LPG, GHPL could not ensure recovery of sales revenue in case of any dispute between JV partners.

The matter was reported to the management in September, 2023. The management in its reply dated December 11, 2023 stated that LPG disposal agreements with PPL, UEPL and MOL had been executed whereas LPG disposal agreements with the rest of the operators had been finalized and were in the process of execution after seeking necessary approvals.

The DAC in its meeting held on December 22, 2023 directed the management to finalize the LPG agreements with OGDCL and POL and share the price comparison of executed agreements with Audit. No further progress was reported till finalization of the report.

Audit recommends to execute LPG sales agreement with operators at competitive prices besides implementing decision of DAC.

[DP No. 2396]

2.7.2.4.7 Non-conduct of audits of JVs accounts / related record by non-operators

According to Article 22.2 of PCA read with Clause 5(b) of JOA, “a non-operator, upon at least thirty days advance written notice to operator and other non-operator, shall have the right at its sole expense to audit the Joint Account and related records for any calendar year or portion thereof within twenty four months period following the receipt of the audited accounts of such calendar year.”

During audit of GHPL for the FY 2022-23, it was observed that GHPL did not conducted non-operator audit of 45 blocks out of 66 blocks / concessions. However, non-operator audit of 11 blocks was partially conducted. The minutes of Board Audit Committee revealed that internal audit department in last three and half years conducted non-operator audits of JV accounts resulting in credits / reversal of JV expenses to GHPL of over US\$ 600,000. Audit contended that non-operator audits were outstanding, despite the fact that as a result of non-operator audit, GHPL got credit / reversal of JV expenses of over US\$ 600,000 equivalent to Rs 165.000 million. It was also observed that internal audit department was working with 2 employees against the sanctioned post of 5 employees since 2019 despite the fact that GHPL had large portfolio of JVs.

Audit was of the view that weak oversight resulted in non-conduct of audit of JV's accounts / related record by non-operators.

The matter was reported to the management in September, 2023. The management in its reply dated December 11, 2023 stated that blocks were selected for non-operator audit on the basis of cost-benefit analysis. Audit requires that the working / evidence of factors for selection of non-operator audit along with statement showing time-gap as mentioned in reply may be shared with Audit.

The DAC in its meeting held on December 22, 2023 directed the management to complete JV audit activities and share the same with Audit. No further progress was reported till finalization of the report.

Audit recommends to complete the non-operator audit of the outstanding JVs.

[DP No. 2397]

JV Related Issues

2.7.2.4.8 Revenue loss due to delay in completion of Zafir Gas Processing Facility - Rs 8,453.000 million

According to Section 6 of Field Development Plan of Gambat South Block dated March 14, 2018, “the third gas processing facility (GPF-III) was to be installed near Wafiq X-1 location to cater the production of Wafiq X-1 and Zafir X-1 fields. The processing facility would be commissioned by October, 2018 and plant would be able to produce 40 MMSCFD of pipeline quality gas, 600 BBL/d of condensate and 12 M. Tones / day of LPG.”

During audit of GHPL for the FY 2022-23, it was observed that GHPL entered into Joint Venture with PPL (operator) in Gambat South Block with 25% share. According to Field Development Plan submitted to DG (PC) on March 14, 2018, PPL committed to install Zafir Gas Processing Facility (GPF-III) by October, 2018 for Zafir X-1 and Wafiq X-1 fields with capacity of 40 MMSCFD of pipeline quality gas, 600 BBL/d of condensate and 12 M. Tones / day of LPG. However, during TCM / OCM held in July 28, 2022, PPL informed that commencement of construction work of plant was subject to resolution of legal impediments / legal cases by the EPCC contractor.

Audit was of the view that non-completion of Zafir gas processing facility led to revenue loss of Rs 33,813.000 million to the JV, including GHPL’s share of Rs 8,453.000 million for the period from November, 2011 to June, 2023. GHPL could not play its part as JV partner which resulted in the loss of Rs 8,453.000 million to the organization. It may also be pointed out that extraordinary delay had resulted in lack of extraction of important domestic resource relying on imported products by that extent.

The matter was reported to the management in September, 2023. The management in its reply dated December 11, 2023 stated that contractor could not complete the facility within scheduled time despite follow up with the contractor therefore, operator terminated the contract in May, 2019. The contractor went into litigations against termination of contract at different forums and got stay order which were being pursued.

The DAC in its meeting held on December 22, 2023 directed the management to pursue the case vigorously.

Audit recommends to take up the matter with JV operator to find a solution to end litigation with contractor and share way forward / plan for completion of the project by the operator / JV partners with proposed completion date.

[DP No. 2381]

2.7.2.4.9 Delay in settlement of insurance claim of TAL block fire incident - Rs 1,138.500 million

According to Article 22.2 of PCA read with Clause 10.2 of JOA, “operator shall duly file all claims with respect to insurance arranged and maintained by the operator and shall take all necessary and proper steps to collect the proceeds.”

During audit of GHPL for the FY 2022-23, it was observed that a fire incident occurred on September 21, 2022 at TAL block’s warehouse, in which GHPL holds 15% working interest, caused extensive damage to inventory / spares. MOL (operator) filed an insurance claim with relevant insurers / loss adjuster based on initial estimates of US\$ 33 million equivalent to Rs 7,590.000 million having GHPL’s share of Rs 1,138.500 million. Further, operator developed consensus with all JV partners for the appointment of a single loss adjuster to assess the claims pertaining to all JV partners. However, this claim valuing Rs 7,590.000 million having GHPL’s share of Rs 1,138.500 million had yet to be realized despite lapse of more than fourteen months.

Audit was of the view that weak pursuance by GHPL, the management could not sensitize the operator on the issue.

The matter was reported to the management in September, 2023. The management in its reply dated December 11, 2023 stated that GHPL was actively pursuing the settlement of insurance claim and loss adjuster had verified the partial settlement based on procurements till July, 2023 amounting to approximately US\$ 13 million and this amount was expected to be received during December, 2023.

The DAC in its meeting held on December 22, 2023 directed the management to pursue the recovery of insurance claim.

Audit recommends to actively pursue the matter with JV operator for settlement of insurance claim.

[DP No. 2388]

2.7.3 Saindak Metals Limited (SML)

2.7.3.1(A) Introduction

Saindak Metals Private Ltd (SML) was incorporated in Pakistan as a private limited company on April 15, 1974 under the name of Resource Development Corporation Private Ltd. The name of the company was changed to Saindak Metals Private Ltd on October 03, 1993. SML was converted into public limited company on January 16, 1996. The registered office of the company is situated at Quetta and equity of the company is owned by GoP. The main objectives of the company are exploration, mining and metallurgical processing of copper, gold and other minerals located at Saindak in District Chagai, Balochistan.

SML leased its main plant to M/s MCC Resource Development Private Ltd (MRDL) of China for a period of ten years under the terms of lease contract dated November 30, 2001. The plant was handed over to MRDL on October 2, 2002. As per addendum No. 4 dated March 10, 2022 the lease agreement was extended up to October 31, 2037.

(B) Comments on Audited Accounts

The working results of the company for the FY 2021-22 as compared to previous years are as under:

(Rs in million)

Year	2021-22	% Inc / (Dec)	2020-21	% Inc / (Dec)	2019-20
Income	6,593.240	136.21	2,791.18	73.21	1,611.45
Administrative and general expenses	410.791	3.25	397.851	(4.777)	417.809
Share of Government of Balochistan	2,597.763	152.57	1,028.500	140.578	427.512
Operating profit / (loss)	4,660.599	241.480	1,364.82	78.15	766.124
Exchange loss	0	0	22.807	(56.575)	52.521
Other income	1,075.914	67.47	642.435	(18.448)	787.77

Profit / (loss) before Taxation	4,660.513	134.85	1,984.46	32.18	1,501.37
Taxation	2,223.838	267.914	604.445	28.406	470.731
Profit for the year / Profit after tax	2,436.674	76.56	1,380.01	33.90	1,030.64
Accumulated Profit / (Losses)	0.401	-	30.466	-	-35.624
Total Comprehensive Income	2,437.076	72.783	1,410.48	41.75	995.017

(Source: Annual Audited Accounts)

- i) Administrative & general expenses increased by 3.25% from Rs 397.851 million in 2020-21 to Rs 410.791 million in 2021-22;
- ii) Books of accounts showed an outstanding liability of Rs 15,734 million to GoP. The said amount was repayable in instalments on demand to GoP, yet the repayment schedule of this liability had not been defined;
- iii) BoD expenses showed an increase of 321% from Rs 3.122 million in 2020-21 to Rs 13.142 million in 2021-22;
- iv) Trade and other payables of the company increased by 21.27% as they were Rs 59.480 million in 2021-22 as compared to Rs 49.045 million in 2020-21. Such a sharp increase in trade debts shows a weak credit policy of the management;
- v) The management placed an amount of Rs 17,338.258 million in 2021-22 and Rs 11,178.87 million in 2020-21 in short-term investments on interest rates of 7.76% to 15%. The surplus should had been placed in long-term investments to earn high profits; and
- vi) The company has a negative equity of Rs 504.991 million (2021: Rs 2,942 million) and an accumulated loss of Rs 504.992 million as of June 30, 2022 (2021: Rs 2,942 million). The company's current liabilities exceeded its current assets by Rs 2,371 million in 2021-22 as compared to Rs 5,337 million in 2020-21.

2.7.3.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 2,487.508 million were raised in this report during the current audit. Summary of the audit observations classified by nature is as under:

Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	-
A	Contract Management	15.610
B	Financial Management	2,471.898

2.7.3.3 Compliance of PAC Directives:

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	%age of Compliance
2010-11	3	3	0	100
2013-14	4	4	0	100
2015-16	4	0	4	0
2016-17	1	0	1	0
2017-18	4	4	0	100
2019-20	4	4	0	100
Total	20	15	5	75%

The overall compliance of PAC directives needs improvement.

2.7.3.4 Audit Paras

Contract Management

2.7.3.4.1 Finalization of lease contract without performance bank guarantee of US\$ 70,000 equivalent to Rs 15.610 million

According to Clause 20 of lease contract dated November 30, 2001, “on or before the effective date, lessee shall deliver to lessor the performance guarantee substantially in the form and substance set out in Annex-10 attached hereto duly executed by lessee or its parent company. Lessee’s failure to do so shall be deemed to constitute a breach and shall entitle lessor to terminate the Lease Contract.”

During audit of SML for the FYs 2019-20 to 2021-22, it was observed that addendum No. 4 was made at Islamabad on March 10, 2022 effective from November 1, 2022 between the SML and MCC/MRD L for the extension of the term of the lease contract until October 31, 2037 but Saindak Metals Limited management finalized the lease contract with MCC/MRD L without a performance bank guarantee. As per lessee contract Clause 5(i)(a) the annual rent payable by the lessee to the lessor starting from the date of effective shall be US\$ 700,000. This resulted in non-obtaining of a performance bank guarantee of US\$ 70,000 (US\$700,000 X 10%) Rs 15.610 million (70,000 x Rs 223).

Audit was of the view that weak financial management resulted in the execution of the lease contract without obtaining performance bank guarantee.

The matter was reported to the management in March, 2023. In DAC meeting held on September 26, 2023, the management stated that the company had written a letter to MCC/MRD L (Lessee) regarding the revalidation and submission of performance bank guarantee as soon as possible.

The DAC directed the management to submit revalidated performance bank guarantee within two months. No further progress was reported till finalization of the report.

Audit recommends to obtain re-validated performance bank guarantee from the contractor.

[DP No. 2321]

2.7.3.4.2 Non-compliance of contract regarding conducting pre-feasibility study for setting up copper refinery

According to Clause 6 of Addendum No. 2 dated May 18, 2011 of the lease contract signed between M/s Metallurgical Corporation of China Ltd (MCC) and SML, MCC/MRD L, at its own cost shall carry out a pre-feasibility study for setting up a copper refinery of an optimal size and at an appropriate site within Balochistan and submit the same to Government

of Balochistan as early as possible. If the refinery option is economically feasible and the GoB decides to go ahead with this venture, MCC/MRDL shall provide technical and financial support to GoB for its execution.

During audit of SML for the FYs 2019-20 to 2021-22, it was observed that contractual obligation of pre-feasibility study was not fulfilled by the MCC/MRDL management despite lapse of twelve years. The SML management failed to get the job done from the lessee as per contract.

Audit was of the view that in the absence of a pre-feasibility study, the objective of establishment of a copper refinery would remain elusive and the benefits that such a refinery could bring for the people of the area through employment generation and for the country. The refinery could add value to the current exports.

The matter was reported to the management in March, 2023. In DAC meeting held on September 26, 2023, the management stated that MCC/MRDL informed that they had already conducted discussions with SML and GoB, where GoB had provided essential conditions including copper refinery site option.

The DAC directed the management to submit a report to ensure implementation of Clause 6 of Addendum No. 2 dated May 18, 2011 regarding setting up a copper refinery within one week. No further progress was reported till finalization of the report.

Audit recommends to take disciplinary action against the officers / officials responsible for non-compliance of provisions of the contract besides ensuring setting up of copper refinery and submit report as per decision of DAC.

[DP No. 2324]

2.7.3.4.3 Non-compliance of Clause 10 of the lease contract regarding employment and training

According to Clause 10 of the lease contract with MCC / MRDL dated September 30, 2001, lessee hereby covenants with lessor that it shall employ only such expatriate professionals who have sufficient knowledge and expertise and such expatriates shall be replaced by qualified Pakistani staff gradually as provided in the employment plan. Further, according to agenda item No. 3 of minutes of SML / MRDL management meeting held on February 06, 2018, management noted that as per Clause 10 of agreement with MCC / MRDL after 10 years there should have been only 30-50 Chinese employees.

During audit of SML for the FYs 2019-20 to 2021-22, it was observed that as per agreement with MCC / MRDL, only 30-50 Chinese were required to be working at the project

site but more than 200 Chinese were employed violating contractual obligations and employment plan. This Clause was to be implemented in letter and spirit but MCC / MRDL violated it.

Audit was of the view that non-compliance of Clause 10 of lease contract resulted in unemployment and non-upgradation local human resource.

The matter was reported to the management in April, 2023. In DAC meeting held on September 26, 2023, the management stated that extensive on-job training had been imparted, with 800 trained staff transitioning to the local industry. SML management was monitoring activities and was satisfied with the employment and training conducted by MCC / MRDL.

The DAC directed the management to present evidence of Chinese trainers. DAC further directed to present a detailed report about the persons trained during the period and reduce the number of expatriates. No further progress was reported till finalization of the report.

Audit recommends to implement the Clauses of the contract regarding employment and training besides implementing the decision of DAC.

[DP No. 2330]

Financial Management

2.7.3.4.4 Non-implementation of BoD decision regarding CSR spending of Rs 1,872.000 million

According to Sr. No. 3.6 of minutes of 153rd BoD meeting of SML held on June 30, 2022, the board discussed the spending of 5% profit of SML being deposited in the GoB's account No. 01 against CSR and advised the management to take up the matter with GoB for ascertaining detail of the CSR amount spent. Board also advised the management to write a letter to the GoB to form a committee with SML representation to supervise the spending of funds of CSR for development in specified areas for which the amount is provided because under the rulers, SML is responsible for spending of CSR in the relevant areas and for intended purpose.

During audit of SML for the FYs 2019-20 to 2021-22, it was observed that an amount of Rs 1,872.000 million (US\$ 12.419 million) for the FYs 2013 to 2021 was provided to GoB for CSR. However, management of SML and MCC/MRD L had not devised any monitoring mechanism for spending of CSR funds. Further, the detail of projects / schemes on which CSR funds were spent was not provided to Audit. SML Board advised to the management to take up matter with GoB to constitute a committee for supervising the spending of the funds, but no progress had been made. This resulted in non-implementation of board's directives to constitute committee for supervision of the CSR funds of US\$ 12.419 million equivalent to Rs 1,872.000 million.

Audit was of the view that Petroleum Division had issued Social Welfare Guidelines for utilization of Social Welfare funds contributed by Exploration and Production companies' agreements for utilization in & around the license / lease areas in a fair and transparent manner. In the same manner, the guidelines for the utilization of CSR funds should had been framed.

The matter was reported to the management in March, 2023. In DAC meeting held on September 26, 2023, the management stated that the contractual agreement does not impose an obligation on SML to oversee the utilization or spending of these funds. The GoB has its own system to manage and control the budget allocated for CSR activities. It was important to note that the agreement does not include any Clause that grants SML, the authority or responsibility to monitor the spending of the CSR funds.

The DAC directed the management to take up the matter with GoB through the Petroleum Division.

Audit recommends to take up the matter with GoB through Petroleum Division to monitor the spending of the CSR funds.

[DP No. 2333]

2.7.3.4.5 Non-refund of Sales Tax on Services withheld by Balochistan Revenue Authority - Rs 407.000 million

According to Rule 28, of General Financial Rules, "no amount due to the Government should be left outstanding without sufficient reason".

During audit of SML for the FYs 2019-20 to 2021-22, it was observed that Balochistan Revenue Authority recovered an amount of Rs 407.000 million pertaining to the financial year 2018-2019 from SML by attaching accounts on the plea that it had provided services to M/s MCC/MRD L. SML filed appeal before Appellate Tribunal, Balochistan, against the decision of Commissioner (Appeals) of BRA. The appeal was decided in favour of SML on November 25, 2022 for refund of Rs 407.000 million to SML. The management

failed to recover this huge amount from BRA despite lapse of reasonable time, which prima facie, caused loss to the SML.

Audit was of the view that weak follow up resulted in non-refund of Sales Tax on Services withheld by Balochistan Revenue Authority.

The matter was reported to the management of SML in March, 2023. In DAC meeting held on September 26, 2023, the management stated that after favourable decisions, SML applied for refund of Rs 407.000 million withheld by BRA.

The DAC directed the management to pursue the refund case and get it verified from Audit. No further progress was reported till finalization of the report.

Audit recommends to pursue the matter with Balochistan Revenue Authority for early refund of withheld amount.

[DP No. 2325]

2.7.3.4.6 Imprudent investment of Rs 500.000 million in short term securities / bonds against Board's directives resulting in loss of interest income of Rs 192.898 million

According to Sr. No. 2.6 of the 115th Board's meeting held on September 08, 2012, regarding investment of Rs 500.000 million for the years 2012-13, "board appreciated the approach of the SML management in the best interest of organization and its survival in case of financial crises, as such the investment of Rs 500.000 million to be deemed as strategic investment and may be invested for 05 years. For the time being Rs 500.000 million may be invested in banks and Government securities / bonds to earn revenue / profit for the company. Director General (Mineral) and Additional Chief Secretary, GoB proposed, for investment of Rs 500.000 million business plan may be discussed in Board Finance Committee and same may be placed before the board for final approval."

During audit of SML for the FYs 2019-20 to 2021-22, it was observed that the management had received profit share of Rs 1,534.433 million for FY 2018-19 and Rs 2,710.397 million for FY 2019-20. The management invested these funds in short-term deposits of 3 to 12 months in different banks at 6.5% markup rates instead of investing in strategic investments / banks and Government securities / bonds for the long-term period at higher rates. This resulted in non-compliance of Board's directives regarding investment of funds in strategic investments as well as loss of interest income due to short-term investment at low rates as detail below:

(Rs in million)

Year	Share of profit received on	Profit share	long term interest rates on saving	Long-term investment Profits	Short term bank interest	Short-term investment profits	Difference
2019	September 18,	1,534.433	12.0	184.132	6.5%	99.738	(84.393)
2020	June 11, 2021	2,710.397	10.5	284.591	6.5%	176.175	(108.505)
			Total	468.958		275.914	192.898

Audit was of the view that weak financial management resulted in non-investment of funds in a strategic investment and loss of interest income.

The matter was reported to the management in April, 2023. In DAC meeting held on September 26, 2023, the management stated that it was committed to develop a comprehensive document for investment and it would be presented before board for approval. Subsequently, a strategic plan for long-term investment would be finalized. Newly formulated investment policies were also currently under the Board's deliberation. Once these policies finalized and approved by the Board, the management would subsequently explore the possibility of incorporating long-term investment strategies.

The DAC directed the management to share the agenda item and minutes of BoD meeting held on September 8, 2012 & February 12, 2020 along with reasons of non-compliance of Board's decisions to Audit for verification within one week. DAC further, directed the management to submit detailed revised reply including the decision of the board and the agenda presented before the board.

Audit recommends to submit detailed revised reply and share the agenda item, minutes of BoD meeting along with reasons of non-compliance of Board decisions to Audit for verification.

[DP Nos. 2328 & 2329]

2.7.4 SSGC LPG Ltd. (SLL)

2.7.4.1 Introduction

SSGC LPG Limited (SLL) started terminal operations in January, 2012 after acquisition of Progas assets in October, 2011. After which SLL started bottling operations in June, 2012 at the Port Qasim Plant and at the Hattar Plant in July, 2012. The first supply to the air mix segment (SNG) was made in April, 2012.

SLL is a fully integrated LPG marketing and distribution company capable of giving customers reliable and economic supply of product. Supply chain of the company extends from allocation from local producers and a fully owned import terminal at Port Qasim to supply consumer retail packs of LPG. Activities of the company start from the import of LPG extended to the storage, bottling, distribution and marketing of LPG both in bulk tanks and cylinders.

SLL has its main office in Karachi, regional offices in Islamabad, Lahore and a terminal office at Port Qasim, Karachi. Regional Distribution Centres are located in Haripur near Islamabad, Lahore. The company at present has 109 employees with qualified and experienced staff from the LPG industry. It has over 160 dealers nationwide.

2.7.4.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 593.113 million were raised in this report during the current audit. Summary of the audit observations classified by nature is as under:

Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	-
A	Procurement and Contract Related Issues	2.278
B	Others	590.835

2.7.4.3 Audit Paras

Procurement and Contract Related Issues

2.7.4.3.1 Irregular award of contract for procurement of services of Chartered Accountant - Rs 2.278 million

According to Section 20 of PPRA Rules, 2004, “the procuring agencies shall use open competitive bidding as the principal method of procurement for the procurement of goods, services and works.” Further, according to Rule 12(1) of ibid, “procurement over five hundred thousand Pakistani rupees and up to the limit of three million Pakistani rupees shall be advertised on the authority’s website in the manner specified by regulation by the authority from time to time. These procurement opportunities may also be advertised in print media, if deemed necessary by the procuring agency.”

During audit of SLL for the FYs 2019-20, to 2021-22, it was observed that the management incurred an expenditure of Rs 2.278 million on the procurement of services of Chartered Accountants firm for the audit of accounts for the FYs 2019-20 to 2021-22. The tender for these services were not uploaded on the authority as well as company’s website as detailed below:

(Rs in million)

Sr. No.	Name of Firm	Year of Audit	Amount
1	M/s Delottee	2019-20	0.884
2	M/s BDO Ebrahim & Co	2020-21	0.630
3	-do-	2021-22	0.764
		Total	2.278

Audit was of the view that the expenditure for procurement of services of Chartered Accountant Firms without uploading tender was irregular.

The matter was reported to the management in August, 2023. The management in its reply dated September 01, 2023 stated that SLL followed the procedure adopted by parent company and appointed the same auditors. Parent company i.e. SSGC appointed M/s Deloitte Yusuf Adil as their auditors till 2020 and SLL followed this practice. However, in 2021 SSGC changed auditors and appointed M/s BDO Ebrahim & Co therefore, SLL changed their auditors as per the recommendation of the Board.

The DAC in its meeting held on September 25, 2023 directed the management to take up the matter with PPRA for clarification. No further progress was reported till finalization of the report.

Audit recommends to implement the decision of DAC.

[DP No. 2361]

Others

2.7.4.3.2 Abnormal delay in refund of Income Tax of Rs 517.935 million

According to Section 170 of Income Tax Ordinance, 2001, “a taxpayer who has paid tax in excess of the amount which the taxpayer is properly chargeable under this Ordinance may apply to the Commissioner for a refund of the excess tax paid.”

During audit of SLL for the FYs 2019-20 to 2021-22, it was observed that the management paid Advance Income Tax in different years which had to be refunded from Income Tax Department. However, the same had been pending since 2012. Total refund of Income Tax amounting to Rs 517.935 million had been reflected in the Financial Statement as on June 30, 2022.

Audit was of the view that weak follow up by the management of SLL resulted in delay in getting refund of Income Tax.

The matter was reported to the management in August, 2023. The management in its reply dated September 01, 2023 stated that the company had regularly followed up the matter through its tax lawyers. All the previous returns of Income Tax were open and will now be finalized upon which the amount of refund will be determined by the tax department.

The DAC in its meeting held on September 25, 2023 directed the management to pursue the matter with FBR vigorously. No further progress was reported till finalization of the report.

Audit recommends to pursue the matter with FBR to finalize the case of refund of Income Tax.

[DP No. 2357]

2.7.4.3.3 Irregular payment of Signature Bonus to OGDCL for purchase of LPG - Rs 72.900 million

According to decision of OGRA dated June 22, 2018, “the Authority decides that LPG producers, in public or private sector, cannot charge signature bonus, as per approved LPG Policy.”

During audit of SLL for the FYs 2019-20 to 2021-22, it was observed that the company entered in sale purchase agreement with OGDCL (LPG producer) for procurement of LPG from February, 2017 to February, 2022 for 05 M. Tone per day for the period of 05 years and paid Signature Bonus of Rs 72.900 million to OGDCL. This resulted in irregular payment of Signature Bonus of Rs 72.900 million in violation of approved LPG policy.

Audit was of the view that weak financial controls resulted in irregular payment of Signature Bonus.

The matter was reported to the management in August, 2023. The management in its reply dated September 01, 2023 stated that the company approached OGDCL for getting the refund of the balance amount of Signature Bonus however, OGDCL replied that OGRA decision was prospective and OGDCL would not charge Signature Bonus in future. However, the amount already paid was for signing the contract for allocation of LPG and this amount or any part thereof would not be returned.

The DAC in its meeting held on September 25, 2023 directed the management to take up the matter with OGRA and conclude the matter within one month. No further progress was reported till finalization of the report.

Audit recommends to take up matter with OGDCL for refund of irregular paid signature bonus besides implementing the decision of DAC.

[DP No. 2354]

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

According to Para 1 of National Assembly Secretariat (Public Accounts Committee Wing) OM No. P.10 (4&7)/2012-PAC dated September, 03 2012, “the Public Accounts Committee directed in its meeting held on August, 29 2012 that the agenda and minutes of all the meetings of all the Executive Boards of all the State Corporations / Concerns, Autonomous and Semi-Autonomous Bodies, the audit of which may be conducted by the Auditor-General of Pakistan, must be brought on the websites of the said organizations immediately before and after holding the said meetings, accordingly.” Further, Part-2 of directions *ibid*, states that the Compliance Report on the above directives may be furnished to this Secretariat for the perusal of Public Accounts Committee.”

During audit of SLL for the FYs 2019-20 to 2021-22, it was observed that 27 meetings of BoD were held during the year. However, the management did not comply with

the PAC directives for uploading / publication of the minutes on its website. Audit contended that this shows clear violation of PAC directives by the management and reflects lack of transparency in the business of the company as BoD minutes were not made available to the stakeholders.

Audit was of the view that due to negligence of managements of the PSEs, the desired information was not available at website.

The matter was reported to the management in August, 2023. The management in its reply dated September 01, 2023 stated that the directives of PAC pertain to information which was not confidential nature and its dissemination may not be in the interest of the company and may also be in contravention of the Company Ordinance, 1984 and the Code of Corporate Governance. Therefore, it was not appropriate to legally comply with the directives of PAC.

The DAC in its meeting held on September 25, 2023 directed the management to implement the directives of the PAC.

Audit recommends to implement the PAC directives in letter and spirit.

[DP No. 2362]

Chapter-3
Cabinet Division

3.1 Oil and Gas Regulatory Authority

3.1.1 (A) Introduction

Oil and Gas Regulatory Authority Ordinance was established under Oil & Gas Regulatory Authority Ordinance, 2002. The objective of the Authority was to foster competition, increase in private investment and ownership in the midstream (storage & carrying) and downstream (storage & distribution) petroleum & gas industry of Pakistan, protect the public interest while respecting individual rights and to provide effective and efficient regulations for related matters. The Authority comprises of Chairman / Chairperson and three Members viz; Member (Gas), Member (Finance) and Member (Oil). They can serve for maximum of two terms, subject to retirement on attaining the age of 65 years. The Authority has the exclusive power to grant licenses for regulated activities with regard to Natural Gas, Compressed Natural Gas (CNG), Liquefied Petroleum Gas (LPG), Liquefied Natural Gas (LNG) and Oil sectors.

(B) Audit Profile of OGRA

Audit profile of OGRA under Cabinet Division is under:

(Rs in million)

Sr. No.	Description	Total No.	Audited	Expenditure audited FY 2022-23	Revenue / Receipts audited FY 2022-23
1	Formation / Autonomous Body (OGRA)	1	1	1,107.495	1,339.736

(Source: Annual Audited Accounts)

3.1.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 129,200.930 million were raised in this report during the current audit of OGRA. This amount also includes recoveries of Rs 210.973 million as pointed out by Audit. Summary of the audit observations classified by nature is as under:

Overview of Audit Observations

(Rs in million)

Sr. No.	Classification	Amount
1	Irregularities	-
A	Defective Financial Management	443.353
B	Violation of Rules / Regulations	128,757.577

3.1.3 Compliance of PAC Directives

Audit Year	Total Directives	Compliance Reported	Compliance Awaited	%age of Compliance
2006-07	5	4	1	80
2009-10	1	0	1	-
2010-11	7	7	0	100
2012-13	1	0	1	0
2013-14	14	12	2	86
2014-15	14	11	3	79
2015-16	3	1	2	33
2016-17	1	1	0	100
2017-18	27	16	11	59

2018-19	19	12	7	63
2019-20	13	4	9	31
Total	105	68	37	65%

The overall compliance of the PAC directives was very poor and required immediate attention of PAO.

3.1.4 Audit Paras

Financial Management

3.1.4.1 Non-deposit of surplus to the Federal Consolidated Fund - Rs 232.380 million

According to Section 17(4) of OGRA Ordinance, 2002, any surplus of receipts over the actual expenditure in a year, after payment of tax, shall be remitted to the Federal Consolidated Fund and any deficit from the actual expenditure should be made up by the Federal Government.

During audit of OGRA for the FY 2022-23, it was observed that the Authority did not deposit the surplus amount of Rs 232.380 million for the FY 2022-23 into Federal Consolidated Fund (FCF). It was also observed that OGRA has not complied with Treasury Single Account of the Government of Pakistan.

Audit was of the view that non-compliance of the Rules resulted in non-deposit of surplus receipts to the tune of Rs 252.380 million in FCF.

The matter was reported to the management in September, 2023. In DAC meeting held on January 03, 2024, OGRA stated that surplus funds would be deposited after finalization of annual audited accounts. However, the Deputy Secretary (Expenditure Cabinet) emphasized that Finance Division on January 31, 2023 expanded the scope of Treasury Single Account and OGRA became part of Treasury Single Account, therefore cash management of OGRA would be dealt according to PFM Act, 2019.

The DAC directed OGRA to comply with requirements of PFM, Act, 2019 / Treasury Single Account. No further progress was reported till finalization of the report.

Audit recommends to deposit surplus in FCF besides ensuring the compliance of PFM, Act, 2019 regarding Treasury Single Account.

Note: The issue was reported earlier also in the Audit Reports for Audit Years 2020-21 & 2021-22 vide para numbers 3.1.7.3 & 3.1.4.3 having financial impact of Rs 1,026.259 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2605]

3.1.4.2 Short recovery of annual fee from OMCs, refineries and oil plants - Rs 210.973 million

According to Clause b of Schedule II of Pakistan Oil (Refining, Blending, Transportation, Storage and Marketing) Rules, 2016, annual fee of oil marketing companies, lubricant marketing companies and refineries is payable in advance at prescribed rate, for the first year and escalated with Government of Pakistan's CPI in subsequent years.

During audit of OGRA for the FY 2022-23, it was observed that Authority did not enhance the annual fee on the basis of escalation with Government of Pakistan's Consumer Price Index and continued to collect from 107 oil marketing companies (OMCs), lubricating marketing companies and 05 refineries, since 2018. This resulted in short recovery of annual fee to the tune of Rs 210.973 million.

Audit was of the view that weak financial management and non-observance of rules resulted in short recovery of annual fee.

The matter was reported to the management in September, 2023. In DAC meeting held on January 03, 2024, OGRA stated that it had formulated Fee and Charges Rules, 2023 and sent to Cabinet Division on August 02, 2023 for vetting by Law and Justice Division. After promulgation of the said Rules, fee Clauses of all the rules would be amended and should be dealt accordingly. Audit contended that till the approval of new rules, the existing rules have to be followed.

The DAC was not satisfied with the stance of OGRA and directed that a fact-finding inquiry be carried out in the matter by the Joint Secretary (RA), Cabinet Division within one month. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility on persons at fault and recover annual fee on escalation basis from 2018 onward.

[DP No. 2598]

Violation of Rules / Regulations

3.1.4.3 Undue delay in finalization of RLNG prices - Rs 103,082.892 million

According to Section 6(2)(r) of OGRA Ordinance 2002, "the Authority administers or establishes prices, for those categories of petroleum for which Federal Government establishes prices and may delegate the function to the Authority from time to time." The DG (Gas) vide letter No. DGO(AC)-5(235)/ 15-LNG-Vol.-I-Pt dated June 27, 2016 issued guidelines for determination of sales price of RLNG after approval from the ECC of the Cabinet and advise to implement the decision of ECC.

During audit of OGRA for the FY 2022-23, it was observed that the Authority failed to notify final RLNG price since the start of import of RLNG in 2015. This has resulted in multiple issues of payment between buyers and sellers of RLNG. For instance, an estimated

value for differential amount of Rs 103,082.892 million had accrued on SNGPL as payable to PSO and PLL. Further, SNGPL was also facing legal issues with the consumers of RLNG due to non-finalization of price.

Audit was of the view that the OGRA failed to discharge its regulatory function regarding notification of final RLNG price resulting in accumulation of huge amount of Rs 103,082.892 million.

The matter was reported to OGRA in August, 2023. In DAC meeting held on January 03, 2024, OGRA stated that scrutiny of data regarding determination of RLNG prices were at final stage and final RLNG prices would be notified by March, 2024.

The DAC directed OGRA to notify final RLNG prices at the earliest. No further progress was reported till finalization of the report.

Audit recommends to finalize RLNG prices without further delay and fix responsibility on the persons at fault for delay in finalization of price of RLNG.

[DP No. 2578]

3.1.4.4 Unjustified capitalization of meter replacement cost of SSGC despite failure to reduce UFG - Rs 15,147.195 million

According to Rule 17(h & J) of Natural Gas Rules, 2002, “tariff should generally be determined taking into account a rate of return as provided in the license, prudent operation and maintenance cost, depreciation, Government levies and if applicable, financial charges and cost of natural gas. And only such capital expenditure should be included in the rate base as is prudent, cost effective and economically efficient.”

During audit of OGRA for the FY 2022-23, it was observed that the Authority allowed SSGC the capitalization of Rs 12,000.000 million for replacement of 50% of its total domestic meters with new ones to reduce UFG from 2013-14 to 2018-19. These expenditures were capitalized and its incidence was passed on to general public. Despite this, UFG of SSGC increased to 18.28% from 13.82%. This resulted in unjustified determination of final revenue requirement amounting to Rs 15,147.195 million of SSGC despite failure to reduce UFG.

Audit was of the view that due to weak monitoring, the OGRA failed to protect interest of consumers because SSGC could not reduce its UFG losses despite incurring huge expenditure on meter replacement.

The matter was reported to the management in September, 2023. In DAC meeting held on January 03, 2024, OGRA stated that factors contributing towards the UFG include

gas theft, leakages etc. The “meter replacement” activity serves as a contributing element within the broader UFG reduction strategy.

The DAC directed OGRA that legal provision regarding change / replacement of gas meters may be shared with Audit for verification. No further progress was reported till finalization of the report.

Audit recommends to justify capitalization of meter replacement cost without ensuring that their intended purpose was achieved or not.

[DP Nos. 2587]

3.1.4.5 Excess expenditure due to imprudent decision making by OGRA - Rs 10,454.696 million

According to Section 6(2)(u) of OGRA Ordinance, 2002, “the Authority shall oversee the capital expenditure to be made by licensees for natural gas in connection with any regulated activity pertaining to natural gas.”

During audit of OGRA for the FY 2022-23, it was observed that OGRA approved a project for laying of 230 Km pipeline of 18” diameter at total cost of Rs 18,495 million on June 24, 2022 for injection of gas of Bannu West gas fields in to SNGPL network. Member (Gas) pointed out that the similar purpose could be achieved through 70-100 kms instead of 230 km long pipeline. The issue was first communicated to SNGPL in July, 2022 and again in November, 2022. However, SNGPL replied on December 06, 2022 that the Authority raised query after lapse of 120 days and completion of 150 Km pipeline. This resulted in imprudent decision by the Authority leading to approval of project which was not cost effective with an excess cost of Rs 10,454.696 million.

Audit was of the view that lack of due diligence resulted in undue transfer of burden of Rs 10,454.696 million to the end consumers of SNGPL.

The matter was reported to the management in September, 2023. In DAC meeting held on January 03, 2024, OGRA stated that selection of pipeline route did not necessarily mean selecting the shortest route.

The DAC was not satisfied with the stance of OGRA and decided that a fact-finding inquiry may be carried out at the level of Cabinet Division, within a month by Joint Secretary (RA) (Chairman) and Chief Finance & Accounts Officer (Member). No further progress was reported till finalization of the report.

Audit recommends to fix responsibility on persons at fault for slack pursuance and lack of due diligence.

[DP No. 2583]

3.1.4.6 Ineffective regulatory oversight of LPG sector - Rs 29.620 million

LPG (Production & Distribution) Rules, 2001 and Policy 2016 regulate the business of LPG in Pakistan wherein OGRA, as the regulator, has been assigned to fulfil the following conditions:

- i) Registration of authorized distributors of LPG marketing companies and maintaining their database (Clause 3.6.4 of Policy);
- ii) Ensuring provision of serial number of their cylinders to OGRA by LPG marketing companies each year, confirming that the cylinders have been properly tested as per requirement of the LPG Rules / Standards (Clause 3.6.7 of Policy); and
- iii) Ensure that no licensee shall operate its works including filling plants, storage, transportation and distribution of LPG unless the same are insured (Rule 27 of Rules).

Further, the Senate Standing Committee on Cabinet on February, 2023 directed OGRA to enhance penalty to be imposed on manufacturers selling sub-standard cylinders through legal provision. OGRA committed for establishment of dedicated enforcement department to safeguard the public interest and enforce safety standards in collaboration with local / district management.

During audit of OGRA for the FY 2022-23, it was observed that as per website of OGRA, 280 LPG marketing companies were operating in the country. Out of these, only 95 provided the list of their 5,924 authorized distributors. OGRA, however, could not register these distributors meaning thereby that it could not recover the registration fee from these distributors to the tune of Rs 29.620 million. OGRA could not ensure submission of list of distributors from remaining 185 companies.

Further, OGRA did not ensure compliance of policy regarding submission of annual list of their cylinders by marketing companies. OGRA also failed to take steps, as committed before Senate Standing Committee, for establishment of dedicated enforcement department for LPG safety. Moreover, OGRA did not provide details regarding insurance against loss and damage to the public life and property by LPG marketing companies.

Audit was of the view that due to weak monitoring of LPG sector resulted in revenue loss of Rs. 29.620 million and non-compliance of safety standards to safeguard human lives and property.

The matter was reported to the management in September, 2023. In DAC meeting held on January 03, 2024, OGRA stated that it was constantly pursuing marketing companies for registration of their distributors and action against illegal LPG decanting shops, illegal

manufacturers fall under purview of the provincial / district authorities which involved sealing of illegal shops / registration of FIRs against the offenders. Further, it was stated that under the provisions of LPG Rules, 2001, the responsibility of insurance against loss and damage to the life and property was on the licensee. OGRA had been obtaining valid insurance certificate from the applicants / LPG companies. Audit contended that reply was not tenable as according to policy and licence conditions, companies were required to submit detail of cylinders to OGRA.

The DAC directed OGRA to ensure the availability of all the lists of authorized distributors immediately and to ensure compliance with LPG Policy, 2016. DAC further directed OGRA to ensure that a mechanism be developed for insurance of LPG marketing companies and the insurance certificates of all 280 LPG marketing companies were verified from Audit, without delay. No further progress was reported till finalization of the report.

Audit recommends to ensure compliance of LPG (Production & Distribution) Rules 2001 and Policy 2016 by the regulator.

[DP Nos. 2585, 2589 & 2594]

3.1.4.7 Irregular purchase of vehicles during ban period - Rs 22.024 million

According to Finance Division's direction dated February 27, 2023 "there shall be a complete ban on purchase of all types of vehicles till June, 2024".

During audit of OGRA for the FY 2022-23, it was observed that the Authority purchased four vehicles for Rs 22.024 million in violation of Government's instructions. This resulted in irregular purchase of vehicles during ban period.

Audit was of the view that non-compliance of Finance Division's instructions resulted in purchase of vehicles during ban period.

The matter was reported to the management in September, 2023. In the DAC meeting held on January 03, 2024, OGRA stated that Finance Division's referred OMs regarding austerity measure was not applicable on OGRA. Audit contended that since the expenses of the Authority directly linked with the FCF, therefore, it was bound to abide by these instructions.

The DAC directed OGRA to get the reported matter regularized from Finance Division. Besides, exemption may be sought from Finance Division in future. No further progress was reported till finalization of the report.

Audit recommends to get the matter regularized from Finance Division besides ending practice to violate directions of Finance Division in future.

Note: The issue was reported earlier also in the Audit Reports for Audit Years 2021-22 & 2022-23 vide para numbers 3.1.4.7 & 3.1.4.6 having financial impact of Rs 22.404 million. Recurrence of same irregularity is a matter of serious concern.

[DP No. 2606]

3.1.4.8 Irregular hiring of third-party inspector for CNG - Rs 21.150 million

According to Sections 48 (3) & (7) of PPRA Rules, 2004, “any bidder feeling aggrieved by any act of the procuring agency after the submission of his bid may lodge a written complaint concerning his grievances within seven days of announcement of the technical evaluation report and five days after issuance of final evaluation report.” Any bidder or party not satisfied with the decision of the GRC may file an appeal before the authority (i.e. PPRA) within thirty days of communication of the decision”. Further, according to Clause V of expression of interest for pre-qualification of third-party inspectors to inspect CNG works / installations / stations published in the daily Dawn Islamabad on December 07, 2019 “TPI should have no direct / indirect interest in the CNG industry.”

During audit of OGRA for the FY 2022-23, it was observed that the management invited applications for third party inspectors (TPI) of CNG in December 2019, in which six firms were qualified. One of the two disqualified firms namely M/s Askari Trading lodged complaint with Grievance Redressal Committee (GRC) after expiry of the stipulated seven days’ period. On rejection of its complaint by GRC, the firm filed the appeal before OGRA, which admitted it and set aside the decision of the GRC. As per PPRA Rules, appeal against GRC could only be lodged with PPRA and not OGRA. Subsequently, contract for inspection of 423 CNG stations was awarded to the firm for Rs 21.150 million in violation of set criteria.

Audit was of the view that due to non-compliance of PPRA Rules, the award of contract of Rs 21.150 million was irregular.

The matter was reported to the management in September, 2023. In DAC meeting held on January 03, 2024, OGRA stated that conflict of interest about M/s Askari Trading was noted. The company made appeal before OGRA which was decided under Section 10 and 12 of OGRA Ordinance, 2002. However, CF&AO opined that contention of Audit was correct.

The DAC directed OGRA to refer the matter to PPRA for consideration and decision. No further progress was reported till finalization of the report.

Audit recommends to conduct a fact-finding inquiry and fix responsibility on persons at fault.

3.1.4.9 Defective determination of sales price of gas resulting in discrimination in sales prices for fertilizer sector

According to Section 8(1) of OGRA Ordinance 2002, “the Authority shall determine an estimate of the total revenue requirement of each licensee for natural gas engaged in transmission, distribution and sale of natural gas to a retail consumer for natural gas, in accordance with the rules, and on that basis advise the Federal Government the prescribed price of natural gas for each category of retail consumer for natural gas.” Further according to Section 8(4), “if the Federal Government fails to advise the Authority within specified time, the Authority shall notify in the official Gazette the prescribed price as determined by the Authority to be the sale price for the said category of retail consumers for natural gas.”

During audit of OGRA for the FY 2022-23, it was observed that OGRA increased sale price of gas w.e.f. January 01, 2023 for fertilizer producers on the system of SNGPL and SSGC to Rs 510 per MMBTU for feed-stock and Rs 1,500 per MMBTU for fuel on February 15, 2023. Gas was being supplied to fertilizer sector not only by SNGPL and SSGC but also by MPCL. However, the price for MPCL was not changed which was at Rs 302 per MMBTU for feed-stock and Rs 1,023 per MMBTU for fuel. From January, 2023 to June, 2023, MPCL supplied gas of 34.549 MMBTU for feed stock and 7.849 MMBTU for fuel stock to five fertilizer producers on its system. This resulted in reduction in GDS to be deposited by MPCL in the government exchequer.

Audit was of the view that unjustified decision of the Authority led to supply of gas to different fertilizer producers at different rates without any cogent reason.

The matter was reported to the management in September, 2023. In DAC meeting held on January 03, 2024, OGRA stated that gas sales price was to be fixed by Federal Government and not by OGRA. Audit contended that there was disparity between different gas companies and needed to be addressed at appropriate level.

The DAC was not satisfied with the stance of OGRA and therefore directed to OGRA to arrange a presentation in this regard at the earliest possible. OGRA was further directed to furnish revised reply to audit in-consultation with DG (Gas), within a week, elaborating legal position. OGRA was also directed to provide a copy of license to Audit about MPCL.

Audit recommends that the issue of disparity should be taken at appropriate level and resolved.

3.1.4.10 Non-finalization of 632 appeals since 2015

According to Section 12(1) of Oil and Gas Regulatory Authority Ordinance 2002, “the Authority shall hear and decide the appeal, within ninety days from the date of its presentation”.

During audit of OGRA for the FY 2022-23, it was observed that the Authority was taking more than specified period of time in deciding fate of appeals against decision of designated officer on complaints against the gas utility companies or their consumers. It was noticed that 133 appeals were decided with a delay of more than 04 years. Further, 632 appeals were pending before the Authority for decision since 2015.

Audit was of the view that due weak regulatory oversight the Authority failed to protect interests of consumers and licensees.

The matter was reported to the management in September, 2023. In DAC meeting held on January 03, 2024, OGRA stated that Authority made diligent efforts to decide maximum number of appeals during last fiscal year although it was an ongoing process and back log was being cleared out expeditiously.

The DAC directed OGRA to decide left over appeals expeditiously. No further progress was reported till finalization of the report.

Audit recommends to decide the appeals pending before the Authority at the earliest besides ensuring decision of appeals within stipulated time in future.

[DP No. 2579]

3.1.4.11 Non-conducting inspection of oil tankers and containers posing serious risk to human life and property

According to Section 6(2)(o) of OGRA Ordinance 2002, “the Authority shall safeguard the public interest, including the national security interest of Pakistan in relation to regulated activities in accordance with this Ordinance, Rules and Regulations.” Further, a committee of OGRA in its report on oil tanker accident at Ahmad Pur East (Bahawalpur) vide report dated July 06, 2017 recommended “OGRA to ensure implementation of the OGRA notified technical standards for road transport vehicle, container and equipment for transportation of Petroleum 2009 through its third-party inspectors or its own.” The committee also recommended that “each OMC to furnish a timeline action plan for conversion of tank lorries of their contractor to the applicable safety laws / rules and regulations in the shortest possible time period.”

During audit of OGRA for the FY 2022-23, it was observed that the Authority did not fulfil its responsibility for inspection of oil tankers and LPG containers as required by

the recommendations of the inquiry committee stated above. Mechanism for inspection to ensure adherence to technical standards and safety protocols by OMCs / LMCs was also not developed. By not conducting inspections the authority was putting lives and property of general public at risk.

Audit was of the view that lack of monitoring mechanism resulted in use of non-compliant vehicles for transportation of petroleum products.

The matter was reported to the management in September, 2023. In DAC meeting held on January 03, 2024, OGRA stated that transportation through oil tankers was not a regulated activity and did not require OGRA's license under the Oil Rules, 2016. It was further elaborated that reported matter actually pertained to Department of Explosives. Audit contended that under OGRA Ordinance, it is the responsibility of Authority to safeguard the public safety.

The DAC directed OGRA to furnish revised reply to Audit, within a week, elaborating effort made by OGRA being regulator to safeguard human life while transporting petroleum products. No further progress was reported till finalization of the report.

Audit recommends to take corrective action to ensure compliance of technical standards and safety protocols for safety of human lives and property in future.

[DP No. 2577]

3.1.4.12 Ineffective regulatory oversight and non-compliance of LPG Policy and conditions of licences

According to Clause (viii) of License for construction of LPG storage and filling plant, "quarterly report on prescribed proforma shall be submitted to the authority on regular basis." Further, according to Clause (xii) of Filling and Marketing License of LPG, "monthly distribution report on the prescribed proforma shall be submitted to the authority on regular basis." Furthermore, according to Clause (xvi) of License for CNG station, "progress report will be submitted to Authority on regular basis." Moreover, according to Section 3.6.2 of LPG Production and Distribution Policy, 2016, "OGRA will also apprise the Petroleum Division about the implementation status of this Policy on a quarterly basis."

During audit of OGRA for the FY 2022-23, it was observed that Authority did not provide copies of reports / returns submitted by the licensees. The Authority also did not

ensure submission of reports / returns by the licensees in compliance with the conditions of licenses issued to licensees. Further, copies of reports about the implementation status of LPG Production and Distribution Policy, 2016 submitted to Petroleum Division were not provided to Audit. The non-provision of the returns / reports indicated that OGRA failed to ensure compliance of provisions of LPG Production and Distribution Policy, 2016 and conditions of licenses issued to CNG / LPG marketing companies.

Audit was of the view that due to weak monitoring, the Authority failed to enforce compliance of the conditions of licenses and provisions of LPG Production and Distribution Policy, 2016.

The matter was reported to the management in September, 2023. In DAC meeting held on January 03, 2024, OGRA stated that monthly distribution reports were updated on regular intervals on monthly basis and also available on OGRA's website. Likewise, each file in respect of CNG stations was made available for perusal by the audit team. Hence, the question about improper performance of regulatory functions did not arise. Audit contended that reply was not tenable as OGRA did not ensure compliance with license conditions and LPG Policy, 2016 requiring submission of returns by the licensees. Further, licenses were issued under rules and compliance to license conditions was not only mandatory for licensees but also it was one of the core responsibilities of OGRA to ensure compliance.

The DAC directed OGRA to ensure compliance with license conditions and LPG Policy, 2016. No further progress was reported till finalization of the report.

Audit recommends to ensure compliance with license conditions besides, taking steps to improve monitoring mechanism and compliance with the Policy by the Regulator.

[DP No. 2595]

3.1.4.13 Non-determination of final wellhead gas price in respect of 73 fields

According to Rule 3 of Natural Gas Wellhead Price Regulations, 2009, "the Authority on its motion or upon application made to it by a producer or any interested person shall determine the well-head price in accordance with the terms and conditions of the relevant agreement and the well-head price so determined shall be notified in the official gazette."

During audit of OGRA for the FY 2022-23, it was observed that wellhead gas price data of DG (Gas) showed that Authority failed to notify the final wellhead gas prices in 73 cases. This resulted in non-determination of final wellhead gas prices of these fields.

Audit was of the view that due to weak regulatory oversight, the Authority failed to determine final wellhead gas price for the producers of natural gas which may lead to litigation in future.

The matter was reported to the management in September, 2023. In DAC meeting held on January 03, 2024, OGRA stated that wellhead prices were determined on completion of requisite documentation and due scrutiny. However, Audit suggestions had been noted.

The DAC directed OGRA to resolve the issue at the earliest. No further progress was reported till finalization of the report.

Audit recommends to ensure finalization of wellhead gas prices in the pointed out 73 cases without further delay.

[DP No. 2603]

3.1.4.14 Non-compliance of ECC decision regarding verification of RLNG diverted to domestic / commercial sector

According to ECC's decision dated July 03, 2020, OGRA was provisionally allowed recovery of RLNG revenue shortfall considering the month wise actual RLNG volumes diverted to domestic / commercial sectors by SNGPL and any amount available in the deferral account would also be adjusted while actualizing the RLNG sale price subject to verification of volumes supplied to domestic and commercial consumers by OGRA.

During audit of OGRA for the FY 2022-23, it was observed that funds amounting to Rs 81,554 million were released by DG (Gas) as subsidy to SNGPL on account of RLNG diversion to domestic sector from 2021-22 to 2022-23. As per ECC's decision, OGRA was required to verify RLNG volumes diverted to domestic / commercial sectors by SNGPL but the Authority failed to do the same despite lapse of more than 3 years. This resulted in non-verified payment of subsidy to SNGPL for RLNG diversion.

Audit was of the view that due to weak regulatory oversight, the Authority failed to verify RLNG diverted to domestic / commercial sectors which may lead to litigation in future.

The matter was reported to the management / DG (Gas) in September, 2023. DG (Gas) in its reply dated December 14, 2023 stated that as per SNGPL's claims, company had diverted RLNG of Rs 354.600 billion from 2018 to September, 2023. If any variation would be identified in third party audit report by OGRA, the same would be later adjusted.

Audit contended that payment on RLNG diversion without verification of actual monthly volume by OGRA was violation of ECC's instructions.

The DAC in its meeting dated December 20, 2023 directed the DG (Gas) to pursue the matter with OGRA for early finalization of 3rd party audit of RLNG and finalize / adjust the amount. No further progress was reported till finalization of the report.

Audit recommends to fix responsibility on the person(s) responsible for non-compliance of ECC's directives besides early finalization of 3rd party audit of RLNG.

[DP No. 2508]

THEMATIC AUDIT

Chapter-4

Thematic Audit

Licensing Regime of Department of Explosives

4.1 Introduction

Department of Explosives (DoE) issues licences to manufacturers, importers and exporters of explosives as well as for their transportation, storage and sale. Licenses are also issued for refining & blending of petroleum, handling of compressed / liquified gases, petrochemicals and other inflammable substances. DoE regulates and controls the production, handling, storage, transportation and use of explosives with a view to prevent accidents, unauthorized use, and potential threats to public security.

The licensing regime of DoE is instrumental in regulating the use of explosives for industrial and commercial purposes. Industries that commonly use explosives include mining, construction, quarrying and certain areas of exploration & production (E&P) sector where explosives are used in blasting, excavation and well perforation.

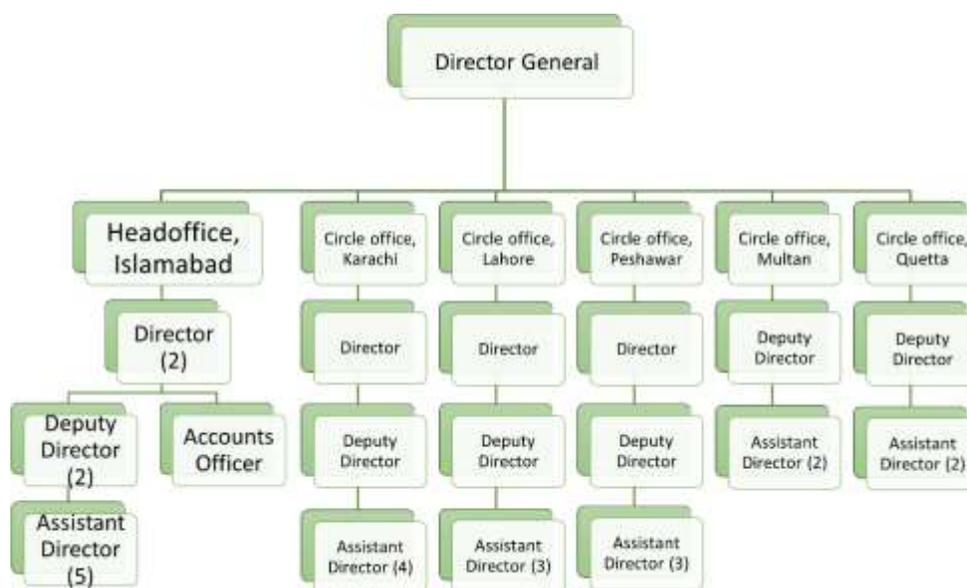
Realizing the importance of licensing regime of DoE with cross sectoral influences, thematic audit was undertaken to identify gaps and their probable solutions.

4.2 Background

DoE used to work under the Industries and Production Division. Its control was entrusted to Petroleum Division on April 14, 2020. Legal foundations for DoE were drawn from Explosives Act, 1884. Currently, Explosives Rules, 2010 are in place to govern manufacturing, storage, possession, sales, use, transport, import and export of explosives. Petroleum Act, 1934, Petroleum Rules, 1937, Carbide of Calcium Rules, 1937 and Mineral & Industrial Gas Safety Rules, 2010 authorize DoE to issue licence for storage, transport, sale and import of hydrocarbons.

On June 30, 2023, there were overall 29,363 active licences for hydrocarbon whereas 380 licences for explosives. Twelve types of licences are issued under Petroleum Rules and eight types of licences are issued under Explosives Rules.

Organizational Chart of DoE is as follows:



4.2.1 Types of Licenses issued under Petroleum Act, 1934

Form Name	Type of license
A	License for storage of mineral gas for distribution
B-1	License to manufacture / store / sale and dispense compressed natural gas
C	License to store Carbide of Calcium
K	License to store petroleum in a tank or tanks in connection with a dispensing unit for fuelling motor conveyances
L	License to import dangerous petroleum and to store petroleum in installations (Bulk Depots and in industries for self-consumption)
M	License to import and store dangerous petroleum otherwise than in bulk and to store otherwise than in bulk (a) non-dangerous petroleum in quantity exceeding 25,000 liters or (b) partly dangerous petroleum and partly non-dangerous petroleum

N	License to store and sale liquefied petroleum gas in a tank or tanks & dispense liquefied petroleum gas in connection with a dispensing unit for fuelling motor conveyances
O	License to import/store/sale liquefied petroleum gas in installation (Plants) for filling in cylinders
P	License to store liquefied petroleum gas of quantity exceeding to 100 liters for self-use in industries and other places
Q	License to transport petroleum product in bulk on land by mechanically propelled vehicle
R	License to transport liquefied petroleum gas in bulk on Land by mechanically propelled vehicle
S	License to transport compressed natural gas in bulk on Land by mechanical propelled Vehicle transport liquefied petroleum gas in bulk on Land by mechanically propelled vehicle

4.2.2 Types of Licenses issued Explosives Act, 1884

Form Name	Type of license
EL-01	License (a) to manufacture Explosives other than fireworks, gunpowder and ANFO at site. (b) To manufacture fireworks and or gunpowder more than 15 kgs
EL-02	License to possess and sell Explosives
EL-03	License to possess and use Explosives
EL-05	License To possess and sell from a shop small-arms nitro-compound not exceeding 25 kgs or fireworks not exceeding 200 kgs or gun powder not exceeding 50 kgs and safety fuse not exceeding 10000 meters

EL-06	License to transport petroleum product in bulk on land by mechanically propelled vehicle
EL-08	License to import Explosives
EL-09	License to export Explosives otherwise than by land
EL-10	Grant of public display of fireworks

4.3 Establishing the Audit Theme

4.3.1 Reasons for Selection

Intrinsic intricacies and sensitivities involved in licensing regime of DoE required detailed study of underlying dynamics to assess the effectiveness of controls for ensuring implementation of the stated purpose of licensing regime. Thematic Audit of DoE was aimed at evaluation of the process of granting, monitoring and enforcement of terms and conditions of licenses to regulate sensitive sectors of petroleum and explosives. Purpose of this audit was to assess whether the stipulated regulations were being followed effectively, identifying potential gaps, risks and weaknesses of the licensing process.

4.3.2 Purpose

Thematic Audit was to analyse functioning of licensing regime of DoE highlighting mismanagement in the process leading to public insecurity. Therefore, in the public interest it was required that the licensing process be examined to identify areas for improvement ensuring compliance with relevant regulatory standards. The focus of Thematic Audit was to ascertain whether safety measures were in compliance with applicable laws, regulations, and industrial standards and to review the processes related to grant, amendment, monitoring and renewal of all licenses under the administrative domain of the department.

4.3.3 Scope / Objective

The audit was conducted for the FY 2022-23 with the following scope:

- i) to check the strength of mechanism available for issuance, monitoring and enforcement of licenses;
- ii) to ascertain whether retail outlets of petroleum products are established after obtaining licenses from DoE or otherwise;
- iii) to assess compliance with terms and conditions for grant of permanent and short-term licenses under Explosives Rules, 2010;
- iv) to check whether Department had close liaison with other stakeholders i.e. OGRA, OMCs & District Authorities; and

- v) to check the internal controls of the Department with regard to collection of fees and dues accrued on account of licenses.

4.4 Legal framework Governing the Licensing Regime

The licensing regime of the DoE is governed under the following acts and rules:

- i) Explosives Act, 1884;
- ii) Explosives Rules, 2010;
- iii) Petroleum Act, 1934;
- iv) Petroleum Rules, 1937 (amended 2010);
- v) Carbide of Calcium Rules, 1937; and
- vi) Mineral and Industrial Gases Safety Rules, 2010.

In pursuance of above-mentioned legal instruments, DoE had notified detailed procedure for issuance, renewal, monitoring, inspections, inquiries, suspension and cancellation of licenses. Explosives and Petroleum Rules provide the required documents for each category of license. Licensing process involves various steps including verifications, NOCs, approvals of various Government departments and physical inspections by the respective regional office of DoE.

4.5 Stakeholders and governmental organizations identified as directly / indirectly involved

Following stakeholders and government organizations involved in licensing regime of DoE are enumerated as under:

- i) Ministry of Energy (Petroleum Division);
- ii) Oil & Gas Regulatory Authority (OGRA);
- iii) Ministry of Interior;
- iv) Concerned District Authorities;
- v) Defence Production Division;
- vi) Oil Marketing Companies (OMCs);
- vii) LPG / LNG / CNG Marketing Companies;
- viii) Explosives manufacturers, suppliers & users;
- ix) Public safety organizations i.e. fire-fighting departments, emergency response teams, and bomb disposal units; and
- x) General public.

4.6 Role of important organization

Petroleum Division

Petroleum Division is the administrative division of the DoE which makes amendments, frames rules, regulations, guidelines and policies to be submitted to the Federal Government for approval and circulation of the same amongst all stakeholders thereafter. Petroleum Division is responsible for issuance of instructions and directives to DoE from time to time in order to ensure that the Department carries out its operations with regard to vigilance of activities of the license holders. The division ascertains that the government policies and instructions are implemented as per rules and regulations through DoE. The subject of “explosives” had been devolved to provinces after 18th amendment in the Constitution of the Islamic Republic of Pakistan. However, Federal Government was still administratively controlling DoE. Its control to the respective provincial governments had not yet been transferred. DoE liaises with other governmental stakeholders through Petroleum Division.

OGRA

OGRA is, ab initio, enshrined with the task to regulate oil and gas sector in terms of qualitative and quantitative derivatives. It also issues marketing licenses to OMCs, CNG stations, LPG, LNG companies and gas utility companies. DoE authorizes Oil Marketing Companies (OMCs) for storage of petroleum products in such a manner to determine the establishment of number of retail outlets in the provinces in addition to ensuring security and safety of human lives and property. After July, 2021 DoE in close liaison with OGRA is ensuring implementation of retail outlets vs developed storage capacity.

Ministry of Interior

Ministry of Interior is responsible for enforcing law and order through provincial governments and Law Enforcement Agencies in order to safeguard human lives and property within the country. To ascertain the prime objective of security of the nationals of Pakistan, it extends guidelines, SoPs and instructions for manufacturing, storage, use and transportation of explosives within the country in consultation with DoE. No Objection Certificate (NOC) from Ministry of Interior is mandatory for grant of licenses for manufacturing, storage and sale of explosives and petroleum products.

Defence Production Division

Défense Production Division (DPD) procures and manufactures arms, weapons, ammunition, equipment, stores and explosives for defence forces. It also procures / imports warfare equipment and ammunitions from local and international manufacturers of explosives. In this way, DPD eliminates illegal production and procurement of explosives by unauthorized persons. DoE plays vital role in furthering the mandate of DPD by submitting cases to it for seeking No Objection Certificate before issuance of licenses for explosives under Explosives Rules, 2010.

District Authorities

An applicant, aspirant of establishing retail outlets for marketing and sale of petroleum products, applies to the concerned district authorities for seeking NOC for the site proposed. The District Authority i.e. Deputy Commissioner grants NOC to the applicant regarding establishment of retail outlets of petroleum products after obtaining necessary reports from concerned Assistant Commissioners, Highway Department, Civil defence, Sui Gas Company, Environment Department, Municipal Corporation, Electricity Utility Company, Irrigation Department, Telephone Department, Police Department, Forest Department, Revenue Department and Building Control Authority. Further, Rule 130 of Explosives Rules, 2010 and Rule 131 of Petroleum Rules, 1937 empower district authority to check and inform DoE of the action taken on any reports of infringements of the relevant Acts or the Rules.

4.6.1 Organization Financial

Federal Government provides recurring and non-recurring budget to the DoE. Non-tax receipt of the department includes license fees, renewal fees which become part of Federal Consolidated Fund. Detail of financials of the DoE for the last three years are given as under:

(Rs in million)

Sr. No.	FYs	Receipts		Expenditure	
		Target	Realized	Allocation	Expenditure
1	2020-21	350	662	91	86
2	2021-22	848	548	96	93
3	2022-23	2000	512	102	108

(Source: DoE Receipt and Expenditure Statements)

Department could not achieve receipt targets due to weak receipt collection mechanism and unrealistic receipt target.

4.7 Field Audit Activity

4.7.1 Methodology

Thematic Audit of Licensing Regime of Department of Explosives (DoE) was planned and conducted in accordance with the Government Auditing Standards based on guidelines of the International Organization of Supreme Audit Institutions (INTOSAI).

During the entire auditing cycle, the team followed a gradual and integrated approach which comprised planning at execution stage, examining compliance with laws, rules, regulations, instructions, computer-aided techniques, organizational files / documents and interviewing the various tiers involved. The audit methodology was based on structured approach starting from study of relevant rules and regulations, licensing process, organizational structure, previous audit reports and budget and expenditure statements of previous years. Field activity included analysing data of the license issued and receipts actualized, walk through the process, reviewed license applications and inspection reports.

4.8 Audit Analysis

4.8.1 Review of Internal Controls

Internal controls are the procedures and practices put in place by the department to ensure compliance with laws and regulations. The review of internal controls in the licensing regime of the DoE is an essential process to ensure the effectiveness and efficiency of the regulatory framework. This includes evaluating the adequacy and effectiveness of processes such as application processing, license issuance, monitoring and enforcement. Audit observed several potential internal control weaknesses i.e. shortage of human resource, weak logistics support, lack of automation and financial constraints badly effecting performance of the department. Under-staffed and insufficient number of territorial offices of DoE were hampering effective monitoring and inspection by the department. Thus, disabling the DoE to discharge its prime responsibilities in an effective and efficient manner weaknesses may compromise the effectiveness and integrity of the licensing process, potentially leading to safety and security risks. Internal audit mechanism did not exist in the department to provide assurance, identify risks, ensure compliance, improve operational efficiency and support the achievement of organizational targets.

4.8.2 Critical Review

Audit highlighted systemic flaws in the DoE's regulatory framework of explosives sector, in the wake of 18th amendment and its supervision practices and enforcement mechanisms. Federal Government was not authorised to get any legislation on the subject but the functions were not yet devolved to the provinces creating a dichotomy of authority. The department failed to enforce license conditions, allowing manufacturing companies to manufacture unlimited quantities of explosives during the year. The current system suffers from several shortcomings that hinder the efficient and effective regulation of Explosives

and pose serious safety risks. Gaps mentioned may pose a threat of blasts and damage to lives and property. The critical issues were identified during the course of audit are as under:

- i) Non-imposition of penalty on non-submission of fortnightly reports by licensees;
- ii) Issuance of licenses for possession and sale of explosives without security deposits;
- iii) Inadequate monitoring and supervision; and
- iv) Ineffective liaison with district authorities allowing illegal sale of petroleum products.

4.8.3 Significant Audit Observations

4.8.3.1 Illegal storage of explosives manufactured

According to SoPs issued by Ministry by Interior, EL-01 license holder (manufacturer) would store product in the magazine, for which specific EL-02 for storage (within factory area) had to be obtained. It was observed that licensee (No. RAD/490/E) stored explosives after manufacturing, at premises without having valid license EL-02 till July, 2023. This situation highlighted gaps in licensing regime which put life and property at risk.

[DP No. 2496]

4.8.3.2 Non-conduct of inquiry of blasts occurred at the licensed premises

Inquiry into serious accidents is mandatory for ascertaining the causes and circumstance of the accident and report should be issued as per Explosives Act, 1884. It was observed that two blasts on May 31, 2010 and March 21, 2012, occurred at premises of Licensee No. RAD/595/E having licence for manufacturing of Safety Fuse and Gun Powder. In these incidents four persons lost their lives and several other injured besides damage to the magazine. FIR was also registered on March 23, 2012 at Police Station Dumman, Chakwal. DoE did not conduct inquiry to identify the circumstances responsible for these blasts. This situation reflected weak enforcement of licensing terms and conditions.

[DP No. 2494]

4.8.3.3 Non-observance of mandatory safety conditions at the time of issuance of Form L licenses

Audit observed that Form L licenses were issued to 12 oil terminals at Karachi without fulfilling mandatory safety measures / conditions. Inquiry Commission on shortage of petroleum products in 2020, highlighted discrepancies in safety measures for oil terminals. Subsequently, an inquiry was conducted by Petroleum Division for probing issuance of licences to oil terminals without fulfilment of safety conditions. A Deputy

Director and Assistant Director were found guilty of misconduct and were dismissed from service. Penalty of Rs 9.208 million was imposed on involved oil terminals. During inquiry the cross examination and written statements revealed that licenses in Form “L” were issued without inspection and without observing the conditions under the law. This glaring violation of safety conditions highlighted serious breaches in licensing regime of DoE.

[DP No. 2488]

4.8.3.4 Cumbersome process of licensing

To obtain license from DoE is a cumbersome and time-consuming process. There were numerous NOCs, approvals and documents required that delay the issuance of licenses. This not only caused delay for businesses that require licenses for their operations but also created potential opportunities for clandestine activities involving explosives. This pointed out that licensing regime was not inclined towards ease of doing business. A streamlined and simplified licensing process would not only save time and resources but also enhance the department’s ability to monitor and regulate the explosives and petroleum industry effectively.

4.8.3.5 Missing provision of LPS in legal framework

There was no mechanism for recovery of outstanding amount from defaulters. Moreover, no default surcharge was included in the rules to discourage non-submission of fees in time. It was observed that the department did not recover the difference of annual renewal fee amounting to Rs 441 million from Licence No. RAD/173/E for the period from 2000 to 2011 till now. It is pertinent to mention here that without default surcharge the concept of time values of money was baseless.

4.8.3.6 Weak monitoring and supervision

Lack of regular monitoring and supervision is necessary for effective implementation of terms and conditions of license. The management reported that physical inspection of each licensee of explosives once in a year had been conducted but no such inspection reports were found on record. There should be a proper format of inspection reports i.e. stock taking report and checklist of safety measures. Sporadic incidents of blasts were found in record of DoE which could have been avoided through effective monitoring and supervision.

[DP No. 2501]

4.8.3.7 Lack of action on fortnightly reports

It is mandatory under license condition that every explosive licensee submits fortnightly report to DoE. The fortnightly reports submitted by licensees were required to

be evaluated and monitored as per license granted for manufacturing, possession and sale of the licensees in line with the quantities granted in license. Audit observed that these reports were not evaluated and were dumped in the office. The fortnightly report of Licence No. HZD/05/E showed less quantity of 160,000 meter and 337,250 meter of safety fuses than received from M/s Wah Associates and M/s Wah Blasting Associates respectively. It was serious issue which depicted that Department of Explosives was not performing its functions assigned under the law.

[DP Nos. 2489 & 2495]

4.8.3.8 Non-maintenance of computerised database

DoE was not maintaining computerized database for explosive records (manufacturing, sales, use, oil supply chain to account for opening / closing stocks, purchases and imports), number of retail outlets according to developed storage of OMCs and other movements. Further, the record of licenses of petroleum products granted, suspended and expired was also not maintained.

4.8.3.9 Missing recovery mechanism of Renewal Fee of licenses

Collection of fees from licensees is the responsibility of the DoE but it did not have a mechanism to recover the amount of renewal fees from the licensees well in time. It was observed that there was a significant variation between budget estimates and actual collection of receipts. This revealed that department collected 25.6% of target of receipt during FY 2022-23.

[DP No. 2480]

4.8.3.10 Issuance of licenses for possession and sale of explosives without security deposits

The applicant desirous to obtain a license in Form EL-02 for possession and sale of Explosives shall deposit a refundable security of half million rupees in usual head of account of the department of Explosives. It was observed that 09 licenses in Form EL-02 within the same premises having license in Form EL-01 had granted by the department without security. This resulted in non-deposit of security of Rs 4.5 million by the licensees.

[DP No. 2483]

Departmental Responses

- i) DoE replied that license No. RAD/490/E was granted as per Form EL-01 of Explosives Rules, 2010 in favour of M/s Wah Associates but EL-02 (No. RAD/527/E in Form EL-02) was granted on pointation on July 31, 2023;

- ii) DoE replied that explanations had been served to the concerned officers for non-conducting the inquiry in case of blasts;
- iii) DoE replied that as per recommendations of JIT only M/s FOTCO was penalized with penalty of Rs 1 million which the said company had already deposited. No such penalty was admissible upon the remaining oil terminals and the said cases were regularized while submitting the requisite particulars and fulfilling the requirement of Petroleum Rules, 1937;
- iv) DoE replied that the department followed the ease of doing initiative of the Federal Government and as per prevailing rules District Administration had the mandate to the NOCs which may cause delay in the issuance of licenses;
- v) DoE replied that if licensee did not submit renewal particulars on time, double fee would be charged and fee was not paid in the following month, license would be liable to pay three times of the license fee;
- vi) DoE replied that as per recommendations of the inquiry committee, M/s Wah Nobel Private Ltd. was directed to make modifications in the procedure of manufacturing of such explosives. Further, directions had also been issued to all regional offices for increasing the frequency of inspections to ensure compliance. DoE further, replied that there was shortage of staff for monitoring;
- vii) DoE replied that letter had been issued to Director, Regional Office, Peshawar for clarification from M/s Biafo Industries Private Ltd. regarding non showing / mentioning the actual quantity of safety fuse received from M/s Wah Blasting Associates, on receipt of explanation/clarification from M/s Biafo Industries Private Ltd. necessary action would be taken under Explosives Rules, 2010;
- viii) DoE replied that the software project was at planning phase and when it would be deployed, it would strengthen the regulatory regime of the department;
- ix) DoE replied that the revenue collection for the FY 2021-22 was Rs 550 million and in this context, DoE planned a target of Rs 600 million for the FY 2022-23 and the same was conveyed to Petroleum Division for onward submission to Finance Division but Finance Division conveyed a target of Rs 2,000 million which was not in line with factual position. Keeping in view high target given last year the ministry rationalized the targets for the year 2023-24 to Rs 1.100 billion; and
- x) DoE stated that all the licensees having license in Form EL-02 of Explosives Rules, 2010 within the same premises having license in Form EL-01 of Explosives Rules, 2010 have been directed to submit the refundable security of Rs. 0.500 million

4.10 Recommendations

Based on findings of Thematic Audit of the licensing regime of DoE, following recommendations are proposed to improve effectiveness, transparency, and efficiency of department:

- i) DoE may initiate the matter of devolution of the functions to provinces in line with the Constitution of the Islamic Republic of Pakistan. That would improve coordination between agencies engaged with the relevant legislation.
- ii) DoE may computerize the whole licensing regime enabling applicants to track their applications. This would ensure transparency and ease of doing business. Further, clear guidelines and timeframes for processing applications may be prescribed to ensure consistency and efficiency in the licensing process;
- iii) Monitoring and evaluation mechanism to ensure that licensees comply with safety protocols and regulations may be developed to ensure regular inspections, safety audits, and risk assessments to assess licensees' performance, identify potential violations and take prompt corrective measures when necessary;
- iv) There had to be a mechanism for imposing and identifying penalties through an automated system in addition to scrutiny of fortnightly returns and issuance of penalty notices to licensees for non-compliance;
- v) A risk assessment framework that categorizes licensees based on the potential risks associated with their activities may be developed. This model would allow DoE to allocate resources effectively, conduct more rigorous inspections and audits for high-risk licensees, and streamline the licensing process for low-risk applicants;
- vi) Collaboration and communication channels with other relevant stakeholders such as police, industry associations, and other government agencies need to be enhanced. This collaboration would foster information sharing, align regulatory efforts, and enable a more holistic approach to ensure the safety and security of Explosives materials and eradicate illegal sale of petroleum products; and
- vii) A comprehensive training program for both DoE staff and licensees may be devised. This training should focus on technical knowledge, safety protocols, and best practices for handling explosives. The department should also allocate adequate resources and invest in technology to support the licensing regime.

By implementing these recommendations, DoE could significantly improve its licensing regime. These measures would enhance monitoring, efficiency, and safety, ultimately reducing the risks associated with the handling and storage of explosives.

4.10 Conclusion

The licensing regime of DoE is complex and multifaceted involving several governmental and private stakeholders. Non-devolution of functions to the provinces despite lapse of considerable time after 18th amendment has created serious operational, monitoring and efficiency challenges for the department. Resultantly, reforms required to achieve the goal of best practices relating to licensing regime of DoE were not undertaken. Shortage of staff, manual record keeping, missing real time database, missing recovery mechanism for renewal of licenses and weak inspections regime are posing serious threats to the working of the department. The licensing regime is also influenced by various regulations, standards, and guidelines that aim to ensure the safe manufacture, handling, and use of explosives and encompasses various stakeholders such as manufacturers, importers, distributors, users, and regulators, who play a role in ensuring compliance with licensing requirements and safety standards. However, the licensing regime of DoE is a multifaceted landscape that requires careful attention to detail technical expertise and collaboration among different stakeholders to ensure the safe and responsible use of explosives. Licensing regime of DoE lacks proper monitoring and evaluation of licensees. However, areas of improvement include streamlining the licensing process and embracing digital solutions for efficiency.

Overall, Thematic Audit of the licensing regime of DoE has provided valuable insights into the shortcomings of the current system. The recommendations presented in the audit report can serve as a roadmap for DoE to enhance their licensing regime. The implementation of the recommendations would not only enhance the licensing regime but also build the trust of stakeholders and the public in the regulatory authorities. The licensing regime helps in maximizing the government's revenue by collecting fees from licensees. This revenue can then be utilized for the development of the country's infrastructure, social welfare projects, and economic growth.

IMPACT AUDIT

Chapter-5
Impact Audit
Development Scheme No. 842 - “Energy for All”

5.1 Introduction

With increasing population, Pakistan’s energy demand is also on the rise. The issue of clean domestic fuel is more pronounced in rural areas where 61.18% of the population lives⁶⁰. The natural gas provision can help in mitigating socio-economic hardships associated with the use of coal, wood and other conventional sources, which have their environmental impact as well. In cities, the population is concentrated and laying pipelines from their own resources is not an issue for gas distribution companies due to financial viability of such projects. However, when it comes to deprived areas, lack of business potential necessitates the intervention of the Government funding which is provided through Public Sector Development Programme.

Keeping in view the socio-economic development goals of the country, Government of Pakistan (GoP) initiated various development schemes for supply of natural gas to the deprived areas. Sui Northern Gas Pipelines Ltd. (SNGPL) and Sui Southern Gas Company Ltd. (SSGC) - two public sector gas utility companies engaged in transmission and distribution of natural gas – are entrusted with execution of these gas supply schemes. One of such schemes titled “Scheme No. 842 - Energy for All” was initiated in 2017-18 through Public Sector Development Programme (PSDP) at the cost of Rs 12,500.000 million.

5.1.1 Background of the Scheme

Impact audits have been started from the audit year 2023-24 by the office of the Auditor-General of Pakistan which aim at determining the impact of government initiatives or programs with special focus on determining the outcomes attributable to an initiative, new program or recent change to an existing program by separating other contributing factors or variables. The impact audit reports shall benefit the stakeholders in understanding the net results of the programs and initiatives in a more systematic manner and if timely addressed, shall lead to improving service delivery, financial management and better governance. “Scheme No. 842-Energy for All” was selected for impact audit to look into the impact of government spending with special reference to the transfer of benefits to the ultimate beneficiaries.

⁶⁰ Census of Pakistan, 2023

Feasibility studies of gas supply schemes, identified by the public representatives, are prepared by the relevant gas companies. Finance Division allocates funds to the relevant gas distribution company. “Scheme No. 842-Energy for All” included 44 schemes to supply natural gas to 221,655 deprived households. However, three (3) gas supply schemes were completed and 5,409 households were gassified by utilizing funds of Rs 286.039 million. Audit focused on the impact of these three gas supply schemes on the lives of the people who were provided natural gas through these schemes.

5.1.2 Role of the Project

One of the purposes of Gas Development Schemes was provision of gas to population of selected localities. Initially there were 44 schemes in the project. However, funds were released for only 34, which were to cater for 221,655 connections. The intended objective of the project was to shift from traditional fuel sources to natural gas for improved environmental, social and financial impact.

5.2 Overview

Impact Audit was undertaken in order to assess long term outcome of the gas development schemes i.e. “Scheme No. 842-Energy for All” under PSDP programme 2017-18. This Programme included 44 schemes with a financial outlay of Rs 8,377.530 million. Out of this amount, funds to the tune of Rs 5,890.870 million for 34 schemes were released for gasification of 221,655 households. A substantial amount of Rs 5,370.600 million for 25 schemes got lapsed resulting into non-provision of gas supply to 181,871 households. Merely three (3) out of remaining nine (9) schemes were completed. Under these three (3) completed schemes, 6,056 households were planned for gas supply. A total number of 5,409 households were gassified leaving a balance of 647 households.

Gas supply schemes were to be executed by both SNGPL and SSGC. SNGPL completed three (3) schemes while SSGC could not initiate development work.

5.3 Scope and Methodology

a. Scope

Impact Audit was carried out for three (3) completed schemes for gas supply to various villages of UC Darya Gali and UC Numbal of Tehsil Murree and UC Mangowal (selected villages) of District Chakwal. Since the schemes were planned and executed during the FY 2017-18, therefore, the scope was confined to the FY 2017-18. A total number

of 5409 households were provided with natural gas facility leaving 647 households without gas connections.

b. Methodology

Audit methodology comprised of following procedures:

- i) desk audit of feasibility reports, documents regarding funds released & surrendered;
- ii) analysis of funds allocated, released and utilized;
- iii) review of execution documents regarding completed schemes
- iv) analysis of targeted consumers;
- v) field visits and interview with consumers;
- vi) data collection through questionnaires; and
- vii) analysis of environmental, social and financial impact.

5.4 Findings

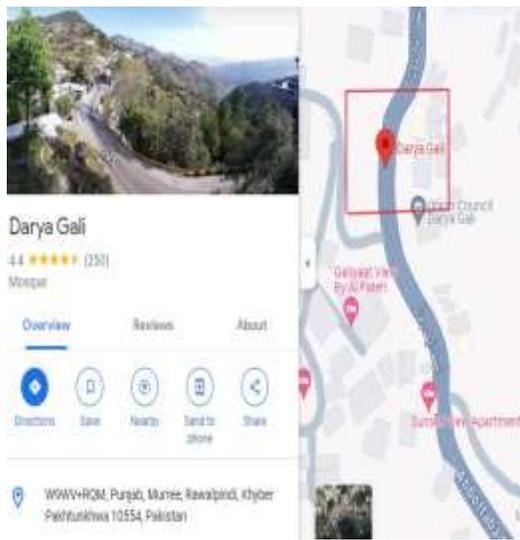
5.4.1 Impact Analysis of completed gas schemes

Questionnaire was framed and administered to obtain viewpoint of gas consumers regarding outcomes of gas supply. Data helped to assess the effectiveness of gas supply as enumerated below:

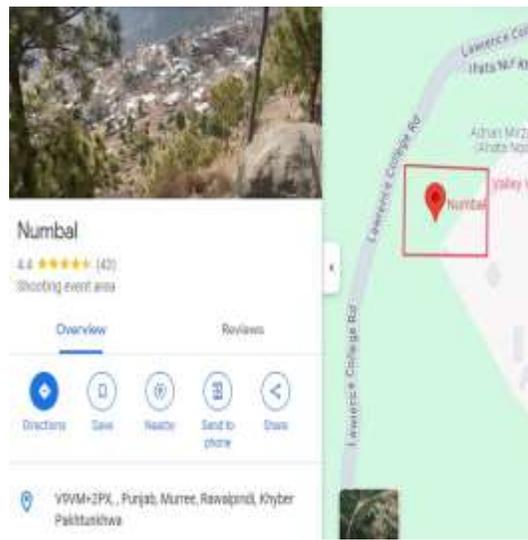
Financial impact

5.4.1.1 Financial impact to the resident of UCs Numbal and Darya Gali

There were 3,767 number of connections, out of which audit team conducted a survey by visiting 430 (11.41%) households of two Union Councils of Tehsil Murree namely Darya Gali and Numbal to assess the impact of gas schemes on the lives of the general public. Geographical location of these Union Councils is depicted in the following picture:



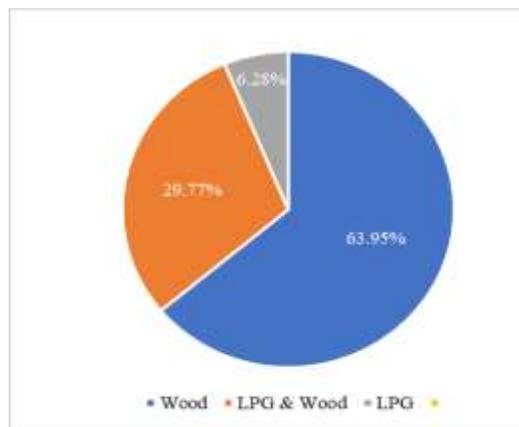
UC Darya Gali



UC Numbal

In a sample of 430 households, there was a population of 2,213. The survey revealed that 63.95% households were using wood, 29.77% were using mix of wood & LPG, remaining 6.28% were using LPG as their primary fuel source for cooking and heating prior inception of the schemes. A significant cost cutting impact was witnessed due to these schemes during the study. Following graphs showed comparative position of different types of fuel sources used by 430 households before provision of gas:

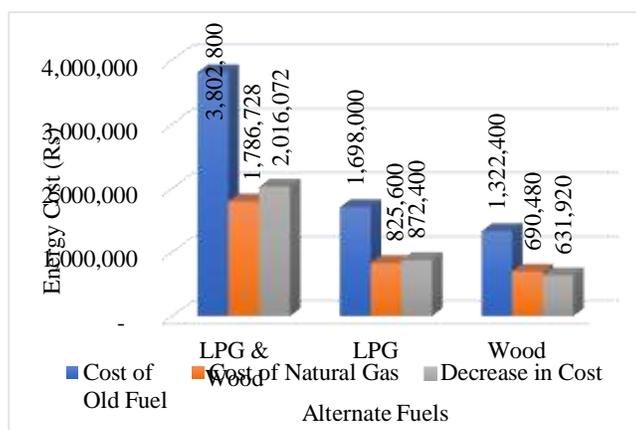
Fuel used before supply of natural gas



According to the survey results accumulated annual total cost of sample households of traditional fuel sources i.e. wood, LPG and coal in these localities was estimated at Rs 6.823 million (i.e. Rs 15,905 per household). The cost of fuel using gas was estimated at Rs

3.302 million (i.e. Rs 7,700 per household) after completion of the schemes. Thus, the cost of using gas is approximately 50% lower than the cost of using alternative fuels i.e. wood, LPG and coal. Gassified households were able to save 50% of their fuel cost after completion of these schemes enabling them to meet other expenses through savings.

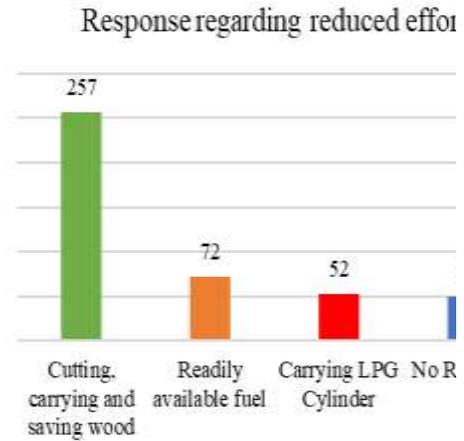
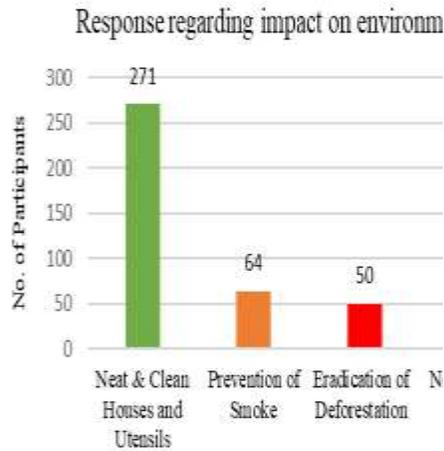
Cost comparison of different fuels is depicted below:



Social Impact

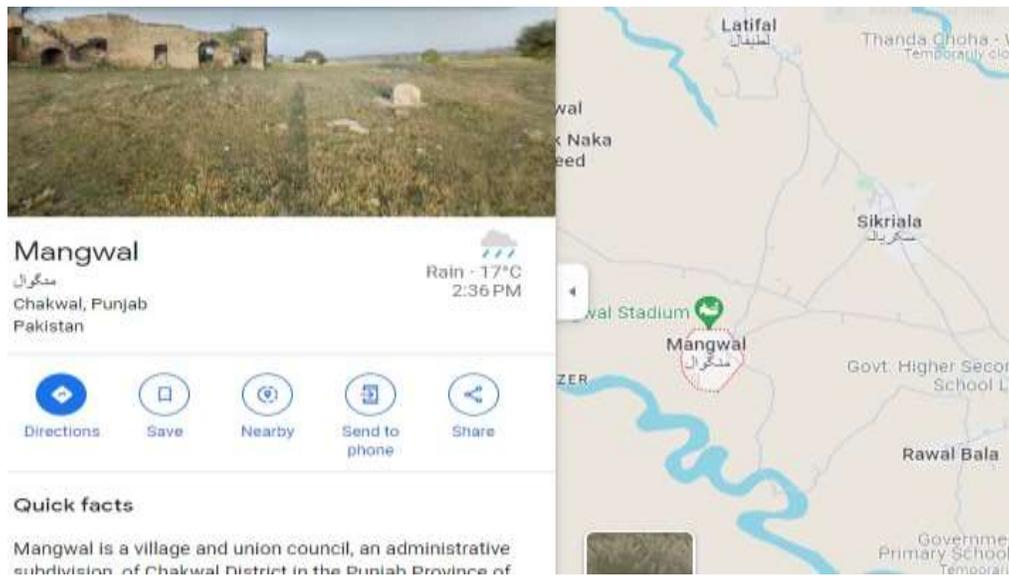
5.4.1.2 Villages of UCs Darya Gali and Numbal, Murree

The survey of 430 households revealed that 63.95% households were using wood, 29.77% were using mix of wood & LPG, remaining 6.28% were using LPG as their primary fuel source for cooking and heating before inception of the schemes. Analysis of data collected during survey indicated various improvements in their fuel collection, storage and transportation after completion of these schemes. Respondents reported that difficulties in the process of fuel availability, especially in winter season, like cutting, carrying and storing of wood / cylinders were resolved. Participants further responded an improvement in the cleanliness of house and utensils due to absence of smoke and improved living standard. Following graphs showed the responses of 430 participants of the survey:



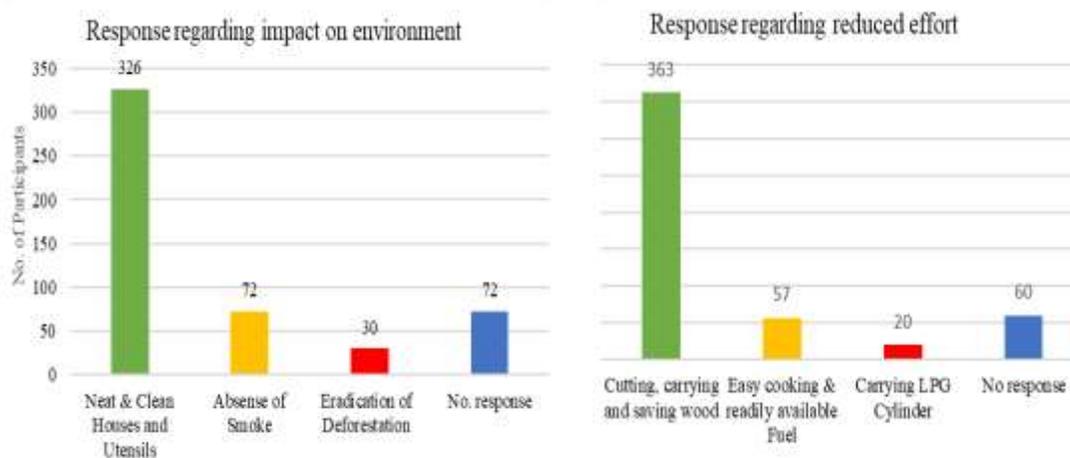
5.4.1.3 Villages of UC Mangowal, District Chakwal

There were 1,642 number of gas connections in UC Mangowal, District Chakwal. Audit team conducted survey by visiting 500 (30.15%) households having a population of 2,814. A large portion of people (87.47%) were using wood, 9.3% people were using mix of wood & LPG and remaining 3.23% were using only LPG as their primary fuel source for cooking and heating before introduction of gas schemes. Geographical location of the Union Council is depicted in the following picture:



The sample households mentioned various improvements after commissioning of gas scheme. Most of the respondents reported that the difficulties during the process for provision of wood i.e. cutting, carrying & storing issues were resolved. Some participants

opined improvement in cleanliness and living standards. Following figures depicts the different types of responses by 500 participants of survey after the provision of natural gas:



Environmental Impact

5.4.1.4 Reduction in CO₂ emission in Darya Gali, Numbal and Mangowal

Provision of gas to the consumers who were using alternative fuel previously brought positive impact on the environment of the area. Impact of provision of gas significantly reduced CO₂ emission and de-forestation. Data revealed the following impacts:

Locality	Total MMBTU of gas used	Equivalent No. of trees*	CO ₂ emission in case of wood usage (Tons)**	CO ₂ emitted by burning gas (Tons)***	Difference in CO ₂ emission (Tons)
UCs Darya Gali and Numbal	77,525	4,180	8,640	4,535	4,105
UC Mangowal	27,240	1,469	3,036	1,593	1,443
Total	104,765	5,649	11,676	6,128	5,548

*Burning 18.55 MMBTU gas can save one tree

**2.067 Ton CO₂ emitted on burning of one tree

***0.0585 Ton CO₂ emission by burning one MMBTU natural gas

The above table shows that provision of gas to the localities previously burning wood as source of fuel brought significant and beneficial impact on reducing carbon emissions. 104,765 MMBTU gas burned in the localities of three UCs which were estimated to be emitting 6,128 Tons of CO₂, as compared to 11,676 Tons of CO₂ in case of burning wood. Resultantly, 5,548 Tons of CO₂ emission were reduced each year. This reduction in CO₂ emissions is equivalent to planting approximately 5,649 trees. Simultaneously, 5,649 trees were saved meaning thereby enhanced absorption by 378.465 Tons of CO₂.

5.5 Conclusion

The impact analysis of completed gas schemes in various localities, namely UCs Darya Gali, Numbal, and Mangowal, reveals significant financial, social, and environmental benefits. However, only 03 out of 44 schemes were completed, highlighting the lack of realistic planning and execution. The comparison of alternate fuel before and after provision of natural gas highlights the transformative potential of gas development schemes as detailed below:

Condition without scheme	Condition with scheme
<p>The households using alternate fuel were previously facing the following problems:</p> <ul style="list-style-type: none"> i) LPG was more expensive and risky fuel, ii) Cutting, carrying and storing wood; iii) Burning wood creates smoke that makes houses and utensils black; iv) Carrying woods and LPG cylinders was time consuming activities; and v) More emissions of carbons from burning of woods. 	<ul style="list-style-type: none"> i) Gas was a relatively economical and clean source of energy as compared to alternatives like wood or LPG, which could reduce pollution and environmental impact in the areas; ii) People relied on firewood or other biomass for heating and cooking, however, supply of gas reduced deforestation and the strain on local ecosystems; iii) Supply of gas reduced storage space and cost of alternate fuels; iv) The use of gas for cooking led to better indoor air quality, reduced health problems associated with wood or biomass cooking methods; v) Expansion in the distribution network also increased job

	<p>opportunities and source of earning to locals; and</p> <p>vi) Beneficial impact on reducing carbon emissions.</p>
--	--

Audit recommended that based on the positive outcomes observed in the surveyed areas, there was a need to expand gas schemes to deprived communities. This expansion should prioritize areas with high reliance on traditional fuel sources and limited access to clean energy alternatives. For this purpose, incomplete gas development schemes may be completed to achieve the desired target for supply of gas to 221,655 households as envisaged in the feasibility reports.

By implementing these recommendations, Petroleum Division may accelerate the transition towards cleaner energy solutions, fostering sustainable development and improving the overall well-being of communities with ultimate target of mitigating the effects of use of traditional fuel sources.



**AUDIT REPORT
ON
THE ACCOUNTS OF
PUBLIC SECTOR ORGANIZATIONS
(TELECOMMUNICATION SECTOR)
AUDIT YEAR 2023-24
AUDITOR-GENERAL OF PAKISTAN**

DIRECTORATE GENERAL AUDIT (TELECOMMUNICATION SERVICES)

Chapter-1

Pakistan Telecommunication Authority

Cabinet Division

1.1 Introduction

A) Pakistan Telecommunication Authority (PTA) is a corporate body established on 1st January 1996 under Pakistan Telecommunication (Re-organization) Act 1996 as amended in 2006. The Authority is working under the administrative control of the Cabinet Division. Its accounts are audited by the Auditor-General of Pakistan under the provision of Section 15 of Telecommunication (Re-organization) Act, 1996. PTA's main functions are to:

- Act as regulator to implement deregulation policy of telecommunication services issued by the Government of Pakistan;
- Grant and renew licenses for any telecommunication system and services on payment of regulatory fee;
- Regulate the establishment, operation and maintenance of telecommunication systems and the provision of services in Pakistan;
- Promote and protect the interests of users, modernize telecommunication systems and provide a wide range of high quality, efficient, cost-effective and competitive telecommunication services in the country;
- Make recommendations for the Federal Government on policies for International Telecommunications; and
- Regulate arrangements amongst telecommunication service providers of revenue sharing derived from telecommunication services.

B) Comments on Budget and Accounts

- 1.1.1 According to Auditor-General's office letter No.574/43-R&SD/ SOP/2007Pt dated 01.12.2023, Pakistan Telecommunication Authority (PTA), being autonomous body of the Federal Government, while appointing the Chartered Accountant firm for annual audit of its financial statements, is required to obtain concurrence of the Auditor-General of Pakistan. However, PTA did not obtain the said concurrence from the office of the Auditor-General of Pakistan.
- 1.1.2 According to Note 2.5 to the Financial Statements, provisions are recognized in the statement of financial position when the Authority has a present legal or constructive obligation as a result of past events, it is probable that the outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of amount can be made. PTA pays pension, gratuity, accumulating compensated absences and post-retirement medical benefits to its employees as per approved policy. PTA has no present or past obligation to pay interest on these expenses. However, as per Note 5.3, PTA has recognized a provision of Rs 274.232 million as interest payable on these expenses in addition to the provision of their current service cost which has overstated its expenses.
- 1.1.3 According to Note 17.1 to the Financial Statements, the mark-up receivable on license renewal fee has increased from Rs 919.592 million (in 2022) to Rs 2,541.652 million (in 2023) with an increase of 176.4% which shows weak receivables management by PTA.

Table-I Audit Profile of PTA**(Rs in Million)**

S. No.	Description	Total Nos	Audited	Expenditure audited FY-2022-23	Revenue / Receipts audited FY-2022-23
1	Formations	09	01	3,449.65	93,105.849
2	<ul style="list-style-type: none"> • Assignment Accounts • SDAs 	-	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	01	01	3,449.65	93,105.849
4	Foreign Aided Projects (FAP)	-	-	-	-

1.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 16,954.408 million were raised in this report which include recoveries amounting to Rs 615.595 million. Summary of the audit observations classified by nature is as under:

Table-II Overview of Audit Observations**(Rs in Million)**

S.No.	Classification	Amount
1	Non-production of record	-

2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities	14,133.173
A	HR/Employees related irregularities	61.781
B	Management of Accounts with Commercial Banks	14,063.304
4	Value for money and service delivery issues	-
5	Others	2,829.323
Total		16,954.408

1.3 Status of Compliance with PAC Directives

S. No	Audit Year	PTA		Compliance		%age
		Total Paras	Total Directives	Received	Not Received	
1	1997-98	7	7	7	0	100
2	1998-99	13	13	10	3	77
3	1999-00	6	6	6	0	100
4	2000-01	31	31	29	2	94
5	2001-02	9	9	5	4	56
6	2002-03	3	3	3	0	100
7	2003-04	8	8	5	3	63
8	2004-05	9	8	7	1	88
9	2005-06	10	10	7	3	70
10	2006-07	12	12	6	6	50
11	2007-08	12	12	10	2	83
12	2008-09	34	27	17	10	63

13	2009-10	26	14	4	10	29
14	2010-11	39	38	21	17	55
15	2011-12	35	2	0	2	0
16	SAR 2011-12	37	3	0	3	0
17	2012-13	39	2	0	2	0
18	SSRMR 2013-14	24	24	18	6	75
19	2014-15	29	15	7	8	47
20	2015-16	24	23	14	9	61
21	2016-17	27	20	17	3	85
22	2017-18	31	25	15	10	60
23	2018-19	14	8	2	6	25
24	2019-20	17	11	5	6	45

The above table reflects that the management has not shown adequate interest in complying with the PAC directives over the years.

AUDIT PARAS

1.4 Irregularities

A. HR/Employees related irregularities

1.4.1 Irregular appointments and payment of pay & allowances – Rs 45.934 million

According to Regulation 14 of PTA Employees Service Regulations (ESR) 2008, “appointment on initial basis to all cadres and grades in the service shall be made by the Chairman on the basis of the recommendations of the Departmental Selection Committee to be constituted by the Chairman for the said purpose. Criteria, relevant / required qualifications, age, experience and other conditions / requirements for appointment to any post of the service shall be as laid down in Annex-B of the Regulations”.

PTA HQ under the Cabinet Division, Islamabad made appointments in various cadres and incurred an expenditure of Rs 45,934,238 on the pay and allowances of the employees during FY 2022-23.

Audit examined the recruitment record of twenty-three (23) cases on a test check basis and found that:

- i. The eligibility criteria mentioned in the advertisement and related to age, qualifications and experience were not compatible with the pre-requisites envisaged in the Annex-B of the Regulations.
- ii. In addition, PTA management appointed two Assistant Directors and one IT Officer for which relevant posts were not available in the Annex-B of PTA Employees Service Regulations 2008.

Audit contends that due to weak internal control framework the PTA management did not adhere to the Service Regulations and made irregular appointments and incurred irregular expenditure.

Audit reported the matter to the management and PAO during November, 2023. It was replied that the criteria for advertisement of the positions was approved by the Chairman in exercise of power conferred in the PTR, 1996 (Amended in 2006) and under relevant provisions of PTA ESR, 2008. The Chairman PTA was empowered to amend the criteria under the Service Regulations. It was further replied that available / vacant posts were utilized by virtue of its nomenclature and not by portfolios. Similarly, the posts of ITO and AD ICT were provided in Annex-B of the Regulations. The posts were advertised by specifying the job portfolio to attract the right pool of candidates to ensure the quality recruitment with the approval of Chairman.

The reply is not tenable. The Chairman PTA is empowered to make appointments under the criteria envisaged in Annex-B of ESR, 2008 which was violated. Further, the appointments were made against those posts which were not available in the attached Annex-B of the Regulations.

The matter was discussed in DAC meeting held on 20th December, 2023. The DAC directed PTA to get the relevant record in terms of quota etc. verified from audit. DAC further directed PTA to review the reported matter in depth and share the progress achieved with Audit within one month. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives / conduct of inquiry into the matter to fix responsibility.

(DP No. 5 & 31)

1.4.2 Inadmissible payment on account of allowances, gratuity, Eid reward and proficiency incentive - Rs 11.030 million

According to Finance Division (Regulation Wing) letter No. F.3 (2)R-4/2011, dated 14th July, 2017, the Prime Minister has revised the Management Position (MP) Salary Package including House Rent, Utilities and other perquisites. Besides, gratuity shall be paid to MP scales holders of one month's basic pay for each completed year of service. Further, Section 3(7) of PTR, 1996 (amended in 2006), states that the Member of the Authority shall be paid salary and be entitled to the privileges of an officer in MP-II and the Chairman shall be paid salary and be entitled to the privileges of an officer in MP-I.

PTA HQ under the Cabinet Division, Islamabad made payment of Rs 11,029,852 to Ex-Chairman and Members of the Authority on account of house rent, utilities, medical, orderly allowance, gratuity, Eid reward and proficiency incentive during FY 2022-2023.

Audit observed that the house rent, utilities, medical, orderly allowances, Eid reward and proficiency incentive paid to Ex-Chairman and Members of the Authority were in excess of the admissible allowances of MP-I and MP-II pay package. The scrutiny of End of Service Benefits further revealed that payment of gratuity was made to Chairman and Members of the Authority on completion of their tenures on the basis of gross salary instead of basic pay. Detail is given below:

S. No.	PDP No.	Description	Amount (Rs)
1.	07-24	Excess payment on account of allowances	3,371,665
2.	-do-	Excess payment on account of gratuity	3,362,040
3.	09-24	Payment of Eid Reward	2,871,816
4.	-do-	Payment of Proficiency Incentive	1,424,331

Total	11,029,852
--------------	-------------------

Audit is of the view that inadmissible payment to MP-I & II scales employees reflect weakness of the financial discipline and internal control framework.

Audit reported the matter to the management and PAO during November, 2023. It was replied that salary, house rent, utilities and other perquisites paid to Authority Members including Ex-Chairman during FY 2022-23 were in accordance with committee report regarding pay fixation of PTA Chairman / Members. It is pertinent to consider that the committee report was relying upon letter of Cabinet Division, which included clarification of Members and Chairman's salary components and other emoluments. Further, welfare schemes, End of Service benefits of Members of Authority are considered according to clarification and letter of Ministry of Finance dated 17.01.2017 and 28.07.2020 wherein it has been deliberated and clarified that such benefits will be according to PTA's ESR. Gratuity as provided in PESR is one month salary for each completed year, accordingly, the same was paid to all retiring members upon completion of their period.

The reply is not tenable. The Ex-Chairman and Members of the Authority were entitled to the salary package introduced for MP-I & MP-II scales holders as notified by the Federal Government in 2017. The PESR, as referred to in the reply, is for PTA Employees rather than the Chairman and Members of Authority. Moreover, the subject matter has already been reflected in the previous Audit Report and has been referred to PAC for decision.

The matter was discussed in DAC meeting held on 20th December, 2023. The DAC constituted a committee to review the case holistically and recommend way forward, within one month. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives / recovery of inadmissible excess payments.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year(s) 2008-09, 2010-11, 2021-22 & 2022-23 vide Para(s) number 1.8, 1.26, 1.5.5 & 1.5.2 having financial impact of Rs 23.379 million. Recurrence of same irregularity is a matter of serious concern.

(DP No. 07 & 09)

1.4.3 Irregular appointment of Director Finance and expenditure - Rs 4.817 million

According to advertisement dated 31.03.2019 floated for the post of Director (Finance) and Annex-B of PTA Employees Service Regulations (ESR), 2008, at least one of the qualifications with minimum of ten (10) years post qualifications experience of managing and attaining all aspects of Accounting and Finance System is required. Regulation 92 *ibid* further states that a resignation shall be deemed to have been withdrawn, if it is withdrawn by an employee before its acceptance by the Chairman. A resignation withdrawn after its acceptance by the Chairman but before its becoming effective by relieving the employee shall be decided by the Chairman to treat the resignation as withdrawn or to pass orders of his relieving from the Service by giving effect to the resignation.

PTA HQ, under the Cabinet Division, Islamabad received thirty-five (35) CVs/applications against the advertised position and constituted a shortlisting committee accordingly. The committee short-listed nine (09) candidates as eligible for interview and selected Mr. Ubaid Tayyab as Director Finance, PTA. An expenditure of Rs.4.817 million was incurred on his pay and allowances since his appointment.

Audit observed that Mr. Ubaid Tayyab was shortlisted and selected for the post of Director (Finance) for three (3) years on contract basis despite the fact that his relevant information of domicile, province and qualifications/attested documents were missing as per shortlisting proforma. Further, the selected candidate was awarded experience marks without provision of ten (10) years relevant post qualifications experience certificate. Audit further observed that the incumbent joined PTA on 15.07.2019. On expiry of

service contract on 14.07.2022, he was asked to fill performance appraisal report for contract renewal but he informed the PTA management that he was not willing to continue his service in PTA; accordingly, his service contract was terminated on 07.07.2022. PTA reinstated the incumbent and extended his service contract on 14.07.2022 and regularized his break in service retrospectively in September, 2022 in violation of its own regulations.

Audit holds that irregular appointment against the post of Director Finance and subsequent reinstatement and extension in service contract of the incumbent in violation of PTA Service Regulations reflect weakness of the internal control framework, which must have enduring effects on the financial management of PTA.

Audit reported the matter to the management and PAO during November, 2023. It was replied that hiring of the officer was made in accordance with the relevant provision of PTA ESR, 2008. The advertisement was floated in newspaper for recruitment for the position of Director (Finance) on merit basis; therefore, the provision of domicile was not compulsory at the time of joining PTA. However, all relevant documents and other credentials were provided by the officer. With regard to resignation and its withdrawal under regulation 92 of PTA ESR, 2008, the officer did not resign and expressed his intention of non-renewal of his service contract, which was, later on, withdrawn and requested for extension in his contract.

The reply is not tenable. The incumbent benefitted unduly at each step during the hiring process. The ESR 2008 and advertisement provided for appointment of the Director Finance on the basis of quota which was overlooked by the management during shortlisting. He resigned willingly from his service as is evident from the noting file and the notification of de-hiring of services issued by PTA but, instead of fresh appointment, he was reinstated retrospectively and his service contract was extended in violation of the above stated rules.

The matter was discussed in DAC meeting held on 20th December, 2023. The DAC directed PTA to get the record verified from Audit immediately regarding academic qualification, experience, domicile, quota, resignation of the officer and notification of PTA to this effect. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(DP No. 08)

B. Management of Accounts with Commercial Banks

1.4.4 Non-transfer of balances to Central Account-1 after adoption of TSA - Rs 13,992.738 million

According to Finance Division (Budget Wing) letter No. 2(5)/S.O(TSA)/2020/388 dated 16.07.2021 and Para 2 of Special Assignment Account Procedure, 2021, the Cash Management and Treasury Single Account Rules, 2020 are in force since 24.07.2020 with the approval of the Federal Government. Further, Finance Division (Budget Wing) letter No.1(1)S.O(TSA)/2020/47 dated 31.01.2023 states that under Section 30 of the Public Financial Management (PFM) Act, the scope of the TSA system is hereby extended to all Regulatory Authorities including Pakistan Telecommunication Authority.

The Treasury Single Account system requires closure of existing bank accounts maintained by the Ministries, Divisions, Attached Departments etc. and transfer of their balances to Central Account No.1 (Non-Food) maintained in the State Bank of Pakistan. The new cash management regime also requires organizations/authorities to re-align their existing financial and banking arrangements with the approved legal framework provided under the Constitution of Islamic Republic of Pakistan, 1973 and the Public Finance Management Act, 2019.

Audit examined the financial management and banking arrangements of PTA HQ under the Cabinet Division, Islamabad and found that PTA had neither closed its commercial bank accounts nor transferred the balances to the Central Account No.1 of the State Bank of Pakistan as reflected in the table below. Audit revealed that PTA did not, by and large, switch over to the newly introduced financial management regime of Treasury Single Account.

S. No	Name of Banks	Account No.	Account title	Amount (Rs)
01	NBP Jinnah Avenue Branch Islamabad	30009422 22	PTA collection Account	4,820,875,89 8
02	-do-	30009422 31	AJK De-Regulation A/c	8,061,798,94 9
03	-do-	30009423 11	AJK/GB USF A/c	1,110,063,12 0
Total				13,992,737,967

Audit reported the matter to the management and PAO during November, 2023. It was replied that Treasury Single Account system for regulatory bodies is different as compared to Ministries and allied departments in the first phase. As per information received from Finance Division, Treasury Single Account system for regulatory bodies involve sweeping arrangements, in which no action on the part of account holding organization i.e., PTA is required.

The reply is not satisfactory as PTA neither adopted TSA nor switched over to the sweeping arrangements as required by the Finance Division.

The matter was discussed in the DAC meeting held on 20th December, 2023. The DAC directed PTA to refer the matter to Finance Division through Cabinet Division in the light of Audit Para for clarification. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

1.4.5 Unlawful retention of profit on CPF - Rs 70.566 million

According to Regulation 200 (6) of PTA Employees Service Regulations (ESR) 2004, “CPF shall be applicable w.e.f 1.7.2004. It will be at the rate of 5% of running basic pay from the employee. Equal amount shall be contributed by PTA, which will be payable to the employee at the time of retirement / repatriation / leaving the job along with profit / mark up earned on it. Regulation 103 *ibid* further states that after initial appointment, an employee shall be liable to contribute on monthly basis towards the CPF at the rate of 10% of the running basic pay, the equal contribution shall also be made by the Authority on monthly basis, which shall be payable to the Employee at the time of retirement/leaving the service without any profit/mark- up. Moreover, PTR, 1996 has no provision for investment.

PTA HQ under the Cabinet Division, Islamabad kept the Contributory Provident Fund (CPF) in a profit bearing account NIDA No.18-4 at NBP and earned accumulated profit of Rs 70,565,914 during FY 2022-23.

Audit observed that the PESR, 2004 provided for the disbursement of profit on CPF to the employees at the time of retirement, whereas the PESR, 2008 were silent on the profit disbursements. Audit revealed that PTA neither distributed the profit earned on CPF among the employees as per PESR, 2004 nor surrendered to Public Account.

Audit reported the matter to the management and PAO during November, 2023. It was replied that profit on CPF account was considered as other income of PTA. Income being part of P&L account, duly accounted for in reaching surplus of funds for any particular year. All surplus for any year as per Financial Statements of PTA are surrendered to FCF.

The reply is not tenable as the profit accumulated on CPF cannot be transferred to FCF without devised mechanism. Further, amount of CPF was a part of the Trust Fund and interest thereon required to be treated separately. Since the CPF amount remained in

PTA account for more than three years, therefore, it was required to be surrendered to Public Account.

The matter was discussed in the DAC meeting held on 20th December, 2023. The DAC granted six months' time to PTA to streamline the accounting treatment / mechanism of CP Fund profit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year(s) 2017-18 vide Para(s) number 1.4 having financial impact of Rs 43.107 million. Recurrence of same irregularity is a matter of serious concern.

(DP No. 44)

1.5 Others

1.5.1 Short deposit of receipts into Federal Consolidated Fund - Rs 1,662.803 million

According to Section 49(4) of Income Tax Ordinance 2001, amended through Finance Act 2014, the income from sale of spectrum licenses by PTA on behalf of the Federal Government after the first day of March, 2014 shall be treated as income of the Federal Government and not of the Pakistan Telecommunication Authority.

PTA HQ under the Cabinet Division, Islamabad collected a revenue of Rs. 37,029,615,491 from Cellular Mobile Operators on account of renewal of license fee during FY 2022-2023 and placed it in its Collection Account No.3000942222.

Audit observed that PTA deposited Rs 35,366,812,145 instead of the total collected amount into the Federal Consolidated Fund, which resulted in short deposit of Rs 1,662,803,346 as detailed below:

S. No	Particulars	Date of Receipt	Amount Received (Rs)	Amount Deposited (Rs)	Short Deposit (Rs)
01	M/s Zong 3 rd instalment	14.10.2 2	11,429,138,6 79	10,005,408,5 15	1,423,730,1 64
02	M/s Jazz 4 th instalment	19.01.2 3	11,093,255,2 24	10,962,390,5 56	130,864,668
03	M/s Telenor 4 th instalmen t	12.05.2 3	14,507,221,5 88	14,399,013,0 74	108,208,514
Total			37,029,615,4 91	35,366,812,1 45	1,662,803,3 46

Audit holds that due to weak financial discipline PTA short-deposited the receipts accrued on account of license renewal fee into FCF.

Audit reported the matter to the management and PAO during November, 2023. It was replied that the amount received from Cellular Mobile Operators (CMOs) on account of mark-up including instalment proceeds during FY 2022-23 was accrued in previous FY 2021-22. Resultantly, the accrued amount became part of Surplus for FY 2021-22 and was accordingly transferred to FCF. The remaining amount out of related instalment proceeds

in FY 2022-23 had accordingly been transferred to FCF; thereby making full deposit of the proceeds in FCF.

The reply is not tenable. The amount received from CMOs was not income of PTA and was required to be transferred in full as received, therefore, the question of booking accrual did not arise.

The matter was discussed in the DAC meeting held on 20th December, 2023. The DAC directed PTA to get the record verified from Audit which inter-alia includes financial statements for FY 2021-22 and 2022-23 along with deposit Challans of FCF. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year(s) 2014-15, 2015-16, 2017-18, 2018-19, 2022-23 and MFDAC Report(s) for Audit Year(s) 2021-22 vide Para(s) number 1.10, 1.41, 1.5.1, 1.6.1, 1.6.2 & 1.16 having financial impact of Rs 22,464.092 million. Recurrence of same irregularity is a matter of serious concern.

(DP No. 02)

1.5.2 Non-recovery of outstanding dues against telecom operators – Rs 389.219 million

According to License condition No. 4.1.2.2, the licensee shall pay a Universal Service Fund (USF) and R&D contributions at the rate of 1.5% & 0.5% of the Licensee's Annual Gross Revenue from Licensed Services for the relevant financial year, minus inter-operator costs and related PTA / FAB mandated payments. License condition No. 4.1.2 & 4.3.1 further states that the licensee shall pay the Annual License Fee (ALF) to the Authority in an amount equivalent to 0.5% of the Licensee's Annual Gross Revenue from Licensed Services within 120 days at the end of the financial year to which such fees or contributions relate. License condition 6.6 states that in addition to any other remedies available to the Authority, late payment of fees shall incur an additional fee calculated at

the rate of 2% per month or as determined by the Authority from time to time on the outstanding amount for each month or part thereof from the due date until paid.

PTA HQ under the Cabinet Division, Islamabad reflected an amount of Rs 414,397,544 on account USF, R&D, Annual License Fee (ALF), and Annual Radio Frequency Spectrum Fee (ARSF) in the receivable ledger including fine imposed upon three (3) mobile operators on account of quality of service during FY 2022-23.

Audit revealed that PTA recovered only Rs 25,178,838 on account of USF, R&D and ALF, leaving a balance of Rs 389,218,706 against the operators. Detail of outstanding dues is as under:

S.No.	PDP No.	Particulars	Amount (Rs)
01	22-24	USF and R&D Contributions	191,747,242
02	23-24	Annual Radio Frequency Spectrum Fee	125,912,804
03	25-24	Annual License Fee	40,808,660
04	29-24	Recovery Petitions against operators	7,750,000
05	06-24	Fine on account of Quality of Service	23,000,000
Total			389,218,706

Audit holds that due to weak receivables management, PTA did not realize the requisite contributions / amount within the given timelines.

Audit reported the matter to the management and PAO during November, 2023. It was replied that an amount of Rs 20.410 million on account of USF and R&D and Rs 4.769 million on account ALF has so far been recovered. Certain operators had deposited the amount directly to MoITT, however, intimation of recovery from MoITT was awaited. It was further replied that upon issuance of show cause notices and enforcement orders by the Authority, the operators obtained stay orders from Islamabad and Sindh High Courts. However, PTA is pursuing the court cases vigorously. Regarding recovery petitions the DROs referred back the matter to Authority and appeals of the operators are pending before the Authority.

The reply is not tenable as an amount of Rs 389.219 million is still outstanding against the operators.

The matter was discussed in the DAC meeting held on 20th December, 2023. The DAC directed PTA to expedite recovery process of balance amount and pursue the cases in the relevant courts with all facts and data. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(DP No. 6,22,23,25 & 29)

1.5.3 Irregular grant of LDI Licenses and non-deposit of receipts into FCF – Rs 300.825 million

According to Section 8 (1) of PTR, 1996 (Amended 2006), the Federal Government may, as and when it considers necessary, issues policy directives to the Authority, not inconsistent with the provisions of the Act, on the matters relating to telecommunication policy and the Authority shall comply with such directives. Further, Rule 6.1 of De-Regulation Policy, 2003 and Rule 5.2.7 Telecommunication Policy, 2015 requires that PTA shall prepare the requisite applications, license templates, information package and other necessary measures with the approval of Federal Government to

facilitate the licensing process. Moreover, Section 12(3) of PTR Act, 1996 (Amended 2006), requires that any surplus of receipts over the actual expenditure in a year shall be remitted to the Federal Consolidated Fund.

PTA HQ under Cabinet Division, Islamabad issued three (03) LDI licenses @ US\$ 500,000 each during FYs 2022-23 & 2023-24.

Audit observed that the licenses were issued without receipt of any Policy Directives and approval of the Federal Government. Audit further observed that receipt on account of LDI licenses was not deposited into Federal Consolidated Fund (FCF). Detail is as under:

S.No	Company Name	License Type	Jurisdiction	Date of License Issued	Amount (Rs)
01	Zeta Technologies	LDI	Pakistan	05.01.2023	107,975,000
02	HG Telecommunication	LDI	Pakistan	02.02.2023	96,425,000
03	Dynasty Telecom	LDI	Pakistan	17.08.2023	96,425,000
TOTAL					300,825,000

Audit holds that PTA did not adhere to the conditions of PTR Act, 1996 and issued LDI licenses without any approved licensing template, approval of the Federal Government.

Audit reported the matter to the management and PAO during November, 2023. It was replied that De-Regulation Policy, 2003 was being continued through

Telecommunication Policy, 2015 and entry to LDI market was unrestricted and open. MoITT vide its letter dated 10-06-2021 intimated that “TP 2015 and PTR, 1996 (Amendment) Act, 2006 empowers PTA to conclude the grant of new LDI Licenses with enhanced terms and obligations and no specific requirement of Federal Government Policy directive under Section 8(2) of PTR, 1996 deems necessary. Further, the revenue is recognized once licenses are issued upon successful compliance of all the requirements for obtaining a license and not only when initial fee is received.

The reply is not tenable. Section 8 (2) of PTR clearly defines that Federal Government may issue policy directives on such matters. PTA has accrual-based accounting system where revenue is recognized on accrual basis, whereas in the reply PTA has mentioned that revenue is recognized when licenses are issued upon successful compliance of all requirements which is the requirement of a cash-based accounting system.

The matter was discussed in the DAC meeting held on 20th December, 2023. The DAC constituted a two members Fact Finding Inquiry Committee to inquire the matter within 15 days. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(DP No. 03 & 21)

1.5.4 Less realization of Annual Radio Frequency Spectrum Fee – Rs 226.376 million

According to clause 4 (2) of De-Regulation Policy for Telecom Sector issued by Ministry of IT & Telecom Division in July, 2003, entry to Local Loop market will be unrestricted and open. Any person who requests for a license, and meets the licensing requirements, will be eligible to get a license on payment of prescribed fee which will be set at the Pak Rupee equivalent of US\$ 10,000 for a LL License.

PTA HQ under the Cabinet Division, Islamabad issued demand notices for payment of Annual Radio Frequency Spectrum Fee for WLL License / Services to different operators during FY 2022-23.

Audit observed that the operators deposited the requisite fee in Pak Rupee @ 58 per US\$ instead of selling rate of the US dollars prevailing on the day preceding the date of payment, which resulted in less realization of Rs 226,376,395.

Audit contends that due to weak financial discipline the management received less amount on account ARFS Fee and caused a huge loss to the national exchequer.

Audit reported the matter to the management and PAO during November, 2023. It was replied that in compliance to PAC directives in previous Audit Paras, PTA issued demand notices to the operators in US dollars. However, operators deposited Pak Rupees denominated amount within stipulated time. PTA had already initiated enforcement actions against the operators as per Section 23 of the Act for recovery of the said amount. However, two operators have assailed PTA demand in the court of law and have obtained stay order.

The management accepted the Audit contention; however, the record did not show any strenuous efforts for recovery and pursuance of enforcement orders.

The matter was discussed in the DAC meeting held on 20th December, 2023. DAC directed PTA to pursue the case in the court of law. DAC further directed PTA to seek an opinion from Law & Justice Division in the matter through Cabinet Division. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year(s) 2012-13, 2022-23 and MFDAC Reports for Audit Year(s) 2020-21, 2021-22 vide Para(s)

number 1.14, 1.6.3, 1.1 & 1.3 having financial impact of Rs 960.078 million. Recurrence of same irregularity is a matter of serious concern.

(DP No. 04)

1.5.5 Irregular issuance of LDI License to M/s TWA - US\$ 500,000 (Pak Rs 142.125 million)

Clause 3.3.1(a) of LDI license template provided for deposit of nine (9) Performance Bank Guarantees within one month by the licensee. According to PTA letter No. PTA/LIC-WrL/LDI/1352/2019 dated: 01.12.2023, M/s TWA was required to surrender its CLS license before awarding of LDI license. According to Section 4 (f) of PTRRA 1996 (amended 2006), the Authority shall investigate and adjudicate on complaints and other claims made against licensees arising out of alleged contraventions of the provisions of this Act, the rules made and licenses issued thereunder and take action accordingly.

PTA under the Cabinet Division, Islamabad granted Long Distance International (LDI) license for Pakistan to M/s Transworld Associates (Pvt.) Ltd. (TWA) on 21.03.2023 (date of issuance of commencement certificate) subject to surrender of special license and submission of Initial License Fee (ILF) of US\$ 500,000/- (Equivalent to Pak Rs 142,125,000) within one month with nine (9) Performance Bank Guarantees.

Audit examined the files of licensing and found that:

- i. The Authority granted LDI license to M/s TWA despite the fact that M/s TWA neither deposited nine (9) Performance Bank Guarantees valuing US\$ 10 million nor surrendered the Cable Landing Station (CLS) License on the date of commencement of LDI as required under the PTA's instructions stated above.

- ii. M/s TWA had also signed interconnection & extension of connection services agreement with the proclaimed default M/s World Call Telecom.

Audit contends that PTA did not adhere to the conditions of PTR, 1996 and granted LDI license to M/s TWA without deposit of bank guarantees and surrender of CLS.

Audit reported the matter to the management and PAO during November, 2023. It was replied that LDI license has not been signed and issued to TWA till date as it has only deposited ILF after the approval of Authority to grant LDI license. License shall only be signed and issued after fulfilment of nine (9) PBGs. Moreover, field inspection report also revealed that there was no telecommunication service between TWA / World Call FLL. More to this, Director Operations, World Call also confirmed that World Call FLL has no business / SLA with TWA.

The reply is not tenable. The record transpired that the LDI license was approved and signed by PTA without obtaining PBGs and surrendering of CLS license. Besides, M/s TWA had signed interconnection & extension of connection services agreement with M/s World Call vide undertaking dated: 06.10.2022.

The matter was discussed in the DAC meeting held on 20th December, 2023. The DAC directed PTA to get the relevant documents verified from Audit within three months. No further progress was reported till finalization of this report.

Audit suggests that a fact-finding inquiry be conducted as to why the LDI license was signed and granted without fulfilment of codal formalities to an operator who had business connections with a defaulted company, besides compliance of the DAC directives.

(DP No. 42)

1.5.6 Irregular change and insertions of new clauses in LDI license – US\$ 500,000 (Pak Rs 107.975 million)

According to Rule 5.2.3 of Telecommunication Policy 2015, the Federal Government in consultation with PTA will review the licensing policy framework, keeping in view the market state. Any proposed changes to the licensing regime will be made in consultation with the sector stakeholders and will be subject to approval by Federal Government. Rule 4.2.1 (b) of De-Regulation Policy, 2003 further states that the licensees will be permitted to lease infrastructure from PTCL or any other infrastructure owner on mutually agreed commercial terms, non-discriminatory to other licensees seeking the same facility. A long-term lease of 5 years or more will be acceptable in lieu of ownership.

PTA HQ under the Cabinet Division, Islamabad issued LDI license to M/s Zeta Technologies (Pvt.) Ltd. on 05.01.2023 wherein PTA had changed and included new clauses 3.2.6 to 3.2.8 in the LDI licenses under heading - Network Rollout Obligations.

Audit observed that PTA changed the template of the LDI license and included new clauses without the approval of the Federal Government as required under the Telecom Policy 2015.

Audit contends that, apart from soliciting the approval of the Federal Government, insertion of new clauses adversely impacts the business of Telecom Infrastructure Providers which is against the spirit of Section 5 (b) and 6 (a) of PTR, 1996 dealing with enforcement, monitoring and protecting the rights of licensees.

Audit reported the matter to the management and PAO during November, 2023. It was replied that with the insertion of enhanced terms and obligations in LDI License template, the scope of LDI License did not change and the licensing regime remained intact. There was a demand to increase the percentage of fiber-to-the-tower/site (FTTT/FTTS) to promote rapid modernization of telecommunication systems and services.

The reply is not tenable as any proposed changes to the licensing regime were to be made in consultation with the sector stakeholders and subject to approval by the Federal Government. Besides changing the scope of the template and causing infringement upon the rights of the licensees, the LDI licensees could avail the infrastructure laid by the telecom infrastructure providers.

The matter was discussed in the DAC meeting held on 20th December, 2023. The DAC directed PTA to share the outcome of Authority's review with Cabinet Division and get it verified from Audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(DP No. 43)

1.5.7 Poor quality of 4G/LTE services & non-compliant of confidence level of web page loading time

According to Regulation 4 of Cellular Mobile Network Quality of Service (QoS) Regulations, 2021, licensees are required to meet Webpage Loading Time threshold of 5 seconds. Further, according to Next Generation Mobile Service (NGMS) licenses, the licensees are required to meet the threshold of 100 dBm or above of Reference Signal Receive Power (RSRP) with 90% confidence level. Moreover, Regulation 10 (1) (2) of PTA Functions and Power Regulations, 2007, states that the Authority shall conduct inspections, surveys, tests or make surprise checks through its designated officers or conduct performance audit of quality of service of the licensee from time to time to ensure that users of telecommunication services get such quality of service as laid down in the license, regulations and Key Performance Indicators (KPIs).

PTA under the Cabinet Division, Islamabad published 4th quarter quality of service survey including webpage loading time on its website for general public and found cellular operators as non-compliant to QoS Regulations, 2021.

Audit observed from the samples of 4G/LTE strength based on the survey of selected routes that the operators were non-compliant both in auto detect and locked

modes and were providing poor quality 4G/LTE services. PTA did not take any action against the operators as per PTR, 1996 and PTA Functions & Powers Regulations, 2007.

Audit contends that non-compliance by the service providers with the above stated regulations deprived the subscribers of the quality telecom services.

Audit reported the matter to the management and PAO during November, 2023. It was replied that PTA conducted quarterly QoS Surveys across the country with an aim to identify the weak areas and shared results with CMOs for taking required remedial actions in order to improve delinquent KPIs upto licensed thresholds. Coverage redundancy is ensured by mobile operators by deploying layers of technology i.e. 2G, 3G and 4G so wherever 4G is not available the technology falls back to 3G. Conduct of surveys and subsequent actions on part of CMOs was a continuous process and services are ensured within the claimed coverage of CMOs.

The reply is not tenable. The poor quality of services was reported in the surveys conducted by PTA itself and non-compliance of the operators to regulatory framework was identified; however, no action was taken against the operators to improve the quality of services.

The matter was discussed in DAC meeting held on 20th December, 2023. The DAC directed PTA to arrange a presentation on the instant issue for Audit, within two months. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(DP No. 40)

CABINET DIVISION

CHAPTER-2

FREQUENCY ALLOCATION BOARD (FAB)

Chapter 2

Frequency Allocation Board (FAB)

(Cabinet Division)

2.1 Introduction

A) Frequency Allocation Board (FAB), established on 1st January 1996 under the Pakistan Telecommunication (Reorganization) Act, 1996, is under the administrative control of the Cabinet Division and funded by PTA. Section 42 of Pakistan Telecommunication (Reorganization) Act 1996 provides for its accounts to be audited by the Auditor-General of Pakistan. FAB is managed by a Board appointed by the Government of Pakistan and follows the applicable recommendations of the International Telecommunication Union (ITU). Its main functions are to:

- Allocate and assign frequency spectrum to the public sector providers of telecommunication services and systems, radio and television broadcasting operations, public and private wireless operators, and others.
- Monitor the sphere and determine illegal users of frequencies and report to PTA for action under the Act.

B) Comments on Budget and Accounts

2.1.1 FAB management did not provide the annual audited accounts till finalization of the Report despite continuous pursuance by Audit. Hence, no comments on accounts could be offered.

Table-I Audit Profile of FAB**(Rs in Million)**

S. No	Description	Total Nos.	Audited	Expenditure audited FY 2022-23	Revenue / Receipts audited FY 2022-23
1	Formations	01	01	1,107.075	-
2	<ul style="list-style-type: none">• Assignment Accounts• SDAs	-	-	-	-
3	Authorities / Autonomous Bodies etc under the PAO	01	01	1,107.075	-
4	Foreign Aided Projects (FAP)	-	-	-	-

2.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 8.971 million were raised in this report during the audit of Frequency Allocation Board. Summary of the Audit observations classified by nature is as under:

Table-II Overview of Audit Observations

(Rs in Million)

S. No.	Classification	Amount
1	Non-production of record	-
2	Reported cases of fraud, embezzlement and	-
3	Irregularities	5.171
A	HR/Employees related irregularities	5.171
4	Value for money and service delivery issues	-
5	Others	3.800
Total		8.971

2.3 Status of Compliance with PAC Directives

S. No	Audit Year	FAB		Compliance		%age
		Total Paras	Total Directives	Received	Not Received	
1	1997-98	2	2	2	0	100
2	1998-99	5	5	5	0	100
3	1999-00	4	4	4	0	100
4	2000-01	3	3	2	1	67
5	2002-03	8	8	8	0	100
6	2003-04	5	5	4	1	80

7	2004-05	5	5	5	0	100
8	2005-06	10	9	9	0	100
9	2006-07	5	2	2	0	100
10	2007-08	3	3	2	1	67
11	2008-09	7	7	7	0	100
12	2009-10	7	7	7	0	100
13	2010-11	9	9	8	1	89
14	2013-14	11	11	10	1	91
15	2014-15	9	6	6	0	100
16	2015-16	5	3	3	0	100
17	2016-17	6	4	4	0	100
18	2017-18	10	8	6	2	75
19	2018-19	5	4	2	2	50
20	2019-20	12	8	8	0	100

The above table reflects that the management has not shown adequate interest in complying with the PAC directives over the years.

AUDIT PARAS

2.4 Irregularities

A. HR/Employees related irregularities

2.4.1 Inadmissible payment of incentives – Rs 5.171 million

According to definition 2 (xxii) of FAB Employees Service Regulations, 2014, gross salary means “Monthly Pay and Regular allowances before subscriptions and deductions”. Further, Honourable Supreme Court of Pakistan in Para-5 of Civil Petition No.231-K of 2020 elaborates in Para-486 of the decision that the term ‘emoluments’ means the “emoluments which the officer was receiving immediately before his retirement and shall include; Pay as defined in FR 9 (21)(a)(i); Senior Post Allowance; Special Pay of all types of nature; Personal Pay; Technical Pay; Indexed Pay; Increment accrued during leave preparatory to retirement; and any other emoluments which may be specially classed as Pay”.

Islamabad High Court, Islamabad in W.P No.3084/2011 decided vide para 31(iii) that for the period w.e.f 01.03.2012 to 21.08.2015 the petitioner’s salary etc. shall be paid by FAB in the amount as payable to a BS-19 officer of FAB. Further, the Honorable Supreme Court of Pakistan in Civil Petition No.2894 of 2019 upheld the decision of the Islamabad High Court and decided to pay the emoluments for the period mentioned in para 31 (iii).

Audit observed that the case for payment of emoluments to the officer was initiated and referred to Legal Advisor FAB who opined that all regular allowances and pay would be paid to the petitioner as decided by the High Court and the Supreme Court of Pakistan. However, on the directions of Director (Finance) FAB, while calculating the pay & allowances for payment, included Reward Money, Proficiency Incentive, Leave

Encashment and POL Charges contrary to the advice of the legal advisor, ESR, 2014 and decision of the Court; thereby making inadmissible payment of fringe benefits of Rs 5,170,678 during FY 2022-23. Detail is given as under:

S.No.	Ledger Code	Description	Amount (Rs)
01	41352	Reward Money	1,213,978
02	41333	Proficiency Incentive	1,249,608
03	42315	Leave Encashment	1,677,480
04	44117	POL Charges	1,029,612
Total			5,170,678

Audit reported the matter to the management and PAO during November 2023. It was replied that Rao Abdul Waheed, Ex-Director was relieved from FAB service and was at the disposal of Cabinet Division. The officers did not draw salary or any other allowances from Cabinet Division for the period from 01.03.2012 to 21.08.2015. Therefore, the officer filed a petition in IHC, Islamabad which was decided in favour of the petitioner. FAB filed a Civil Petition No. 2894 of 2019 in the Supreme Court of Pakistan against the judgment of IHC. However, the Supreme Court upheld the decision of Islamabad High Court and dismissed the petition.

The reply is not convincing and therefore not acceptable. The Honourable Supreme Court adjudicated for payment of emoluments. The Legal Advisor of FAB opined that emolument meant Pay & Regular allowance, hence, payment of reward money, proficiency incentive, leave encashment and POL charges by the Finance Wing of FAB was inadmissible.

The matter was discussed in DAC meeting held on 21st December, 2023. The DAC directed FAB to seek opinion from Law and Justice Division and get it verified from Audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(DP No.51)

2.5 Others

2.5.1 Loss due to unauthorized use of FM Radio Frequency without valid License – Rs 3.800 million

According to Section 42 (1) of Pakistan Telecommunication (Re-organization) Act, 1996 and Regulation 4 (d) of Radio Frequency Spectrum (Allocation, Management & Monitoring) Regulations, 2021, the Board has the powers to investigate all complaints of interference and take appropriate action for effective clearance thereof. Rule 4 (3) (d) (iii) *ibid* further states that the Board shall have the powers to suspend and cancel the assignment of radio frequency to any operator or user upon the recommendation of the Authority or the PEMRA in case of licensee or proof sufficient to satisfy the Board that the operator or user has ceased its operations authorized under the Act, Ordinance and rules and regulations made thereunder and the license without approval of the Board, the Authority or the PEMRA.

FAB HQ under the Cabinet Division, Islamabad carried out technical monitoring survey during 1st quarter of 2023 and found unauthorized operation of FM Broadcast services in Mirpur, AJK. The monitoring report sent to PEMRA indicated that the License of M/s Rose Media had expired in 2017 and was not renewed as per FAB SP&M Record.

Audit observed that the frequency allocated to the licensee was operational without valid license and the FAB management and PEMRA did not take any action as per Act and Regulations due to which a loss of Rs 3,800,000 was caused to the national exchequer, as annual renewal fee at prescribed rate of Rs 400,000 along with a base price was not recovered from the operator for the last seven (7) years as detailed below:

S.No	Name of Operator	Bandwidth	Frequency Spot	Base Price (Rs)	Annual Renewal Fee (Rs)	Total amount (Rs)
01	M/s Rose Media	200kHz	90 MHz	1,000,000	2,800,000	3,800,000

Audit contends that due to weak monitoring and enforcement, the operator continued to use illegal frequency and FAB did not take any action against the operator.

Audit reported the matter to the management and PAO during November, 2023. It was replied that FAB monitors only the frequencies as per section 5(4) of Pakistan Wireless Board Act and forwards the reports to Authorities; in this case PEMRA, for enforcement action.

The reply is not tenable. Regulation 4 (d) of Radio Frequency Spectrum (Allocation, Management & Monitoring) Regulations, 2021, empowers the Board to suspend and cancel the assignment of radio frequency to any operator on the recommendation of the concerned authorities (PEMRA and PTA).

The matter was discussed in DAC meeting held on 21st December, 2023. The DAC directed FAB to share the relevant record with Audit for verification regarding action taken by PEMRA. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives and responsibility be fixed for allowing illegal use of Radio Spectrum.

(DP No.54)

2.5.2 Inadequate action by FAB against unauthorized usage of spectrum

According to Section 42 (1) of Pakistan Telecommunication (Re-organization) Act, 1996 and Regulation 4 (d) of Radio Frequency Spectrum (Allocation, Management & Monitoring) Regulations, 2021, the Board shall investigate all complaints of interference and shall take appropriate action for effective clearance thereof.

FAB HQ under the Cabinet Division, Islamabad forwarded monitoring reports to PTA for enforcement against illegal users including twenty (20) cases of unauthorized usage of spectrum during 2nd quarter of 2022 (October – December, 2022).

Audit reviewed the monitoring reports and observed that:

- i. FAB reported to PTA the misuse of frequency spots 3423 & 3429 located at Anwar Baloch Restaurant, Malir Bridge, Karachi by M/s Jazz. PTA referred back the case of M/s Jazz to FAB with the comments that above mentioned frequency spots were assigned and were under the use of Link-Dot-Net. FAB did not respond to the comments of PTA and left the case unattended.
- ii. M/s Telenor and Zong filed complaints to FAB against the installation of Cellular Signal Repeaters on different locations, causing interference in their respective IMT 900 MHz, 1800 MHz and 2100 MHz uplink frequency bands. FAB forwarded the complaints to Director (Enforcement Wireless) PTA during May, 2023 instead of taking action as per the Act and Regulations.

iii. FAB did not provide the list of illegal users of frequencies having complete information of the users addresses and contact numbers as identified by PTA Zonal office Karachi. PTA took actions in some cases but the illegal users denied to have used frequencies. Therefore, PTA suggested that in future joint Technical Monitoring would be carried out.

Audit contends that FAB did not perform its regulatory obligations of taking action against the illegal user of frequencies; instead, FAB reported the matter to PTA for action and shifted the responsibility on PTA.

Audit reported the matter to the management and PAO during November, 2023. It was replied that FAB conducts technical monitoring surveys by employing state-of-the-art monitoring equipment to monitor usage of frequency spectrum by wireless operators and identifies its unauthorized usage by providing complete details. Same is reported to the concerned authorities (PTA HQ / PEMRA HQ) for requisite enforcement action. It is reiterated that FAB is authorized to allocate, assign and monitor frequency spectrum all over Pakistan, however, enforcement does not form mandate of FAB.

The reply is not tenable. FAB has the powers under Rule 4(2)(d) of Radio Frequency Spectrum (Allocation, Management & Monitoring) Regulations, 2021 to investigate all complaints of interference and take appropriate action for effective clearance thereof.

The matter was discussed in DAC meeting held on 21st December, 2023. The DAC directed FAB to get the record verified in respect of reported twenty cases in collaboration with PTA. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives and responsibility be fixed for non-taking action against the illegal users.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year(s) 2013-14, 2014-15 & 2015-16 vide Para(s) number 1.6, 2.8 & 2.4.2 with no financial

impact being para on the functions of the organization. Recurrence of same irregularity is a matter of serious concern.

(DP No. 63 & 66)

2.5.3 Allocation of free backhaul frequencies and non-formulation of AIP Framework

Paras 8.12.1, 8.12.2 & 8.12.3 of Telecommunication Policy, 2015 states that Administrative Incentive Pricing (AIP) will be introduced for microwave spectrum assignments. PTA will consult stakeholders on the framework for AIP prior to its approval by the Federal Government (MoIT). Para 8.8.1 *ibid* further states that spectrum will be allocated for digital microwave communication to provide backhaul for fixed and mobile services. The roll out of future technologies, in the absence of fibre, is likely to create a bottleneck in backhaul. With this in view, and before the bottleneck arises, the microwave spectrum will henceforth be allocated, assigned and charged to licensees and other users through Administrative Incentive Pricing (AIP) mechanism to ensure rational use of spectrum for the purpose.

FAB HQ under the Cabinet Division, Islamabad in its 48th Board's meeting approved earmarking of six (6) additional microwave backhaul channels to M/s CM Pak and Ufone. The record transpired that ISI supported the proposals for M/s CM Pak and Ufone for a period of one (1) year during the meeting with a suggestion to formulate AIP framework for Microwave Spectrum Assignments.

Audit observed that FAB allocated unrestricted free backhaul frequencies to the operators without finalization of AIP framework and fixing of fee as envisaged in Telecommunication Policy, 2015 which caused loss to the National Exchequer in the form of non-recovery of fee from the operators.

Audit contends that despite suggestion of the ISI, amid scarce state resources, provision of free allocation of frequencies to the operators in violation of the Policy reflect mismanagement and failure of Internal Controls.

Audit reported the matter to the management and PAO during November 2023. It was replied that the recommendations of the Board were conveyed to MoITT and PTA for formulation of the AIP framework as per Telecom Policy, 2015. The charging mechanisms and collection of fees from the telecom users was the mandate of PTA rather than FAB as per the Telecom Act, 1996. The AIP was proposed in the Telecom Policy, 2015, however, clause 8.7.3 of the same Policy states that the ASAF “Annual Spectrum Administrative Fee” will continue as defined in Section 4.4 and Appendix-B of the 2004 Mobile Cellular Policy till AIP is introduced consequent to the policy. Hence, no free spectrum is being used by the mobile operators.

The reply is not tenable. Para 8.8.1 of Telecom Policy, 2015 clearly mentions that allocation of backhaul frequencies will be charged to licensees and other users through Administrative Incentive Pricing (AIP) mechanism to ensure rational use of spectrum for the purpose. Further, the AIP framework was required to be formulated in consultation with all stakeholders and approval of the Federal Government which is still pending despite lapse of eight (8) years.

The matter was discussed in the DAC meeting held on 21st December, 2023. The DAC directed FAB to shift / refer the para to PTA and MoITT for response. No further progress was reported till finalization of this report.

Audit recommends that responsibility be fixed for allocation of free backhaul frequencies without finalization of AIP framework.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year(s) 2017-18 vide Para(s) number 2.5.1 with no financial impact being para related to functions of the organization. Recurrence of same irregularity is a matter of serious concern.

(DP No.64)

MINISTRY OF DEFENCE PRODUCTION

CHAPTER-3

**NATIONAL RADIO &
TELECOMMUNICATION CORPORATION
(NRTC)**

Chapter 3

National Radio & Telecommunication Corporation (NRTC)

(MoDP)

3.1 Introduction

A) The National Radio & Telecommunication Corporation (NRTC) was established on 16th February, 1966 and was registered under the Companies Ordinance, 1984 as a Private Limited Company. NRTC falls under the administrative control of the Ministry of Defence Production. The Corporation is managed by a Board of Directors headed by Secretary, Ministry of Defence Production.

The main objectives of the Corporation include manufacturing and assembling of all kinds of radio and wireless sets for Defence Services, jamming solutions and production of batteries, eliminators and distribution point boxes for PTCL and NTC. Besides, the organization is also engaged in expanding its business for introduction of new products and IT solutions.

B) Comments on Budget and Accounts

3.1.1 According to Auditor-General's office letter No.574/43-R&SD/ SOP/2007Pt dated 01.12.2023, National Radio Telecommunication Corporation (NRTC), being autonomous body of the Federal Government, while appointing the Chartered Accountant firm for annual audit of its financial statements, is required to obtain concurrence of the Auditor-General of Pakistan. However, NRTC did not obtain the said concurrence from the office of the Auditor-General of Pakistan.

3.1.1 According to Note 32 to the Financial Statements, NRTC could not control its exchange (loss) on financial instruments as the same was increased from Rs 302.924 million (in 2022) to Rs 508.941 million (in 2023); thereby showing an increase of 68% as compared to the corresponding exchange loss of previous year. The increase

in exchange loss shows weak foreign exchange risk management by NRTC which, if not mitigated, would further erode the future profitability of the company.

3.1.2 According to Note 35.1 to the Financial Statements, the credit risk represents the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. However, the age analysis of the trade debts of NRTC showed that the credit risk was increased significantly as the trade debts past due over 180 days had increased from Rs 737.517 million (in 2022) to Rs 1729.79 million (in 2023); thereby showing an increase of 134.5%.

Table-I Audit Profile of NRTC

(Rs in Million)

S. No	Description	Total Nos.	Audited	Expenditure audited (FY 2022-23)	Revenue / Receipts Audited (FY 2022-23)
1	Formations	01	01	20,304.545	21,955.723
2	<ul style="list-style-type: none"> • Assignment Accounts/ • SDA 	-	-	-	-
3	Authorities / Autonomous Bodies etc under the PAO	01	01	20,304.545	21,955.723

4	Foreign Aided Projects (FAP)	-	-	-	-
---	---------------------------------	---	---	---	---

3.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 6,405.163 million were raised in this report. This amount also included recoveries of Rs 6,159.290 million as pointed out by audit. Summary of the audit observations classified by nature was as under:

Table-II Overview of Audit Observations

(Rs in Million)

S. No.	Classification	Amount
1	Non-production of record	-
2	Reported cases of fraud, embezzlement and	-
3	Irregularities	179.092
A	Procurement related irregularities	179.092
4	Value for money and service delivery issues	264.643
5	Others	5961.428
Total		6,405.163

3.3 Status of Compliance with PAC Directives

NRTC				Compliance		%age
S. No.	Audit Year	Total Paras	Total Directives	Received	Not received	
1	1988-89	3	3	0	3	0
2	1990-91	10	10	10	0	100

3	1992-93	10	10	10	0	100
4	1994-95	No audit para was printed in Audit Report				
5	1996-97	10	2	2	0	100
6	1997-98	10	10	10	0	100
7	1999-00	9	9	9	0	100
8	2000-01	12	12	12	0	100
9	2001-02	8	8	8	0	100
10	2003-04	9	9	7	2	100
11	2004-05	13	13	13	0	100
12	2005-06	8	8	8	0	100
13	2006-07	6	6	6	0	100
14	2007-08	13	12	12	0	100
15	2008-09	9	9	9	0	100
16	2009-10	5	4	4	0	100
17	2010-11	6	4	3	1	75
18	2012-13	20	20	20	0	100
19	2016-17	13	5	4	1	80
20	2017-18	18	13	12	1	92

AUDIT PARAS

3.4 Irregularities

A. Procurement related irregularities

3.4.1 Irregular procurement of equipment and renewal of software– Rs 179.092 million

According to Rules 12(2) of PPRs, all procurements over three million Pakistani Rupees should be advertised on the Authority’s website as well as in other print media or newspapers having wide circulation in at least two national dailies, one in English and the other in Urdu.

NRTC under the Ministry of Defence Production, Rawalpindi procured services for renewal of software license and test equipment viz, DC Power Supply, Digital Multimeter, Digital Oscilloscope, Signal & Spectrum Analyser, Network Analyzer and Signal Shark with ADFA2. NRTC incurred an expenditure of Rs 179,091,622 during FY 2022-23 as detailed below:

S.No	PDP No.	Description	Amount
1	147-2024	Renewal of software license from M/s A. Hamson	11,693,650
2	150-2024	Procurement of test equipment from M/s Rohde and Schwarz GmbH & Co.	145,642,844
3.	159-2024	Procurement of test equipment from M/s Nexus Telecom	21,755,128
Total			179,091,622

Audit observed that the services for renewal of software license and test equipment were procured without inviting open tenders.

Audit contends that the procurements were made in disregard to PPRs, 2004 (amended 2021), which reflects weak procurement and contract management.

Audit reported the matter to the management and PAO during November, 2023. It was replied that the procurements were made from the Original Equipment Manufacturers (OEM)/authorised distributors which were covered under Rule 42 (c), (ii) & (iii) of the PPRs 2004.

The reply is not tenable as multiple authorised distributors of PALO ALTO for renewal of software license existed in the market among which competition could be held. Similarly, multiple manufacturers/authorized dealers of the test equipment were available in the market. The services for renewal of software and the test equipment were neither sensitive nor emergently required to be acquired through direct contracting. Further, NRTC did not ensure price reasonablity while procuring the goods and services through direct contracting.

The matter was discussed in the DAC meeting held on 7th December, 2023. The DAC directed that evidence of OEM's recommendation for renewal of software license from M/s A Hamsons, client requirement of procurement of test equipment from M/s Rohde and Schwarzs and M/s Nexus Telecom be got verified from audit, besides regularization of expenditure from the competent forum. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Note: The issue was also reported earlier in the Audit Report(s) for the Audit Years 2018-19 and 2021-22 vide paras No.3.4.1 and 3.4.1 having financial impact of Rs 57.028 million. Recurrence of same irregularity is a matter of serious concern.

(DP No. 147,150 & 159)

3.5 Value for money and service delivery issues

3.5.1 Loss due to deduction of LD charges – Rs 264.643 million

According to the standard terms and conditions of the contracts, the LD charges up to 2%-10% on late delivery of supplies are deducted by the customers from all the payments made to NRTC.

NRTC under the Ministry of Defence Production, Rawalpindi executed different local and export contracts for supply of stores.

Audit examined the relevant record of various sales contracts and observed that NRTC did not deliver the requisite stores within the stipulated time due to which the clients deducted LD charges of Rs 264,642,520 as detailed below:

S. No.	Item #	Name of contractor	LD Charges (Rs)
1.	6	DGP (Army)	88,275,600
2.	10	Ministry of Defence, Saudi Arabia	145,176,000
3.	22	D.G C41 Directorate/ C&IT GHQ	14,480,416
4.	23	Director of Procurement (Navy)	5,520,120
5.	25	DGP Army GHQ	11,190,384
Total:			264,642,520

Audit contends that, due to imprudent contract management, NRTC did not deliver the requisite stores within the stipulated time and caused a loss of Rs 264,642,520 in the form of LD charges to the Corporation.

Audit reported the matter to the management and PAO during November, 2023. It was replied that the matter had been taken up with concerned authorities for revision of agreements and waiver off LD charges.

NRTC has accepted the audit contention; however, neither the contract agreements were revised nor LD charges were got waived off from clients till finalization of the Audit Report.

The matter was discussed in the DAC meeting held on 7th December, 2023. The DAC directed NRTC management to take up the matter with the concerned departments/agencies for waiver of penalty of LD charges and get the record verified from audit.

Audit recommends implementation of DAC directives.

Note: The issue was also reported earlier in Audit Reports for Audit Years 2018-19, 2019-20, 2021-22 and 2022-23 vide paras no.3.5.3, 3.4.1, 3.5.1 and 3.5.1 having financial impact of Rs 76.663 million. Recurrence of same irregularity is a matter of serious concern.

(DP No.161)

3.6 Others

3.6.1 Non-receipt of mobilization advance in export contract- Rs 2,258.004 million (US\$ 8,164,313)

According to clause 1.4(i) of Export Contract No. FM&S/NRTC / NIA/23 dated 03.02.2023, the purchaser shall pay the supplier according to the payment mode stated hereunder, for the implementation of Part-I as provided in the schedules. The supplier shall be entitled to an advance payment equivalent to fifty percent (50%) of contract sum for Part-I as mobilization fee for commencement of the work. Further, clause 1.5(i) of the contract requires that the supplier shall be entitled to an advance payment equivalent to 35% of contract sum for Part-II as mobilization fee for commencement of work.

NRTC under the Ministry of Defence Production, Rawalpindi executed an export contract of US \$19,609,510 with National Intelligence Agency (NIA), Abuja of Nigeria on 03.02.2023 for provision and installation of various electronic equipment and allied solutions.

Audit observed that NIA of Nigeria was under contractual obligation to pay mobilization advance of Rs. 2,258,004,181 (USD 8,164,313) to NRTC for both parts of the contract before the commencement of work. The said mobilization advance was not received despite lapse of a considerable time. Audit further observed that NRTC issued foreign and local purchase orders of Rs 1,138,103,137 and made advance payments thereof including allied expenses on finalization of the contract.

Audit contends that due to imprudent contract management, NRTC incurred huge expenditure without receipt of mobilization advance as per contract.

Audit reported the matter to the management and PAO during November, 2023. It was replied that as per contract, 50% and 35% of mobilization advance was to be received for phase-I & II before commencement of the work. The payment got delayed due to change of Government in Nigeria, however, after stabilization of newly formed Government, the payment is expected to be received shortly. As regards to the procurement and allied expenditure, the amount was incurred for timely supplies without delays.

The reply is not tenable. The expenditure incurred in advance without receipt of mobilization advance as envisaged in the contract and without bank guarantee has increased the risk/exposure of NRTC to huge loss.

The matter was discussed in the DAC meeting held on 7th December, 2023. The DAC directed NRTC management to make concrete efforts for implementation of the contract and receiving of the mobilization advance. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(DP No. 140)

3.6.2 Non-recovery against delivered stores - Rs 2,097.602 million

According to terms and conditions of various sales contracts given in the table below, the customers were liable to make advance payments as well as payments against delivered stores to NRTC.

NRTC under the Ministry of Defence Production, Rawalpindi executed various sales contracts during FY 2022-23 and delivered the requisite stores to the clients as per terms and conditions of the contracts.

Audit observed that NRTC did not manage to recover an amount of Rs 2,420,941,670 on account of advance payment and payments against delivered goods from various customers as detailed below:

S. No.	Item No.	Organizations	Outstanding Amount (Rs)	Delivery Date
1.	2	MI Directorate	1,122,623,850	02.06.22
2.	4	CMA (DP) Rawalpindi	302,095,128	09.06.23
3.	12	Civil Works Organization	44,466,188	29.04.22
4.	13	Rawalpindi/GHQ	66,110,625	20.05.23
5.	14	F.C Baluchistan (North), Quetta	215,966,526	05.04.21
6.	16	S.S.P Logistics & Headquarters, Islamabad	34,000,000	17.04.23

7.	17	Director General Procurement (Army)	498,939,759	18.05.23
8.	27	D.G C41 Directorate/ C&IT Branch/GHQ	93,977,111	07.04.23
9.	28	NLC	36,277,881	23.08.22
10.	30	FC Corps	6,484,602	10.03.23
Total			2,420,941,670	

Audit contends that due to weak receivables management, NRTC failed to recover the receipts from its customers despite lapse of considerable time.

Audit reported the matter to the management and PAO during November, 2023. It was replied that an amount of Rs 323.340 million has been recovered and verified by audit against contracts at S. No 1&2.

The management has accepted the audit contention; however, NRTC did not make efforts to recover the captioned amount.

The matter was discussed in the DAC meeting held on 7th December, 2023. The DAC directed to reduce the para to the extent of amount verified by audit. Further, efforts be made to recover the balance amount and the record may be got verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(DP No. 160)

3.6.3 Loss due to non-incorporation of price variation clause– Rs 822.437 million

As per Clause-1b(2) of Chapter-V of DPPI-35, related to Price Variation Clause (PVC), if such a clause is unavoidable, variation in the contract price would be admissible only in so far as rise or fall in cost of labour and/or material is concerned and that to, 15% maximum variation for contracts on F.O.R (freight on road) basis, where import of raw material is involved to execute the contract.

NRTC under the Ministry of Defence Production, Rawalpindi executed two contracts with D.G Procurement (Army) on FOR basis as detailed below:

S.No	Contract No.	Rate/Unit	Qty	Date of Contract	Total value
01	08-0790-3- /0A	18,390,750/-	115	04.06.2021	2,114,936,250
02	08-0834-3-0	20,790,000/-	162	27.05.2022	3,367,980,000
Total					5,482,916,250

Audit examined the contracts documents and observed that:

- (i) The first contract was signed on 04.06.2021 when the exchange rate was Rs 155.30/\$, whereas the second contract was signed on 27.05.2022 when the exchange rate was Rs 202.60/\$; thereby leading to an exchange rate difference of Rs 47.30/\$ between the two contracts. NRTC supplied 115 GSRs at a total cost of Rs 2,114,936,250. Had the price variation of 15% been included in the contract, the contract amount would have increased to Rs 2,432,176,688. Due to non-inclusion of the PVC in the contract, NRTC sustained a loss of Rs 317,240,438 (Rs 2,432,176,688- Rs 2,114,936,250).

- (ii) The second contract was signed on 27.05.2022 when the exchange rate was Rs 202.60/\$, whereas the exchange rate at the end of FY 2022-23 was Rs 289/\$. NRTC supplied 162 GSRs for an amount of Rs 3,367,980,000. Had the price variation of 15% been included in the contract, the contract amount would have increased to Rs 3,873,177,000. Due to non-inclusion of PVC clause, NRTC sustained a loss of Rs 505,197,000 (Rs 3,873,177,000- Rs 3,367,980,000).

Audit contends that due to volatility of exchange rate and non-availability of forex hedging, it was inevitable for NRTC to include the Price Variation Clauses in both the contracts. However, due to non-inclusion of PVC in the contracts NRTC sustained a total loss of Rs 822,437,438

Audit reported the matter to the management and PAO during November, 2023. It was replied that NRTC made all out efforts to get the maximum increase in the prices through sales contracts. NRTC had to comply with the Invitation to tender conditions. In every quotation/tender NRTC mentions about the shorter price validity with prices conditional to the current dollar rate. The customers show reluctance to increase the price due to budget constraints at their end. However, in this particular case NRTC managed to increase the contract value by 13%.

The reply is not tenable as both the contracts were on 'FOR' basis and involved import of raw materials. Therefore, the PVC should have been included in the contracts to avoid the loss of exchange rate fluctuation.

The matter was discussed in the DAC meeting held on 07th December, 2023. The DAC directed that Cost of Production and Cost Variation Statement based on the exchange rate fluctuation be provided to audit. It was also directed that efforts be made to recover the exchange rate fluctuation from the customers. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

3.6.4 Loss due to exchange rate fluctuations –Rs 653.710 million

According to Exchange Fluctuation Clauses of two contracts No. 91/ET/2020-21 and 92/ET/2020-21 (Clause-15 in both the contracts) executed between the Director General Munitions Production Rawalpindi and NRTC, the exchange rates have been taken as 1 US\$ = Rs 162 &

Rs 166.958 respectively in both the contracts. However, any fluctuation in the rates of exchange at the time of opening of LCs and subsequent variation at the time of payment will be paid at the actual production of bank documents. In case of increase in US Dollar rate, the purchaser will make payment of the additional amount to the supplier, on allocation of funds from GHQ. Amount saved by NRTC (if any) due to reduction in US Dollar rates will be deposited into government treasury through TR.

NRTC under the Ministry of Defence Production, Rawalpindi executed two contracts with the Director General, Munitions Production, Rawalpindi for supply of Software Defined Radio (SDRs) sets on 28.06.2021. Both the contracts provided for fluctuation in exchange rates at the time of opening of LCs and subsequent variation at the time of payment on production of bank documents.

Audit observed that NRTC did not claim the fluctuation in exchange rates due to which NRTC sustained a loss of Rs 653,709,654 upon supply of stores as detailed below:

S.No	Contract No	Forex Value (\$)	Rate as per contract	Prevailing US\$ rate	Loss

					(Eq. Rs)
1	No.91/ET/2020-21/Army(28.06.2021)	8,301,839	Rs 162/\$	Rs207.12/\$	374,578,975
2	No.92/ET/2020-21/Army(28.06.2021)	6,950,119	Rs166.958/\$	Rs 207.12/\$	279,130,679
Total					653,709,654

Audit contends that due to weak contract management, NRTC failed to recover the difference in the exchange rates from the client and caused a loss to the Corporation.

Audit reported the matter to the management and PAO during November, 2023. It was replied that upon receipt of payments against both the referred contracts, case was immediately taken up with concerned agency for amendment in the contracts to cover the dollar exchange rate fluctuation.

The reply is invalid. Both the contracts envisaged clause-15 for payment of the exchange rate fluctuations and do not require amendment.

The matter was discussed in the DAC meeting held on 7th December, 2023. The DAC directed to recover the amounts as per contractual terms and get the record verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Note: The issue was also reported earlier in Audit Reports for Audit Years 2018-19, 2019-20 and 2022-23 vide paras no. 3.6.6, 3.5.3 and 3.6.3 having financial impact of Rs 136.410 million. Recurrence of same irregularity is a matter of serious concern.

(DP No. 142)

**3.6.5 Wasteful expenditure on account of supply of installation kits
–Rs 66.781 million**

According to terms and conditions of the Quotation No. SL/1-Gen/T-80UD/GHQ/2019 dated 13.12.2019, prices were F.O.R based and valid for 30 days. Further, payment terms were 50% advance and 50% after the delivery of store within six months after receipt of confirmed order.

NRTC under the Ministry of Defence Production, Rawalpindi, in response to request of C&IT (GHQ) dated 02.12.2019, offered the rate of Rs 247,132,883 for the proposed project of Post Trial Report-Fd Validation of SDRs Fitment in Tks T-80UD Tanks. In response, the C&IT Branch Sigs Directorate, communicated the approval for provision of installation kits in two phases.

Audit observed that NRTC made payments to the foreign and local suppliers amounting to Rs 66,780,705 without executing formal contract agreement and receiving any advance payment from the customer.

Audit contends that incurring huge expenditure without any formal agreement and without receiving any advance from the customer resulted in wasteful expenditure as the customer has not executed the contract till the completion of audit.

Audit reported the matter to the management and PAO during November, 2023. It was replied that activities on the part of NRTC with respect to said order were as per customer consent as per LOI/supply order. The case has been taken up with customer and pursuance at appropriate level is being made for formal contract signing.

The reply is not tenable as contract could not be executed for more than two years and significant cost was incurred on procurements against the subject order.

The matter was discussed in the DAC meeting held on 7th December, 2023. The DAC directed to conduct a fact finding inquiry within three months to ascertain the reasons for delay in contract and for incurring the expenditure without execution of contract. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(DP No. 144)

3.6.6 Loss to national exchequer due to less charging of sales tax – Rs 33.094 million

According to S.R.O. 179(1)/2023 dated: 14.02.2023, the Federal Government enhanced the rate of sales tax in respect of taxable goods falling within the purview of sub-section (1) of section 3 of the Sales Tax Act, 1990 from seventeen percent (17%) to eighteen percent (18%).

NRTC under the Ministry of Defence Production, Rawalpindi executed six (06) contracts with different clients for supply of defence related stores.

Audit scrutinized the record relating to sales contracts and observed that an amount of Rs. 33,093,590 was less claimed by NRTC from its customers in the sales tax invoices; thereby, causing a loss to the national exchequer. It is pertinent to mention that sales tax rate was revised from 17% to 18% during F.Y 2022-23.

Audit contends that due to weak financial discipline sales tax at lesser rates was charged to customers.

The matter was reported to the management and PAO during November, 2023. It was replied that amendment against 02x contracts to incorporate the change of GST rate from 17% to 18% was made. The case for amendment in remaining 04x contracts was also taken up with the concerned agencies. However, customer's view point considering the

non-allocation of additional funds cannot be subsided. NRTC assures making hectic efforts for recovery of remaining payments including 18% GST. Updated status will be shared with the Audit.

The management accepted the audit contention; however, no amount against the less receipt of GST has been received till date.

The matter was discussed in the DAC meeting held on 7th December, 2023. The DAC directed to amend all contracts, the amount of sales tax be collected/deposited into national exchequer and get the record verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(DP No. 143)

3.6.7 Loss due to imprudent contract management – Rs 29.800 million

According to clause 11 of the contract with Survey of Pakistan, Ministry of Defence, should the contractor fail to deliver the Aerial photography data within stipulated period of supply, on the expiry, the client shall be entitled at his option to take either of the actions: (a) To cancel the contract, at risk and expense of the Contractor. The contractor shall also be liable to bear any loss which client sustains on this account. (b) The firm has to pay liquidation damages for the period of delays in supply of Aerial photography data up to rate of 1% of the contract price per month or part of a month exceeding the original delivery period subject to the provision that the total liquidation damages thus levied will not exceed 10% of total contract price.

NRTC under the Ministry of Defence Production, Rawalpindi executed a contract of Rs 108,433,500 with the Survey of Pakistan, Ministry of Defence, for Cadastral Mapping (8-10 cm true ortho-rectified aerial photography) in the cities of Lahore and

Karachi in May, 2021. NRTC was under contractual obligation to carry out the work within 30 days from the date of signing of the contract.

Audit observed that the Survey of Pakistan paid an amount of Rs. 35,625,905 to NRTC against 15% mobilization advance and 10% payment on successful delivery of initial deliverables. Accordingly, NRTC incurred an expenditure of Rs 29,800,583 by making payment to the supplier for execution of the contract. Subsequently, the Survey of Pakistan cancelled the contract due to failure of NRTC to complete the contractual obligation. The Survey of Pakistan demanded the amount of Rs 35,625,905 back which was not returned by NRTC till finalization of this report.

Audit contends that due to imprudent contract management, NRTC sustained a loss of Rs 29,800,583 by making payment to the supplier. In addition, the Survey of Pakistan demanded its payment of Rs 35,625,905 back due to non-completion of the work within the stipulated time.

Audit reported the matter to the management and PAO during November, 2023. It was replied that efforts were being made to resume the contract. Besides, a recovery notice was also served on the vendor to make the loss good.

The management accepted the audit contention; however, the matter was not resolved till the date of audit.

The matter was discussed in the DAC meeting held on 7th December, 2023. The DAC directed to conduct a fact-finding inquiry to ascertain the reasons for cancellation of contract and person(s) responsible (if any). The DAC further directed to submit the FFI in the next Board's meeting. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(DPs No. 141)

MINISTRY OF DEFENCE PRODUCTION

CHAPTER-4

TELEPHONE INDUSTRIES OF PAKISTAN

(TIP)

Chapter -4

Telephone Industries of Pakistan (TIP)

(MoDP)

4.1 Introduction

A) Telephone Industries of Pakistan (TIP) is a private limited company incorporated in 1953 under Companies Act 1913 (now Companies Act 2017). TIP is currently working under the control of Ministry of Defence Production as wholly owned subsidiary of NRTC. In pursuance of the Federal Cabinet's decision, National Radio Telecommunication Corporation (NRTC) acquired TIP in December, 2021.

TIP has redefined its objectives that include establishing, maintaining and operating an organization for the manufacturing and assembly of all kinds of electronic, electrical, security & surveillance, communication and IT, alternate energy and mechanical equipment for commercial and defence use.

B) Comments on Budget and Accounts

4.1.1 TIP management did not provide the annual audited accounts till finalization of the Audit Report; hence, no comments on accounts could be offered.

Table-I Audit Profile of TIP**(Rs in Million)**

S. No.	Description	Total Nos	Audited	Expenditure audited FY 2022-23	Revenue / Receipts audited FY 2022-23
1	Formations	01	01	3,210.089	2514.612
2	<ul style="list-style-type: none"> • Assignment Accounts • SDAs 	-	-	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	01	01	3,210.089	2514.612
4	Foreign Aided Projects (FAP)	-	-	-	-

Classified Summary of Audit Observations

Audit observations amounting to Rs 2,863.721 million were raised in this report during the current audit of TIP. Summary of the audit observations classified by nature is as under:

Table-II Overview of Audit Observations**(Rs in Million)**

S.No	Classification	Amount
1	Non-production of record	-

2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities	2,863.721
A	Procurement related irregularities	406.955
B	Management of Accounts with Commercial Banks	2,456.766
4	Value for money and service delivery issues	-
5	Others	-
Total		2,863.721

4.3 Status of Compliance with PAC Directives

TIP				Compliance		%age
S. No.	Audit Year	Total Paras	Total Directives	Received	Not received	
				1	1990-91	
2	1992-93	19	19	19	0	100
3	1996-97	9	5	2	3	40
4	1997-98	4	4	4	0	100
5	2004-05	No audit para was printed in these Audit Reports.				
6	2005-06					
7	2006-07					
8	2007-08					
9	2008-09					
10	2009-10	13	4	4	0	100
11	2010-11	27	27	23	4	85
12	2013-14	19	2	1	1	50

The above table reflects that the management has not shown adequate interest in complying with the PAC directives over the years.

AUDIT PARAS

4.4 Irregularities

A. Procurement related irregularities

4.4.1 Irregular expenditure on procurements – Rs 375.180 million

According to Rule 12 (2), all procurement opportunities over three million Rupees should be advertised on Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu.

TIP under the Ministry of Defence Production, Rawalpindi incurred an expenditure of Rs 375,180,621 on procurement of electrical cables, items, frames and other items of different specifications for Body Worn and Pakhtunkhwa Energy Development Organization (PEDO) projects during FY 2022-23.

Audit observed that TIP procured the items for Body Worn and PEDO projects on the basis of quotations instead of inviting tenders. Further, the frames were procured on the basis of single bid. Detail is given below:

S.No	PDP No.	Description	Amount (Rs)
01	100-24	Procurement of Cables	197,191,800
02	-do-	Procurement of Electric Items	44,248,716
03	-do-	Procurement of Frames	47,291,332
04	102-24	Procurement of items of different specifications for Body Worn project	86,448,773

Total	375,180,621
--------------	--------------------

Audit holds that electrical cables, items, frames and other items of different specifications were procured in violation of PPRs 2004 (amended 2021) which reflect weak procurement & contract management.

Audit reported the matter to the management during November, 2023. It was replied that in accordance with the terms of contract with PEDO, advance samples were required to be approved by the consultant (authorized by customer) before procurement. For this purpose, a committee was formed to get quotations from OEMs against the equipment (cables & Electrical Items) and after technical inspection, samples were submitted to customer for acceptance. After acceptance from the customer, equipment was purchased from OEM in case of electrical items and cables, whereas customized frames were procured through tender process. It was further replied that procurement for Body Worn Project was made from OEM / authorized rep against the project and as per requirement of the customer related to specific brand, hence, tender was not required.

The reply is not tenable. TIP obtained three quotations from different OEMs and the lowest one was forwarded to the client which was accepted by the client. Notwithstanding, many other OEMs for cable and electric items, neither quotations were obtained nor tender was invited. Tender (single stage two envelopes) was invited for procurement of frames; however, the procurement was made from a single bidder without technical evaluation on the plea that the bidder was financially lowest.

The matter was discussed in DAC meeting held on 6th December, 2023. The DAC directed TIP to get the record of calling quotations from vendors be verified from Audit within 3 days. The DAC further directed TIP to provide complete record i.e. ledger, OEM certificates, quotations and comparative statement for verification by Audit within 3 days.

Audit recommends implementation of DAC directives.

(DP No. 100 & 102)

4.4.2 Irregular/unjustified procurement of vehicles - Rs 31.775 million

According to Para 10 of Memorandum of Articles of Association of TIP, the management of the business of the Company shall be vested in the Directors and the Directors may exercise all such power and do all such acts and things, as the company is, by its Memorandum of Association or otherwise authorized to exercise or do and as are not hereby or by statute directed or required to be exercised or done by the company in general meeting.

TIP under the Ministry of Defence Production, Rawalpindi incurred an expenditure of Rs 31,775,000 on purchase of eight (8) new vehicles during 2022-2023 as detailed below:

S. No.	Description	Qty	Purchase Order No.	Name of supplier	Amount (Rs)
01	Suzuki Bolan	01	LP-958/L-7876/ 22 dated 13.09.2022	M/s Suzuki Motors, IBA	1,500,000
02	Suzuki Cultus	02	-do-	-do-	5,508,000
03	Hyundai Tucson AWD	01	LO-957/L7876/22 dated 13.09.2022	M/s Hyundai Islamabad	7,627,000

04	Honda City 1.5L	01	LP-1014/2022 dated 13.12.2022	M/s Honda Atlas Cars	4,559,500
05	Honda City CVT 1199 cc	01	LP-959/L- 7876/22 dated 13.09.2022	M/s Honda Atlas Cars	3,969,500
06	Honda City CVT 1199 cc	01	-do-	M/s Honda Atlas Cars	4,305,500
07	Honda City CVT 1199 cc	01	-do-	M/s Honda Atlas Cars	4,305,500
				TOTAL	31,775,000

Audit observed that:

- (i) The vehicles were purchased against the funds received for the projects transferred by NRTC for execution being subsidiary.
- (ii) The approved projects did not have provision for procurement of vehicles for TIP.
- (iii) The vehicles were purchased without approval of the Board of Directors and approved authorization and entitlement as per transport policy. The CEO of TIP was allowed 2200 CC vehicle against the entitlement of 1300 CC.

Audit contends that procurement of luxurious vehicles against project funds without the approval of Board, amid default financial position of TIP, reflects imprudent financial decisions and weakness of internal controls.

Audit reported the matter to the management and PAO during November, 2023. It was replied that being private limited company registered under Companies Act, 2017, the Board of Directors was empowered to exercise certain powers on behalf of the company including incurrence of capital expenditure. Under these provisions of the Companies Act, 2017, the BoDs approved the procurement of vehicles in its 202nd meeting and subsequently its expenditure was approved in 207th BoD's meeting.

The reply is not tenable. The Board approved the budget for the FY 2022-23 instead of approving procurement of vehicles along-with entitlement/authorization of vehicles.

The matter was discussed in the DAC meeting held on 6th December, 2023. The DAC directed the management to place the case in next meeting of the Board of Directors for approval of vehicles including authorization and entitlement of vehicles for each officer. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(DP No. 105)

B. Management of Accounts with Commercial Banks

4.4.3 Recurring loss due to accumulative loan & accrued mark-up – Rs 2,456.766 million

According to National Bank of Pakistan (NBP) letter No. BR: TIP: Renewal dated 25.09.2007, the NBP approved renewal of credit facilities with the condition that disbursement would be permissible on payment of upto date mark-up; quarterly review of financial accounts of the company; and a registered charge on company's assets in line with total exposure of credit facilities. Furthermore, clause 8.04 of the agreement dated 14.09.2009 states that if the customer fails to pay the amounts as demanded, NBP shall have the right to enforce and realize the securities without limitation the guarantee, the demand promissory note, the hypothecated goods/mortgaged property(s) without intervention of court and to file suit(s) for the recovery.

TIP under the Ministry of Defence Production, Rawalpindi obtained two loans (demand finance facility) from National Bank of Pakistan amounting to Rs 1,177 million against Government Guarantees. Detail of the loans and accrued mark-up is as under:

S.No	Description	Amount (Rs)
01	Demand finance facility – 1	1,075,000,000
02	Demand finance facility – 2	102,149,000
03	Accrued mark-up upto 2022	1,224,029,325
04	Accrued mark-up upto 2023	55,588,600
	Total	2,456,766,925

Audit observed that TIP management did not pay a single instalment as well as interest on the loan to the National Bank of Pakistan, which resulted in recurring losses due to accumulation of loan & its interest amounting to Rs 2,456.766 million.

Audit opines that due to non-payment of loan, the interest amount is being compounded with each passing day having serious financial and legal repercussions for TIP.

Audit reported the matter to the management and PAO during November, 2023. It was replied that TIP management was concerned to resolve the issue as it created major hurdle in operations of the company as well as acquisition of business being a defaulting entity. For resolution of the issue, the case was being discussed at multiple levels. Recently, a meeting was held at HQ NRTC with delegation of NBP to discuss different options including rescheduling of loan on softer terms, waiver of accrued interest and balloon payments against principal amount.

The reply is not tenable as no strenuous efforts were made to settle the loan even after declaring TIP as a subsidiary of NRTC.

The matter was discussed in DAC meeting held on 6th December, 2023. The DAC directed the TIP management to expedite the efforts for resolution of the case with NBP and intimate the progress to Audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year(s) 2010-11 and MFDAC Report(s) for Audit Year(s) 2022-23 vide Para(s) number 6.10 & 4.1 having financial impact of Rs 1,399.291 million. Recurrence of same irregularity is a matter of serious concern.

(DP No. 104)

MINISTRY OF INFORMATION TECHNOLOGY & TELECOMMUNICATION

CHAPTER-5

ELECTRONIC CERTIFICATION ACCREDITATION COUNCIL (ECAC)

Chapter 5

Electronic Certification Accreditation Council (ECAC) (MoITT)

5.1 Introduction

A) The Electronic Transactions Ordinance (ETO) was promulgated in 2002. Under this Ordinance, Electronic Certification Accreditation Council (ECAC) was established and accordingly the notification of ECAC was issued on 18.09.2004 but the Council remained dysfunctional from 2007 to 2015. According to the Ordinance, the Certification Council shall comprise five members, with four members from private sector. One of the members shall be designated as the Chairman.

After a gap of eight years, realizing the importance of e-commerce, the Federal Government revived the Council in April, 2015. ETO provides a legal framework to recognize and facilitate documents, records, information, communications, and transactions in the electronic form and to provide accreditation to the certification service providers. With the development of e-commerce, regulatory laws have been made. The paper-based concept of identification, declaration and proof is carried through the use of digital signatures in an electronic environment based on Public Key Cryptography.

According to Section 20 of ETO, 2002, the funds of the Certification Council shall comprise (i) grants from the Federal Government; (ii) fee for grant and renewal of accreditation certificate; (iii) fee, not exceeding ten rupees for every certificate deposited in the repository; and (iv) fines. Further, as per Section 21 of ETO, 2002, main functions of the Council are to:

- Grant and renew accreditation certificates to certification service providers, their cryptography services and security procedures.
- Establish and manage the repository.
- Carry out research and studies in relation to cryptography services.
- Recognize or accredit foreign certification service providers.
- Encourage uniformity of standards and practices.
- Give advice in relation to any matter covered under this ETO, 2002 etc.

B) Comments on Budget and Accounts

Electronic Certification Accreditation Council (ECAC) management had not prepared the annual accounts since its revival in 2015 till finalization of the Audit Report. Hence, no comments on the accounts could be offered.

Table-I Audit Profile of ECAC

(Rs in Million)

S. No.	Description	Total Nos	Audited	Expenditure audited FY 2022-23	Revenue / Receipts audited FY 2022-23
1	Formations	01	01	122.978	-
2	<ul style="list-style-type: none">• Assignment Accounts• SDAs• ETC	01	-	-	-
3	Authorities / Autonomous Bodies etc under the PAO	01	01	-	-
4	Foreign Aided Projects (FAP)	-	-	-	-

5.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 101.148 million were raised in this report during the current audit of ECAC. Summary of the audit observations classified by nature is as under:

Table-II Overview of Audit Observations**(Rs in Million)**

S. No.	Classification	Amount (Rs)
1	Non production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities (A+B+C)	
A	HR/Employees related irregularities	-
B	Procurement related irregularities	-
C	Management of Accounts with Commercial Banks	-
4	Value for money and service delivery issues	-
5	Others	101.148
Total:		101.148

5.3 Status of Compliance with PAC Directives

ECAC				Compliance		%age
S. No.	Audit Year	Total Paras	Total Directives	Received	Not received	
1	2019-20	12	12	8	4	67

AUDIT PARAS

5.4 Others

5.4.1 Inadmissible payment on account of support services for PKI – Rs 78.310 million

According to Clause 31.1 of the contract agreement executed between NTC and M/s Ascertia Pvt. Ltd for establishment of Public Key Infrastructure (PKI) on turnkey basis, the contractor shall provide technical support services for all components (hardware/software) mentioned in the BOQ as per price schedule mentioned in attached annex-D of the contract. The details of SLA are mentioned in annex-F. Technical Support Services (TSS) contract shall be signed separately before issuance of Provisional Acceptance Certificate (PAC) in the light of annex-F terms and conditions of Service Level Agreement (SLA). Effective date of the start of TSS contract shall be from the date of issuance of PAC and quarterly payments shall be made by NTC through Director Datacom subject to satisfactory services by the contractor.

ECAC under the MoITT, Islamabad transferred an amount of Rs 546,834,859 for establishment of PKI including the cost of remote support services of Rs 78,309,671 for 4th& 5th years.

Audit examined the record and observed that NTC had executed the Service Level Agreement (SLA) with M/s Ascertia for remote support services only for three years. The provision of support services for the years 4th& 5th was optional as written in the SLA. The transfer of cost of remote support services for the years 4th& 5th by ECAC to NTC was in violation of the terms and conditions of the SLA.

Audit contends that due to weak financial discipline, ECAC transferred the cost of remote support services for the years 4th& 5th which come to be 2025-26 & 2026-27.

The matter was reported to the management and PAO during October and November, 2023. It was replied that ECAC would require continuous support from PKI vendor to run the critical software & infrastructure for the foreseeable future. Rates were locked in BoQ at the time of contract signing which represented proactive approach of the management. These technical support services for 4th & 5th year could not be acquired on such rates at a later stage.

The reply is not tenable. ECAC transferred the cost of remote support services to NTC in anticipation of the services provided by the service provider. As per SLA, payment to the service provider was required to be made on quarterly basis.

The matter was discussed in the DAC meeting held on 11th January, 2024. The DAC directed the management to provide the detailed reply with breakup of the contractual period of three years and cost of next 4th & 5th years.

Audit recommends implementation of DAC directives.

(DP No. 92)

5.4.2 Non-conducting of foreign training despite payment of Rs 22.838 million

According to clause 11.2.1 of the contract agreement executed between NTC and M/s Ascertia Pvt. Ltd for establishment of ECAC Public Key Infrastructure (PKI) on turnkey basis, the contractor shall provide 10 days foreign training to ten (10) ECAC employees for components of the PKI Solution as per annex-G.

ECAC under the MoITT, Islamabad transferred an amount of Rs 546,834,859 to NTC for establishment of PKI including the cost of foreign training of Rs 22,837,848 for ten (10) employees. The training was scheduled to be held at the lab premises of M/s Ascertia at U.K.

Audit examined the record and observed that NTC did not conduct the foreign training of the employees of ECAC despite the transfer of funds and operationalization of the PKI project since January, 2023.

The matter was reported to the management and PAO during October and November, 2023. It was replied that approval of the foreign training was in the process from the relevant forum. NTC had been requested for its current status. After approval, training schedule would be shared with audit.

The reply is not tenable. Foreign training was planned and scheduled as per Project Implementation Plan (PIP) to be conducted during June and July, 2022.

The matter was discussed in the DAC meeting held on 11th January, 2024. The DAC directed the management to conduct trainings as per contract agreement under intimation to audit.

Audit recommends implementation of DAC directives.

(DP No. 91)

MINISTRY OF INFORMATION TECHNOLOGY & TELECOMMUNICATION

CHAPTER-6

IGNITE NATIONAL TECHNOLOGY FUND

Chapter 6

Ignite National Technology Fund

(MoITT)

6.1 Introduction

A) The Federal Government of Pakistan established a Fund called the Research and Development Fund under sub-section (1) of section 33 C of Pakistan Telecommunication (Re-organization) (Amendment) Act, 2006. The Research and Development Fund shall be under the control of the Federal Government and the balance to the credit of the R&D Fund shall not lapse at the end of the financial year. The Research and Development Fund consists of:

- Grants made by the Federal Government
- Prescribed contribution by licensees
- Loans obtained from the Federal Government
- Grants and endowments received from other agencies

However, at present the Fund is entirely financed by the contributions from the licensees.

The Fund shall be utilized exclusively for the prescribed Research and Development activities in the field related to Information and Communication Technology and other expenditure incurred by the Federal Government in managing the Fund.

Federal Government in pursuance of sub-section (2) of section 57 of Pakistan Telecommunication (Re-organization) (Amendment) Act, 2006 approved the Research and Development Fund Rules, 2006 on 30.09.2006. In terms of Rule (4) *ibid*, MoITT established Ignite National Technology Fund Company – a non-profit Company limited by guarantee for implementation of research and development projects in the information and communication technology sector. The Company is managed by a Board of Directors headed by the Secretary of IT as its Chairperson to run the affairs of the Company.

B) Comments on budget and Accounts

6.1.1 As per Note-11 to the Financial Statements, Ignite management received a refund of Rs 31.445 million on account of scholarship/ unspent funds from students. However, disclosure of the total refund receivable was not given in the Financial Statements.

Table-I Audit Profile of IGNITE

(Rs in Million)

S No	Description	Total Nos	Audited	Expenditure audited (FY 2022-23)	Revenue/receipt audited (FY 2022-23)
1	Formations	01	01	1483.000	2,845.380
2	<ul style="list-style-type: none"> • Assignment Accounts • SDAs 	01	01	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	01	01	1483.000	2,845.380
4	Foreign Aided Projects (FAP)	-	-	-	-

6.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 1,348.725 million were raised in this report during the current audit of IGNITE. This amount also includes recoveries of Rs 77.580 as pointed out by audit. Summary of the audit observations classified by nature is as under:

Table-II Overview of Audit Observations**(Rs in Million)**

S.No	Classification	Amount
1	Non-production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities	968.889
A.	Procurement related irregularities	968.889
4	Value for money and service delivery issues	33.434
5	Others	346.402
Total		1,348.725

6.3 Status of Compliance with PAC Directives

IGNITE				Compliance		%age
S No	Audit Year	Total Paras	Total Directives	Received	Not Received	
1	2011-12	44	44	2	42	5
2	2012-13	21	21	3	18	14
3	2013-14	No audit para was printed in Audit Report				
4	2014-15	15	15	3	12	20
5	2015-16	15	15	6	9	40
6	2016-17	9	9	3	6	33
7	PAR 2016-17	26	26	11	15	42
8	2017-18	8	8	6	2	75

9	2018-19	6	3	3	0	100
10	2019-20	9	9	6	3	67

The above table reflects that the management has not shown adequate interest in complying with the PAC directives over the years.

AUDIT PARAS

6.4 Irregularities

A. Procurement related irregularities

6.4.1 Irregular award of contract of National Incubation Centre for Aerospace Technologies -Rs 968.889 million

According to rule 31(1) of PPRs 2004, no bidder shall be allowed to alter or modify his bid after the bids have been opened. However, the procuring agency may seek and accept clarifications to the bid that do not change the substance of the bid. Further, Rule 38B stipulates that the procuring agency shall consider single bid in goods, works and services if it- (a) meets the evaluation criteria, ensures compliance of specifications and other terms & conditions expressed in advertisement or bid solicitation documents; (b) is not in conflict with any provision of the Ordinance; (c) conforms to the technical specifications; (d) has financial conformance in terms of rate reasonability:

The Ignite Company under the MoITT invited proposals for establishment of National Incubation Centre, Rawalpindi for Aerospace Technologies on 30.04.2022. Only one proposal of M/s Netsol Technologies Limited was received which was qualified by the technical evaluation committee on 14.07.2022. The financial proposal of the bidder was opened on 17.08.2022. The bid evaluation committee found that there were computational errors, miscalculations of the amounts of withholding tax and GST as well as non-required expenses in the bid. The committee concluded that all the required corrections would change the substance of the bid which was not allowed under PPRs-2004 (amended 2021). An amount of Rs 93 million was paid to M/s Netsol Technologies during the FY 2022-23.

Audit examined the tender documents and observed that:

- i) The contract was awarded on the basis of single bid. Neither price reasonability of the financial proposal was ensured nor was any feasibility study with regard to calculation of provisional cost conducted.
- ii) The Ignite Company negotiated with the bidder, allowed him to remove the remuneration of five members of PMU and steering committee honorarium of Rs 33.567 million and allowed him to insert corrections pointed out by the bid evaluation committee.
- iii) Instead of retendering, the Ignite Company awarded the contract by reducing the bid amount from Rs 1149.206 million to Rs 968.889 million for establishment of NICAT, Rawalpindi.

Audit contends that the Ignite Company awarded an irregular contract in total disregard to the procurement rules, 2004.

Audit reported the matter to the management and PAO during October, 2023. It was replied that the Board in its 92nd meeting directed the management to obtain response from PPRA. In the light of the directions given by the Board, Ignite sought clarification from PPRA through letter dated 09.09.2022. PPRA responded that “Procuring Agency will rectify the obvious errors during evaluation process”. Based on the resolution of the BoD and PPRA response, the contract was awarded to M/s Netsol, Technologies for Rs 968 million.

The reply is not tenable. PPRA did not give opinion for acceptance of the bid; rather PPRA advised to rectify the obvious errors during evaluation process and stated that opinion of the PPRA might not be considered in any way as the regulatory concurrence for the instant procurement. Further, substance of the bid was changed due to elimination of items which were not allowed by the PPRA vide its clarification issued on 16.09.2022.

The matter was discussed in DAC meeting held on 11th January, 2024. The DAC after due deliberations pended the para.

Audit recommends that an inquiry be conducted at Ministry level to fix responsibility against those held responsible(s) and the outcome be shared with audit.

(DP No. 70)

6.5 Value for money and service delivery issues

6.5.1 Unjustified waiver of revenue contribution by NIC Quetta- Rs 33.434 million

According to clause 1.1.14 of Funding agreement signed between M/s LUMS and M/s Ignite Company, project portfolio means the detailed description and plan for the project approved for funding by the Company and attached to this agreement as Annexures. The Project Portfolio consists of project proposal approved by the Company (appendix A) Further, according to Financial Proposal for NIC Quetta, the bidder shall generate revenue for self-sustainability in the year 3,4 & 5.

The Ignite Company under the MoITT, Islamabad hired the services of M/s LUMS Lahore to establish and maintain National Incubation Centre (NIC) at Quetta. The agreement was signed on 21-02-2018 for five years. According to the financial proposal, LUMS Lahore was required to realize the revenue of Rs 33,434,940 (15,402,425 +18,032,515) in Year 4 & Year 5 for self-sustainability of NIC Quetta to offset operating expenses.

Audit observed that M/s LUMS Lahore failed to realize the revenue of Rs 33,434,940 during the years 4 & 5 to offset the operating expenses. Audit further revealed that M/s LUMS Lahore submitted waiver request to the Finance and Procurement Committee on the plea that NIC Quetta could not generate revenue due to COVID-19 pandemic; therefore, their realization of revenue could be waived off. The Finance and Procurement Committee approved the change request and waived off the revenue accordingly.

Audit contends that Ignite Company did not insert performance guarantee clause in the contract with M/s LUMS Lahore to take action against non-achievement of the

deliverable of revenue realization; instead, the Ignite Company waived off the revenue and affected the value it could add to the organization.

Audit reported the matter to the management and PAO during October, 2023. It was replied that the impact of COVID-19 on startups and businesses was profound, affecting their ability to generate revenue. The FPC, recognizing the exceptional circumstances, made a decision to waive off revenue during this period and this decision was subsequently endorsed by the Board itself.

The reply is not tenable. The Finance and Procurement Committee waived off the revenue of years 4th & 5th when Covid pandemic had ended. Non realization of the revenue and its waiver also impacted the financial proposal of the bidder upon which the tender was awarded.

The matter was discussed in DAC meeting held on 11th January, 2024. The DAC directed the Ignite management to obtain a detailed report showing the efforts made by the LUMS to generate the revenue for self-sustainability and share it with audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Note: The issue was also reported earlier in the Audit Report for the Audit year 2021-22 vide para number 5.4.1 having financial impact of Rs 157.620 million. Recurrence of same irregularity is a matter of serious concern.

(DP No. 77)

6.6 Others

6.6.1 Non-capitalization of capex expenditure - Rs 302.257 million

According to Rule 14 of Corporate Governance Rules, 2013, the Chief Financial Officer shall be responsible for ensuring that appropriate advice is given to the Board on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control. Further, as per clause 10.1 of contract agreements all property, movable, immovable, tangible or otherwise acquired or purchased by utilizing sums representing the Grant, and all deliverables at any stage of the progress of the project and whether in draft form or completed (the “Equipment”) shall be assigned to the Company.

The Ignite Company under MoITT, Islamabad hired the services of M/s Fauji Fertilizer Company, M/s PTCL and M/s Netsol Technologies Ltd for establishment and maintenance of National Incubation Centers (NICs) at Faisalabad, Hyderabad and NICAT Rawalpindi respectively and transferred an amount of Rs 302.257 million to the vendors under the head-Capex to acquire physical assets as detailed below:

(Rs) in Million

S.No	Project Name	Capex Amount
01	NIC Faisalabad	76.625
02	NIC Hyderabad	107.645
03	NICAT	117.987
Total		302.257

Audit observed that neither the NICs capitalized the acquired physical assets in their books of accounts nor the Ignite Company recognized the capex funds released to the NICs in the financial statements of the Company.

Audit contends that as per contract agreement, the physical assets acquired by the NICs would become assets of the Ignite Company after completion of the projects. Since,

the NICs and the Ignite Company had not recognized the acquired physical assets, both NICs and the Ignite Company understated their physical assets in their financial statements.

Audit reported the matter to the management and PAO during October, 2023. It was replied that the Company prepared annual financial statements as per guidelines of Code of Corporate Governance, 2013 and International Accounting Standards. The accounting treatment of all NIC projects in Ignite books of accounts were audited by the external auditors such as KPMG and A.F. Ferguson & Co chartered Accountants and had issued an unqualified opinion.

The reply is not tenable. All the assets procured by the NICs were the ownership of the company and were required to be returned by the NICs to the Ignite Company on the completion of the contract period.

The matter was discussed in DAC meeting held on 11th January, 2024. The DAC directed the Ignite management to seek the opinion of an independent AAA rated CA Firm and share it with audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Note: The issue was also reported earlier in the MFDAC for the Audit year 2021-22 vide para number 5.12 having financial impact of Rs 606.576 million. Recurrence of same irregularity is a matter of serious concern.

(DP No. 72)

6.6.2 Non-recovery of outstanding dues on account of R&D Fund - 44.145 million

According to clause 4.1 of Long Distance International (LDI) License issued under Section 21 of the Pakistan Telecommunication (Re-organization) Act, 1996, the Licensee shall contribute to the R & D Fund, an amount calculated on the basis of 0.5% of the

Licensee's gross revenue from Licensed Services for the most recently completed financial year of the Licensee minus inter-operator payments and related PTA/FAB mandated payments. Further, clause 4.4.1 stipulates that the licensee shall make this contribution within 120 days at the end of financial year.

The MoITT, Islamabad maintained R&D Fund based on contributions from telecom operators, upon which the Ignite Company carried out operational and business activities and received Opex and Capex budgets.

Audit observed that R&D Fund Management failed to recover an amount of Rs 44,145,047 on account of R&D contributions against the billing issued to the telecom operators during FY 2022-23.

Audit contends that non-recovery of the R&D contributions from the telecom operators not only reflects weakness of the R & D Fund management but also affects the financial health of the Ignite Company.

Audit reported the matter to the management and PAO during October, 2023. It was replied that recovery from the operators is an ongoing mechanism. This Ministry has already requested PTA to initiate necessary actions for the recovery of the outstanding dues from operators. As of today, no recovery has been made from the operators and this Ministry has also issued reminders.

The reply is not tenable. The Fund was established to manage the affairs of the R&D fund. However, audit did not find any evidence of efforts made by the fund management to recover the outstanding dues.

The matter was discussed in the DAC meeting held on 11th January, 2024. The DAC directed the Ignite management to recover the outstanding dues from the operators and get it verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(DP No. 74)

MINISTRY OF INFORMATION TECHNOLOGY & TELECOMMUNICATION

CHAPTER-7

**NATIONAL TELECOMMUNICATION
CORPORATION (NTC)**

Chapter 7

National Telecommunication Corporation (NTC)

(MoITT)

7.1 Introduction

A) National Telecommunication Corporation (NTC) was established on 1st January, 1996 under the Pakistan Telecommunication (Re-organization) Act, 1996. The Corporation is a corporate body, managed by a Management Board consisting of a Chairman and two other Members, appointed by the Federal Government. NTC is working under the administrative control of the Ministry of Information Technology and Telecommunication (MoITT). NTC maintains a Fund known as NTC Fund which consists of grants and loans etc.

NTC prepares its budget and submits it for approval of the Federal Government before 1st of June every year. Any surplus over receipts in a financial year is remitted to the Federal Consolidated Fund and any deficit from actual expenditure is made up by the Federal Government. The accounts of NTC are maintained in a form and format as approved by the Auditor-General of Pakistan. In addition to the audit by the Auditor-General of Pakistan, its accounts are also audited by the external auditors.

NTC's main function is to provide telecommunication services to its designated customers which include the federal and provincial governments, defence services and other government agencies and institutions as the Federal Government may determine.

B) Comments on Budget and Accounts

7.1.1 NTC management has submitted the audited Financial Statements for the FY 2018-19 on 26-12-2023. NTC management could not finalize its Financial Statements for the financial years 2019-20, 2020-21, 2021-22 & 2022-23 till the finalization of this Audit Report.

Table-I Audit Profile of NTC

(Rs in Million)

S. No	Description	Total Nos	Audited	Expenditure audited FY 2022-23	Revenue / Receipts audited FY 2022-23
1	Formations	11		11,746.560	11,709.100
2	<ul style="list-style-type: none">• Assignment Accounts• SDAs	-	-	-	-
3	Authorities / Autonomous Bodies etc under the PAO	11		11,746.560	11,709.100
4	Foreign Aided Projects (FAP)	-	-	-	-

7.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 9,253.743 million were raised in this report during the current audit of NTC. This amount also includes recoveries of Rs 1,012.593 million as pointed out by audit. Summary of the audit observations classified by nature is as under:

Table-II Overview of Audit Observations**(Rs in Million)**

S. No.	Classification	Amount
1	Non-production of record	-
2	Reported cases of fraud, embezzlement and	-
3	Irregularities (A+B)	566.098
A	HR/Employees related irregularities	97.811
B	Procurement related irregularities	468.287
4	Value for money and service delivery issues	-
5	Others	8,687.645
Total:		9,253.743

7.3 Status of Compliance with PAC Directives

S. No	Audit Year	NTC		Compliance		%age
		Total Paras	Total Directives	Received	Not Received	
1	1996-97	16	3	3	0	100
2	1997-98	11	11	11	0	100
3	1999-00	15	15	15	0	100
4	2000-01	17	17	17	0	100
5	2001-02	16	16	12	4	75
6	2004-05	16	16	16	0	100
7	SAR 2005-06	31	31	0	31	0
8	2005-06	15	15	15	0	100

9	2006-07	17	17	14	3	83
10	2007-08	13	7	0	7	0
11	2008-09	22	22	21	1	95
12	2009-10	18	18	7	8	39
13	2010-11	30	30	27	3	90
14	2011-12	98	98	19	79	19
15	2012-13	95	95	39	56	41
16	2013-14	40	40	5	35	13
17	2014-15	36	36	3	33	8
18	2015-16	18	18	2	16	11
19	2016-17	18	18	9	9	50
20	2017-18	23	23	15	8	65
21	2018-19	23	10	10	0	100
22	2019-20	19	19	3	16	16

The above table reflects that the management has not shown adequate interest in complying with the PAC directives over the years.

AUDIT PARAS

7.4 Irregularities

A. HR/Employees related irregularities

7.4.1 Overpayment on account of illegal promotion-Rs 76.175 million

According to Regulation No. 2.26 of NTC Service Regulations, 2008, Corporation's employees who are not promoted for want of vacancy or do not have a channel of promotion and have remained in the same pay group in which they had joined/promoted for seven years, would be promoted to next higher pay-group, provided they qualify other criteria for promotion. Promotion under this rule shall be allowed once in a post. On promotion, the post shall automatically be upgraded with same job description, whereas the upgraded post shall be abolished. On retirement or leaving service of the corporation, the upgraded post shall be automatically reverted to post in original pay-scale.

NTC, HQ under the MoITT, Islamabad promoted ninety-seven (97) Engineering Supervisors and five (5) Building Overseers of Group-IV to Group-VII of various NTC Directorates with effect from 25.02.2014 vide three different notifications.

Audit observed that the officials were illegally promoted from Group-IV to Group-VII instead of Group-V in violation of the above stated regulations, which caused an overpayment of Rs. 76,174,596 on account of fixation of increased basic pay.

Audit reported the matter to the management and PAO during October, 2023. It was replied that ES and BO were promoted as per their channel of promotion mentioned in NTC Service Regulation, 2008. No undue benefit in promotion has been granted.

The reply is not tenable as two ‘grades’ promotions were made in violation of NTC Service Regulations, 2008 which were approved by the Finance as well as Establishment Divisions.

The matter was discussed in the DAC meeting held on 15th January, 2024. The DAC directed the management to submit detailed reply to PAO as well as audit. No further progress was reported till finalization of this report.

Audit recommends that the matter be inquired to arrive at factual position and fix responsibility against the responsible (s); besides, recovery of overpayment under intimation to audit.

(DP No.16)

7.4.2 Irregular appointment of staff through internal circulation - Rs 21.636 million

According to Policy Guidelines approved by NTC Management Board in its 73rd meeting held on 10th February, 2011, local vacancies may be published in local newspaper, regional vacancies in the region concerned and for wide publication advertisement may preferably be released on Sunday. Vacancies must be placed on government as well as NTC website and also circulated amongst NTC employees.

NTC, HQ under the MoITT, Islamabad appointed fourteen (14) employees through internal circulation. An expenditure of Rs. 21,636,480 was incurred on account of pay & allowances of the newly recruited employees with effect from 01.05.2022 to 30.06.2023.

Audit observed that the appointments were made through internal circulation instead of open advertisement and wide publicity in violation of the above rules.

Audit contends that non-adherence to Policy Guidelines approved by NTC Management Board led to irregular appointments.

Audit reported the matter to the management and PAO during August, 2023. It was replied that the appointments were made through internal circulation as per the provision of Rule No. 2.6(d)(iii) of NTC Service Regulations 2008.

The reply is not tenable. The appointments were made in violation of the approved policy guidelines, approved by the NTC management Board.

The matter was discussed in the DAC meeting held on 15th January, 2024. The DAC took serious view of the appointment through internal circulation and directed the management to examine the case and submit a report to Ministry as well as audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Note: The issue was also reported earlier in the Audit Reports for Audit Year 2021-22 & 2022-23 vide paras No.6.4.2 & 7.5.1 having financial impact of Rs. 5.958 million. Recurrence of same irregularity is a matter of serious concern.

(DP No.255)

B. Procurement related irregularities

7.4.3 Irregular public-private partnership and payment - Rs 292.621 million

According to Rule 13 (3) of Public-Private Partnership Act (P3A), 2017, the implementing agency shall submit the bid documents and project proposal for approval of the Board of Public Private Partnership Authority. Rule 13 (4) ibid stipulates that once the project proposal is approved by the Board, the implementing agency shall procure the project in accordance with provisions of the Act.

NTC HQs under MoITT, Islamabad executed a Public-Private Partnership (P3) agreement with M/s Khazana Enterprises (Pvt) Ltd. (KEL) on 31.03.2021 for provision of

digital solution services. Services related to Pakistan Emergency Helpline (PEHL)-911 were also included through an addendum dated 01.10.2021. A payment of Rs. 292,621,451 was made to M/s KEL during FY 2022-23 on account of services provided for PEHL-911.

Audit examined the P3 agreement and found that the P3 agreement was executed with a non-licensed telecom operator (M/s KEL), without prior approval of the project proposal, bid documents and partnership agreement from the Board of Public Private Partnership Authority (P3A). Further, M/s KEL got registered with SECP on 01.01.2020 by providing a false information about its official address: 6-Race Course Road, NTC Regional Office Lahore; though at the time of registration M/s KEL was not the tenant of NTC.

Audit contends that NTC executed P3 agreement with M/s KEL in total disregard to P3A.

Audit reported the matter to the management and PAO during August, 2023. It was replied that departmental fact-finding inquiry had been ordered by MD NTC.

The management accepted the audit contention; however, outcome of the fact-finding inquiry could not be furnished till finalization of this report.

The matter was discussed in the DAC meeting held on 15th January, 2024. The DAC directed the management to complete the process of fact-finding inquiry before 31.01.2024 and outcome be shared with PAO & audit.

Audit recommends implementation of DAC directives.

(DP No.14)

7.4.4 Unauthorized expenditure incurred on media services - Rs. 117.020 million

According to Rule 12 (2), all procurement opportunities over three million Rupees should be advertised on Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu. Further, as per Rule 16-A (4), open and closed framework agreements may be made with the selected suppliers and service providers. Maximum duration of open framework agreements shall not be more than three years and the closed framework agreements shall not exceed one year.

Five (05) formations of NTC hired media services from six (06) telecom operators for provision of various telecommunication services to its subscribers. A payment of Rs. 117,019,828 was made to the service providers during FY 2022-23 as detailed below:

S. No.	PDP No.	Amount
1.	19-2024	102,657,091
2.	264-2024	14,362,737
Total		117,019,828

Audit examined the relevant record and observed that the media and circuits were hired without open tender and were allowed to provide services on extension basis beyond three years in violation of the above rules.

Audit contends that NTC hired and extended the services of media and circuits in total disregard to PPRs 2004.

Audit reported the matter to the management and PAO during August, 2023. It was replied against S.No.1 that the subject contract was signed in 2018 based on PPRA Rules applicable at that time which did not put any limitations on framework agreement. Now, after completion of previous contract timelines, fresh tender has been floated and new contract has been signed with successful bidder on 01-09-2023. With reference to M/s

Mispl Multan, M/s Wateen Telecom & M/s Nayatel relating to S.No.2, the arrangement for leasing of the services was availed from PTA licensed operators as per PTA regulations to facilitate NTC's designated customers.

The reply is not tenable as the works were awarded without open tenders and the contract agreements were extended beyond three years in violation of PPRs. Further, DAC in its meeting held on 17th & 20th January, 2023, while discussing PDP No. 18-2023 being similar in nature, directed the management that necessary clarification by specifying the contents of audit observation be obtained from PPRA under intimation to Audit. No clarification was sought till date.

The matter was discussed in the DAC meeting held on 15th January, 2024. The DAC upheld its earlier decision dated 17 & 20.01.2023 and directed the management that necessary clarification by specifying the contents of audit observation be obtained from PPRA under intimation to Audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Note: The issue was also reported earlier in the Audit Reports for Audit Year 2022-23 vide para-No.7.5.3 having financial impact of Rs 6.364 million. Recurrence of same irregularity is a matter of serious concern.

(DP No.19 & 264)

7.4.5 Mis-procurement of MIS solution - Rs. 58.646 million

According to Rule 42 (c) of PPRA, a procuring agency shall only engage in direct contracting if the following conditions exist, namely:- (i) the procurement concerns the acquisition of spare parts or supplementary services from original manufacturer or supplier: Provided that the same are not available from alternative sources; (ii) only one manufacturer or supplier exists for the required procurement: Further, Rule 40 (2) ibid

stipulates that Authority may determine the extent and types of negotiations on procurement by regulations.

Federal Seed Certification & Registration Department (FSC&RD) executed a contract agreement with NTC HQs for establishment of consumer sourcing seed authenticity system on 01.04.2022. NTC HQs outsourced the task through direct contracting to M/s Khazana Enterprises (Pvt) Ltd. (KEL) on 22.06.2023 to develop a solution, named, Digital Seed Tracking and Tracing Software. The financial proposal of M/s KEL of Rs. 88,009,999 was on higher side; therefore, the cost was negotiated with the firm through a negotiation committee to bring it within the permissible limit of the approved PC-1. M/s KEL agreed to reduce the cost to Rs. 58,646,000 and accordingly the contract was awarded. An advance payment of Rs. 32,106,200 was made to M/s KEL.

Audit examined the procurement documents and found that the contract was awarded through direct contracting and negotiations with M/s KEL.

Audit contends that MIS solution was neither sensitive item nor emergently required to be procured through direct contracting. Audit further holds that negotiations on the cost of the MIS solutions were not permissible under the PPRs. Moreover, M/s KEL was not the OEM of MIS solution.

Audit reported the matter to the management and PAO during August, 2023. It was replied that departmental fact-finding inquiry had been ordered by MD NTC. Outcome will be shared accordingly.

The management accepted the audit contention; however, the outcome the fact-finding inquiry could not be furnished till finalization of this report.

The matter was discussed in the DAC meeting held on 15th January, 2024. The DAC directed the management to complete the process of fact-finding inquiry before 31.01.2024 and share the outcome with PAO and Audit.

Audit recommends implementation of DAC directives.

(DP No.17)

7.5 Others

7.5.1 Un-authorized expenditure without approval of the budget - Rs 5,630.320 million

According to Section 12 of Pakistan Telecommunication (Reorganization) Act, 1996, NTC shall, in respect of each financial year, prepare its own budget and submit to the Federal Government three months before the commencement of every financial year for approval. As per Delegation of Powers (DoP) dated 01.01.1999, Director Finance & Budget, NTC was not delegated powers of financial concurrence. Further, as per para 3 of Establishment Division OM No. 3/15/2016-R-II dated 09.04.2021, “certain financial and administrative powers can only be exercised by an officer to whom additional/ current charge of the post is entrusted in the prescribed manner. An officer looking after the work cannot exercise such powers as he has not been delegated with such powers by the competent authority”.

NTC HQs submitted revised budget estimates for FY 2021-22 and budget estimates for FY 2022-23 to MoITT, Islamabad on 27.05.2022 for the approval of the federal government. NTC incurred an expenditure of Rs.5,630.320 million during the FY 2022-23.

Audit examined the budget proposals and observed that:

- i. NTC incurred an unauthorized expenditure of Rs. 5,630.32 million, as the budget for FY 2022-23 had not so far been approved by the federal government despite closure of the financial year.
- ii. NTC assigned the look after charge of the post of CFO, NTC to Director (Finance & Budget) w.e.f. 29.12.2022 in addition to his own duties. The incumbent Director granted financial concurrence of Rs.4,681,914,854 with effect from 29.12.2022 to 30.06.2023 as CFO in violation of the above instructions of Establishment Division as no financial powers were delegated to the Director.

Audit contends that due to weak financial discipline and internal controls NTC incurred un-authorized expenditure without approved budget and authorization of financial concurrence to the Director (Finance & Budget).

Audit reported the matter to the management and PAO during August, 2023. It was replied that the budget for FY 2022-23 is under process of approval and would be intimated to audit accordingly. It was further replied that to fill the post of CFO, matter has been taken up with MoITT for appointment of CFO either through direct induction or on deputation basis since Sept, 2019.

The reply is not tenable. The budget estimates for FY 2022-23 were not approved. Further, Director (Budget & Finance) couldn't grant financial concurrence under the rule. The position of CFO was not filled till finalization of the report.

The matter was discussed in the DAC meeting held on 15th January, 2024. The DAC directed the management to get the budget approved from the Cabinet Division through ECC. Further, post-facto approval of financial concurrence given by Board be provided to audit, besides approval of revised service regulation within 60 days. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(DP No.11)

7.5.2 Un-authorized investment of NTC funds – Rs 1,950 million

Section 41 (9) of Pakistan Telecommunication (Re-organization) Act 1996, clearly states that “any surplus receipt over actual expenditure in a year shall be remitted to Federal Consolidated Fund (FCF) and any deficit from actual expenditure shall be made up by Federal Government”. Further, as per para 2 of Finance Division's letter dated 18.05.2022, no authority shall transfer public monies for investment or deposit from Government Account including the assignments accounts to other bank account without prior approval of the Federal Government.

NTC HQs under the MoITT, Islamabad invested a huge balance of Rs.1,950,000,000 through term deposit receipts (TDRs) in two commercial banks in May, 2023 as detailed below:

S. No	Name of Bank	Issue Date	Due Date	Amount (Rs)
01	Bank of Punjab, Blue Area, Islamabad	02-05-23	02-11-23	1,200,000,000
02	NBP Jinnah Avenue Islamabad	23-05-23	23-08-23	750,000,000
Total				1,950,000,000

Audit examined the investment of surplus funds and observed that:

- (i) NTC invested the surplus fund without authorization of Finance Division and in violation of the above stated rules.
- (ii) NTC was required to remit the surplus receipts to Federal Consolidated Fund as on 30.06.2023; instead NTC invested the surplus receipts on terms deposit basis in violation of the rules.
- (iii) NTC did not surrender the bank balances to the Finance Division under the new cash management regime introduced by the Federal Government w.e.f, July, 2020.

Audit contends that NTC invested funds in disregard to the provisions of Pakistan Telecommunication (Re-organization) Act, 1996 and instructions of Finance Division which reflects weak financial discipline.

Audit reported the matter to the management and PAO during August, 2023. It was replied that the Finance Division (Expenditure Wing) vide its letter dated January 02, 2023 has already declared NTC as an autonomous body of MoITT and at present, it is not included in TSA list. Accordingly, NTC has been allowed to operate as per existing arrangements till the finalization of TSA framework. However, the case has also been

forwarded to MoITT for further clarification from Finance Division vide letter dated November 16, 2023. Reply will be shared with Audit as and when received from MoIT.

The reply is not tenable. NTC did not furnish justification for investment of surplus funds. Besides, the Finance Division has already introduced a sweeping arrangement in lieu of TSA for autonomous bodies which was not adopted by NTC.

The matter was discussed in the DAC meeting held on 15th January, 2024. The DAC directed the management to seek necessary clarification, by specifying the contents of audit observation, from Finance Division under intimation to audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Note: The issue was also reported earlier in the MFDAC Report for Audit Year 2022-23 vide para-No.7.5.9 and Audit Reports for Audit Year 2012-13, 2013-14, 2014-15, 2015-16, 2017-18, 2018-19, 2021-22 vide paras No.5.13, 3.30, 5.11, 5.3.1, 5.5.1, 5.4.1 & 6.5.2 having financial impact of Rs 13,214.022 million. Recurrence of same irregularity is a matter of serious concern.

(DP No.12)

7.5.3 Non-recovery of revenue receipts – Rs 897.220 million

According to Rule 26 to 28 of GFR Vol-I, it is the duty of the departmental controlling officers to see that all sums due to Government are regularly and promptly assessed, realized and credited to accounts. No amount due to government should be kept outstanding without sufficient reason.

NTC under the MoITT, Islamabad provided telecommunication services to the designated customers including federal and provincial governments, defence services and other government agencies.

Audit examined the relevant revenue record of four (04) formations and observed that an amount of Rs 978,527,979 on account of building/ standard rents/electricity charges was not recovered by NTC from various telecom operators, government departments, Data Centre, tenants and unauthorized occupants etc during FY 2022-23. The detail of outstanding amounts as on 30.06.2023 is given as under:

S. No.	PDP No.	Description	Amount (Rs)
1.	13-24	Outstanding dues of PEHEL-911 project.	670,580,000
2.	249-24	Outstanding revenue against Data centre	127,032,466
3.	251-24	Non recovery of Quarter rent	1,359,696
4.	252-24	Outstanding dues from CDNS	4,017,523
5.	263-24	Non recovery of revenue receipts	65,516,833
6	250-24	Non recovery from PTCL	110,021,461
TOTAL			978,527,979

Audit contends that non-recovery of the dues from telecom operators, government departments, tenants, unauthorized occupants and Data Centre reflects weak financial discipline and receivable management.

Audit reported the matter to the management and PAO during August and September, 2023. It was replied that an amount of Rs 127.724 million was already recovered.

The management accepted the audit contention and recovered an amount of Rs 127.724 million, out of which an amount of Rs 103.308 million was verified by audit; therefore, the para was reduced to the extent of outstanding amount.

The matter was discussed in the DAC meeting held on 15th January, 2024. The DAC directed the management that hectic efforts be made to recover the amount and get it verified from Audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(DP No.13, 249, 250, 251,252, & 263)

7.5.4 Unjustified disbursement of bonus – Rs 94.732 million

According to Regulation 3.7 of National Telecommunication Corporation Employees (Service) Regulations, 2008, NTC employees falling in the definition of workers shall be allowed bonus subject to earning of profit with the approval of NTC Management Board. The bonus for officers of NTC shall be paid with the concurrence of Finance Division. Further, as per Finance Division letter dated 14.07.2017, the salary package of Management Positions Scales (MP-Scales) had been approved by the Prime Minister which does not include payment of bonuses to MP-Scales officers.

NTC HQs under the MoITT, Islamabad approved and disbursed a bonus amount of

Rs.94,731,644 to its employees during FY 2022-23.

Audit observed that the bonus was paid without the approvals of the NTC budget for FY 2022-23 by the Federal Government, Finance Division and the NTC Management Board. Further, an inadmissible bonus payment of Rs. 466,950 was made to ex-MD NTC as he was appointed on MP-I scale by the federal government and could draw bonus with the prior approval of federal government.

Audit contends that NTC paid bonus to its employees in disregard to the NTC ESR-2008 and Finance Division's instructions.

Audit reported the matter to the management and PAO during August, 2023. It was replied that on the basis of performance of the Corporation, the honourable Federal Minister for Information Technology & Telecomm announced grant of bonus to all employees @ one month's basic pay during a ceremony held on 20-06-2023, with the direction to pay the same before Eid-ul-Azha. The case for grant of bonus for the Year 2022-23 to NTC employees will be placed before the NTC Management Board for its post-facto approval.

The reply is not tenable. NTC did not prepare financial statements to authenticate the profit earned. NTC also did not remit the profit earned to Federal Consolidated Fund to ensure that it had earned profit, upon which the bonus was allowed. Moreover, the management did not furnish reply for the bonus paid to the ex-MD NTC.

The matter was discussed in the DAC meeting held on 15th January, 2024. The DAC directed the management to provide the detail of profit earned amounting to Rs 811 million to audit. Further, the matter be placed before the Board for post-facto approval. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(DP No.15)

7.5.5 Non-receipt of funds from Government of the Punjab for PEHEL-911 - Rs 57.849 million

According to clause 5 (a) of tripartite agreement among MoI, MoITT and NTC for the execution of PEHEL-911, payment will be made on yearly basis in advance in favour of NTC account subject to an approval in the prescribed manner. Further, as per Punjab Home Department Letter dated 10.07.2023, the Provincial Cabinet of Punjab province approved the closure of PEHEL-911 in its 18th meeting held on 21.06.2023.

NTC HQs under the MoITT, Islamabad executed a Public-Private Partnership agreement with M/s Khazana Enterprises (Pvt) Ltd (KEL) for provision of digital solution services on 31.03.2021. Services related to Pakistan Emergency Helpline (PEHEL) - 911 was also included through an addendum on 01.10.2021. A payment of Rs. 57,849,308 was made to M/s Khazana Enterprises during the FY 2022-23.

Audit examined the relevant record and observed that the contract was awarded to M/s KEL in anticipation of receipt of funds and execution of proper agreement with the Government of Punjab for provision of PEHEL services. Audit further revealed that the Government of Punjab closed the project as intimated vide above referred letter.

Audit contends that due to weak receivable and contract management NTC did not manage to receive the funds from the Government of the Punjab.

Audit reported the matter to the management and PAO during August, 2023. It was replied that decision of the Provincial Cabinet on the subject matter was under process. Further, payments to M/s KEL were made in accordance with NTC contract for the services rendered.

The reply is not tenable. NTC awarded the service contract to M/s KEL in anticipation of receiving funds and executing agreement with the Government of the Punjab.

The matter was discussed in the DAC meeting held on 15th January, 2024. The DAC directed the management that hectic efforts be made to recover the outstanding amount under intimation to Audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(DP No.18)

**7.5.6 Non-recovery of outstanding dues from the subscribers –
Rs 57.524 million**

According to Rule 8 and 26 of GFR Vol-I, it is the duty of the departmental controlling officers to see that all sums due to government are regularly and promptly assessed, realized and duly credited in the Public Account. No amount due to government should be left outstanding without sufficient reasons, and where any dues appear to be irrevocable the orders of competent authority for their adjustment must be sought.

NTC under the MoITT, Islamabad provided telecommunication services to various subscribers of Working, Closed, WLL, Digital Subscriber Lines (DSL), Casual Telephone Connections, Primary Rate Interference (PRI) and Unidentified Connections.

Audit examined the record relating to outstanding dues in six (06) formations of NTC and observed that an amount of Rs163,560,025 was lying outstanding against various subscribers as on 30.06.2023 as detailed below:

S. No	Name of Unit	Amount (Rs)
------------------	---------------------	------------------------

1.	Director NTC Peshawar	52,682,545
2.	Director NTC Islamabad	41,161,808
3.	Director NTC Lahore	37,322,576
4.	Director NTC Karachi	16,518,625
5.	Director NTC Rawalpindi	11,398,334
6.	Director NTC Multan	4,476,137
Total		163,560,025

Audit contends that due to weak receivable management NTC failed to recover the captioned amount.

Audit reported the matter to the management and PAO during September and October, 2023. It was replied that out of observed amount of Rs.163.560 million an amount of Rs.106.036 million has been recovered. Hectic efforts are being made to recover the balance amount of Rs.57.523 million.

The management accepted the audit contention and recovered an amount of Rs 106,036,238 which was verified by audit; therefore, the para was reduced to the extent of outstanding amount.

The matter was discussed in the DAC meeting held on 15th January, 2024. The DAC directed the management that hectic efforts be made to recover the remaining amount and get it verified from Audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(DP No.262)

MINISTRY OF INFORMATION TECHNOLOGY & TELECOMMUNICATION

CHAPTER-8

SPECIAL COMMUNICATIONS ORGANIZATION (SCO)

Chapter-8

Special Communications Organization (SCO)

(MoITT)

8.1 Introduction

A) Special Communications Organization was established in July, 1976 for the operation, expansion, maintenance and modernization of telecom system in Gilgit-Baltistan and Azad Jammu & Kashmir through an executive order of the Prime Minister of Pakistan on 10.05.1976. It is managed by a Project Management Board under the Chairmanship of Signal Officer-in-Chief. It falls under the administrative control of Ministry of Information Technology and Telecommunication (MoITT).

DG SCO exercises administrative and financial powers given in the Financial Budgeting, Accounting and Audit (FBA&A) Procedures as approved by the Project Management Board. Its accounts are maintained on the accounting system of erstwhile Telephone & Telegraph Department. CMA (FWO) is responsible for pre-audit and reconciliation of the expenditure of SCO with AGPR.

B) Comments on Budget and Accounts

8.1.1 SCO does not prepare Financial Statements on the pattern of state-owned enterprises (SOEs) and prepares statement of receipts and expenditure account only which is audited by this office and accordingly comments are offered. The expenditure statement of SCO for the FY 2022-23 revealed that there was a saving of Rs 10.728 million under different heads of accounts of Development and Non-Development expenditure which were not surrendered to the Finance Division. The budget system is not based on IPSAS standards. The budget system has been kept so flexible that unauthorized re-appropriations are being frequently made which results in mis-reporting of the revised budget estimates.

Table-I Audit Profile of SCO

(Rs in Million)

S. No	Description	Total Nos	Audited	Expenditure audited FY 2022-23	Revenue / Receipts Audited FY 2022-23
1	Formations	11	05	8,001.073	6,130.370
2	<ul style="list-style-type: none"> • Assignment Accounts • SDAs 	-	-	-	-
3	Authorities / Autonomous Bodies etc under the PAO	11	05	8,001.073	6,130.370
4	Foreign Aided Projects (FAP)	-	-	-	-

8.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 3,110.878 million were raised in this report during the current audit of SCO. This amount also includes recoveries of Rs 163.716 million as pointed out by audit. Summary of the audit observations classified by nature is as under:

Table-II Overview of Audit Observations**(Rs in Million)**

S. No.	Classification	Amount
1	Non-production of record	-
2	Reported cases of fraud, embezzlement and Misappropriation	-
3	Irregularities (A+B)	515.506
A	HR related irregularities	17.070
B	Procurement related irregularities	498.436
4	Value for money and service delivery issues	-
5	Others	2,595.372
Total:		3,110.878

8.3 Status of Compliance with PAC Directives

S. No	Audit Year	SCO		Compliance		%age
		Total Paras	Total Directives	Received	Not Received	
1	1992-93	22	22	18	4	82
2	1997-98	4	4	4	0	100
3	1999-00	7	7	7	0	100
4	2000-01	5	5	5	0	100
5	2001-02	5	5	5	0	100
6	2005-06	9	9	9	0	100
7	2008-09	14	14	14	0	100
8	2009-10	10	10	10	0	100
9	2010-11	16	16	13	3	81
10	2011-12	19	19	14	5	74
11	2012-13	28	28	14	14	50

12	2013-14	22	22	5	17	23
13	2014-15	10	10	3	7	30
14	2015-16	10	10	5	5	50
15	2016-17	6	6	3	3	50
16	2017-18	8	8	8	0	100
17	2018-19	13	8	8	0	100
18	2019-20	23	23	7	16	30

The above table reflects that the management has not shown adequate interest in complying with the PAC directives over the years.

AUDIT PARAS

8.1 Irregularities

A. HR /Employee related irregularities

8.4.1 Inadmissible payments to project employees-Rs 12.507 million

According to Para No (xv) of Finance Division (Regulation Wing) Govt. of Pakistan letter No F.No.4(9) R-14/2008 dated 18.04 2008, this pay package will not be admissible to those project employees whose services/posts are transferred to the non-development side after completion of the project from the date of their transfer. Further, Para xvii *ibid* stipulates that, on transfer of project posts to the non-development side, such posts shall be filled in the prescribed manner in regular Basic Scale and incumbents of such posts shall be treated as fresh employees of the Ministries/Division/ Departments. Para xviii further describes that if an employee of the project is selected for a post on the non-development side, he will be appointed at the initial stage of the relevant basic pay scale, and his pay and services rendered in the project shall not be protected /counted for any purpose i.e. pay, pension and seniority etc.

SCO, HQ under the MoITT, Islamabad completed eleven (11) PSDP projects and were listed in the recurring category of projects. Audit selected a sample of five (5) projects and found that inadmissible payment of Rs 12,506,834 on account of pays and allowances was made to the project employees after irregularly transferring to recurring side as under:

- i. The projects posts were not filled in the prescribed manner as required to make fresh appointments under regular basic pay scales.
- ii. The pay and allowances on non-development side were required to be fixed at initial stage of respective basic pay scales but the management protected the pay of the project employees and fixed their pay and allowances at enhanced rates.

Audit holds that non-filling of the project posts in the manner prescribed for initial appointments, protection of the project pay and non-fixing of their pay at initial stage of the basic pay scales caused inadmissible payments that reflect weakness of the financial discipline and internal control structure.

The matter was reported to the management and PAO during September to December, 2023. It was replied that all project employees employed on development side were transferred to non-development on closing of respective projects and their services, pay and seniority were not counted for previous services rendered on development side. Furthermore, eleven PSDP projects were transferred to non-development side prior to instructions of Finance Division. However, point observed by audit staff (P&TS) is noted for future compliance.

The reply is not tenable as the projects were completed during FY 2022-23 and all the project employees were allowed to carry on with increased pay and allowances.

The matter was discussed in the DAC meeting held on 15th January, 2024. The DAC directed the management that record relating to sanctioned posts approved by Establishment Division, advertisement, test, and pay fixation at initial pay of respective basic pay scale may be provided to audit for verification.

Audit recommends implementation of DAC directives.

(DP No. 187)

8.4.2 Irregular appointments and expenditure - Rs 4.563 million

According to Para 1e (iv) of Establishment Division Cabinet Secretariat, Islamabad's letter No F.53/1/2008-SP dated 11.05.17, appointment on regular basis of Contract/Contingent Paid/Daily Wage/Project Employees in Ministries, Division Sub-ordinate Offices/ Companies / Authorities, qualifications prescribed for a post shall be strictly followed. In case, a person does not possess the prescribed qualifications/ experience for the post he/she is applying for, he/she shall not be considered for the same. SCO advertised the posts as per following advertisements:

S. No	Advertisement	Name of Post	Required Qualifications	Experience
1	02.09.2022	Field technician	Diploma in Electrical/Electronics/Communication	Hands on Experience
2	09.11.2022	Sr. Project Manager	MBA Marketing	15-20 years exp. of Business Administration (Marketing)
3	03.07.2022	Field Engineer	BE/BSc/ Telecom	3 Years' experience of O&M Telecom
4	03.07.2022	Project Manager	BE/BSC (Telecom) HEC recognized University	Minimum 3 years' experience

SCO, HQ under the MoITT, Islamabad appointed ten (10) Field Technicians, Project Managers & Sr Project Managers. An amount of Rs 4,563,200 was paid to the employees during FY 2022-23.

Audit observed that the employees were irregularly appointed in disregard to the instructions /criteria conveyed by Establishment Division related to prescribed qualifications and experiences as well as the eligibility criteria mentioned in the advertisements.

Audit holds that non-filling of the project posts in the prescribed manner reflects weakness of the internal control structure.

The matter was reported to the management and PAO during September to December, 2023. It was replied that the vacancies for appointment of field technician were advertised in newspapers having qualifications of DAE electronic/ electrical but the selected individuals having higher qualifications were appointed on low pay package in the interest of the organization.

The reply is not tenable as the appointments were made against the defined criteria mentioned in the instructions of Establishment Division and advertisements.

The matter was discussed in the DAC meeting held on 15th January, 2024. The DAC directed the management to strictly follow the criteria mentioned in PC-I and regularize the appointment /expenditure from PMB.

Audit recommends implementation of DAC directives.

Note: The issue was also reported earlier in the Audit Report for Audit Year 2019-20 vide para number 7.4.4 having financial impact of Rs 2.040 million. Recurrence of same irregularity is a matter of serious concern.

(DP No. 186)

B. Procurement related irregularities

8.4.3 Non-transparent hiring of consultancy services -Rs 298.437 million

According to Rule 38 of PPRs 2004 (amended 2021), the bidder with the most advantageous bid, if not in conflict with any other law, rules, regulations or policy of the Federal Government, shall be awarded the procurement contract, within the original or extended period of bid validity. Further, Rule 38A ibid stipulates that bid discount shall be omitted.

SCO, HQ under the MoITT, Islamabad awarded two contracts for consultancy services to M/s TPM Consultant and M/s A Hamson Pvt. Ltd during FY 2022-23 as detailed below:

(Rs in Million)

S.No	PDP No	Contractor Name	Original Bid	Discounted Bid
1	195-2024	M/s A Hamson	762.925	283.665
2	168-2024	M/s TPM Consultant	16.786	14.772
Total			779.711	298.437

Audit observed that:

- i. In the contract at S.No.1, M/s NERA had offered a bid price of Rs 283.665 million, whereas M/s A Hamson had offered a bid price of Rs 762.925 million. The SCO management did not award the contract to M/s NERA being lowest and held negotiations with both the bidders subsequently. M/s NERA reduced the bid price to Rs 271.949 million, whereas M/s A Hamson offered a discounted price of Rs 283.665 million, the SCO management awarded the contract to M/s A Hamson.

- ii. The contract at S.No 2 of the table was awarded to M/s TPM Consultant on the basis of single bid at negotiated price of Rs 14.772 million in violation of the PPRs-2004.

Audit contented that SCO mis-procured the consultancy services in total disregard to the procurement rules which reflects weak internal control structure.

The matter was reported to the management and PAO during September to December, 2023. It was replied that the contract was awarded to M/s A Hamson (Pvt) Ltd. and M/s TPM Consultant after fulfilment of PPRA formalities. No negotiation was made with consultant; however, the Consultants themselves offered discounts before opening financial bids which was accepted as per PPRA Rule 38A.

The reply is not tenable. Rule 38 A of PPRs 2004 (amended 2021) provides for omission of bid discount.

The matter was discussed in the DAC meeting held on 15th January, 2024. The DAC showed serious concerns for hiring of consultancy services and directed to conduct a fact-finding inquiry besides submission of revised reply along with documentary evidences to audit within one week.

Audit recommends implementation of DAC directives.

(DP No. 168 & 195)

8.4.4 Mis-procurement of Web Monitoring System –Rs 200 million

According to Rule 12(2) of PPRs-2004, all procurement opportunities over three million Pakistani Rupees should be advertised on the Authority's website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the

other in Urdu. Further, Rule 50 ibid stipulates that any unauthorized breach of these rules shall amount to mis-procurement.

The Special Communication Organization, HQ under the MoITT, Islamabad made an agreement with M/s Celmore Technologies (Pvt) Ltd, Islamabad for supply, installation, operation and maintenance of Web Monitoring Solution amounting to Rs 1,637,837,903 on 29.05.2023 for one year extendable for three years. SCO made a payment of Rs 200,000,000 under the head e-10 “Repair and Maintenance” to the contractor relating to Web Monitoring System. Audit observed that:

- i) The contract was awarded without inviting open tender.
- ii) The RFP and evaluated bid were neither available on record nor uploaded on PPRA web site.
- iii) 2% performance security was not obtained from the contractor.
- iv) The equipment was not propriety of the Licensee.
- v) Complete Beneficial Ownership documents from the contractor exceeding 50 million were neither obtained nor uploaded on PPRA Web Site.
- vi) 20% payment was shown made to the supplier upon delivery of hardware/software without documentary evidence.
- vii) The payment was made without approval from the Project Management Board (PMB) as the DG SCO was competent for payment of up to 80 million.
- viii) The renewed license and equipment etc were not provided by the vendor as at 30.06.2023.

Audit contends that SCO management did not adhere to the procurement rules, awarded the goods and service contract in a non-transparent manner due to weak internal control structure.

The matter was reported to the management and PAO during September to December, 2023. It was replied that the tender was floated in two newspapers. Financial & Technical evaluations were signed by the board of SCO. M/s CETC is not registered in Pakistan and M/s Celmore is a co-partner of M/s CETC, therefore, M/s Celmore is hired for installation of WMS. The Approval for excess payment has already been accorded by PMB but minutes of PMB are awaited and will be shared on receipt.

The reply is not tenable as the contract was awarded in disregard to procurement rules in a non-transparent manner to M/s Celmore.

The matter was discussed in the DAC meeting held on 15th January, 2024. The DAC directed the management to provide complete documents uploaded on PPRA website, emergency certificate and PMB approval to audit for verification.

Audit recommends implementation of DAC directives.

(DP No. 180)

8.5 Others

8.5.1 Change of physical scope of projects without revision of PC-I- Rs. 1,195 million

According to para 2.46 of the chapter 2 of Manual for Development Projects, once approved, the procuring agency is required to implement the project in accordance with the PC-1 provisions. It has no authority to change or modify any approved parameters of the project.

SCO HQ under the MoITT, Islamabad executed two contracts with M/s A Hamson with a cost of Rs 283,651,152 and M/s ZTE with a cost of Rs 655,000,000 against the projects for Expansion of FTTH Services (GPoN) and Hybrid Power Solution (Solarization) respectively during FY 2022-23.

Audit examined the project documents, contract agreements and observed that:

- i For the Project titled, “Expansion of FTTH Services (GPoN)”, the PC-1 provided for expansion of FTTH services in three cities, namely, Muzafarabad, Mirpur & Gilgit but the contract agreement was signed for 12 new sites, namely, Gari Duppata, Baugh, Lasdana, Sharda, Chillum, Gakuch, Khaplu, Attmaqam, Tauobat, Naran, Bhimber & Karimabad without revision of PC-I. Audit noticed that equipment was purchased and payment was made thereof without laying of OFC.
- ii For the project, “Hybrid Power Solution (Solarization)”, sites were enhanced from 100 to 115 without revision of PC-I. Further, 100 Generator Sets were fixed in the PC-I, whereas SCO made agreement for 34 generators at a cost of Rs 162.056 million.

Audit contends that SCO changed the physical scope of the projects without revision of PC-I and purchased equipment without laying of OFC which reflects weakness of the contract management and internal control structure.

The matter was reported to the management and PAO during September to December, 2023. It was replied that FTTH Cards and ONTs were procured prior to laying of OFC due to ban on LC and without import of Cards laying of OFC could be useless. It was further replied that IPDR core was required to be installed at SCO H/Q and eleven (11) aggregate sites due to which PC-1 is being revised. Further, in case of Hybrid Power Solution (solarisation) for remote sites in GB was awarded to M/s ZTE for 100 sites not 115 sites. Due to various reason factors PC-I is being revised.

The management accepted the audit contention; however, evidence of revision of PC-1 could not be provided to audit.

The matter was discussed in the DAC meeting held on 15th January, 2024. The DAC directed the management to verify the record relating to the project sites and PC-I may be got revised from competent authority and get it verified from audit.

Audit recommends implementation of DAC directives.

(DP No. 182 &193)

8.5.2 Wasteful expenditure on procurement of LI/Web monitoring system - Rs 414.643 million

The PC-1 for the project, ‘Protection and Up-gradation of Pak China OFC for cross-border connectivity (Dassu - Danyore Alignment Project No. III/2020-21)’, approved on 06.04.2020 by DDWP, provided Rs 386.588 million for supply of LI/WMS equipment/system.

SCO HQ under the MoITT executed a contract agreement with M/s SNSKIES (Pvt) Ltd. for supply, installation, operation and maintenance of Web Monitoring Solution (“WMS”) for Up-gradation and Protection of Pak-China OFC project (dassu -danyore alignment) at a cost of Rs 414.643 million on 30.12.2020.

Audit examined the contract documents and terms and condition of the license and observed that the contract was awarded without the approval of SCO Project Management Board. Audit further observed that SCO did not renew the license of web monitoring system from M/s SNSKIES (Pvt) Ltd on its expiry after one year due to which the system remained idle and stopped working.

Audit holds that irregular execution of contract amid less appropriation of funds and non-renewal of the license from the proprietor reflect weakness of the internal control structure, due to which the Web Monitoring System didn’t run and the management failed to accomplish the project objectives.

The matter was reported to the management and PAO during September to December, 2023. It was replied that approval for excess payment has already been accorded

by the Project Management Board (PMB), however, minutes of PMB is awaited and will be shared on receipt. WMS was installed for one year. As per contract agreement for second and third years a sum of US\$ 994,079 was required to be paid to the contractor for the license which was not paid.

The management has accepted the audit contention; however, approval of PMB could not be provided till finalization of this report.

The matter was discussed in the DAC meeting held on 15th January, 2024. The DAC directed the management to provide approval of PMB and revised PC-I to audit for verification.

Audit recommends implementation of DAC directives.

(DP No. 205)

8.5.3 Non-payment of loan to EXIM Bank of China-Rs 358.407 million

According to Ministry of Finance, Revenue, Economic Affairs, Statistic & Privatization (Economic Affair Division) Govt. of Pakistan letter No F.1(189) EA/China-I/2009 dated 13.07.2016, interest rate @ 2 per annum, exchange risk fee against foreign loans relent @ 15% per annum inclusive of interest rate & exchange risk credit & commitment fee @ 0.2% per annum on the daily unutilized amount of loan will be payable by SCO against the loan agreement for cross border Optical Fiber Cable (OFC) System with Export-Import Bank of China.

SCO HQ under the MoITT, Islamabad acquired loan of US\$44 million from Export Import bank of China for the project “Construction of Cross Border Optical Fiber Cable (OFC) System between China and Pakistan for International Connectivity of

Voice/Data Traffic” during 2015 guaranteed by the Government of Pakistan. The project got completed on 01.03.2020.

Audit revealed that SCO didn't pay loan, commitment fee, exchange risk fee against foreign loan relent, management fee and interest thereon even after a lapse of eight (08) years which accumulated to a total liability of Rs 358,406,743 till date as per amortization schedule.

Audit contends that due to non-payment, the loan amount has compounded, which has caused a huge loss to the national exchequer.

The matter was reported to the management and PAO during September to December, 2023. It was replied that the entire revenue earned by SCO was deposited in Govt. exchequer and no retention of money was made on this account. The applicable charges on account of loan to any other department from revenue were not allowed to SCO. Further, the case has already been taken up with MoITT and EAD for payment of loan liability by GoP.

The management accepted the audit contention; however, the loan liability to EXIM Bank has not paid as yet and the loan interest etc is piling up day by day.

The matter was discussed in the DAC meeting held on 15th January, 2024. The DAC directed the management to take up the matter with Economic Affairs Division through MoITT for setting up the modalities and get it verified from audit.

Audit recommends implementation of DAC directives.

(DP No. 190)

8.5.4 Unjustified expenditure without obtaining NOC for ROW- Rs 167.365 million

As per responsibility assignment matrix at S.No. 12 of the contract executed between SCO and M/s City Link Communications (Pvt) Ltd for replacement/deployment of 187 KM Optical Fibre Cable Network along Jaglote-Skardu via Shengus (Package-I GB), acquisition of NOC for Right of Way (ROW) from the concerned authority was the prime responsibility of the Contractor with the support of SCO.

SCO HQ under the MoITT, Islamabad made a contract agreement with M/s City Link Communications (Pvt) Ltd for replacement/deployment of 187 KMs Optical Fibre Cable Network along Jaglote-Skardu via Shengus (Package-I GB) for Rs 334.730 million on 21.05.2021.

Audit observed that NHA disallowed SCO to use its RoW without which laying of OFC at the given location could not be carried out. Audit, however, revealed that SCO paid Rs 167,365,000 to M/s City Links during FY 2022-23 against the contract and issued Provisional Acceptance Certificate (PAC) for execution of the work.

Audit contends that payment including RoW charges to the contractor without acquiring permission for use of RoW from NHA raises concerns about the authenticity of the expenditure and weakness of the contract management.

The matter was reported to the management and PAO during September to December, 2023. It was replied that the Strategic Highway-1 Road from Jaglot-Skardu was approved by ECNEC including service gallery for SCO OFC. However, NHA did not construct service gallery despite repeated approach by SCO. After mutual negotiation, NHA allowed deployment of OFC along Jaglot - Skardu road which is functional and being used by SCO.

The reply is not tenable as no documentary evidence in respect of approval from NHA was provided till finalization of this report.

The matter was discussed in the DAC meeting held on 15th January, 2024. The DAC directed the management to obtain NOC for RoW from NHA and get it verified from audit.

Audit recommends implementation of DAC directives.

(DP No 179)

8.5.5 Non-receipt of O&M charges from M/s CMI-Rs 163.716 million (570,240 US\$)

As per capacity and price schedule-1 of contract agreement, US \$ 460,800 will be recovered from M/s China Mobile International (CMI /Zong) as annual O&M charges of the end-to-end Circuit in case of 100 G Circuit, & US\$ 109,440 in case of 20 G leased end to end capacity. Further, according to Section 40-C (1&2) of Public Finance Management Act, 2019, the revenue collection offices shall deposit the collections in Federal Consolidated Fund promptly without delay in prescribed manner under the head of account specified by the Finance Division in consultation with the Controller General of Accounts. Revenue collection offices shall not retain or appropriate the collected amounts to meet departmental expenditures.

SCO HQ under the MoITT, Islamabad executed tripartite agreement with CM Pak, Ltd and China Mobile International (UK), Limited on 19.12.2019 for supply of 100 G & 20 G lease circuit capacity respectively for provision of OFC based transmission Network Cable stationed at SCO node Khunjrab to SCO node at, Rawalpindi.

Audit observed that SCO neither recovered the O&M charges of Rs 163,715,904 (US\$ 460,800 + US\$ 109,440 x Rs 287.10 prevailing exchange rate) from M/s CMI nor remitted to Federal Consolidated Fund.

Audit contends that non-recovery of the O&M charges and its remission to the Federal Consolidated Fund in disregard to the above stated rules signify the weakness of the financial discipline and misreporting of revenue of SCO to the relevant quarters.

The matter was reported to the management and PAO during September to December, 2023. It was replied that a sum of USD 11,404,747 was paid by CMI as 15

years IRU on 31.12.2019 which was deposited in FCF. No O&M charges were included in Contract Agreement with CMI.

The reply is not tenable. O&M charges were duly included in the contract agreement as is evident from the criteria quoted above.

The matter was discussed in the DAC meeting held on 15th January, 2024. The DAC directed the management to provide the relevant record relating to recovered amount of O&M charges and get it verified from audit within one week.

Audit recommends implementation of DAC directives.

(DP No. 209)

8.5.6 Unauthorized laying of OFC at unapproved section-Rs 114.00 million

According to Para 6(C)(3) of PC-1 for the project, Up-gradation of transmission network and replacement of Optical Fibre Cable (OFC) in AJ&K & GB (Project No. I/2019-2020)", 855 Km Optical Fibre Cable will be laid in HDPE Duct at specified sections as per diagram at Annex-VI. Further, Rule 4 of PPRs-2004 stipulates that, procuring agencies, while engaging in procurements, shall ensure that the procurements are conducted in a fair and transparent manner, the object of procurement brings value for money to the agency and the procurement process is efficient and economical.

The Departmental Development Working Party (DDWP) under MoITT, Islamabad approved the PC-1 for "Up-gradation of Transmission Network and replacement of OFC at AJ&K and GB" amounting to Rs 1,780 million on 06.04.2020 for Chilas-Shatial, Shatial-Dareel Ghabar & Shatial-Tangir Phabat section having a stretch of 151 (65+40+46) KMs. The project was divided into three packages. The contract for package-3 Gilgit-Baltistan section was awarded to M/s Amanullah & Co. Ltd for laying of 70 KM Optical Fibre Cable Network at a cost of Rs 114 million on 21.05.2021.

Audit reviewed the relevant contract files and observed that:

- i. SCO changed the alignment and executed the contract with M/s Amanullah for laying of OFC at Gilgit- Gakhuch section for the same amount and same KMs which was not approved in the PC-I.
- ii. The record transpired that the road was under construction and no ROW was available for laying of OFC at Gilgit-Gakhuch section.
- iii. A payment of Rs 45,640,000 (15,000,000 + 19,230,000+11410,000) was made to the contractor for a package which was not included in the section list/diagram of the approved PC-I.

Audit contends that changing the alignment of the OFC, inclusion of a section unapproved in the PC-1 and award of contract thereof resulted in an unauthorized expenditure of Rs 114 million.

The matter was reported to the management and PAO during September to December, 2023. It was replied that 70 KMs of Shatial – Dareel Ghabar & Shatial – Tangir Phabat section was approved in PC-I, accordingly the contract was awarded to M/s Amanullah Khan & Co (Pvt). Gilgit to Gakhuch Section was neither approved nor contract was awarded to M/s Amanullah. No OFC was deployed at Gilgit - Gakuch Section.

The reply is not tenable as the contract was awarded to M/s Ammanullah for Gilgit-Gakuch section and payments were made against the same contract as evident from the invoices of the contractor.

The matter was discussed in the DAC meeting held on 15th January, 2024. The DAC directed the management to verify the record from audit.

Audit recommends implementation of DAC directives and matter be inquired to fix responsibility.

(DP No. 176)

8.5.7 Irregular utilization of contingency allocations - Rs. 85.793 million

As per para 2 (d) of FB&A procedure under head misc. expense grant, the grant and expense are lapsable at the end of financial year. The unspent balance will be deposited into Govt. Treasury.

SCO HQ under the MoITT, Islamabad drew a total amount of Rs 368,763,933 under the head-contingencies during FY 2022-23 and deposited in SCO lapsable account No 5412373 opened in NBP.

Audit observed that the amount was withdrawn on simple receipt basis without incurrance of expenditure and submitting of bills to CMA (FWO). Audit also revealed that SCO made payments out of the designated account opened in the National Bank of Pakistan throughout the year on account of contingencies bypassing the pre-audit checks at the counter of CMA (FWO). Audit further noticed that SCO withdrew an amount of Rs 85,793,018 on 27.6.2023 through cheques which was cleared during July, 2023 after close of financial year.

Audit contends that withdrawal of contingencies funds on simple receipt basis from CMA (FWO) without pre-audit checks of the expenditure reflect inefficient budgeting process, weak internal control and warrants immediate corrective action.

The matter was reported to the management and PAO during September to December, 2023. It was replied that the Ministry allocated the required funds on 26.6.2023 and on the same day amount was claimed on contingent bill submitted to CMA (FWO). Due to public holidays of Govt. institutions the amount was credited on 03.07.2023.

The reply is not tenable. The funds were withdrawn without pre-audit checks by CMA (FWO). Further, the designated account of SCO in the NBP was a lapsable account, therefore, the cheques issued on 27.06.2023 were invalidated and could not be en-cashed after special permission of State Bank on 03.07.2023.

The matter was discussed in the DAC meeting held on 15th January, 2024. The DAC directed the management to provide the State Bank letter, procurement record and clearance of cheques to audit for verification.

Audit recommends implementation of DAC directives.

(DP No. 178)

8.5.8 Loss of land due to inadequate asset management - Rs.43.532 million

As per notification No REV-COMM-1(8)/97 dated 16.05.1998, the Chief Secretary Gilgit-Baltistan allotted Khalisa Land in favour of 63 CSB, SCO for construction of Telecommunication Buildings etc at various stations including Konodas, Gilgit.

The Chief Secretary Gilgit-Baltistan allotted four (04) properties to 63-CSB SCO, Gilgit-Baltistan for construction of Telecommunication Buildings as detailed below:

S.No	PDP No	Location	Land Area	DC Rate Per Kanal	Loss (Rs)
1	282-24	KIU	5K,8M	2,756,000	14,882,400
2	281-24	Jaglot	10 M	2,100,000	1,050,000
3	269-24	Tangir	34K,2 M	750,000	25,500,000
4	266-24	Shatial	1K,10 M	1,400,000	2,100,000
Total			39 K,18 M	-	43,532,400

Audit reviewed the land and building files and observed that 5 Kanal & 8 Marla land was illegally occupied by Karakorum International University, 10 marla at Jaglot was occupied by Local Government and 34 Kanal & 02 marla land at Tangir was occupied by a private person. In case of Shatial, payment was made for 1 Kanal & 10 marla land during 1984 but land was not acquired, Audit estimated the land value as per DC rate to the tune of Rs 43,532,400.

Audit maintains that due to inadequate asset management and weak internal controls, SCO sustained a huge loss of Rs 43,432,400.

The matter was reported to the management and PAO during September to December, 2023. It was replied that SCO was not in possession of any land, therefore, responsibility for non-transfer of land in the name of SCO and holding of possession could not be fixed against anyone.

The reply is not tenable. The land was allotted to SCO by the GB government and was in possession of SCO but the land was grabbed/ encroached upon by different private and government organizations.

The matter was discussed in the DAC meeting held on 15th January, 2024. In case of S No 1, 2 & 4, the DAC directed the management to chalk out the mechanism for asset management on the analogy of SUPARCO, besides recovery of alternate land /amount from the concerned agency under intimation to audit. In case S.No 3, the DAC directed to provide settlement agreement to audit.

Audit recommends implementation of DAC directives.

(DP No. 266, 269, 281 & 282)

8.5.9 Unauthorized payments out of revenue-Rs 36.686 million

As per Rule 23 of Public Financial Management Act, 2019, no authority shall incur or commit any expenditure or enter into any liability involving expenditure from the Federal Consolidated Fund and Public Account of Federation until the same has been sanctioned by a competent authority duly empowered.

SCO HQ under the MoITT, Islamabad executed Service Level Agreements (SLA) with M/s CARE (Pvt) Ltd and M/s Glowbug Tech. (Pvt) Ltd with costs of Rs. 9,093,750 and Rs 24,748,080 for provision of O&M of Lawful Interception (LI) Monitoring System and Premises DNS Solution on 22.06.2017 & 07.03.2022 respectively. A payment of Rs 33,841,830 million was made to both M/s CARE (Pvt) Ltd and M/s Glowbug Tech. (Pvt) Ltd. Further, PEMRA & PTA fee amounting to Rs 2,844,499 was also paid from revenue as detailed below:

S. No	PDP No	Subject	Amount (Rs)
1	197-24	Unauthorized payments out of revenue	33,841,830
2	198-24	Unjustified payment of from revenue	2,844,499
Total			36,686,329

Audit observed that unauthorized payments out of SCO revenue were made to the service providers on account of service level agreement fees instead of meeting the expenditure from recurring cost of the respective projects during FY 2022-23.

Audit holds that the service level agreement fees were required to be made from recurring budget heads but due to weak financial discipline, the fees were met out of SCO revenue account in violation of the afore-mentioned rule.

The matter was reported to the management and PAO during September to December, 2023. It was replied against S. No 1 that the allocated non-development budget was insufficient for POL and necessary spares and SCO network had expanded exponentially, therefore, SCO project management board (PMB) approved the payment of SLAs from revenue till the time necessary non-development funds were allocated to SCO. In case of S.No 2, regulatory payments were made from revenue to avoid late payment charges / suspension of services. As per FBA&A procedures SCO is authorized to make necessary regulatory payment.

The management accepted the audit contention, however, the authorization of necessary regulatory payment out of revenue under FBA&A procedures of SCO and its subsequent adjustment could not be verified to audit.

The matter was discussed in the DAC meeting held on 15th January, 2024. The DAC directed the management to regularize the expenditure from Finance Division and get it verified from audit.

Audit recommends implementation of DAC directives and cessation of the practice henceforth.

(DP No. 197 & 198)

8.5.10 Non-execution of civil work as per approved BoQ - Rs 16.230 million

As per Annex-I of the PC-I, an amount of Rs 20.062 million was fixed for acquisition of land, construction of buildings, civil works & allied equipment.

SCO HQ under the MoITT, Islamabad executed a contract agreement with M/s Amanullah & Co (Pvt) Ltd on 07.07.2021 for the project, 'Protection and Up-gradation of Pak-China OFC for cross border connectivity (Dassu-Danyore Alignment) at a cost of Rs 1,007,813,681 including an amount of Rs 20,000,000 for acquisition of land and construction of concrete building at Dassu.

The Audit Team visited the Dasu site physically and observed that:

- i. The contractor had executed the work of Rs 3,769,900 against the approved cost of Rs 20,000,000.
- ii. The contractor did not acquire the land for construction of node site despite receiving of payment thereof.
- iii. The contractor installed pre-fabricated shelter instead of construction of concrete building.
- iv. Installation of Air Conditioner and electricity meter, construction of car porch, complete boundary wall and lawn, green area and paving of tuff tiles were not carried out / executed.
- v. SCO paid full amount by issuing Final Acceptance Certificate despite the fact that the work was not executed in accordance with BoQ.

Audit contends that non-execution of the work according to the approved BoQ, altering the BoQ items without revision of the PC-I and issuing the Final Acceptance Certificate (FAC) without completion of work reflect weakness of the financial discipline and internal controls.

The matter was reported to the management and PAO during September to December, 2023. It was replied that the pre-fabricated building was installed on emergency basis for early installation of equipment. 15 KVA solar was installed to provide 24-hours power equipment instead of purchasing land. All the other allied equipment is available at Node site. Revised PC-I for approval had already been prepared and would be shared after approval for verification.

The reply is not tenable. Non-acquisition of land despite payment of land cost, construction of pre-fabricated instead of concrete building without revision of PC-I and non-execution of BoQ items by the contractor reflect weak contract management, financial indiscipline and ineffective monitoring of the organization.

The matter was discussed in the DAC meeting held on 15th January, 2024. The DAC directed the management to quantify the actual work done by the contractor. Further, revised reply along with justification and revised PC-I be provided to audit for verification.

Audit recommends implementation of DAC directives.

(DP No. 170)

MINISTRY OF INFORMATION TECHNOLOGY & TELECOMMUNICATION

CHAPTER-9

UNIVERSAL SERVICE FUND (USF)

Chapter 9

Universal Service Fund (USF)

(MoITT)

9.1 Introduction

A) Federal Government established Universal Service Fund (USF) under Section 33A of Pakistan Telecommunication (Re-organization) (Amendment) Act, 2006 to provide the benefits of the telecom services across Pakistan. The main functions of the Fund are to:

- Bring the focus of telecom operators towards rural population and increase the level of telecom penetration significantly in the rural areas through effective and fair utilization of the Fund.
- Improve the broadband penetration in the country.
- Enhance e-services in rural as well as urban areas of the country.

The Fund is utilized exclusively for providing access to telecommunication services to the people in the un-served, under-served, rural and remote areas, besides other expenditure made by the Federal Government in managing USF. The Federal Government is responsible for the coordination and ensuring timely utilization and release of sums in accordance with the criteria as may be prescribed.

Federal Government in pursuance of Sub-Section (2) of Section 57 of Pakistan Telecommunication (Re-organization) (Amendment) Act, 2006 approved the Universal Service Fund Rules, 2006. In terms of Rule 10 *ibid*, MoITT established a non-profit company limited by guarantee for implementation of USF projects. The company is managed by a Board of Directors headed by Secretary, MoITT as its Chairperson to run its affairs.

B) Comments on Budget and Accounts

9.1.1 According to Auditor-General's office letter No.574/43-R&SD/SOP/2007Pt dated 01.12.2023, Universal Service Fund (USF) Company, being autonomous body of the Federal Government, while appointing the Chartered Accountant firm for annual audit of its financial statements, is required to obtain concurrence of the Auditor-General of Pakistan. However, USF did not obtain the said concurrence from the office of the Auditor-General of Pakistan.

9.1.2 According to Note 16.3.5 to the Financial Statements, the value of plan assets as on 30.06.2023 was recognized as Rs 125.822 million (in 2023) as compared to Rs 90.244 million (in 2022); thereby showing an increase of 39.4% in plan assets. The detail of increase in plan assets along with detail of investment made by the USF Company may be provided.

Table-I Audit Profile of USF

(Rs in Million)

S. No	Description	Total Nos	Audited	Expenditure audited FY 2022-23	Revenue / Receipts audited FY 2022-23
1	Formations	01	01	18,555.023	8,398.248
2	<ul style="list-style-type: none">• Assignment Accounts• SDAs	01	01	-	-
3	Authorities / Autonomous Bodies etc. under the PAO	01	01	18,555.023	8,398.248
4	Foreign Aided Projects (FAP)	-	-	-	-

9.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 30,775.499 million were raised in this report during the current audit of the USF Company. This amount also includes recoveries of Rs 176.845 million as pointed out by audit. Summary of the audit observations classified by nature is as under:

Table-II Overview of Audit Observations

(Rs in Million)

S. No	Classification	Amount
1	Non-production of record	-
2	Reported cases of fraud, embezzlement and misappropriation	-
3	Irregularities	20.654
A	HR/Employees related irregularities	20.654
4	Value for money and service delivery issues	3,741.000
5	Others	27,013.845
Total:		30,775.499

9.3 Status of Compliance with PAC Directives

USF & CO				Compliance		
S. No	Audit Year	Total Paras	Total Directives	Received	Not Received	%age
1	2011-12	40	40	25	15	63

2	2012-13	61	61	5	56	8
3	PAR 2013-14	41	41	2	39	5
4	2014-15	18	18	2	16	11
5	2015-16	11	11	3	8	27
6	2016-17	9	9	6	3	67
7	PAR 2016-17	24	24	17	7	71
8	2017-18	11	11	9	2	82
9	2018-19	9	7	7	0	100
10	2019-20	10	10	4	6	40

The above table reflects that the management has not shown adequate interest in complying with the PAC directives over the years.

AUDIT PARAS

9.4 Irregularities

A. HR/Employees related irregularities

9.4.1 Inadmissible payment on account of monthly fuel ceiling to USF employees – Rs 20.654 million

According to Rule 5 (5) of the Public Sector Companies (Corporate Governance) Rules, 2013, the Board shall establish a system of sound internal control which shall be effectively implemented at all levels within the Public Sector Company to ensure with the fundamental principles of probity and propriety, objectivity, integrity and honesty.

The USF Company under the MoITT, Islamabad paid vehicle monetization allowance amounting to Rs 13,532,784 to the officers above manager level. The Company also authorized monthly fuel ceiling against their private vehicles and paid an amount of Rs 20,654,248 to the same officers during FY 2022-23.

Audit contends that the authorization and payment of monthly fuel ceiling in addition to monetization allowance was inadmissible.

The matter was reported to the management and PAO during October and November, 2023. It was replied that monetization policy of fuel entitlement and vehicle monetization in lieu of official vehicle for all USF Manager and above officers was approved by the Board of Directors while approving HR Manual on the recommendation of Human Resource Governance Committee (HRGC).

The reply is not tenable. The USF Board did not allow paying both the facilities simultaneously to all officers above manager level.

The matter was discussed in the DAC meeting held on 11th January, 2024. The DAC upheld its earlier directive of meeting held on 27.12.2022 and directed the management to refer the case to BoD in order to align it with the government policy.

Audit recommends implementation of DAC directives.

Note: The issue was also reported earlier in the MFDAC Report for the audit year 2022-23 vide PDP No. 96-2023 having financial impact of Rs 12.960 million. Recurrence of same irregularity is a matter of serious concern.

9.5 Value for money and service delivery issues

9.5.1 Blockage of USF funds on account of mobilization advance— Rs 3,741 million

According to Para 5 of schedule 'D' of Service and Subsidy Agreements (SSA) made between USF Company and service providers (a) first milestone must be achieved within six (6) months of the Effective Date, (b) rest of three milestones must be achieved within twelve or eighteen months of the Effective Date (the Final Implementation Date). Further, as per clause 4.01 of Service and Subsidy agreement, apart from condition of force majeure, failure to meet the Final Implementation Date can result in imposition of one or more penalties by USF Company.

The USF Company Board under the MoITT, Islamabad approved award of twelve (12) Broadband and OFC contracts amounting to Rs 21,036,308,600 during its 83rd BoD meeting held on 22.09.2022. Accordingly, the CEO of USF Company signed the contracts with six (06) telecom operators during October, 2022. Mobilization advances @ 20% of contract values amounting to Rs 3,740,683,123 were paid to the service providers.

Audit examined the record of service and subsidy agreements and observed that the service providers failed to offer first milestone for technical audit till 30.06.2023 despite lapse of nine (09) months. Further, the service providers requested the USF Company for grant of 180 days extension in contracts on force majeure basis. Accordingly, the Company granted extension only in five contracts vide USF Management Committee's meeting held on 16.01.2023. Audit further noticed that the service providers in remaining seven (07) contracts also did not offer first milestones within due time.

Audit contends that the service providers failed to fulfil the contractual obligations despite advance mobilization payment by the USF Company.

The matter was reported to the management and PAO during October and November, 2023. It was replied that all of the projects highlighted by Audit have suffered from force majeure conditions of imports and opening of LCs. The mobilization advance was paid according to Schedule D of the Service and Subsidy Agreement within 15 days of effective date (date of signing of contract).

The reply is not tenable. The projects were approved by USF Board during September, 2022 and the contracts were awarded during October, 2022 despite the joint request of service providers on 28.07.2022 to postpone the bidding process due to economic situation of Pakistan, difficulties in opening of LCs and government restrictions on imports. The service providers signed the agreements and submitted requests for mobilization advance despite the fact that they knew that they could not offer the milestones due to the conditions mentioned above.

The matter was discussed in the DAC meeting held on 11th January, 2024. The DAC directed the USF management that project wise detail showing progress be prepared within two weeks and provided to audit for scrutiny.

Audit recommends implementation of DAC directives and to fix responsibility.

(DP No. 121)

9.6 Others

9.6.1 Creation of un-justified commitments - Rs 26,837 million

According to Rule 2A(1)(a) of Public Sector Companies (Corporate Governance) Rules 2013, the business of the Public Sector Company is carried on with integrity, objectivity, due care and the professional skills appropriate to the nature of its activities. Further, as per Rule 21(6)(c) (i& iii) of aforesaid Rules, the Audit Committee may review quarterly, half yearly and annual financial statements of the Public Sector Company, prior to their approval by the Board focusing on the major judgment areas and the going concern assumption.

The USF Company under the MoITT, Islamabad awarded Broadband and OFC contracts to different service providers (telecom operators) for provision of telecommunication/data services to the people of un-served and under-served areas of Pakistan.

Audit observed that USF Company created huge commitment of Rs 61,656 million as on 30.06.2023 against the available funds of Rs 34,819 million with the Ministry and USF Company; thereby, creating a huge liability of Rs 26,837 million as detailed below:

(Rs in Million)

S. No.	Description	Amount	Remarks
1	USF Company payable commitments as on 01-07-2022	39,590	
2	Add commitments during the year 2022-23 (new projects)	22,066	
3	Total payable Commitments up to 30-06-23	61,656	(1+2=3)

4	Funds available with USF Co. for payment of commitments during 2022-23 (Rs 18,340+ Rs 923.676)	19,264	
5	Remaining commitments to be paid	42,392	(3-4=5)
6	Remaining Funds available with Fund account at Ministry and USF Co. as on 30-06-23 (Rs 13,638 + Rs 1,917)	15,555	
7	Balance of payable Commitments as on 30-06-23	26,837	(5-6=7)

Audit contends that due to improper planning and imprudent decisions by the Board, the USF Company increased the risk of going concern by awarding contracts in disregard to the fund position.

The matter was reported to the management and PAO during October and November, 2023. It was replied that an amount of Rs 57,211 million pertaining to USF funds was available in the Federal Consolidated Fund taken by the Federal Government in June, 2013. The USF Company challenged the matter in the Supreme Court of Pakistan whereby it was decided that the funds were exclusively meant for USF and could not be utilized for any other purpose by the Federal Government. Based on the funds of Rs 57,211 million available in the FCF, the USF Company did not over-commit on account of new subsidy projects.

The reply is not tenable as the Finance Division vide letter dated 06.07.2023 intimated the MoITT to obtain the balance amount of USF through annual

budgetary appropriations during next ten (10) years, which means that USF Company had expected receivable of Rs 5,700 million per year.

The matter was discussed in the DAC meeting held on 11th January, 2024. The DAC directed USF management to prepare a separate contract wise detail showing break up of all the contracts. A report in this regard may be prepared, placed before the Board and also provided to audit.

Audit recommends implementation of DAC directives.

(DP No. 120)

**9.6.2 Non-recovery of outstanding dues of USF contribution –
Rs 176.845 million**

According to clause 4.1.2.2 of Long Distance International (LDI) License issued under section 21 of the Pakistan Telecommunication (Re-organization) Act, 1996, the Licensee shall contribute to the Universal Service Fund an amount calculated on the basis of 1.5% of the Licensee's gross revenue from Licensed Services for the most recently completed financial year of the Licensee minus inter-operator payments and related PTA/FAB mandated payments. Clause 4.1.2 further stipulates that the licensee shall make this contribution within 120 days of the end of financial year.

The MoITT, Islamabad maintained USF Fund based on contributions from telecom operators, upon which the USF Company carried out operational and business activities and received Opex and Capex budgets.

Audit observed that USF Fund Management failed to recover an amount of Rs 176,844,519 on account of USF contributions against the billing issued to the telecom operators during FY 2022-23.

Audit contends that non-recovery of the USF contributions from the telecom operators not only reflects weakness of the USF Fund management but it also affects the financial health of the USF Company.

The matter was reported to the management and PAO during October and November 2023. It was replied that recovery from operators is an ongoing mechanism. The MoIT is in process of issuing the letter to PTA, advising them to expedite the recovery process. Any update in the recovery process will be shared with audit.

The reply is not tenable. The Fund was established to manage the affairs of the USF fund. However, audit did not find any evidences of efforts made by the fund management to recover the outstanding dues.

The matter was discussed in the DAC meeting held on 11th January, 2024. The DAC directed USF Fund management to expedite the recovery and get it verified from audit.

Audit recommends implementation of DAC directives.

(DP No. 115)

**Ministry Of Information Technology
&
Telecommunication**

Chapter-10

**Impact Audit
Of**

USF Project “Broadband Sustainable Development Program- Khyber Lot”

Impact Audit of USF Project “Broadband Sustainable Development Program – Khyber Lot”

10.1 Introduction

The Broadband for Sustainable Development (BSD) Program, initiated by the Universal Service Fund (USF), is a telecom service-related program designed to bridge the digital divide by extending telecommunication services to un-served/under-served areas in Pakistan. The program became significant after the issuance of 3G and 4G licenses by the Federal Government; therefore, broadband data (internet) services were included as a mandatory component. The objective was to empower communities across the country with access to both voice and data communication so as to promote economic development and social inclusion.

The Broadband Sustainable Development (BSD) of Khyber Lot is a significant part of this program which focuses on the un-served areas within Khyber, Kohat, Karak and Hangu districts including erstwhile FR Peshawar and FR Kohat. The Khyber Lot comprises 720 Mauzas with an estimated rural population of 3.1 million⁶¹. Out of these Mauzas, approximately 70% was un-served area, which lacked basic telecommunications services/facilities. This un-served area accounted for 56.6% of the rural population in the Khyber Lot.

To address this digital divide and extend telecommunication services to these unserved areas, the Universal Service Fund (USF) entered into a contract with M/s Pakistan Telecommunication Mobile Limited (PTML), which operates under the brand name of Ufone on 23-10-2017.

The program aims at bringing voice communication and broadband internet connectivity to the people of the Khyber Lot and enhance their access to information, education, healthcare, and economic opportunities.

⁶¹ Schedule-C of Services & Subsidy Agreement (SSA) with M/s PTML

To sum up, the Broadband Sustainable Development, Khyber Lot program is a vital initiative of the Universal Service Fund under the MoITT to promote sustainable development and inclusivity in Pakistan's telecommunication infrastructure.

10.2 Overview

The program was initiated at a cost of Rs 1,985 million⁶² with a specific goal to provide essential telephony and data services including broadband Internet as well as necessary infrastructure such as fiber networks and community tele-centres (commonly known as Net Cafés) to the unserved areas in Khyber Lot. The program commenced on 23.10.2017, with a projected completion date of 22.10.2019. To ensure efficient and timely execution of the program, a milestone-based framework was formulated to provide a structured roadmap for the program. Accordingly, the program was divided into four milestones. The first milestone was required to be completed within six months from the date of signing of contract agreement, whereas the rest of the three milestones were to be accomplished during the ensuing eighteen (18) months. The program could not be concluded within the stipulated timeframe and was extended up to June-2020.

The uniqueness of the program was its funding model. It was financed through 1.5% contributions⁶³ made by the telecom operators, namely, cellular mobile operators, Long Distance & International operators, Local Loop etc. out of their adjusted revenues to USF and remarkably did not involve direct government funding. The USF hired telecom service providers through competitive bidding under reverse auction model, which encouraged healthy competition among various telecommunication companies like M/s Ufone, Jazz, Telenor, Zong, PTCL and Nayatel. Major projects were awarded to the cellular mobile operators during the currency of the program.

In short, the program's unique funding model, structured milestones, and competitive bidding process contributed to bridge the digital gap in the Khyber Lot region and led to the sustainability and efficiency of the program. Though the program achieved the intended objectives of providing broadband internet services in the unserved areas of Khyber Lot, yet more focus is needed to improve the coverage and data speed in the target areas.

⁶² Schedule-D of Services & Subsidy Agreement (SSA) with M/s PTML

⁶³ Rule 4(2) of USF Rules, 2006.

10.3 Scope and Methodology

The scope of the program covers the execution period starting from October, 2017 to June, 2020. To ascertain the impact of the program, Audit visited the USF Company H/Q, Islamabad and carried out site inspection of Khyber Lot. Audit noticed that the program accomplished the objectives of providing broadband services to the unserved population of the Khyber Lot but the quality of service in terms of data speed was deficient and did not serve the purpose of the people at large. Moreover, the erstwhile FATA region and the adjoining districts remained under continuous militancy threat which greatly affected people's lives. It is worth mentioning that modern telecom facilities did not exist before intervention of USF Company in the unserved area of Khyber Lot. In fact, the program targeted the provision of voice and internet services in 428 mandatory Mauzas; however, the population of the unserved area would have been deprived of the basic telephony, data services, uplift of online educational facilities, healthcare, economic growth and social bonding, had there not been provided broadband services by the company. It is pertinent to mention that the project of providing broadband internet services was awarded to M/s Ufone only in the target areas; therefore, the data collected reflect the status of broadband internet services to that extent.

The impact audit was carried out by adopting a mixed method approach, based on quantitative and qualitative methods and tools of data collection like field survey questionnaire, key stakeholders and government officials' interviews, drive testing and documents analysis. In addition, data from Pakistan Telecommunication Authority (PTA) and MoITT was also collected to see the tele-density in the Khyber Lot area. The audit team also collected and analyzed data on key indicators such as internet usage, economic activity and health and educational attainments.

10.4 Findings of Impact Audit

The findings of the impact audit are highlighted as under:

i. Improved broadband connectivity and effect on socio-economic life

The program has successfully achieved the intended objectives in terms of provision of consistent high speed broadband services in the unserved targeted areas of Khyber Lot which has increased access of the local population to reliable internet services; thereby creating positive life experiences and improving communication. As per audit survey⁶⁴ based on a sample of 100 respondents, 78% of the respondents of target area had smart phones; 68% of the respondents used voice and data facility, 57% used mobiles for access to public services, and 34% of the respondents opined that broadband services made their communication easy with others. 32% of the respondents were of the view that telecom services were helpful to interact with their relatives and enhanced individual participation in online community groups and pages; thereby fostering a sense of communal engagement. The program also influenced people's livelihoods by engaging them in online economic activities. As per audit survey, 22% of the respondents of target areas apprised that they used mobile services for their business expansion. The program was intended to enhance the use of e-commerce and social media platforms in the target areas in order to promote online business and social interaction. As per audit survey, 58% of the respondents replied that they used social media (Facebook and WhatsApp) for promotion and sale of products; thereby stimulating local economies and entrepreneurship. 12% of the respondents in the target area used mobile services for online shopping. The program also enhanced access of the local people to email and web browsing for gathering required information for multifarious purposes. As per audit survey, 16% respondents of the target areas used mobile service for obtaining information on social issues. Detail is given in Annex-II.

10.4.2 Increased digital literacy and skill

The program also contributed to increase in digital literacy and skills among the local population which has raised the likelihood of exploring new jobs and business opportunities through information technology and services online. As per audit survey, 40% of the respondents of target areas apprised that they used mobile phones and other equipment for e-learning, whereas 32% informed that broadband services were useful for

⁶⁴ Field Survey Results

studies and learning. The program also achieved the goal of promoting financial thinking and literacy through online services. 26% of the respondents of the target area used internet services for mobile banking facilities. The program also facilitated the farmers in acquiring the knowledge of agriculture economics and weather updates through information online.

10.4.3 Access to health information

Access to professional health-related information has enhanced the probability of receiving quality advice. The program effectively contributed to health awareness, consultation services and information accessibility in the target areas. As per audit survey, 13% of the respondents used internet for online health services.

10.5 Impact on connectivity

Broadband internet services did not exist before commencement of the program. Only fixed landline telephone service could work in certain areas without using Digital Subscriber Line (DSL) service. With the arrival of program, the local population got the facility of mobile broadband internet services as per details given in the table below:

Districts	Data Subscribers	Voice Subscribers
KOHAT	168,680	174,524
HANGU	75,122	70,486
KHYBER AGENCY	74,605	75,261
KARAK	59,848	63,377
FR KOHAT	19,648	19,294
FR PESHAWAR	9,782	7,811

Total	407,685	410,753
--------------	---------	---------

Source (Data received from M/s Ufone)

10.6 Problem areas of the program

The erstwhile FATA regions and their adjoining districts have been under continuous militancy which has greatly affected people’s lives and livelihood. The local population was deprived of the basic telephony and data services. The program provided the modern telecom facilities only in 428 mandatory Mauzas out of 729 Mauzas due to security situation and low population below the minimum threshold of 100 persons in the target Mauza. Besides, the quality of broadband internet services was not up to the mark. As per audit survey, 45% of the population opined that quality of voice was good with slow net speed.

10.7 Conclusion

The Broadband Sustainable Development Program in Khyber Lot, spearheaded by the Universal Service Fund (USF) was implemented in only 428 Mauzas instead of 729. In those Mauzas the programme has made significant strides in narrowing the digital gap and fostering socio-economic development in under-served regions. The initiative successfully achieved its core objectives, providing consistent high-speed broadband services to previously unconnected areas.

Despite commendable achievements, challenges persist. Security concerns in erstwhile FATA regions have limited the program's reach, leaving some areas untouched. Additionally, the quality of broadband services, particularly data speed, falls short of expectations for 45% of the surveyed population.

Moving forward, targeted actions are essential. Efforts to expand coverage should prioritize collaboration with law enforcement agencies to ensure secure deployment in previously inaccessible areas. Infrastructure upgrades and technological enhancements are imperative to address the identified deficiencies in data speed. Community engagement initiatives and awareness campaigns will play a pivotal role in maximizing the program's impact, promoting digital literacy, and unlocking economic opportunities.

Regular monitoring and evaluation, coupled with public-private collaboration, will be key to the program's sustained success. These measures will enable the refinement of strategies, ensuring that the benefits of connectivity reach a wider population, and fostering a resilient digital infrastructure that contributes to the region's sustainable development.

In conclusion, while the program has laid a robust foundation for connectivity and socio-economic empowerment catering the challenges, the targeted actions will be instrumental in realizing the full potential of the Broadband Sustainable Development Program in Khyber Lot.



**AUDIT REPORT
ON
THE ACCOUNTS OF
POSTAL SECTOR
MINISTRY OF COMMUNICATIONS
AUDIT YEAR 2023-24**

DIRECTORATE GENERAL AUDIT (POSTAL SERVICES)

Chapter-1

Pakistan Post Office Department

1.1 Introduction

A. PPOD stands as an institution deeply rooted in history, tracing its origin to the colonial era, making it one of the oldest government departments in the Sub-Continent. Since its inception, the PPOD has played a pivotal role in shaping communication, commerce, and financial transactions within Pakistan. As an integral part of the nation's infrastructure, the department has evolved to meet the changing needs of society, serving as a critical link that connects millions of people throughout the country.

PPOD was established as a service department under the Post Office Act, 1898. The department is headed by the Director General who is also Chairperson of the Pakistan Postal Services Management Board. The department consists of 09 Circles, each headed by a Postmaster General, based at Quetta, Karachi, Hyderabad, Multan, Lahore, Rawalpindi, Islamabad, Peshawar and Muzaffarabad. With a remarkable physical footprint, the PPOD boasts a network of 10,190 post offices, including 85 General Post Offices (GPOs) strategically managed by a workforce of 38,884 employees, including both regular and extra-departmental personnel. This extensive network ensures that the services provided by the PPOD reach urban centers and remote regions alike, making it a ubiquitous presence throughout the country.

The core functions of the Pakistan Post Office are diverse and expansive, encompassing both domestic and international postal services, as well as facilitating money orders. Beyond traditional postal activities, the PPOD operates as an agency on behalf of the Federal and Provincial Governments, undertaking essential tasks such as the collection of utility bills, payment of military pensions, tax collection, and managing Western Union transactions. The department is also entrusted with the secure delivery of crucial identification documents, including NADRA ID cards and passports. In addition to these functions, National Security Printing Corporation (NSPC), Karachi prints all types of postal stamps and revenue documents and Chief Controller of Stamps (CCS), Karachi supplies these documents/stamps to all postal formations. This multifaceted approach underscores the PPOD's commitment to providing comprehensive services that address the varied requirements of its extensive clientele.

B. Comments on Budget and Accounts

- i) PPOD incurred an expenditure of Rs 11,989.066 million under the heads of account A011- 2: Pay of other Staff and A012-1: Regular Allowances, against authorized amount of Rs 9,723.037 million under Grant No. 26 (PPOD) which resulted in excess expenditure of Rs 2,266.028 million during FY 2022-23.
- ii) An amount of Rs 6,592.562 million was reflected as cash with postmasters on the asset side of the balance sheet of PPOD. After discontinuation of LoC and introduction of Treasury Single Account (TSA) System, retention of cash by the post offices was unjustified; thereby overstating the PPOD's accounts.
- iii) An amount of Rs 111,592.420 million was disbursed on account of military pension through budget head - F01126 against released budget of Rs 154,480.094 million which resulted in unauthorized retention of Rs 42,887.673 million.
- iv) An expenditure of Rs 12,634.249 million incurred under the head - A01: Employee Related Expenses in Grant No.26 was not reconciled with Director Accounts, PPO, Lahore on monthly basis.
- v) PPOD is performing various agency functions on behalf of different government departments and other organizations but the accounting procedures of these agency functions were not approved from the Auditor-General of Pakistan. Therefore, the completeness and reliability of the receipts and payments could not be authenticated.
- vi) PPOD did not timely surrender savings of Rs 34.331 million under heads of account - A03: Operating Expenses, A04: Employees Retirement Benefits, A05: Grants, Subsidies, Write Off Loans & Advances and A13: Repair & Maintenance under Grant No.26 to the Finance Division due to which the funds got lapsed.

Table-1 Audit Profile of Pakistan Post Office Department**(Rs in Million)**

Sl. No.	Description	Total	Audited	Expenditure audited FY 2022-23	Revenue / Receipts audited FY 2022-23
1	Formations	127	52	1,846.036	5,193.487

1.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 222,066.888 million were raised in this report during the current audit of the Pakistan Post Office Department. This amount also includes recoveries of Rs 2,822.614 million as pointed out by audit. Summary of the audit observations classified by nature is as under:

Table-II Overview of Audit Observations**(Rs in Million)**

Sl. No.	Classification	Amount
1.	Reported cases of fraud, embezzlement and misappropriation	48.882
2.	Irregularities (A+B+C)	25,882.150
A	HR/Employees related irregularities	1,764.800
B	Procurement related irregularities	3,261.633
C	Management of Accounts with Commercial Banks	20,855.721
3.	Value for money and service delivery issues	492.526
4.	Receivables	2,822.614
5.	Other Irregularities	192,820.712
	Total	222,066.888

1.3 Status of Compliance with PAC Directives

Following table shows the compliance status of PAC directives.

Sl. No.	Audit Report Year	Total Paras	Total No. of directives	Compliance			% of Compliance
				Received	Partial	Not Received	
1	1989-90	34	34	27	3	4	79
2	1991-92	31	31	15	5	11	48
3	1992-93	40	40	32	3	5	80
4	1993-94	20	20	9	5	6	45
5	1994-95	42	42	20	8	14	48
6	1996-97	89	89	46	7	36	52
7	1997-98	72	72	23	9	40	32
8	1998-99	74	74	35	7	32	47
9	1999-2000	56	56	4	11	41	7
10	2000-01	66	66	53	5	8	80
11	2001-02	23	23	10	9	4	43
12	2002-03	26	26	2	6	18	8
13	2003-04	17	17	8	4	5	47
14	2004-05	27	27	2	5	20	7
15	2005-06	30	30	17	2	11	57
16	2006-07	20	20	9	10	1	45
17	2007-08	30	30	17	2	11	57
18	2008-09	36	36	6	11	19	17
19	2009-10	70	70	34	23	13	49
20	2010-11	69	69	8	8	53	12
21	2011-12	76	76	4	2	70	5
22	2012-13	82	82	3	7	72	4
23	2013-14	84	84	16	10	58	19
24	2014-15	41	41	5	13	23	12
25	2015-16	58	13	1	12	45	8
26	2016-17	62	44	11	26	25	25
27	2017-18	62	49	5	34	23	10
28	2018-19	57	57	5	26	26	8
29	2019-20	76	14	7	23	46	50
30	2016-17 (SAR MPP)*	14	14	0	2	12	0
31	1994-95 (SAR)*	13	13	9	4	0	69
32	1996-97 (SSR)**	13	13	2	11	0	15
33	1999-2000 (SAR-114)	14	14	3	11	0	21
34	1999-2000 (SAR-120)	10	10	0	10	0	0
35	1999-2000 (SAR-123)	7	7	3	4	0	43
36	2000-01	52	52	37	15	0	71

	(SAR- 170)						
--	------------	--	--	--	--	--	--

* Special Audit Report
**Special Study Report

The above table shows that PPOD is not complying fully with the PAC directives. The PAO needs to look into the large number of pending PAC directives and take steps for their early compliance.

AUDIT PARAS

AUDIT PARAS

1.4 Cases of fraud, embezzlement and misappropriation

1.4.1 Loss due to theft & misappropriation - Rs 48.882 million

According to Para 238 of Post Office Manual Vol-VIII, the Superintendent must inspect twice every year, each head office and second-class head office within the limits of his division. The inspecting officer will not be relieved of his responsibility for contributing to the commission of any fraud or defalcation of government money, which has remained undetected during the inspection by him. Further, Rule 23 of Serial No.7, Appendix-2 of GFR Vol-I describes that in all such cases, departmental proceedings should be initiated at the earliest against all delinquents even against a government servant being prosecuted in a Criminal Court.

In twelve (12) formations of PPOD under the Ministry of Communications, Islamabad the management detected 24 cases of fraud, misappropriation and embezzlement of government money in utility bills collection, value payable articles, pension payments and cash etc. and 16 cases of dacoity involving total amount of Rs 51,282,475 during FY 2022-23 as detailed in Annexure-III.

Audit observed that the PPOD management failed to recover the objected amount from the culprits. Further, disciplinary proceedings against the culprits as well as the negligent officers/officials were also not finalized despite lapse of considerable period.

Audit contends that non-recovery of the embezzled/ misappropriated amount and non-conclusion of disciplinary proceedings against the culprits and negligent officers/officials raised serious concerns about across the board accountability and adherence to procedures, which reflected weakness of the internal controls and indifferent attitude of the management in finalizing the fraud cases.

The matter was reported to the management and PAO during August to December, 2023. It was replied that an amount of Rs 2,405,403 had been recovered and efforts were underway to recover the remaining amount. During verification, the said amount was verified, leaving an outstanding balance of Rs 48,882,072. The amount of the para was accordingly reduced to the extent of verified amount.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to finalize the inquiry at the earliest, take disciplinary action, pursue the cases with Police/FIA, fix responsibility, effect recovery and record in terms of the recovered amount be provided for verification. No further progress was intimated till finalization of this report.

Audit recommends implementation of DAC directives.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year(s) 2018-19 to 2022-23 vide para(s) number 3.1.1, 1.4.1 to 1.5.7, 1.4.1 to 1.4.3, 1.4.1 to 1.4.3 & 1.4.1 to 1.4.5 respectively having financial impact of Rs 2,990.67 million. Recurrence of same irregularity is a matter of serious concern.

(DP No. 152)

1.5 Irregularities

A. HR/Employees related irregularities

1.5.1 Unjustified payments against illegal recruitments - Rs 1,764.80 million

According to Establishment Division's letter dated 26th July, 2022, the appointing authority of the concerned Ministry/ Division/Department/Organizations shall ensure completion of all procedures and codal requirements in letter & spirit in line with the recruitment policy while making recruitment and will be held responsible for illegality, if any. Moreover, according to Cabinet Committee instructions circulated vide case No. CCIR-17/7/21 dated 18th March, 2021 regarding re-organizing the Federal Government proposal and abolition of posts, all Ministry/Division shall abolish posts in BPS-1 to BPS-15 that have remained vacant for more than one year. However, the posts to be abolished will not include posts that are vacant due to transfer/posting and positions meant for promotion. Moreover, the posts where recruitment process is already under process shall also be exempted till finalization of the process.

DG PPOD under the Ministry of Communications, Islamabad forwarded two summaries to Establishment Division for grant of No Objection Certificate for recruitment in PPOD through Ministry of Communication on 7th and 22nd July, 2022 on the ground that 3938 posts (BPS-01 to 15) out of 28995 total sanctioned posts were lying vacant and the Department was facing problems to handle its operations. Resultantly, Establishment Division allowed PPOD to make recruitments against the vacant posts.

Audit examined the relevant record and observed that:

- i) After transfer of saving bank accounts and certificates to CDNS and military pension on Direct Credit System, PPOD was required to rationalize the working strength keeping in view the volume of work to minimize the ERE. Instead, PPOD made new appointments and would incur an operational cost of Rs 19,436.56 million during FY 2023-24 as compared to the operational cost of Rs 17,671.760 million incurred during FY 2022-23.
- ii) Finance Division vide its letter dated 30th September, 2022 directed PPOD to submit the funds availability status so as to ensure provision of employees related expenditure for the new appointments, as Finance Division was not in a position to allocate additional funds due to prevailing financial crunch but no such detail was shared with Finance Division and the recruitments were made.

- iii) Establishment Division allowed PPOD to fill in 3938 posts of BPS-1 to 15, whereas recruitment was made against 4252 posts; thereby causing excess recruitment of 314 posts.
- iv) The Establishment Division issued NOC on 22nd July, 2022 with validity period of six months which was extended twice for two months each on 16th November, 2022 and 14th February, 2023. The validity period of NOC expired in May, 2023, whereas the process of recruitment was completed in July, 2023.
- v) In addition, the Secretary, Ministry of Communications abolished 2646 posts lying vacant in PPOD vide letter dated 16th June, 2021 in compliance to Cabinet Committee's above stated instructions. PPOD also filled in the positions against the abolished posts in blatant violation of the Cabinet Committee's instructions and abolition orders of Secretary, MoC.

Audit contends that, as a consequence of non-adherence to recruitment rules, No Objection Certificate of Establishment Division and instructions of Finance Division and Cabinet Committee, PPOD made irregular excess appointments of 314 employees, besides appointments against the abolished posts; thereby affecting the fiscal position of the PPOD.

The matter was reported to the management and PAO during October to November, 2023. It was replied that (i) staff was engaged to complete the process of transferring of accounts to CDNS whereas PPOD is still disbursing pension in 56 GPOs. (ii) the case for grant of funds on new recruitments was taken up with the Finance Division through MoC. (iii) the Establishment Division issued two NOCs for recruitment in different cadres against 3937 posts plus remaining vacant posts. In the light of provision contained in the NOC, some new posts reported by the Circle offices were included in the advertisement (iv) the maximum time of NOC and extensions was consumed by the stay order of Peshawar High Court, therefore, the process was not completed within stipulated time (v) PPOD had sanctioned strength of 31635 as per annual report of 2019-20 and 2646 posts were abolished leaving the sanctioned strength to 28081 as mentioned in PPOD annual report 2021-22.

The reply is not tenable as transfer of saving bank accounts to CDNS and conversion of pension to DCS in 29 GPOs had been completed. The query of Finance Division regarding expenditure on pay and allowances was not addressed. The word "plus" was not included in both NOCs granted by the Establishment Division. Audit contention regarding delay in recruitment process was accepted by the management. No record regarding abolished posts was provided during verification.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to conduct inquiry and fix responsibility on those held responsible. Appointments made in excess of NOC issued by the Establishment Division as well as expenditure on account of pay & allowances be got regularized from competent forums under intimation to Audit. No further progress was intimated till finalization of this report.

Audit recommends implementation of DAC directives.

(DP No. 04)

1.5.2 Irregular appointments of staff

According to the instructions contained in Para 1.1 (xvii) of Chapter 3 of Esta Code, the appointing authority of the concerned Ministry/ Division / Department/ Organization shall ensure completion of all the procedural & codal requirements in letter & spirit in line with the Recruitment Policy while making recruitments and will be held responsible for illegality, if any. Moreover, Para 236 (1) & (2) of Post Office Manual Vol. IV stipulates that no vacancy will be offered to any candidate on the waiting list after all the vacancies advertised in the press have been filled in fully.

PPOD under the Ministry of Communications, Islamabad made fresh appointments in BPS 1 to 15 under different cadres during FY 2022-23 as detailed in Annexure-IV.

Audit examined the relevant record in twenty-four (24) formations of PPOD and observed that:

- i) All the appointments were made without hiring the services of testing agency and conducting of centralized screening test.
- ii) 255 officials were recruited in excess of the posts advertised in the press and without NOC from the Establishment Division. These posts were got vacated through temporary transfer of employees to other units and the fresh appointees were adjusted against the promotion quota. The transferred employees held liens in their parent offices but fresh recruitments from waiting list were made against these posts. Thus, two persons were appointed against the same post.
- iii) The prescribed quota of women, ex-service men, disability and minorities etc. was also not observed during recruitment process.
- iv) Appointments of drivers in excess of prescribed age limit and without availability of valid driving licenses were made. Similarly, typing speed of LDCs was less than the prescribed limit of 30 words per minute. In some cases, typing test record was not provided.

Audit contends that appointments of employees over & above the sanctioned posts, without obtaining the required NOC from the Establishment Division and non-observance of prescribed quota represents of violation of recruitment rules & procedures.

The matter was reported to the management and PAO during September to December, 2023. It was replied that the process of short listing through testing agencies

was discontinued after Islamabad High Court Judgement. Further, as per clause 13 of the advertisement, the competent authority reserves the right to cancel recruitment process, increase/ decrease the number of posts as per recruitment against any post at any stage without assigning any reason. Furthermore, all the quota were fully observed like ladies, ex-servicemen, disable and minorities etc.

The reply is not tenable as (i) decision of Islamabad High Court was not provided (ii) the recruitment of excess posts was made without NOC from the Establishment Division (iii) audit possesses sufficient evidences for non-observance of prescribed quota.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. DAC directed the management to conduct inquiry, fix responsibility on those held responsible. Appointments made in excess of NOC issued by the Establishment Division as well as expenditure on account of pay & allowances be got regularized from competent forums under intimation Audit. No further progress was intimated till finalization of this report.

Audit recommends implementation of DAC directives.

(DP No. 157)

B. Procurement related irregularities

1.5.3 Irregular award of contracts to courier companies – Rs 2,868.390 million

According to Rule 18 of the Financial Management and Powers of Principal Accounting Officers Regulations, 2021, “prior consultation with Finance Division shall be made while initiating legislative proposals having financial implications, relating to establishment of funds, revenue, cess, levy, fee, deductions, remissions and agreements”. Further, PPSMB in its 44th meeting held on 7th August, 2019, had approved the EMS Plus and foreign Parcel’s Tariff by adding profit @ 20% of total cost (instead of 10% as proposed) applicable from 1st January, 2019.

The Prime Minister of Pakistan directed all the government departments, as conveyed by Cabinet Division vide its letters dated 20th March, 2018 and 10th April, 2019, to avail the services of Pakistan Post for mailing their domestic and international correspondence to boost up its revenue. Instead of leveraging its substantial workforce, healthy infrastructure and expertise to render these services internally, PPOD outsourced the mailing services to four private companies, namely, M/s. Focus Technology, DHL, Universal Logistics Services, and FedEx Express on 1st April, 2022. Each company offered its rate in dollars for booking of EMS plus articles at postal counters. A payment of Rs. 2,868,389,781 was made to these companies during FY 2022-23.

Audit examined the procurement record and observed that:

- i) Agreements with private companies were executed without prior consultation with the Finance Division, as it had financial implications.
- ii) Payments to courier companies were made from the postal receipts instead of the regular budget head - A03919-4: Payment to Others for Services Rendered. It is pertinent to mention that prior to FY 2019-20, payments to courier companies would be made from the aforementioned regular budget head.
- iii) PPOD’s share was calculated Rs 186,982,673 instead of due share of Rs 228,85,883 @ 20%. Thus, an amount of Rs 41,103,210 was less calculated and realized during FY 2022-23 in violation of the decision of the PPSMB.
- iv) The amount of service charges was deposited into postal accounts instead of crediting to the Federal Consolidated Fund.

Audit contends that outsourcing the core postal services to private companies by PPOD, despite having substantial infrastructure, workforce and heavy investments of Rs 346.864 million during the last five years in Express Mail Track and Trace System (EMTTS) being requirement of Universal Postal Union, reflects the failure of the

management to deliver and accomplish the objectives envisioned by the Prime Minister of Pakistan.

The matter was reported to the management and PAO during October to November, 2023. It was replied that PPOD did not outsource its core function and EMS Plus service was launched with the approval of the executive committee of the Board. As no budget was involved in EMS Plus service, therefore, approval of Finance Division was not obtained. Further, the service charges of PPOD on EMS Plus were required to be calculated on balance amount after deduction of GST @ 15% whereas Audit has calculated the share of PPOD on total collection (including GST).

The reply is not tenable as (i) EMS Plus service was launched without the concurrence of Finance Division (ii) Payment to courier companies was made from revenue of the department instead of regular budget (iii) Service charges of PPOD were not realized according to prescribed formula.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to refer the case to Finance Division keeping in view the audit observations. It further directed to provide record regarding realization of service charges at prescribed rates to audit for verification. No further progress was intimated till finalization of this report.

Audit recommends implementation of DAC directives.

(DP No. 02 & 21)

1.5.4 Irregular procurement of printing from Pakistan Post Foundation - Rs 155.252 million

According to ECC's decision conveyed by Ministry of Communications vide its letter No. 1(8)/98-P. O, dated 2nd July, 1998, the rates of Printing Corporation of Pakistan (PCP) should be obtained along with rates of Pakistan Post Foundation (PPF) for healthy competition. Further, ECC in its meeting held on 23rd August, 2011 endorsed its earlier decision dated 2nd July, 1998 subject to the condition that a summary examining the whole issue holistically should be brought before the ECC in a subsequent meeting by the Cabinet Division.

Eight (08) formations of PPOD under the Ministry of Communications, Islamabad got incurred an expenditure of Rs 155,251,711 on account of printing of stationery and forms from M/s Pakistan Post Foundation (PPF) during FY 2022-23. Detail is as under:

Sl. No.	Item No	Formations	Amount (Rs)
01	03	PMG Islamabad	7,249,598
02	10	PMG Lahore	58,688,789
03	11	PMG Rawalpindi	29,475,000
04	04	PMG Peshawar	14,728,058
05	05	PMG Quetta	763,800
06	01	PMG Hyderabad	7,270,826
07	04	CCS Karachi	25,934,600
08	05	PMG Karachi	11,141,040
Total			155,251,711

Audit observed that printing of stationery and forms was carried out through M/s PPF without obtaining rates from M/s PCP in violation of ECC's instructions. Further, PPOD also failed to place the issue of printing from PPF before ECC in its next meeting as required under the ECC's instructions.

Audit contends that non-compliance with ECC's decisions and non-adherence to procurement rules deprived PPOD of competitive rates. In fact, PPOD entered into direct contracting with M/s PPF in violation of PPRA rules.

The matter was reported to the management and PAO during September to December, 2023. It was replied that the case was taken up with ECC through Ministry of Communication on 25th October, 2023.

The management accepted the audit contention; however, PPOD did not place the issue before ECC despite lapse of twelve years.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to pursue the case with ECC for re-consideration in the light of PPRA rules, 2004. No further progress was intimated till finalization of this report.

Audit recommends implementation of DAC directives.

Note: The issue was also reported earlier in the Audit Report(s) and MFDAC Report for Audit Year(s) 2020-21, 2021-22 & 2022-23 vide para(s) number 1.5.1, 1.5.2 & 44 respectively having financial impact of Rs 299.148 million. Recurrence of same irregularity is a matter of serious concern.

1.5.5 Irregular award of procurement contract to M/s. KPMG – Rs 89.100 million

According to Rule 28 of Public Procurement Rules, 2004, “the date of opening of bids and the last date for the submission of bids shall be the same. Bids shall be opened at the time specified in the bidding documents. The bids shall be opened at least thirty minutes after the deadline for submission of bids”.

DG PPOD under the Ministry of Communications, Islamabad hired the services of M/s. KPMG Taseer Hadi & Company as transaction advisor for conducting feasibility study for up-gradation/revamping/re-engineering of Pakistan Postal Logistics express and mail business on Public Private Partnership (P3) basis. The agreement was signed on 1st January, 2022 at a cost of Rs 89,100,000 with completion period of 40 weeks in four phases.

Audit examined the relevant record and observed that:

- i) As per advertisement, the last date for submission and opening of bids was 6th May, 2021, whereas technical proposals of the bidders were opened on 26th May, 2021.
- ii) As per vetted agreement by Law Division, 35% payment of the total contractual amount was to be paid to Transaction Advisor in phase-I, whereas in signed agreement this amount was enhanced to 45% by altering the vetted agreement.
- iii) The timeframe given to the Transaction Advisor for completion of the job was also altered from 12 weeks to 16 weeks.
- iv) The Transaction Advisor did not complete the feasibility study within 40 weeks and applied for 9-months extension in contract. No penalty clause was included in the agreement to safeguard the public interest as the Transactional Advisor failed to accomplish deliverables within the given timelines.

Audit contends that deviation from the PPRA rules undermined the principle of transparency and fairness. The alteration in the contract clauses damaged the trust and credibility of the department. Audit further maintains that non-completion of feasibility study within stipulated time would result in time and cost overruns of the project.

The matter was reported to the management and PAO during October to November, 2023. It was replied that (i) the bids were opened on 6th May, 2021 and signature of tender committee were available on each envelope (ii) KPMG did not agree on 35% payment in first phase, therefore, draft agreement with 45% payment in first phase was again sent to Law Division which was vetted (iii) as regard enhancement of overall completion period, 40 weeks time was not changed (iv) in order to complete the pending deliverables by the KPMG, 31 weeks extension was given.

The reply is not satisfactory and hence not acceptable as the technical evaluation committee was constituted on 18th May, 2021, therefore, question of signature of tender committee on bid envelopes on 6th May, 2021 did not arise. Further, documentary evidence in support of alteration in terms and conditions of payment as well as completion period within 40 weeks duly vetted by the Law Division were not provided. Moreover, no penalty clause was included in the agreement for delay completion of work.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed to conduct a fact-finding inquiry by CF&AO of Ministry of Communications within 15 days and submit its report to PAO and Audit. No further progress was intimated till finalization of this report.

Audit recommends implementation of DAC directives.

(DP No. 27)

1.5.6 Irregular procurement of goods and services-Rs 56.314 million

According to Rule 12(2) of Public Procurement Rules, 2004, “all procurement opportunities over three million Pakistani rupees should be advertised on the Authority’s website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and the other in Urdu”. Rules 9 ibid further stipulates that a procuring agency shall announce in an appropriate manner all proposed procurements for each financial year and shall proceed accordingly without any splitting or regrouping of the procurements so planned. Further, according to Para 441 of Post Office Manual Vol-II, PMG was competent to make temporary arrangement for conveyance of mail for three months provided that the amount of subsidy is not more than that paid to the previous contractor.

Seven (07) formations of PPOD under the Ministry of Communications, Islamabad made different procurements/agreements for printing work, conveyance of mail, hiring of security companies and made payments to the vendors worth Rs 56,313,662 during the FY 2022-23 as detailed in Annexure-V.

Audit examined the relevant record and observed that:

- i) Three (03) formations made procurements without calling open tenders and in splitting manners to avoid the tendering process and sanction of the next higher authority.
- ii) PMG Multan awarded the contracts for conveyance of mail on five mail lines to M/s PPF @ Rs 31.35, Rs 32.79, Rs 27.13, Rs 26.45 and Rs 28.67. PPF discontinued the services for SME w.e.f 11th December, 2022 and temporarily the contracts on

these mail lines were awarded to M/s Al-Rehman Transport, Lahore @ Rs 95 per KM in violation of the above codal provisions.

- iii) PMG Karachi awarded the procurement contract to the 3rd lowest bidder M/s Shaheen Janitorial Services, Karachi.
- iv) PMG Muzaffarabad floated tenders for hiring security services for one year but the contract was signed for three years in violation of tender documents.
- v) CCS Karachi awarded the procurement contract without advertisement in two national dailies.

Audit contends that bypassing open tendering processes, splitting of procurements, and awarding of contracts to the highest bidders indicate a risk of favoritism, reduced competition and potential financial inefficiencies. Besides, violations in advertising tender notices in national dailies compromise transparency and impact the effective and efficient use of public funds.

The matter was reported to the management and PAO during September to December, 2023. PMG Lahore replied that tender for conveyance of mail could not be made due to non-availability of mail. PMG Multan replied that due to shortage of time and non-receipt of funds under relevant head, emergent arrangements were made without calling tenders. Besides, PPF discontinued the service due to non-payment, therefore, temporary arrangements were made for conveyance of mail. PMG Karachi replied that initial tender was awarded to lowest bidder but due to un-satisfactory performance of vendor, contract was terminated and was awarded to 3rd lowest bidder as the 2nd lowest bidder was disqualified. CCS Karachi replied that tenders for transportation of parcels and stamp boxes were advertised in the print media, whereas in another case the procurement was made on need basis. PMG Muzaffarabad replied that at the time of advertisement, period of contract was correctly mentioned as one year but erroneously written in contract as three years.

The reply is not tenable as the procurements were made in violation of PPRA rules.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to inquire the matter, fix responsibility on those found responsible(s) under intimation to audit. No further progress was intimated till finalization of this report.

Audit recommends implementation of DAC directives.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year(s) 2018-19, 2019-20, 2021-22 & 2022-23 vide para(s) number 3.2.9, 1.6.7, 1.5.2 & 1.5.3 respectively having financial impact of Rs 225.427 million. Recurrence of same irregularity is a matter of serious concern.

(DPs No. 156, 175)

1.5.7 Illegal award of service contract to M/s. PPF-Rs 51.474 million

According to Rule 12 of Public Procurement Rules, 2004, “all procurement opportunities over three million rupees should be advertised on the Authority’s website as well as in other print media or newspapers having wide circulation. The advertisement in the newspapers shall principally appear in at least two national dailies, one in English and other in Urdu”. Further, Article 21 & 40(C)(2) of PFM Act, 2019 require that all Ministries and Divisions, their attached departments and subordinate offices and all public entities if so, required by their statutes, shall arrange remittances in the FCF without delay. Moreover, according to Clause 7 of the agreement between PPOD and M/s PPF, the Institutional Franchised Postmaster shall maintain out of his own capital and initially credit an amount of rupees twenty-five thousand (Rs 25,000) as prepaid advance at 16 designated GPOs of the Circles/Regions.

M/s PPF was enlisted as Institutional Franchised Postmaster vide agency No IFPO-1-001 for booking of national and international mails. An agreement between PPOD and M/s. PPF was executed for establishment of 1000 Institutional Franchised Post Offices (IFPO) throughout the country on 7th February, 2020.

Audit examined the relevant record and observed that:

- i) M/s. PPF was enlisted with PPOD as Institutional Franchised Postmaster without inviting open tenders.
- ii) DG PPOD executed illegal contract and allowed M/s PPF to deduct an amount of Rs 30,699,358 as commission and Rs 222,102 as incentive from the revenue of the PPOD in violation of PFM Act.
- iii) 831 x Institutional Franchise Postmasters deposited Rs 25,000 each with M/s. PPF instead of 16 designated GPOs under the control of PPOD. It is worthy to mention that M/s PPF did not deposit the collected amount of pre-paid advance amounting to Rs 20,775,000 to PPOD.
- iv) The agreement made with M/s. PPF was not vetted by the Law & Justice Division and was returned to MoC with the request to confirm that requirements of PPRA rules or Public Private Partnership Authority Act were not applicable to the contract or otherwise. The query was not addressed by the PPOD.

Audit maintains that the situation highlights a significant lapse in compliance with public procurement rules and contract management which leads legal consequences for those responsible for the agreement.

The matter was reported to the management and PAO during September to December, 2023. It was replied that (i) the accounting procedures have been revised in line with the postpaid pattern instead of deducting commission at source and would be implemented after signing of the addendum agreement with M/s PPF. (ii) the maintenance of prepaid account at GPO for collection of prepaid advance was not possible due to non-digitalization of postal and account services at GPO, therefore, this account was now maintained at PPF Headquarters. (iii) the current agreement was revised and furnished to Law & Justice Division for vetting which pointed out some observations therein. In compliance of these observations, addendum agreement was drafted and being executed. (iv) M/s PPF was registered as IFPO in accordance with existing scheme duly approved by PPSMB.

The reply is not tenable as PPOD made agreement with PPF without considering the advice of committee who suggested that there was no provision in rules to deduct commission from revenue and advised to seek approval of the competent authority before launching of scheme. PPOD did not realize prepaid advance in contravention of the contract clause. The revised agreement was not vetted by Law & Justice Division, rather, it raised queries regarding execution of contract without observance of PPRA rules & Public Private Partnership Act which was not addressed by PPOD as yet. Further, the existing franchise scheme was introduced for individuals, whereas PPF being an organization did not fall under this scheme.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to submit revised reply in the light of audit observation up to 28th January, 2024. No further progress was intimated till finalization of this report.

Audit recommends that the matter be inquired to fix responsibility against those at fault(s). Audit further recommends that the agreement made with M/s. PPF be reviewed and vetted from the Law & Justice Division under intimation to audit.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year(s) 2021-22 & 2022-23 vide para numbers 1.6.2 & 1.8.13 respectively having financial impact of Rs 93.639 million. Recurrence of same irregularity is a matter of serious concern.

(DPs No. 11, 26, 38)

C Management of Accounts with Commercial Banks

1.5.8 Unauthorized opening of accounts in National Bank of Pakistan-Rs 20,855.721 million

According to Rule 30 of the Public Financial Management Act, 2019, “the Finance Division, with the approval of the Federal Government, shall notify policy and rules under this Act to prescribe an effective cash management system for all public entities and special purpose funds leading to treasury single account”.

Finance Division allowed PPOD to open three accounts in NBP for PPOD’s agency/commercial functions (PPOD-I), Zero balance account for disbursement of military pension (PPOD-II) and Zero balance account for drawl of budget payments (POD-III) vide its letter dated 25th June, 2021.

Audit examined the record of banking matters and revealed that DG PPOD under the Ministry of Communications opened two more accounts in National Bank of Pakistan without the authorization of Finance Division wherein debit and credit entries of Rs 20,855.721 million were made, details of which are as under:

(Rs in Million)

Description	Title of Accounts	Debit	Credit	Total
Western Union Account	3181169352-National Income Daily Account (profitable)	5978.430	6136.777	12,115.207
Money Order Account	417937-2126-Current Account	4,252.896	4,487.618	8,740.514
Total		10,231.326	10,624.395	20,855.721

Source: Bank Statements

Audit contends that PPOD did not comply with the provision of PFM Act, 2019 and violated the instructions of Finance Division for keeping the public money in the single treasury account.

The matter was reported to the management and PAO during October to November, 2023. It was replied that PPOD performed more than one agency functions and had several agency partners. The funds were provided by Western Union rather than the Government of Pakistan as per Section 4(4) of Treasury Single Account Rules, 2020. The opening of WU account in NBP did not violate the rules of GoP as the PFM Act was applicable to public money only; therefore, there was no legal binding to obtain ex-post facto approval of Finance Division.

The reply is not tenable as the Western Union is one of the agency functions performed by PPOD on commission basis for which Finance Division had already allowed

opening of commercial bank account (PPOD-I). Moreover, stance of PPOD regarding opening of separate money order account was not provided.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management that case regarding opening of accounts for Western Union & Money Orders be referred to the Finance Division for getting approval under intimation to audit. No further progress was intimated till finalization of this report.

Audit recommends implementation of DAC directives.

(DP No. 01)

1.6 Value for Money and Service Delivery Issues

1.6.1 Recurring loss due to retention of un-remunerative post offices – Rs 492.526 million

According to Para 891(1) of Post Office Manual Vol-IV, no experimental Post Office may be sanctioned for a period longer than six months at a time and no extension of experimental period may be sanctioned unless there is a reasonable hope that the office will prove self-supporting at the end of two years.

PPOD under the Ministry of Communications, Islamabad opened 8,989 sub-offices and EDBOs throughout the country for provision of postal services to the general public, out of which some post offices were opened on the guarantee of the district government and general public.

Audit examined the record of thirty-nine (39) formations of PPOD on test check basis and observed that the department sustained a loss of Rs 492,583,476 during FY 2022-23 due to retention of 1,160 un-remunerative post offices under the administrative jurisdiction of respective Divisional Superintendents. Further, 51 guaranteed post offices were running in losses against which an amount of Rs 24,858,359 was not recovered from the guarantors.

Audit contends that due to imprudent and unjustified opening of post offices, the government incurred a huge loss instead of adding value for money and improving the service delivery.

The matter was pointed out to the management during August to December 2023. It was replied that an amount of Rs 57,000 had been recovered from guarantors and efforts were underway to recover the remaining amount. During verification, the said amount was verified leaving, an outstanding balance of Rs 492,526,476. The amount of the para was accordingly reduced to the extent of verified amount.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024.

The DAC directed the management to devise a strategy for making the un-remunerative post offices as profitable, besides recovery of loss from the guarantors of post offices under intimation to audit. No further progress was intimated till finalization of this report.

Audit recommends implementation of DAC directives.

Note: The issue was also reported earlier in the Audit Report for Audit Year 2020-21 and 2022-23 vide para number 1.8.4 and 1.8.6 having financial impact of Rs 626.700 million. Recurrence of same irregularity is a matter of serious concern.

(DP No. 121)

1.7 Receivables

1.7.1 Non-recovery of penalties – Rs 661.788 million

According to Para 8 of agreement executed between PPOD and PPF on 07.02.2020, the institutional Franchise Postmaster shall keep full and proper books of accounts electronically or manually showing neatly and clearly all transactions, following the prescribed procedure relating to maintenance of accounts correctly and shall remit regularly at its own expenses all money, due to Pakistan Post on very next working day from the transaction at the prescribed hours. In case failure/delay to deposit on the next day all moneys and cash received on account of booking of articles, a penalty equal to the amount due shall be levied per day of default and recovered from the Institutional Franchise postmaster.

PPOD under the Ministry of Communications, Islamabad made agreements with M/s PPF for opening of 1000 Institutional Franchise Post Offices (IFPOs) and different service providers for supplies, printing, transportation of mail and hiring of services of security guards as detailed in Annexure- VI. Accordingly, penalty clauses were incorporated in the agreements for non-completion of tasks within given timeframe.

Audit examined the relevant record and observed that:

- i) M/s PPF did not deposit the cash receipt with PPOD on next day of collection as per terms & conditions of agreement. The said cash was deposited with a delay of 1 to 36 days but penalty amounting to Rs. 655,465,875 (sale amount Rs 32,868,932) was neither imposed nor recovered by the PMG Lahore.
- ii) In five (05) formations of PPOD, the service providers failed to complete the given tasks within stipulated period but penalty amounting to Rs 6,343,810 was neither imposed nor recovered.

Audit is of the view that failure to impose and recover the penalty for the delayed deposit of cash, non-completion of tasks within stipulated timeframe indicates financial indiscipline and weak contract management within the PPOD.

The matter was reported to the management and PAO during September to December, 2023. It was replied that (i) revised agreement, accounting procedure and division of payment mechanism was underway with M/s PPF (ii) an amount of Rs 21,194 had been recovered and efforts were underway to recover the remaining amount. During verification, the recovered amount was verified, leaving an outstanding balance of Rs 661,788,491. The amount of the para was accordingly reduced to the extent of verified amount.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to finalize the revised agreement within one month and get it vetted from Law & Justice Division. It further directed to recover the due amount of penalty up to 15th February, 2024 and get it verified from Audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(DPs No. 41 & 150)

1.7.2 Non-recovery of printing and establishment charges – Rs 467.679 million

According to Article 5 of PT&T, IAC Volume-I and Para 8 of GFR Volume-I, it is the duty of the administrative department concerned to see that the dues of Govt. are correctly and promptly assessed, collected and paid into the treasury.

Chief Controller of Stamps Karachi got printing of all types of non-postal stamps from National Security Printing Corporation (NSPC) on behalf of various departments of Federal & Provincial Governments and raised the debit bills of printing and establishment cost for recovery from concerned organizations.

Audit observed that Chief Controller of Stamps, Karachi did not recover printing and establishment charges of Rs 531,072,125 from various departments of Federal and Provincial Governments during FY 2022-23.

Audit contends that failure to recover printing and establishment charges raises serious concerns regarding financial oversight and adherence to rules. This lapse not only compromises the timely collection of government dues but also poses a risk to financial discipline and accountability.

The matter was reported to the management and PAO from September to December, 2023. It was replied that an amount of Rs 63,393,334 had been recovered and efforts were underway to recover the remaining amount. During verification, the recovered amount was verified, leaving an outstanding balance of Rs 467,678,791. The amount of the para was accordingly reduced to the extent of verified amount.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to recover the remaining amount and get it verified from Audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(DPs Nos.178 & 180)

1.7.3 Non-recovery of rent, pension contribution and postage charges from M/s PLICL – Rs 455.699 million

According to Article 5 of PT&T, IAC Volume-I and Para 8 of GFR Volume-I, it is the duty of the administrative department concerned to see that the dues of Govt. are correctly and promptly assessed, collected and paid into the treasury

A Strategic Alliance Agreement was signed between Pakistan Post Office Department and Postal Life Insurance Company Limited on 1st July, 2021. As per agreement, PPOD will provide support to PLICL for the use of physical assets, manpower resources and any other facilities as may be necessary during transition phase.

Audit examined the relevant record for the FY 2022-23 and observed that:

- i) 120 official and residential accommodations of PPOD were being utilized by the PLICL under different Circles of PPOD without executing lease agreements due to which rent amounting to Rs 148,584,096 could not be realized from PLICL.
- ii) 512 employees of PPOD were on deputation to PLICL but their pension contributions amounting to Rs 88,865,760 was not received from PLICL.
- iii) PPOD did not recover postage charges of Rs 218,249,999 from PLICL for transmission of mail after the portfolio transfer. The postage charges were worked out on the basis of management cost of PLI for the FY 2020-21.

The matter was reported to the management and PAO from October, to November, 2023. It was replied that a draft agreement was sent to PLICL for signature and recovery of rent. Further, all PMGs had been directed to recover the outstanding postage charges.

The management partially accepted the audit contention; however, the lease agreement was not finalized despite lapse of three years due to which the rent could not be realized. Further, no reply could be furnished for recovery of pension contribution.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to finalize the lease agreement with PLICL within 15 days. It further directed to recover the amount of postage charges and pension contributions from PLICL and get it verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year(s) 2021-22 & 2022-23 vide para(s) number 1.7.2 & 1.7.3 respectively having financial impact of Rs 442.129 million. Recurrence of same irregularity is a matter of serious concern.

(DP No. 20)

1.7.4 Non-deduction of taxes at source – Rs 465.424 million

According to Section 153(1)(b) of Income Tax Ordinance 2001, income tax @ 3% of the gross amount payable was required to be deducted from vendors in the case of transport services, freight forwarding services, air cargo services and courier services etc. Further, according to Serial No. 32 of second schedule of the Sales Tax on Services Ordinance relating to Islamabad Capital Territory, 15% sales tax on services was required to be deducted from vendors for provision of transportation through pipeline and conduit services.

PPOD under the Ministry of Communications, Islamabad made payments to different contractors, vendors, saving bank account holders and deducted taxes on behalf of FBR and provincial sales tax authorities.

Audit observed that nine (09) formations of PPOD did not deduct income tax, education cess on income tax and provincial sales tax on services amounting to Rs 465,423,668 during FY 2022-23. The detail is as under:

Sl. No.	PDP No	Name of Formation	Description	Amount (Rs)
1	10-24	DG PPO, Islamabad	Non-deduction of income tax at source	91,397,343

2	22-24	DG PPO, Islamabad	Non-deduction of provincial sales tax on services	367,789,976
3	123-24	PMGs Rawalpindi, Quetta, Karachi & GPOs Karachi, Bahawalnagar, Mirpur AJK & Gulshan e Iqbal, Karachi	Non-deduction of Income Tax/GST	1,818,191
4	199-24	PMG AJK, Muzaffarabad	Non-deduction of Education Cess on Income Tax	4,418,158
Total				465,423,668

Audit opines that non-deduction of taxes at prescribed rates from contractors, vendors and saving bank account holders represent a potential tax liability for the PPOD and can result in penalties and interest charges for non-compliance with tax regulations.

The matter was reported to the management and PAO during August to December, 2023. It was replied that Income Tax and Sales Tax for the FY 2020-21 and FY 2021-22 were transferred to FBR by the courier companies, whereas the Punjab Sales Tax on Services Act, 2012 was not applicable on services rendered by M/s PPF. Further, the case has been taken up with FBR for refund of education cess. In other cases, it was replied that the amount of tax would be deducted.

The reply is not tenable as documentary evidence in support of deduction and transfer of taxes from the payments made to courier companies and exemption for non-deduction of taxes from PPF were not provided during verification.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to provide documentary evidence regarding deduction and transfer of income/sales tax to FBR for verification. It further directed to pursue the case with FBR regarding refund of education cess. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year(s) 2018-19, 2019-20, 2021-22 & 2022-23 vide para(s) number 3.4.7 to 3.4.9, 1.8.3, 1.7.5 to 1.7.6 & 1.7.4 respectively having financial impact of Rs 484.808 million. Recurrence of same irregularity is a matter of serious concern.

(DPs No. 10, 22, 123 & 199)

1.7.5 Non-recovery of postal dues -Rs 268.254 million

According to Article 5 of PT&T, IAC Volume-I and Para 8 of GFR Volume-I, it is the duty of the administrative department concerned to see that the dues of Govt. are

correctly and promptly assessed, collected and paid into the treasury.

PPOD under the Ministry of Communications executed different kinds of agreements for provision of services with various departments, agencies, and autonomous bodies and received service charges on monthly basis according to agreed rates. Moreover, PPOD also rented out its properties to different organizations and private persons.

Audit observed that forty-four (44) formations of PPOD did not recover the postal dues on account of courier services & rent from tenants amounting to Rs 301,153,064 during FY2022-23. The detail is as under:

PDP No.	Name of Formation	Description	Amount (Rs)
34-24	GPO Lahore	Non-recovery of commission charges from utility companies	22,464,272
51-24	Controller IMO (P), Karachi	Non-recovery from foreign postal administrations	98,395,112
82-24	41 formations (Annex-VII)	Non-recovery of postal dues	175,259,770
177-24	CCS, Karachi	Non-recovery of rent from M/s PPF	5,033,910
Total			301,153,064

Audit contends that due to weak financial management, PPOD could not recover postal dues despite provision of postal services to different organizations.

The matter was reported to the management and PAO during August to December, 2023. It was replied that an amount of Rs 23,519,898 had been deposited into FCF, whereas an amount of Rs 9,379,110 was not due. During verification, an amount of Rs 32,899,008 was verified, leaving an outstanding balance of Rs 268,254,056. The amount of the para was accordingly reduced to the extent of verified amount.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to recover the outstanding amount and get the property vacated from M/s PPF under intimation to Audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year(s) 2018-19, 2019-20, 2021-22 & 2022-23 vide para(s) number 3.4.3, 1.8.2, 1.7.3 & 1.7.2 respectively having financial impact of Rs 861.040 million. Recurrence of same irregularity is a matter of serious concern.

(DPs No. 34,51, 82 & 177)

1.7.6 Non-encashment of postal orders and deposit into treasury – Rs 90.275 million

According to Para 325 of the Post Office Guide, before a postal order can be paid, the name of the payee and the name of the office of payment must be filled in and the order

must be properly receipted. Postal order be crossed, payment will be made through a bank and if the name of bank be added, payment will be made only through that bank.

DG PPOD under the Ministry of Communications, Islamabad published an advertisement in print media for recruitment of vacant posts. As per Clause 5 of the advertisement, each application form shall be accompanied by a postal order or ACG-17 receipt worth Rs 500 in the name of respective authority for each vacancy.

Audit observed that PPOD received 180,549 applications along with Postal Orders/ACG-17 receipt amounting to Rs 90,274,500 (180,549 x Rs 500). The said postal orders were neither encashed nor deposited into Federal Treasury and were still lying with the postal authorities.

Audit contends that non-encashment of postal orders and non-deposit into treasury raises questions about transparency and proper handling of public monies.

The matter was reported to the management and PAO during October and November, 2023. It was replied that an amount of Rs 20,811,177 was received on ACG-67 and deposited into treasury. All the Circle Offices had been directed to en-cash the postal orders immediately and amount thereof be deposited into treasury.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to get the postal orders en-cashed within 30 days and deposit into FCF under intimation to Audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(DP No. 48)

1.7.7 Illegal retention of amount of taxes - Rs 189.311 million

According to Para 13 of the Accounting Procedure issued by DG PPOD vide letter dated 21st December, 2022, the Chief / Senior Postmaster of collecting GPO will daily transfer the whole amount of GST & withholding tax in the designated account No. 4178563145 titled "Pakistan Post Agency Functions" maintained with NBP through payment advice, after issuance of proper sanction memo. Moreover, as per revised Accounting Procedure for collection of customs duty issued by DG PPOD dated 4th July, 2023, cash collection available with the GPOs may be deposited into the bank account separately mentioning dedicate / proper code number opened specifically keeping in view the nature of collection i.e. sales tax on CDL/CDP and custom duty on CDL/CDP after deduction of service charges.

PPOD under the Ministry of Communications, Islamabad collected taxes on different postal services and payments made to different contractors and vendors on behalf of FBR and provincial sales tax authorities.

Audit observed that twenty-one (21) formations of PPOD collected an amount of Rs 247,702,870 on account of income tax, sales tax and custom duty, out of which an amount of Rs 64,534,610 was transferred to the designated bank account No. 4178563145 titled “Pakistan Post Agency Functions”, whereas an amount of Rs 189,310,585 was illegally retained in the departmental treasuries. The detail is as under:

PDP No.	Name of Formation	Description	Amount Collected (Rs)	Amount Transferred (Rs)	Amount Retained (Rs)
77-24	21 Formations (Annex-VIII)	Non-deposit of sales/ income tax	107,279,175	47,824,436	65,597,064
78-24	DG PPO	Non-deposit of custom duty	140,423,695	16,710,174	123,713,521
Total			247,702,870	64,534,610	189,310,585

Audit contends that non-transfer of taxes to concerned tax authorities resulted in misreporting of the tax receipts in the financial statements of the PPOD, besides reflection of weak financial order and internal control structure.

The matter was reported to the management and PAO during August to December, 2023. It was replied that the custom duty of Rs 56,804,854 and sales tax of Rs 30,896,477 stand transferred to FBR.

The reply is not tenable as no documentary evidence was provided regarding deposit of the said amount into designated account of NBP and its subsequent transfer to FBR.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to deposit the amount of taxes/custom duty and record thereof be provided to audit for verification. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(DPs No. 77 & 78)

1.7.8 Non-deposit of recovered amount into FCF–Rs 158.682 million

According to Para 7(1)(s) of Financial Management and Powers of Principal Accounting Officers Regulations, 2021, Principal Accounting Officer is responsible for

proper record of all assets, liabilities, commitments, revenues and expenditures to be maintained under the relevant rules, regulations, procedures and approved format.

PPOD under the Ministry of Communications, Islamabad made disbursement of Rs 156,000.000 million on account of military pension as agency function through post offices on behalf of the Finance Division and Controller Military Accounts (CMA). Thirty-four (34) post offices made recoveries of Rs 158,681,719 on account of overpayments as well as misappropriations during FY 2022-23.

Audit observed that PPOD did not deposit the recovered amount into FCF and was retained in the postal treasuries till finalization of this report.

Audit contends that due to weak financial discipline and internal controls PPOD failed to deposit the recovered amount into FCF promptly as required under the PFM Act, 2019.

The matter was reported to the management and PAO during August to December, 2023. Some of the formations replied that amount recovered from military pensioners had been deposited into agency functions account maintained with NBP. In some cases, it was replied that recovered amount had been utilized for payment of pension, whereas in some cases amount was still lying in postal treasuries.

The reply is not tenable as the recovered amount was not transferred to FCF.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to deposit the recovered amount into FCF and get it verified from audit.

Audit recommends implementation of DAC directives.

(DP No. 110)

1.7.9 Unauthorized deduction of withholding tax - Rs 37.410 million

According to Section 236 (4) of Income Tax Ordinance 2001, government entities are exempted from payment of withholding tax.

DG PPOD under the Ministry of Communications, Islamabad opened a national income daily account No. 3181169352 in National Bank of Pakistan (NBP), Islamabad for receiving foreign remittances from western union. PPOD earned profit of Rs 187,319,052 on deposits during FY 2022-23.

Audit examined the relevant record and observed that the bank made unauthorized deduction of withholding tax of Rs 37,410,483 on profit as income of the federal government was exempted from tax.

Audit opines that PPOD did not take up the matter with the NBP HQ or SBP against unauthorized deduction of withholding tax which reflects weakness of the financial discipline.

The matter was reported to the management and PAO during October to December, 2023. It was replied that the matter was taken up with the NBP to reimburse the amount of withholding tax.

The management accepted the audit contention; however, the issue was not resolved as yet.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to pursue the case with NBP for reimbursement of withholding tax amount deducted on profit under intimation to Audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(DP No. 16)

1.7.10 Non-recovery of overpaid amount from military pensioners- Rs. 28.092 million

According to Article 5 of PT&T, IAC Volume-I and Para 8 of GFR Volume-I, it is the duty of the administrative department concerned to see that the dues of Govt. are correctly and promptly assessed, collected and paid into the treasury.

Twenty-eight (28) formations of PPOD under the Ministry of Communications, Islamabad made an overpayment of Rs 30,618,578 on account of inadmissible increases in pension, wrong calculation of arrears of pension and payments of pension exceeding the admissible rates to various military pensioners.

Audit observed that PPOD did not recover the overpayments made to military pensioners till 30th June, 2023 as detailed in Annexure-IX.

Audit contends that due to weak financial discipline and internal controls PPOD failed to recover the overpayments.

The matter was reported to the management and PAO during August to December, 2023. It was replied that an amount of Rs 2,526,084 had been recovered and efforts were underway to recover the remaining amount. During verification, the recovered amount was verified, leaving an outstanding balance of Rs 28,092,494. The amount of the para was accordingly reduced.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024.

The DAC directed the management to recover the remaining amount and get it verified from Audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(DP No. 93)

Others

1.8.1 Irregular/unauthentic disbursement of military pension – Rs 156,000.00 million

As per Para (xiii) of the pension payment procedure issued by the Finance Division vide letter dated 12th May, 2022, a monthly payment account would be provided by GPOs to the PPOD (H/Q) along with request for next month release. The payments made from pension account maintained in NBP would not be made part of monthly accounts. However, GPOs shall render lists of payees along with amounts paid to Director of Accounts, PPOD for record and reconciliation.

DG PPOD under the Ministry of Communications, Islamabad opened pension account No. 418059527 in the National Bank of Pakistan (NBP) on the instructions of Finance Division (Budget Wing) in July, 2022. An amount of Rs 156,000.000 million was transferred in this account for payment to military pensioners during FY 2022-23 as detailed in Annexure –X.

Audit examined the relevant record and observed that:

- i) GPOs did not provide authenticated lists/figures of funds released for military pension and disbursement thereof duly authenticated by the concerned PMGs to DG PPOD.
- ii) GPOs also did not share the list of pension payments with Military Accountant General (MAG) for reconciliation as required under Para (xvi) of the procedures.
- iii) The comparison of data of military pension payments of DG PPOD and SAP revealed a huge variation. The SAP data showed excess payment of Rs 75,569,765 than authorization of funds in respect of some GPOs, whereas in some GPOs an amount of Rs 1,932,701,040 was shown as savings. The GPOs did not take pain to reconcile the variation with Director of Accounts, PPOD Lahore on monthly basis.
- iv) Finance Division released funds of Rs 156,327.158 million and against this allocation an amount of Rs 161,443.686 million was paid to pensioners. Thus, an amount of Rs 5,116.528 million was disbursed in excess of the allocation.
- v) The GPOs withdrew excess pension funds from NBP account without actual requirement and retained in the postal treasuries.
- vi) Date noting work of disbursement of pension was not made in the ledgers. Therefore, chance of double payments cannot be ruled out.

- vii) Recoveries made on account of overpayments of military pension were not deposited into FCF and were kept in the postal treasuries.
- viii) Pension payment orders of some pensioners were not available on record but pension was disbursed to them regularly.
- ix) Life/non-remarriage certificates were not obtained from the pensioners.
- x) The signatures of pensioners were not obtained on Post Saving Bank (PSB) 7/8 (withdrawal forms) in some cases.

Audit contends that due to weak financial discipline and non-adherence to the prescribed procedures, GPOs disbursed irregular pension payments without veracity of required documents and adequate supporting evidences which raise concerns about transparency in the pension payment process.

The matter was reported to the management and PAO during August to December, 2023. It was replied that reconciliation of military pension payment was underway and all PMGs had been directed to maintain comprehensive record of all pension payments, including authenticated lists of payees, date noting work and pension payment orders.

The management accepted the audit contention; however, no action was taken to reconcile and authenticate the pension payments till finalization of this report.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to reconcile all pension payment figures pointed out by audit and the reconciled record be got verified from Audit. It further directed to take action against the persons responsible for making payment without availability of PPOs, date noting, life/non-marriage certificates and signatures of pensioners on PSB 7/8 forms under intimation to Audit.

Audit recommends implementation of DAC directives.

Note: The issue was also reported earlier in the Audit Report(s) for Audit Year(s) 2018-19 to 2022-23 vide para(s) number 3.2.1, 1.9.3, 1.9.1 to 1.9.3, 1.8.2 & 1.8.5 respectively having financial impact of Rs 39,499.923 million. Recurrence of same irregularity is a matter of serious concern.

(DPs No. 18, 19, 111, 125, 154 & 155)

1.8.2 Non-clearance of liabilities –Rs 17,213.568 million

According to Para 7(1)(s) of Financial Management and Powers of Principal Accounting Officers Regulations, 2021, Principal Accounting Officer is responsible for proper record of all assets, liabilities, commitments, revenues and expenditures to be maintained under the relevant rules, regulations, procedures and approved format.

PPOD under the Ministry of Communications, Islamabad hired the services of M/s 360 Technologies for maintenance of express mail, track & trace system, international postal services, mobile delivery update & complaint management system with call center. PPOD also hired postmasters for running EDBOs and printed revenue documents through NSPC. PPOD also performed agency function for collection of bills on behalf of different utility companies. All these activities involved huge expenditure and payables on the part of PPOD as detailed in Annexure - XI.

Audit examined the relevant record and observed that:

- i) PPOD did not pay service charges to M/s 360 Technologies as per terms and conditions of contract and created an accumulative liability of Rs 108,727,208 as on 30th June 2023, due to which the vendor claimed a 2% penalty of Rs 103,346,145 as per clause 31.4 and 34 of the agreement.
- ii) PPOD collected utility bills on behalf of utility companies but did not transfer the amount of Rs 16,471,000,000 to respective utility companies till date of audit.
- iii) Chief Controller of Stamps, Karachi, did not pay an amount of Rs 633,840,699 on account of printing of revenue documents to NSPC; thereby creating liability for PPOD.

Audit contends that due to weak financial discipline PPOD did not make payments to vendors, postmasters and utility companies and created a substantial financial liability.

The matter was reported to the management and PAO during September to December, 2023. It was replied (i) the payment to vendor will be made shortly (ii) the matter is being pursued with Finance Division through MoC for release of funds to clear the outstanding liabilities of utility companies. (iii) due to shortage of funds liabilities of previous year did not clear.

The reply is not tenable as the outstanding liabilities were not cleared by the PPOD.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to submit revise reply in case of M/s 360 Technologies keeping in view the audit observation. It further directed to clear the pending liabilities of utility companies and M/s NSPC and record thereof be got verified from Audit. No further

progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

Note: The issue was also reported earlier in the Audit Report for Audit Year 2022-23 vide para number 1.8.1 having financial impact of Rs 25,839.500 million. Recurrence of same irregularity is a matter of serious concern.

(DPs No. 28, 129 & 182)

1.8.3 Non-deposit of amount drawn through LOC into FCF-Rs 4,906.995 million

According to Articles 22 and 23 of the PFM Act, 2019, “the operation of the Federal Consolidated Fund and the Public Account of the Federation shall vest in the Finance Division under the overall supervision of the Federal Government and no authority shall incur or commit any expenditure or enter into any liability involving expenditure from the Federal Consolidated Fund and Public Account of the Federation until the same has been sanctioned by a competent authority duly empowered”. According to the old cash management regime of PPOD, the Director Accounts Postal Accounts, Lahore would circulate to all GPOs and heads of all Postal Circles and would prescribe maximum and minimum limits to be retained for official business under Articles 78 and 81 of PT & T IAC Vol-1.

The Finance Division restricted/disallowed PPOD’s direct access to the Central Account-1 (non-food) and discontinued practice of withdrawal of funds through letter of credit (LoC) with effect from 1st August, 2021 vide its letter dated 25th June, 2021.

Audit examined the relevant record and observed that:

- i) The maximum cash balance limit in shape of imprest money drawn by 85 GPOs (excluding the amount lying in more than 4,000 sub post offices) through LoCs amounting to Rs 2,165,520,000 was available with PPOD as on 30th June, 2022 which was not deposited into Account No. 1 (non-food).
- ii) GPO Islamabad withdrew cash of Rs1,760 million through LoC and transferred it to seven (07) GPOs of AJK Circle. The GPOs retained the said amount till end of June, 2022 instead of depositing into Account No. 1 (non-food) despite the fact that the new cash management regime was introduced and the GPOs and its sub-offices were required to close their bank accounts opened in NBP.

- iii) PPOD disbursed an amount of Rs. 978,990,434, drawn from Account No. 1 (non-food) through LoC, on behalf of Western Union for the period starting from 1st July, 2022 to 25th August, 2022. PPOD placed the amount, reimbursed by Western Union, in the National Bank of Pakistan instead of crediting to Account-1 (non-food).
- iv) GPO Lahore recovered an amount of Rs 2,485,176 on account of adjustment of emergent advance and recovery made against loss and fraud cases which was not deposited into Account No. 1 (non-food).

Audit contends that failure to deposit imprest money, retention of substantial cash balances, and recovery made by GPO Lahore reflects weak financial discipline and non-adherence to the new cash management regime.

The matter was reported to the management and PAO during August to December, 2023. It was replied that (i) non-deposit of amount drawn through LoC into FCF was a deviation by field formations. The cash limits were fixed by PMGs and they would be in a better position to clarify disposal of such cash (ii) PMG, Muzaffarabad had been directed to deposit the LoC amount into FCF (iii) the disbursed amount on behalf of Western Union from 1st July, 2022 to 25th August, 2022 stands transferred to Account No.1.

The reply is not tenable as (i) Finance & Revenue Account of the PPOD for the FY 2022-23 showed that cash amounting to Rs 6,593 million was lying in postal treasuries as on 30.06.2023 (ii) the audit stance has been accepted by the management in case of PMG Muzaffarabad but the amount was not transferred into Account No. 1 as yet. (iii) no documentary evidence regarding transfer of amount into FCF was provided for verification.

The matter was also discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to constitute a high-level committee to reconcile the figures and subsequently transfer the amount to FCF under intimation to Audit. No further progress was reported till finalization of this report.

Audit recommends taking immediate corrective actions, including strict adherence to the new cash management regime, prompt deposit of imprest money and recovered amounts into Account-1 (non-food) and closure of bank accounts opened after the changed cash management regime.

(DPs No. 03, 05, 08, 43, 79 & 135)

1.8.4 Unauthorized utilization of funds - Rs. 4,071.223 million

According to para 7 (I) of the Financial Management and Powers of Principal Accounting Officers Regulations, 2021, the Principal Accounting Officer shall be responsible to adhere to and enforce the principles of financial propriety including the compliance of laws, rules, regulations, maintain high standard of prudence, vigilance due diligence and ensuring value for money while incurring expenditure and collecting government receipts.

PPOD under the Ministry of Communications, Islamabad performed various agency and core functions related to disbursement of military pension, collection of utility bills, money orders and revenues through provision of postal services.

Audit examined the relevant record and observed that thirty-seven (37) formations of PPOD collected an amount of Rs 4,071.223 million on account of LoC, utility bills collection, money orders and postal revenue. PPOD did not deposit these collections into FCF and designated agency functions accounts; rather, these amounts were utilized for making different agency payments without authorization. The detail is as under:

(Rs in Million)			
Sl. No.	PDP No.	Description	Amount
1	53-24	Unauthorized payment of military pension and utility companies without authorization of funds	859.894
2	54-24	Unauthorized payment to military pensioners from postal receipts	81.517
3	132-24	Unauthorized utilization of funds allocated through LOC	1755.592
4	133-24	Unauthorized utilization of collection of money orders	581.923
5	149-24	Unauthorized utilization of revenue for other payments	139.121
6	164-24	Unauthorized utilization of revenue towards money order payments	653.176
Total			4,071.223

Audit contends that unauthorized payment out of postal revenue, agency function receipts and LoC reflect weakness of financial discipline and internal control structure.

The matter was reported to the management and PAO during August to December, 2023. It was replied that due to non-availability of accounting procedures, the payments of military pension, money orders and Western Union were made from utility bills collection and postal receipts. However, a high-powered committee has been constituted for reconciliation of these payments.

The reply is not tenable as these payments were made without authorization of funds.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to conduct inquiry and fix responsibility on those found responsible for making payments without authorization of funds. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives / transfer of the amounts to their respective heads of accounts.

(DPs No. 53, 54, 133, 132, 149 & 164)

1.8.5 Non-deposit of revenue into the Federal Consolidated Fund –Rs 2,861.952 million

Article 21 & 40(C)(2) of Public Financial Management Act, 2019 requires that all Ministries and Divisions, their attached departments and subordinate offices and all public entities if so, required by their statutes, shall arrange remittances in the Federal Consolidated Fund (FCF) without delay, of all revenues as required by Article 78 of the Constitution and the Controller General of Accounts shall be responsible for its proper accounting. The revenue collection offices shall not retain or appropriate the collected amount to meet departmental expenditure except through budgetary mechanism as provided under articles 80 to 83 of the Constitution.

PPOD under the Ministry of Communications, Islamabad collected postal revenue of Rs 7,547.005 million during FY 2022-23 through sale of postage stamps, booking of registered letters/parcels, franking machine and commission from agency functions etc.

Audit observed that forty-nine (49) formations of PPOD did not deposit/transfer the collected postal revenue of Rs 3,121,739,025 into the Federal Consolidated Fund as detailed in Annexure-XII. Audit further revealed that the formations utilized the postal revenue without authorization to cover various departmental expenses such as payments of Western Union, money orders and utility companies.

Audit contends that non-transfer of postal revenue into Federal Consolidated Fund reflects weak financial discipline and misreporting of the postal receipts in the financial statements of PPOD, for PPOD recognized the postal receipts in the financial statements but did not transfer to the FCF as required under PFM Act, 2019.

The matter was reported to the management and PAO during August to December, 2023. It was replied that an amount of Rs 92.080 million had been deposited into FCF, whereas an amount of Rs 167.707 million was not due and efforts were underway to

recover the remaining amount. During verification, an amount of Rs 259.787 million was verified, leaving an outstanding balance of Rs 2,861.952 million. The para was accordingly reduced to the extent of verified amount.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to submit revise reply keeping in view the audit observation. The amount involved be transferred to FCF and record be got verified from audit up to 31st March, 2024. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives/conduct of inquiry into the matter to fix responsibility.

Note: The issue was also reported earlier in the Audit Report for Audit Year 2022-23 vide para number 1.8.3 having financial impact of Rs 1,704.920 million. Recurrence of same irregularity is a matter of serious concern.

(DP No. 81)

1.8.6 Unjustified drawl of pension funds and excess expenditure – Rs 2,507.031 million

According to Rule 7(1)(L) of the Financial Management and Powers of Principal Accounting Officers Regulations 2021, the Principal Accounting Officer shall be responsible to sanction expenditure as per the delegated financial powers. Such sanctioning of expenditure shall not exceed the allocated budget. Prior to approving of expenditure sanction, principal accounting officer shall ensure that the required budget is available in the relevant head of account. Sanctioning of expenditure shall be based on the purpose for which the funds are allocated.

Finance Division granted special permission to draw funds for payment of employee related expenditure and pension to defense forces from Account No. 1 (non-food) vide its letter dated 30th June, 2022. DG PPOD made authorization of funds for the month of June paid in July, 2022 and the Director Accounts Pakistan Post, Lahore issued letter of credit in favour of all GPOs for drawl of funds.

Audit examined the relevant record and observed that:

- i) 47 GPOs withdrew funds of Rs 9,575.164 million from Account No. 1 (non-food) through LoC, and disbursed Rs 7,987.071 million on account of pension; thereby withdrawing excess amount of Rs 1,588.093 million without justification and actual requirement. The surplus amount was required to be returned to Account No. 1 (non-food).
- ii) 36 GPOs withdrew funds of Rs 5,182.483 million from Account No. 1 (non-food) and disbursed Rs 6,101.421 million on account of pension; thereby making

unexplained excess payment of
Rs 918.938 million.

Audit maintains that withdrawal of significant amounts from Account No. 1 (non-food) without proper justification or adherence to budgetary allocations raises concerns about financial discipline. The unexplained excess payments highlight a lack of oversight in the approval and sanctioning of expenditure.

The matter was reported to the management and PAO during August to December, 2023. It was replied that reconciliation of military pension payment was under process and after completion of reconciliation, the source of excess expenditure, if any, would be identified. No stance was provided regarding withdrawal of surplus amount from FCF.

The reply is not tenable as PPOD failed to make timely reconciliation and identify the items of excess expenditure.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to reconcile the figures keeping in view the audit observation and record thereof be got verified from Audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives/conduct of inquiry into the matter to fix responsibility.

(DPs No. 25, 97, 101, 102, 128, & 142)

1.8.7 Illegal retention of blank certificates – Rs 2,097.329 million

According to Finance Division (Budget Wing) letter No.17(1) GS-1/2012-Vol-II-65 dated 13th January, 2021, the work of Special Saving Schemes, Certificates and Saving Bank Accounts was withdrawn from PPOD and it was directed that all such accounts be transferred to Central Directorate of National Savings.

PPOD under the Ministry of Communications, Islamabad was operating saving bank schemes as agency function on behalf of Finance Division on commission basis. This function was withdrawn from the PPOD and transferred to CDNS.

Audit observed that the blank defence saving certificates, special saving certificates and regular income certificates of different denominations amounting to Rs 2,097,328,700 were lying in the stock of PPOD and were not transferred to CDNS despite close of this scheme by the Finance Division.

Audit opines that retention of blank certificates can be misused and warranted for loss, fraud or theft.

The matter was reported to the management and PAO during August to December, 2023. It was replied that all blank savings certificates would be returned to CDNS after compilation of record.

The reply is not acceptable as blank saving certificates were not transferred to CDNS despite lapse of a considerable time.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to transfer the blank certificates to CDNS and record thereof be got verified from Audit up to 30.03.2024. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives

(DP No. 80)

1.8.8 Unjustified Western Union Payments out of postal receipts and non-adjustment – Rs 1,452.594 million

The Finance Division restricted/disallowed PPOD's direct access to the Central Account-1 (non-food) and discontinued practice of withdrawal of funds through letter of credit (LoC) with effect from 1st August, 2021 vide its letter No.1(10) S.O (TSA)/350/2021 dated: 25th June, 2021.

DG PPOD under the Ministry of Communications, Islamabad instructed all PMGs vide its letter dated 16th June, 2023 that GPOs could withdraw money and make payments from July to November, 2022 against Western Union Account and adjust/charge the same on receipt side of the summary. Accordingly, 76 GPOs withdrew huge amounts of Rs. 1,452,594,294 from the Western Union Account during FY 2022-23.

Audit examined the relevant record and found that:

- i) DG PPOD did not comply with the above stated instructions of Finance Division and allowed, in the first instance, making payments on account of Western Union transfer services from postal receipts such as utility bills and money orders and then ordered to withdraw the paid amounts from Western Union Accounts and adjust against irrelevant heads of receipts in the summary; thereby leading to misreporting of the postal receipts.
- ii) The record transpired that payments of Western Union were made before receipt of remittances of Western Union transfer services.

Audit contends that payments on account of Western Union transfer services from postal receipts and subsequent withdrawals and adjustments against irrelevant heads of receipts reflect weakness of the financial discipline and internal control structure of PPOD.

The matter was reported to the management and PAO during October and November, 2023. It was replied that department made stop gap arrangement for only five (05) months to avoid public complaints and all amounts drawn from Western Union Account had been adjusted against the relevant head of accounts.

The reply is not tenable as payments were made from other sources without authorization. Further, during verification the adjustment particulars of two (02) GPOs were provided out of 76 GPOs.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to fix responsibility for making payment of Western Union without authorization. It further directed that adjustment particulars be provided to audit for verification. No further progress was intimated till finalization of this report.

Audit recommends implementation of DAC directives.

(DP No. 06)

1.8.9 Unauthorized drawl of funds through Letter of Credit - Rs 985.618 million

According to Rule 13 of General Financial Rules, in the discharge of his ultimate responsibilities for the administration of an appropriation or part of an appropriation placed at his disposal, every Controlling Officer must satisfy himself not only the adequate provisions exist within the departmental organization for systematic internal checks calculated to prevent and detect errors and irregularities in the financial proceedings of its subordinate officers and to guard against waste and loss of public money and stores, but also that the prescribed checks are effectively applied.

Finance Division vide its letter dated 15th April, 2022 released 50% payment amounting to Rs 25,000 million for clearance of pending liabilities of 19 utility companies. DG PPOD allocated this amount for 19 utility companies and forwarded the list of allocation to Director of Accounts, PPOD Lahore for issuance of letter of credit in favour of lead GPOs.

Audit observed that sixteen (16) lead GPOs withdrew an amount of Rs 25,985,617,742 from Account No. 1 (non-food) against the authorization of Rs 25,000,000,000, thereby; withdrawing excess amount of Rs 985,617,742.

Audit contends that the unauthorized drawl of funds indicates inadequate financial oversight and internal controls within the PPOD.

The matter was reported to the management and PAO during October and November, 2023. It was replied that the matter related to PMGs, Lahore, Islamabad, Multan, Peshawar, Hyderabad, Karachi and Quetta. DG PPOD allocated funds for distribution among 19 utility companies and forwarded a list to Director of Accounts, PPO

Lahore for issuance of letter of credit in favour of Lead GPOs and upon completion of reconciliation of all receipts and payments, the drawn amount would be adjusted.

The reply is not tenable. The PPOD withdrew unauthorized funds from LoC and disbursed to the utility companies.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to provide relevant record to Audit for verification. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives/conduct of inquiry into the matter to fix responsibility.

(DP No. 12)

1.8.10 Irregular re-appropriation of funds and non-surrender to Finance Division – Rs 395.154 million

According to Finance Division (Budget Wing) letter dated 4th August, 2022, no re-appropriation shall be made from employee related expenses to any other head of account of non-employee related expenses and no re-appropriation of funds shall be allowed in any case during the last month of the financial year. Further, according to instructions contained in Finance Division (Expenditure Wing) letter dated 7th July, 2022 regarding austerity measures for FY 2022-23, the PAO shall ensure that existing entitlement for POL for government functionaries be reduced by 30%. Further, according to instructions contained in Finance Division (Expenditure Wing) letter dated 7th July, 2022 regarding austerity measures for FY 2022-23, there should be complete ban on purchase of physical assets.

DG PPOD under the Ministry of Communications, Islamabad made re-appropriation of funds amounting to Rs 431,153,698 during FY 2022-23. The re-appropriation was held irregular due to the following reasons:

- i) An amount of Rs 35,729,466 was re-appropriated from employee related expenditure to operating expenses such as bank fee, utilities and rent of office/residential buildings. Further, an amount of Rs 18,711,000 was also re-appropriated in June, 2023 in violation of Finance Division's above stated instructions.
- ii) 30% cut imposed by Finance Division on POL as austerity measure was not implemented; in addition, an expenditure of Rs 42,003,388 was incurred in excess of the actual authorization by re-appropriating funds from other head of accounts.

- iii) An amount of Rs 441,500,000 was allocated under head A05 – (obligatory payments for families of deceased employees), out of which an amount of Rs 195,928,284 was re-appropriated to other heads of accounts, due to which liabilities of deceased employees could not be cleared.
- iv) Finance Division allocated an amount of Rs 350,000,000 under head A09- Expenditure on acquiring physical assets. DG PPOD made re-appropriation of Rs 102,781,560 from this head to A04: Employees Retirement Benefits and A05: Grants, subsidiaries, write off loans instead of surrendering the funds to Finance Division.

Audit maintains that non-adherence to budgetary appropriations and making unauthorized re-appropriations thereof reflect weak financial discipline and non-compliance to the instructions of the Finance Division.

The matter was reported to the management and PAO during October and November, 2023. It was replied that (i) the budget was not re-appropriated from ERE to Non-ERE (ii) the re-appropriation of funds on account of POL was made on the request of the concerned formations with the approval of Chairman/Director General due to increase in fuel prices (iii) the saving under head A05- Grants, Subsidies & Write Off Loan/Advances (Prime Minister's Financial Assistance Package) was withdrawn and major portion of the saving was re-appropriated to head A03902: Printing & Publications (iv) no specific instructions were received from Finance Division to surrender the savings accrued under Head - A09: Expenditure on Acquiring of Physical Assets.

The reply is not valid. Audit contends sufficient evidence of re-appropriations made from ERE to Non-ERE. DG PPOD has accepted the audit contention of re-appropriations in POL and obligatory payment heads. Moreover, the instructions of Finance Division regarding austerity measures were self explanatory.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to submit revised reply keeping in view the audit observation within one week. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives/conduct of inquiry into the matter to fix responsibility. Audit further recommends that the amount involved be got regularized from Finance Division.

(DP No. 17)

1.8.11 Unauthorized utilization of funds allocated for clearance of PLICL liabilities -Rs 282.919 million

According to Rule 12 of the General Financial Rules, a controlling officer must see not only that the total expenditure is kept within the limit of the authorized appropriation but also that the funds allocated to spending units are expensed in the public interest and upon objects for which the money was provided. In order to maintain a proper control, he should arrange to be kept informed not only of what has actually been spent from an appropriation but also what commitments and liabilities have been and will be incurred against it.

DG PPOD under the Ministry of Communications, Islamabad demanded an amount of Rs 50,402,000,000 from Finance Division for clearance of pending liabilities of 19 utility companies including PLICL. Finance Division vide its letter dated 15th April, 2022 released 50% funds of Rs 25,000,000,000 for payment to utility companies and PLICL.

Audit observed that DG PPOD allocated this amount for 19 utility companies including an amount of Rs 282,918,687 for payment to PLICL and forwarded the list to Director of Accounts, PPOD for issuance of LoC to GPO Islamabad. The Lead GPO Islamabad did not pay the allocated amount to M/s PLICL in violation of the instructions of Finance Division.

Audit opines that due to weak financial discipline PPOD did not make payments to M/s PLICL and created a substantial financial liability.

The matter was reported to the management and PAO during October and November, 2023. It was replied that PMG Islamabad had been directed to explain the reasons for non-payment to PLICL.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to inquire the matter regarding non-clearance of pending liabilities of M/s PLICL and record thereof be provided to Audit for verification within 15 days. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

1.8.12 Unlawful drawl of cash on paper chits – Rs 46.329 million

According to Para 7 (1) (b) of Financial Management and Powers of Principal Accounting Officers Regulations, 2021, the Principal Accounting Officer shall be responsible for use of resources and shall ensure the effective, efficient, economical and transparent use of funds, budget, assets and human resources available to him, in accordance with relevant policies, rules and regulations, for achieving services. Further, the PAC in its meeting held on 5th and 7th November, 2001 directed the PAO to evolve some institutional arrangement to stop the practice of drawl of public money on paper chits on permanent footing.

Finance Division made annual allocations under Grant No. 26 of PPOD to meet its operational expenditure. PPOD drew unlawful funds from the treasury due to the following reasons:

- i) Twenty-seven (27) formations of PPOD drew illegal amount of Rs 40,028,682 simply on paper chits from postal treasuries during FY 2022-23.
- ii) CPM, GPO Peshawar drew unlawful cash of Rs 6,300,000 from the postal treasury simply on paper chits with the approval of PMG, KP on 1st August, 2023 to meet the expenditure of recruitment process, the supporting evidence of which was not available on record.

Audit contends that drawl of public money merely on paper chits is unlawful and contrary to the canons of financial propriety. This malpractice was seriously viewed by the Public Accounts Committee in its meeting held on 5th and 7th November, 2001 and had directed to discontinue the practice henceforth.

The matter was reported to the management and PAO during August to December, 2023. It was replied that paper chits amounting to Rs 17,451,681 had been adjusted.

The reply was not tenable as responsibility for unlawful retention of paper chits was not fixed against person (s) at fault.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to inquire the matter and fix responsibility on those

found responsible for drawl of government money on paper chits under intimation to audit.
No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(DPs No. 131 & 170)

MINISTRY OF COMMUNICATIONS

POSTAL LIFE INSURANCE COMPANY LIMITED

Chapter -2

Postal Life Insurance Company Limited (PLICL)

2.1 Introduction

A. PPOD was operating Postal Life Insurance (PLI) on behalf of Ministry of Finance in the past on no-profit no-loss basis. The Government of Pakistan converted PLI into a company by the name of Postal Life Insurance Company Limited (PLICL) and incorporated it under the Companies Act, 2017. The company was registered with the Securities and Exchange Commission of Pakistan (SECP) as a life insurer under the Insurance Ordinance, 2000 on 26th August, 2020. The Company started its business on 2nd April, 2021 with limited scope of life insurance coverage only.

PLICL is managed by the Board of Directors (BoD) under the administrative control of Ministry of Communications and is headed by a Chief Executive Officer (CEO) who is assisted by two General Managers based at Lahore & Karachi. It has three Regional Directorates located at Multan, Peshawar & Quetta. The main objectives of the Company are to:

- i) Carry out all kinds of insurance business relating to life insurance.
- ii) Take over assets, liabilities including policy holders' liabilities determined as on the transfer date in accordance with the insurance regulatory framework prescribed under the Insurance Ordinance, 2000 and relevant rules/regulations/directives/circulars/ guidelines/ contracts and undertakings of Postal Life Insurance under the vesting orders passed by the Federal Government.
- iii) Carry on, in Pakistan and elsewhere, all kinds of family takaful businesses and generally every kind of family takaful and family re-takaful businesses whether now known or hereafter to be devised subject to such restrictions as imposed by the Insurance Ordinance, 2000.
- iv) Transact the business of life insurance Company including sale and purchase or re-purchase of annuities, a reversionary interest and life or other interests of uncertain duration or commencement, and endowments for children, and sickness insurance, and all other business pertaining to or commonly transacted by life insurance companies.

B. Comments on Budget and Accounts

- i) As per Note 11.1 of the financial statements as on 31st December, 2022, an amount of Rs 13,302.238 million was shown as accrued interest on the GoP Fund under the head - Other loans and receivables. However, no amortization schedule existed between the Finance Division and PLICL to ensure the timely release/appropriation of the accrued amount.
- ii) As per Note 11.2 of the financial statements as on 31st December, 2022, the amount of receivables on account of insurance premium from PPOD increased from Rs 244.159 million (2021) to Rs 877.656 million (2022). This 272% surge in non-receivable raises questions about the efficiency of the company's receivable management.
- iii) As per Note 29 of the financial statements as on 31st December, 2022, despite a notable surge in revenue of Rs 10,053.417 million in 2022 as compared to Rs 7,362.123 million in 2021, the Company experienced a substantial decline of 50% in overall profit. This alarming trend strongly signals a deficiency in cost control measures or the absence of comprehensive cost planning within the company's operational framework.
- iv) Despite the released budget grant of Rs 934.500 million under the Cost Centre "IB0521-Grants for PLIC Liabilities" PLICL managed to utilize funds amounting to Rs 925.074 million which resulted in lapse of Rs 9.426 million.

Table-1 Audit Profile of Postal Life Insurance Company Limited**(Rs in Million)**

Sl. No.	Description	Total Nos.	Audited	Expenditure audited FY 2022-23	Revenue / Receipts audited FY 2022-23
01	Formations	52	03	620.010	1,052.550

2.2 Classified Summary of Audit Observations

Audit observations amounting to Rs 3,611.116 million (including non-budgeted payments) were raised in this report during the current audit. This amount also includes recoveries of Rs 921.398 million as pointed out by audit. Summary of the audit observations classified by nature is as under:

Table-II Overview of Audit Observations**(Rs in Million)**

Sl. No.	Classification	Amount
1.	Reported cases of fraud, embezzlement and misappropriation	0
2.	Irregularities	965.376
A	HR related irregularities*	965.376
B	Management of Accounts with Commercial Banks	0
3.	Value for money and service delivery issues	0
4.	Receivables	921.298
5.	Other Irregularities	1,724.442
Total:		3,611.116

* The paras related to special study report 2022-23 have been included in HR chapter

2.3 Status of Compliance with PAC Directives

Audit of the entity was started in Audit Year 2021-22, however, the reported paras of PLICL have not been discussed in the Public Accounts Committee as detailed below:

Sl. No.	Audit Report Year	Total Paras	Total No. of directives	Compliance			% of Compliance
				Received	Partial	Not Received	
1	2021-22	08	-	-	-	-	
2	2022-23	06	-	-	-	-	

AUDIT PARAS

2.4 Irregularities

A HR/Employees related irregularities

2.4.1 Un-necessary borrowing of employees on deputation – Rs 941.266 million

According to Rule 2A(C) of Public Sector Corporate Governance Rules, 2013, the public sector company is managed by a sufficient number of persons who are fit and proper persons to hold the positions which they hold.

PLICL under the Ministry of Communications, Islamabad hired the services of 711 postal employees (BPS-01 to 16) on deputation basis w.e.f 1st July, 2021 to run its operations and incurred an expenditure of Rs 941.266 million against such appointments.

Audit examined the relevant record and observed that:

- i) Services of the employees were hired without assessing actual requirement of the organization as the staff was not involved in the selling of insurance policies and allied businesses of the Company.
- ii) Additionally, 108 postal employees were borrowed without justification on deputation basis as pointed out by BoD in its meeting held on 29.06.2021.

Audit opines that borrowing of these postal employees did not add value or contribute to the efficient functioning of the organization, they being uninvolved in core activity, which reflected weak HR management and an undue financial burden on the organization.

Audit reported the matter to the management and PAO during May and June, 2023. It was replied that according to the strategic alliance agreement between PPOD and PLICL signed in July, 2021, PPOD would support and facilitate PLICL during transition phase for effective and efficient operations of the Company which included deputation of employees also. Therefore, more than 700 staff was hired on deputation.

The reply is not tenable as the staff was hired on deputation basis from PPOD without assessing the actual requirement, including the services of 108 surplus employees who had no contribution towards the business of the Company; rather they over-burdened the operational cost of the Company.

The matter was discussed in the DAC meeting held on 1st August, 2023. The DAC directed the management to review its actual requirement of staff hired on deputation from

PPOD and only required staff be retained under intimation to audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(Para No. 4.2.1 of SSR 2022-23)

2.4.2 Irregular appointment of Chief Executive Officer and payment - Rs 24.110 million

PLICL advertised the post of Chief Executive Officer in print media with the terms and conditions, (i) the candidate must have minimum 20 years experience, 10 years of which must be at senior management level in the technical department of insurance or re-insurance company (ii) must have spent 5 years as a key officer in a leadership role in the insurance industry as defined in Insurance Companies and Prudent Management Regulations, 2012.

PLICL under the Ministry of Communications, Islamabad appointed Mr. Muhammad Naeem Akhtar as CEO of the PLICL and paid an amount of Rs 24.110 million (Rs 1,095,910*22 months) on account of pay & allowances during 22 months of his tenure.

Audit examined the appointment files and service profile of the incumbent CEO and observed that:

- i) The CEO was irregularly appointed in contravention to the eligibility criteria as mentioned in the advertisement. As per his service profile, he did not work at any senior management level in the technical department of an insurance or re-insurance company.
- ii) He managed two insurance brokerage businesses in the UAE as CEO in the last 8 years which was completely different from the insurance company management and operations.

Audit opines that the CEO was appointed in total disregard to his credentials and the advertised criteria which reflects weak internal control structure and HR management of the Company.

Audit reported the matter to the management and PAO during May and June, 2023. It was replied that PPOD and the Consultant hired for the company were involved in the appointment of the Chief Executive Officer; therefore, the comments could be sought from PPOD.

The reply is not tenable. The CEO was hired on the recommendations of the interim BoDs of the PLICL.

The matter was discussed in the DAC meeting held on 1st August, 2023. The DAC directed PPOD and PLICL management to provide detailed reply keeping in view the audit observations. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives/conduct of inquiry into the matter to fix responsibility.

(Para No. 4.2.2 of SSR 2022-23)

2.5 Receivables

2.5.1 Non-realization of premium & administrative expenses - Rs 921.298 million

According to Clause 2 of Annexure B of the agreement made between PLICL & PPOD, all collection received in preceding week excluding per transaction fee will be credited to PLICL's Bank Account next Monday, or first working day in case of Monday is bank holiday. Further, as per Para 4.7 (d) of the agreement between PLICL and Pakistan Railways (PR), premium shall be payable by PR to PLI (now PLICL) on monthly/quarterly/annually in advance. However, if premium by PR to PLI is not paid within the period mentioned above, then insurance coverage will be lapsed and PLI shall not be liable for the same.

PPOD collected premiums through GPOs on behalf of PLICL during FY 2022-23 which was providing group insurance coverage to the employees of government of the Punjab, Pakistan Railways and WASA, Faisalabad.

Audit examined the relevant agreements and receivable files of PLICL and observed that:

- i) Premium of Rs 433,729,826 collected by PPOD was not transferred to PLICL's main account as on 30th June, 2023.
- ii) Group insurance premium of Rs 410,932,211 was outstanding against Pakistan Railways and Government of the Punjab.
- iii) Administrative expenses of Rs 76,636,212 were not recovered from WASA Faisalabad & Pakistan Railways.

Audit contends that due to weak receivable management, PLICL could not recover the premium amounts and administrative expenses from these organizations/governments.

The matter was reported to the management and PAO during September to December, 2023. It was replied that the matter was taken up with the concerned quarters for early realization of premium and administrative expenses.

The management accepted the audit contention; however, no substantial efforts were found available on record to recover the outstanding amounts despite lapse of a considerable period.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to pursue the case with concerned departments for early realization of premium amount and administrative expenses and get the record verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(DP No. 94,215 & 216)

2.6 Others

2.6.1 Non-settlement of individual insurance claims - Rs 1,011.063 million

According to Section 118(1)(2) of Insurance Ordinance, 2000, all claims are required to be sanctioned and paid to the insurant within ninety (90) days. Further, the insurer shall, if he fails to make the payment within a period of ninety days from the date on which the payment becomes due or the date on which the claimant complies with the requirements, whichever is later, pay as liquidated damages the sum of which shall be calculated at monthly rates at the rate five per cent higher than the prevailing base rate.

PLICL under the Ministry of Communications, Islamabad generated 13,845 Payment Sanction Orders (PSOs) amounting to Rs 2,497.329 million on account of insurance claims during FY 2022-23.

Audit examined the relevant record and observed that PLICL settled 7,853 claims amounting to Rs 1,486.266 million during FY 2022-23. The Company failed to settle 5,992 insurance claims amounting to Rs 1,011.063 million; thereby creating a huge liability for the Company.

Audit contends that due to weak insurance claim management system PLICL did not settle huge claims and created liability beside potential liquidated damages on the Company. Moreover, non-settlement of insurance claims within due time also impacted the goodwill of the company.

The matter was reported to the management and PAO during October to December, 2023. It was replied that sufficient funds were not allocated by Finance Division as committed in promissory note, therefore, liabilities could not be cleared.

The reply is not tenable as the Insurance Ordinance, 2000, provides for sanctioning and payment of all claims within ninety (90) days.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to take up the case with Finance Division for release of funds to clear the pending liabilities of the insurants under intimation to audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(DP No. 67)

2.6.2 Unauthorized re-appropriation of funds from public account –Rs 679.00 million

According to Section 17 (4) of the Insurance Ordinance, 2000, all liabilities (including policy liabilities) of a life insurer arising out of the conduct of the business of a statutory fund shall be treated as liability of that fund.

Finance Division vide its letter dated 2nd April, 2021 issued promissory note and permitted that funds amounting to Rs 48,000 million accumulated as on 30th October, 2020 would be provided to the PLICL for payment of claims/liabilities of the insurants. During FY 2021-22, the Finance Division released one liner budgetary grant under head IB0521 for PLI liabilities of Rs 8,000 million under demand No. 26-Communications Division.

Audit observed that the Ministry of Communications, Islamabad vide its letter dated 28th April, 2022 made unauthorized re-appropriation of Rs 679 million from the head - IB0521- Grant for PLI liabilities, to meet the expenses of pay and allowances of National Highways and Motorways Police (NH&MP). Audit also noticed that the re-appropriation was made without the prior approval of the BoDs.

Audit contends that re-appropriation made from Public Account, meant for settlement of insurance claims, to another Grant related to NH&MP reflects weak financial discipline and internal control structure.

The matter was reported to the management and PAO during May and June, 2023. It was replied that re-appropriation was made by the Ministry within the budgetary grant No. 26 on the availability of sufficient savings under the relevant cost center which did not affect the balance of promissory note until the same was not utilized.

The reply is not tenable as the funds were provided for clearance of pending

liabilities of the insurants. Further, the re-appropriation also affected the balance of promissory note as it had been booked as an expense in the PLICL accounts.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to produce relevant record for verification to audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives/conduct of inquiry into the matter to fix responsibility besides adjustment of the amount against the Communication Division's Grant and its crediting into PLICL account.

(DP No. 106)

2.6.3 Non-deposit of Zakat into Central Zakat Account – Rs 34.379 million

As per Ministry of Poverty Alleviation & Social Safety Divisions' instructions, all the Zakat Collection Controlling Agencies (ZCCAs) are required to deduct the Zakat at prescribed rate. The amount so deducted is required to be deposited in Central Zakat Account No CZ-08, being maintained at the State Bank of Pakistan. A copy of return Form CZ-08A is also required to be provided to Cabinet Secretariat Poverty Alleviation & Social Safety Division after depositing the amount.

PLICL under the Ministry of Communications, Islamabad deducted Zakat at the time of payment of insurance claims which accumulated to the tune of Rs 34.379 million as on 30th June, 2023.

Audit observed that the amount of Zakat was not deposited in the designated account till finalization of this report.

Audit contends that non-adherence to Cabinet Secretariat's instructions resulted in blockage of public funds.

The matter was reported to the management and PAO during October to December, 2023. It was replied that payment of Zakat could not be made due to release of second quarter budget.

The reply is not tenable as the amount of Zakat had already been deducted from the claims of insurants and no budgetary allocation was required for this purpose.

The matter was discussed in the DAC meeting held on 17th & 18th January, 2024. The DAC directed the management to transfer the amount of Zakat into Central Zakat

Account and get it verified from audit. No further progress was reported till finalization of this report.

Audit recommends implementation of DAC directives.

(DP No. 62)

THEMATIC AUDIT REPORT
ON
ASSET MANAGEMENT OF
PAKISTAN POST OFFICE DEPARTMENT

3. Thematic Audit on Asset Management of Pakistan Post Office Department

3.1 Introduction

The Pakistan Post Office Department (PPOD) stands as an institution deeply rooted in history, tracing its origins to the colonial era, making it one of the oldest government departments in the Sub-Continent. Since its inception, the PPOD has played a pivotal role in shaping communication, commerce, and financial transactions within Pakistan. As an integral part of the nation's infrastructure, the department has evolved to meet the changing needs of society, serving as a critical link that connects millions of people across the country.

The core functions of the Pakistan Post Office are diverse and expansive, encompassing both domestic and international postal services, as well as facilitating money orders. Beyond traditional postal activities, the PPOD operates as an agency on behalf of the Federal and Provincial Governments, undertaking essential tasks such as the collection of utility bills, payment of military pensions, tax collection, and managing Western Union transactions. The department is also entrusted with the secure delivery of crucial identification documents, including NADRA ID cards and passports. This multifaceted approach underscores the PPOD's commitment to providing comprehensive services that address the varied requirements of its extensive clientele.

With a remarkable physical footprint, the PPOD boasts a network of 10190 post offices, including 85 General Post Offices (GPOs) strategically managed by a workforce of 38884 employees, including both regular and extra-departmental personnel. This extensive network ensures that the services provided by the PPOD reach urban centers and remote regions alike, making their mark throughout the country.

Against the backdrop of its rich history and diverse services, the PPOD has recognized the critical importance of effective asset management. Asset management, in the context of the PPOD, involves the systematic oversight of physical infrastructure, procurement decisions, utilization, maintenance, and disposal of assets. The goal is to maximize the value and benefits of these assets throughout their lifecycle, ensuring operational efficiency, cost minimization, and the effective functioning of postal services nationwide.

Motivated by a commitment to enhance operational efficiency and address previous audit observations, the PPOD has undergone a thematic audit focused on its asset management practices. The audit aims to evaluate the physical verification of assets, the

implementation of lease and tenancy policies, safeguards against loss or damage, efficient asset usage, timely maintenance and replacement, proper disposal procedures, regular updates to the asset register, appropriate insurance coverage, and robust controls for the procurement of new assets.

As the thematic audit unfolds, it will shed light on the strengths and challenges within the PPOD's asset management framework, providing insights that can guide the department toward further improvements. The findings of this audit are crucial for ensuring the resilience, efficiency, and responsible management of assets within the Pakistan Post Office Department, contributing to its continued legacy as a vital national institution.

3.1.1 Background

The roots of the PPOD can be traced back to the colonial era, specifically the Post Office Act of 1898, which laid the foundation for organized postal services in the region. During this period, the focus was primarily on establishing a network for the timely and secure exchange of letters and parcels, with a rudimentary approach to asset management.

Following the partition in 1947 and the creation of Pakistan, the PPOD inherited/acquired 4,155 office/residential buildings, 120 vacant plots and 431 vehicles. Over the time, the PPOD evolved beyond traditional postal services, took on additional agency functions on behalf of the federal and provincial governments such as utility bill collection, tax collection, and Western Union transactions and acquired physical assets i.e. IT equipment, furniture & fixture etc. to meet the requirements of the department; however, these acquired assets were not reflected in the balance sheet and annual report. It is pertinent to mention that the diversification in physical assets added complexity to asset management which required a broader strategic approach to oversee a range of assets used for various purposes.

The legal framework governing the PPOD's operations, including the Post Office Act of 1898, the Pakistan Postal Services Management Board Ordinance 2002, and other relevant regulations could play a pivotal role in shaping the asset management landscape, provided compliance with these regulations had been ensured for transparency and accountability for asset management.

In short, the thematic audit on asset management was conducted to signify a contemporary approach to further enhance operational efficiency, minimize costs, and to position the PPOD on a path of continued success in the emerging postal operations.

3.1.2 Establishing the Audit Theme

(i) Reasons of selection

The decision to conduct a thematic audit on the asset management of the Pakistan Post Office Department was motivated by a variety of factors such as consistent identification of mismanagement, litigation, encroachment and fraudulent sale of PPOD assets. The selection of the thematic audit of PPOD asset management is connected to SDGs -16, read with targets 16.4, 16.5 and 16.6. SDG-16 pertains to promoting peaceful and inclusive societies for sustainable development, providing access to justice for all and building effective, accountable and inclusive institutions at all levels. The target given under SDG-16.4 stipulates, “By 2030, significantly reduce illicit financial and arms flows, strengthen the recovery and return of stolen assets and combat all forms of organized crime”, SDG 16.5 ibid describes, “Substantially reduce corruption and bribery in all their forms”, SDG 16.6 mentions “Develop effective, accountable and transparent institutions at all levels”.

3.1.3 Purpose / Objectives

The purpose of the thematic audit of PPOD asset management was to identify mismanagement, encroachment, corruption, theft & losses and report them to the PPOD management, Principal Accounting Officer and the Public Accounts Committee for Parliamentary oversight. The major objectives as approved in the terms of reference by the Office of the Auditor-General are to evaluate that:

- Assets are physically verified on a regular basis and that any discrepancies are identified and investigated.
- Lease and Tenancy Policy of PPOD has been implemented.
- Controls are in place to safeguard assets against loss, damage, or theft.
- Assets are being used efficiently and effectively, and that there is no misuse or unauthorized use.
- Assets are being maintained in good condition and that any repairs or replacements are made in a timely manner.
- Disposal of assets is done in accordance with departmental policies and procedures, and that all necessary approvals are obtained.
- Asset register is updated regularly, and that there are appropriate reconciliation procedures in place.
- There is appropriate insurance coverage for assets, where applicable.
- There are appropriate controls in place for the procurement and receipt of new assets, including the verification of specifications and quality.

3.1.4 Scope

The scope of the thematic audit “Asset Management of PPOD” covers the acquisition of physical assets by Pakistan Post Office Department during the period starting from August, 1947 to June, 2023 with the objectives to conduct the audit in the light of the above-mentioned approved TORs. The audit teams visited the PPOD headquarters, Circle offices and selected GPOs in order to collect information related to the selected theme. The focus of the audit was to ascertain whether the assets of the government were being safeguarded/managed in an effective manner in different field formations of PPOD.

3.2. Legal framework governing the Theme

The PPOD falls under the administrative control of Ministry of Communications and operates under Pakistan Postal Services Management Board (PPSMB). PPOD is headed by the Director General who is also the Chairman of PPSMB. Following is the list of documents that provide a legal framework:

- Post Office Act, 1898
- Pakistan Postal Services Management Board Ordinance 2002
- Initial Account Code (Volume I & II)
- Post office Manual (Volumes I-VIII)
- Federal Treasury Rules
- Public Financial Management Act, 2019
- Agreements of agency functions executed with different departments of Federal and Provincial Governments

3.3. Stakeholders and governmental organizations identified as directly / indirectly involved

Following stakeholders are directly or indirectly involved in relation to the subject thematic audit.

- Ministry of Communications
- Public Accounts Committee
- Auditor-General of Pakistan
- Pakistan Post Office Department
- Federal and Provincial Governments and their departments
- General public

3.4. Role of important organization

Ministry of Communications (MoC)

PPOD falls under the administrative control of Ministry of Communications. The Ministry monitors the overall working of Pakistan Post Office Department, reviews the postal policies from time to time and is responsible for implementation of the directives of the Federal Government. MoC also oversees the litigations of PPOD and issues directions for vigorous pursuance of assets related cases for early and favourable disposal.

Public Accounts Committee (PAC)

The Public Accounts Committee (PAC) plays a pivotal role in ensuring parliamentary oversight on the asset management of government departments including PPOD through the Audit Reports of the Auditor- General of Pakistan. The Public Accounts Committee examines Auditor- General's Reports and takes notice of public petitions, media reports and issues suo-moto notices on matters of public importance.

Auditor-General of Pakistan (AGP)

The Department of Auditor-General is the Supreme Audit Institution (SAI) in the country for ensuring public accountability and fiscal transparency in governmental operations. The SAI aims at bringing improvement in the financial discipline and internal control framework of the executive departments for minimizing the possibility of waste, mismanagement and fraud.

Pakistan Post Office Department (PPOD)

PPOD has a prime role in Asset Management being controlling department and is under obligation to manage and safeguard its assets. The PPOD management is also responsible for approval of its initiatives from Federal Government through PPSMB and its administrative ministry.

3.5. Organization's Financials

PPOD being government department is responsible to prepare its own budget every year and submits it to the Federal Government through its administrative Ministry. All receipts of PPOD form the part of Federal Consolidated Fund. PPOD incurs expenditure against the budget grant No. 22 of the Ministry of Communications through formal allocation by Finance Division. Previously, PPOD would incur its budget through Letter of Credit (LoC) and had direct access to Account No. 1 (Non-Food). Since July, 2022, the Finance Division discontinued the old cash management regime and introduced the new cash management of regime of Treasury Single Account and directed PPOD to make spending through the counters of AGPR.

Revenue of PPOD from its core operations and performance of agency functions forms major sources of receipts. Postal operations include delivery of national and international mail, payment of money orders, sale of stamps/postal orders etc. whereas, major agency functions of PPOD include utility bills collection, printing of stamps on behalf of Federal and Provincial Government Departments, money remittance services through Western Union and NBP etc. upon which PPOD receives commission.

3.6. Field Audit Activity

3.6.1 Methodology

Thematic Audit of Asset Management of PPOD was carried out by adopting the mixed method approach based on qualitative and quantitative data. The data was collected from various sources such as PPOD web site, annual reports / annual accounts and previous audit reports. Audit teams also visited the PPOD headquarters, Circles Offices and selected GPOs included in Audit Plan 2023-24 and consulted the relevant record during compliance audit related to mismanagement, theft and losses of the PPOD assets. The field work was completed in November, 2023. The audit teams also consulted Permanent and Planning Files of PPOD.

3.6.2 Audit Analysis

(i) Review of Internal Controls

PPOD has an established internal control structure based on Departmental Manuals, instructions and relevant applicable rules and regulations. However, audit observed that the internal control structure was ineffective in safeguarding the PPOD assets from losses. The controls for ownership, security, utilization and physical verification of assets were not operative. Further, the fixed assets register was not prepared and periodical inspections were not carried out. Though the internal audit wing exists in PPOD, yet it is not functional as no internal audit reports were prepared and submitted to the management.

(ii) Critical Review

Thematic Audit of the PPOD for the FY 2022-23 unearthed a disconcerting pattern of negligence and inefficiency in the management of assets. This critical review delves into the audit findings, emphasizing the significant areas of concern and outlining the potential risks and implications for the department.

One of the paramount issues highlighted in the audit pertains to the non-acquisition of ownership documents for a substantial number of assets. Specifically, 585 postal buildings and residential quarters, valued at Rs 84,065 million, lacked adequate ownership documentation. This oversight poses a considerable risk to the department, introducing uncertainties about legal ownership and creating a fertile ground for potential disputes. The absence of clear ownership records not only jeopardizes the department's credibility but also raises questions about the integrity of its asset management practices.

Moreover, the under-utilization of prime properties in major cities emerged as a missed opportunity for revenue generation and organizational financial health. The audit findings reveal that certain assets in strategic locations remained dormant, failing to contribute to the department's revenue stream. This inefficiency is not only a financial setback but also reflects a lack of strategic vision in maximizing the potential of valuable assets.

Illegal encroachment on 248 postal properties across Pakistan constitutes a critical lapse in safeguarding measures. This breach exposed the department to various risks, including potential financial implications, legal actions, and liabilities. The failure to protect these assets from encroachment signifies a breakdown in security protocols, highlighting the need for immediate corrective actions to secure and reclaim these properties.

A systematic approach to record-keeping and periodic inspections was notably absent in the PPOD asset management. This deficiency hampers the assurance over the existence, ownership, and completeness of assets. Without a robust record-keeping system and regular inspections, the department is vulnerable to inaccuracies, mismanagement, and

potential losses. Strengthening these processes is imperative for ensuring accountability and transparency in asset management.

The audit also raises concerns about the failure to secure assets through insurance. In the event of damage or loss, the absence of insurance coverage exposes the department to significant financial risks. This lack of foresight in safeguarding assets further underscores the need for a comprehensive risk management strategy to protect the department's financial interests.

The prolonged utilization of PPOD assets by M/s PLICL without a finalized agreement is a glaring lapse in strategic foresight. This not only raises questions about the terms of use but also reflects a lack of diligence in formalizing agreements that safeguard the department's interests. Clear and finalized agreements are essential to ensure transparency, legal compliance, and fair compensation for the use of departmental assets.

Emergency response procedures were found to be non-existent, indicating a gap in organizational preparedness. The absence of a structured approach to respond to emergency events or circumstances poses significant risks.

Improper maintenance of civil structures, as evidenced by the severe deterioration of postal buildings and residential quarters, indicates a systemic failure in preserving valuable assets. Neglecting maintenance not only compromises the structural integrity of these assets but also indicates a lack of commitment to responsible asset management.

In this backdrop, the audit findings present a comprehensive overview of the challenges and deficiencies in the asset management practices of the PPOD. Urgent corrective actions are imperative to enhance financial resilience, operational efficiency, and responsible asset management. Addressing the identified issues will not only strengthen the department's credibility but will also position it for sustainable success in the dynamic landscape of postal operations.

(iii) Significant Audit Observations

(a) Non-acquisition of ownership documents of postal properties

According to Rule 7(1)(s) of the Financial Management and Powers of Principal Accounting Officers Regulations, 2021, the Principal Accounting Officer is responsible for proper record of all assets.

PPOD inherited/acquired 4,155 postal buildings and residential quarters following the partition of Pakistan in August, 1947.

Audit observed that PPOD did not acquire the ownership documents of 585 postal

buildings and residential quarters worth Rs 84,065 million despite lapse of few decades after the partition of Sub-Continent. Audit contends that without proper ownership documents, it is challenging for PPOD to prove the legal ownership of the properties in case a dispute arises between PPOD and any claimants which can cause loss to the department. Further, non-availability of ownership documents of postal buildings also impacts accuracy and completeness of financial reporting.

(b) Non-utilization of assets

Federal Cabinet in its meeting held on 17th August 2021 approved the lease and tenancy policy of PPOD. The main purpose of the Policy was to generate revenue to meet its increasing requirements of infrastructure development, maintenance, operational and management cost etc.

PPOD has a large infrastructure of buildings, rest houses and plots/open spaces etc. Most of these properties/plots, located at prime locations in the major cities of the country, are lying vacant or unutilized.

Audit observed that 29 properties (21 vacant plots and 8 Rest houses/inspection quarters) were identified for leasing by PPOD which could not be materialized due to weak planning and financial management. Audit contends that PPOD could generate reasonable revenue in form of rental/leasing proceeds, had these properties been rented out. Non-utilization of PPOD assets reflects weak assets management which deprived the department of an alternate source of revenue to improve its financial health.

(c) Illegal encroachment on postal properties

According to para 7 (1) (o) of Financial Management and Powers of Principal Accounting Officers Regulations, 2021, the Principal Accounting Officer is responsible for safe custody of assets including maintenance of assets and inventory registers. Principal Accounting Officer shall ensure that the maximum possible returns are achieved on each and every asset falling under the oversight of the Ministry or Division, department, subordinate office.

PPOD has a large infrastructure of buildings, rest houses and plots/open spaces etc. Most of these properties/plots, located at prime locations in the major cities of the country, are lying vacant or un-utilized.

Audit observed that 248 properties of PPOD were encroached upon by outsiders throughout Pakistan but no appropriate and timely action was undertaken to safeguard the prime assets and has put the PPOD at financial risk. Audit is of the view that PPOD may

incur expenses related to property restoration, legal actions against encroachers, and potential liabilities arising from accidents or incidents that may occur on the encroached properties.

(d) Utilization of postal assets by M/s PLICL

A Strategic Alliance Agreement was signed between Pakistan Post Office Department and Postal Life Insurance Company Limited on 1st July, 2021. As per Clause 2.2 of agreement, Pakistan Post will provide support to PLICL for the use of Physical assets, manpower resources and any other facilities as may be necessary during transit phase.

One hundred twenty (120) official/residential properties and fifty-seven (57) vehicles of PPOD were being utilized by PLICL. Audit revealed that PPOD did not sign any lease agreement with PLICL in respect of these assets despite lapse of almost three years. Due to non-finalization of agreement, rent of properties under utilization of PLICL worth Rs 148.584 million could not be realized.

(e) Improper maintenance of civil structure

According to para 7 (1) (o) of Financial Management and Powers of Principal Accounting Officers Regulations, 2021, the Principal Accounting Officer is responsible for safe custody of assets including maintenance of assets and inventory registers. Principal Accounting Officer shall ensure that the maximum possible returns are achieved on each and every asset falling under the oversight of the Ministry or Division, department, subordinate office.

Audit observed that the external conditions of the postal buildings and residential quarters in postal colonies were severely deteriorated. This decline is indicative of a systemic failure in conducting essential repair and maintenance works necessary for the preservation of these valuable assets. The requisite measures to address the wear and tear of these structures were not adopted. Such proactive measures could mitigate not only the potential financial burdens associated with comprehensive rehabilitation but could also uphold the organizational commitment to responsible asset management and infrastructure upkeep.

(f) Non-maintenance of record relating to physical assets

According to Para 7 (o) of the Financial Management and Powers of Principal Accounting Officers Regulations, 2021, the Principal Accounting Officer (PAO) is responsible for safe custody of assets including maintenance of assets and inventory

register. PAO shall ensure that the minimum possible returns are achieved on each and every asset falling under the oversight of the Ministry or Division, Department and subordinate offices.

Audit also focused on the management and maintenance of the physical assets procured by the Pakistan Post Office Department including vehicles, power generators, AC units, furniture and fixtures, computers, laptops, printers, scanners, photocopiers, and fax machines. It was observed that these assets were not adequately maintained. Moreover, periodic inspections of physical assets are vital to provide assurance that all assets are accurately reflected in the stock register, physically exist, and remain within the custody of the department. However, it was noticed that PPOD had not established any formal procedures for conducting regular inspections of its assets, and consequently, no corresponding reports were generated.

Due to absence of proper maintenance procedures and physical inspection reports, audit was unable to ascertain the assurance regarding the existence, ownership, custody, and completeness of the assets and equipment. Effective management of assets is crucial for ensuring accountability and the lack of maintenance practices hinders the ability to validate key aspects such as asset ownership, current location, and accurate recording.

(g) Un-secured assets

According to Section 166(3) of Insurance Ordinance 2000, all insurance business relating to any public property, or to any risk or liability appertaining to any public property, shall be placed with the National Insurance Company Limited only and shall not be placed with any other insurer. Further, Finance Division (Expenditure Wing) vide letter dated 26th September, 2022 issued directions for implementation of Section 166 (Law) of Insurance Ordinance, 2000.

During the course of audit, it was observed that PPOD did not comply with the statutory framework and specific directives issued by the Finance Division (Expenditure Wing) on 26th September, 2022 in safeguarding and non-insuring its owned and acquired physical assets, encompassing vehicles, buildings, machinery, furniture, fixtures, and equipment which exposed the department to potential financial losses in the face of unforeseen events, placing the financial stability and sustainability of PPOD at risk.

3.7 Recommendations

Audit recommends that the:

- i) PPOD should promptly initiate the process of acquiring ownership documents for postal buildings and residential quarters by taking up the matter with relevant authorities to transfer the property titles in the name of PPOD.

- ii) PPOD should develop and implement a comprehensive asset utilization policy in alignment with the approved Lease and Tenancy Policy, 2021. For this purpose, a systematic approach may be adopted to identify, assess, and utilize vacant or un-utilized properties for generating revenue through leasing or renting.
- iii) PPOD must adopt anti-encroachment drive in collaboration with security and law enforcement agencies to safeguard postal properties against encroachers.
- iv) Lease agreement with M/s PLICL for the utilization of PPOD's properties and vehicles may be expedited and terms and conditions, including rent etc. may be finalized explicitly.
- v) Repair and maintenance of deteriorated postal buildings and residential quarters be made by making adequate financial allocations in order to prevent the wear and tear of the properties.
- vi) PPOD must institute a proper record-keeping system for all physical assets and schedule periodical inspections to ensure the accuracy of asset information, including ownership, condition, and utilization details.
- vii) PPOD must develop and implement a comprehensive insurance policy for its physical assets to forestall any financial loss arising from possible damage of assets.

3.8 Conclusion

The audit findings highlight significant deficiencies in the PPOD's asset management system and safeguarding practices; thereby posing considerable financial and operational risks. To address these risks, the PPOD should urgently prioritize the acquisition of ownership documents for the identified postal properties, implement a comprehensive asset utilization policy to generate revenue from vacant properties, strengthen anti-encroachment measures, and establish a comprehensive record-keeping system for all physical assets. Additionally, the department must expedite the formalization of agreements with M/s PLICL, ensure comprehensive insurance coverage, develop and disseminate emergency response procedures and allocate resources for the timely repair and maintenance of deteriorated postal buildings.

The thematic audit of PPOD asset management reveals critical shortcomings in its asset management practices, financial oversight, and adherence to regulatory obligations. Of paramount concern is the non-acquisition of ownership documents for 585 postal buildings and residential quarters, valued at Rs 84,065 million. This oversight not only jeopardizes the department's ability to assert legal ownership in potential disputes but also introduces uncertainties impacting the accuracy and completeness of financial reporting.

Equally significant is the under-utilization of PPOD's vast infrastructure, including

29 identified properties, highlighting weak planning and financial management. The untapped revenue potential through leasing or renting these properties accentuates a missed opportunity for the department to fortify its financial health. This non-utilization underscores inherent deficiencies in asset management practices, warranting immediate rectification.

Audit further revealed the illegal encroachment on 248 postal properties nationwide, a situation exacerbated by PPOD's failure to take timely and appropriate action. This places the department at considerable financial risk, with potential expenses looming for property restoration, legal actions, and liabilities arising from incidents on the encroached properties.

A critical lapse in compliance is evident in the non-adherence to Section 166(3) of the Insurance Ordinance 2000, leaving PPOD's extensive assets unprotected in the face of unforeseen events. This not only exposes the department to potential financial losses but also jeopardizes its overall financial stability and sustainability.

Additionally, the audit highlights the non-finalization of lease agreements with Postal Life Insurance Company Limited (PLICL) for the utilization of 120 properties and 57 vehicles, resulting in unrealized rent amounting to Rs 148.584 million. This failure to formalize agreements reflects inadequate contractual oversight and financial management.

Lastly, the improper maintenance of civil structures, as observed in the deteriorated conditions of postal buildings and residential quarters, indicates a systemic failure to conduct essential repairs. Proactive measures are imperative to mitigate potential financial burdens associated with comprehensive rehabilitation, aligning with responsible asset management practices.

Audit underscores the urgent need for the Pakistan Post Office Department to institute comprehensive reforms. Addressing these deficiencies requires immediate action in asset management, financial oversight, and regulatory compliance. The recommendations presented in the audit findings serve as crucial guidelines for strengthening financial discipline, ensuring accountability, and securing the long-term sustainability of the department. Immediate and concerted efforts are imperative to mitigate potential risks, uphold legal and regulatory standards, and augment the financial well-being of the Pakistan Post Office Department.

